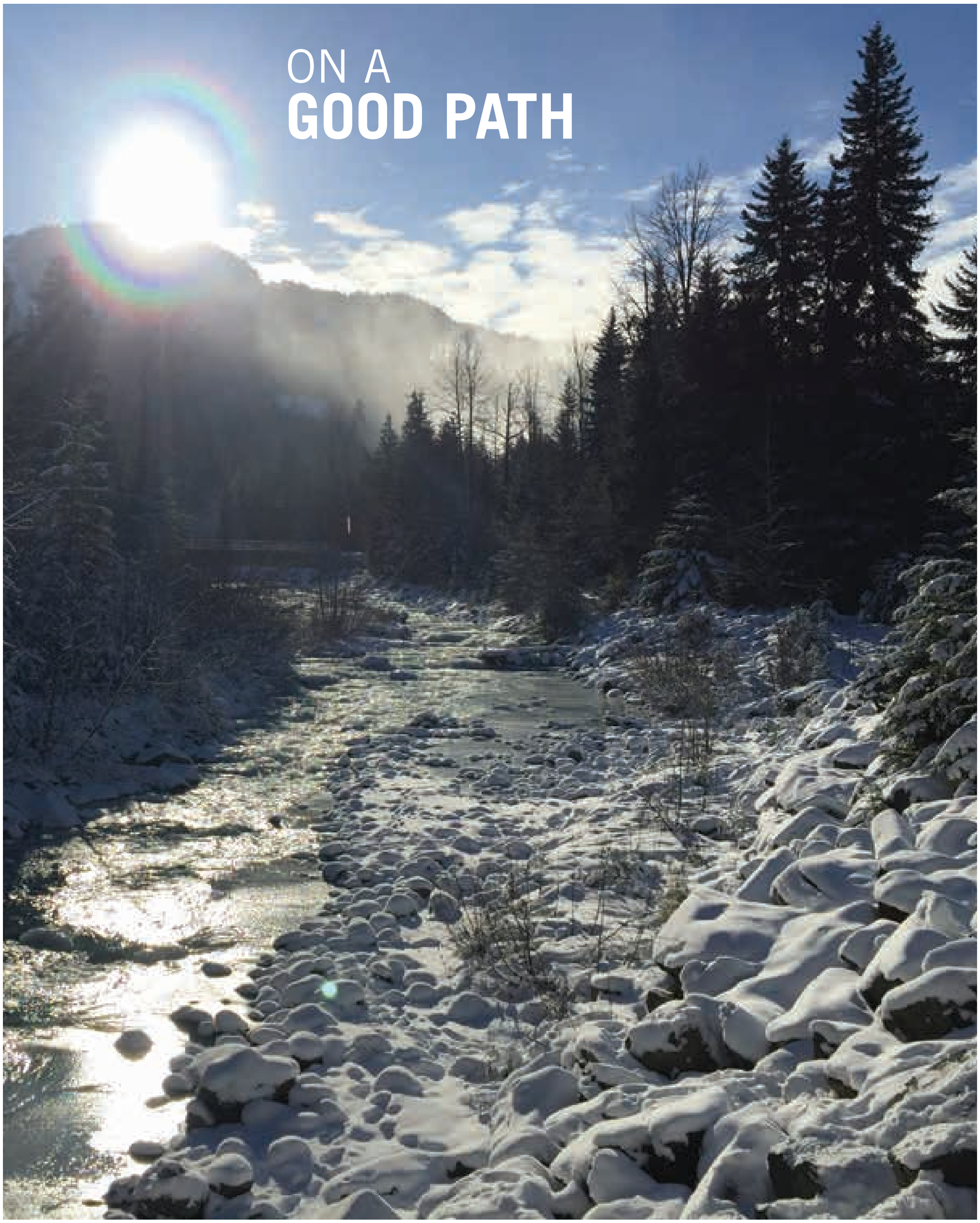
AVARGA LIMITED

2019 ANNUAL REPORT



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Tong Kooi Ong
Executive Chairman and Chief Executive Officer

Tong Ian
Executive Director

Gary Ho Kuat Foong
Lead Independent Director

Ng Shin Ein
Independent Director

Kalimullah Bin Masheerul Hassan
Independent Director

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

Loh Chen Peng
Independent Director
(Appointed on 9 November 2019)

Garson David Lee
Independent Director
(Resigned on 10 September 2019)

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

Koh Wan Kai
Executive Director
(Resigned on 8 March 2019)

Khoo Hsien Ming Kevin
Executive Director
(Resigned on 8 March 2019)

COMPANY SECRETARIES

Lim Sim Ving (Appointed on 23 December 2019)
Cheok Hui Yee (Appointed on 23 December 2019)
Song Ruoh Jin (Resigned on 31 July 2019)
Selena Leong Siew Tee (Appointed on 31 July 2019 and resigned on 23 December 2019)

AUDIT AND RISK MANAGEMENT COMMITTEE

Gary Ho Kuat Foong (Chairman)
Ng Shin Ein
Kalimullah Bin Masheerul Hassan
Chan Lay Hoon (Appointed on 8 March 2019)
Loh Chen Peng (Appointed on 9 November 2019)
Garson David Lee (Resigned on 10 September 2019)
Ong Pang Liang (Resigned on 8 March 2019)

NOMINATING COMMITTEE

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

REMUNERATION COMMITTEE

Ng Shin Ein (Chairman)
Kalimullah Bin Masheerul Hassan
Loh Chen Peng (Appointed on 9 November 2019)
Garson David Lee (Resigned on 10 September 2019)
Ong Pang Liang (Resigned on 8 March 2019)

REGISTERED OFFICE

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SHARE REGISTRAR

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

INDEPENDENT AUDITOR

Nexia TS Public Accounting Corporation
Public Accountants and Chartered Accountants
80 Robinson Road
#25-00
Singapore 068898

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

BANKERS

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

CHAIRMAN AND CEO'S STATEMENT

Dear shareholders, bankers, business partners, regulators and colleagues,

I am often asked why my annual statement to shareholders in the Annual Report each year is so detailed and comprehensive. Does it not sometimes impose unnecessary limitations or give away competitive information? Why not just disclose the bare minimum and use cookie cutter templates?

As a fairly small publicly listed company, this is probably the only avenue for many of you to read and try to understand your Company a little better. We do not have analyst coverage as it is not profitable for brokerages, given the trading value of our quoted stock on the Singapore Exchange. Our businesses are sustainable, consistent and fairly predictable and as we do not get into serious trouble, behave irrationally, or issue bombastic announcements, we do not get press publicity either.

So, unapologetically, here goes.

We are a publicly listed investment vehicle. We build on the businesses we acquire. Often, this is predicated on the talent and skills we have, or in the acquired companies. Our investment philosophy is primarily cash flow driven, and exceeds a hurdle rate that is based on a set of risk matrices. We attach a premium to risk aversion.

We are aware that investment holding companies trade at a discount to the sum of the value of the underlying assets. This does not bother us. We believe the long-term synergistic gains, by leveraging on a stronger balance sheet, on risk and market diversification, on cash flow management and on tapping the pool of human talents, far outweighs the negatives.

This is not to say that we do not want the stock of your Company to do well, reflecting the underlying value. Quite the contrary. If the stock is substantially undervalued, we lose the "currency" value of a listing, the option to acquire assets via share issuance instead of cash. I will address this challenge later in this statement.

Financial Year 2019

Your Company did well last year, chalking up record profits despite the more challenging environment.

Pre-tax profit reached a new historic high of S$53.3 million in 2019, up 71% from S$31.1 million in 2018. Net profit after non-controlling interests almost tripled from S$11.2 million to S$32.6 million, or 3.44 cents per share. Revenue fell 11% to S$1,404 million, largely due to lower commodity prices.

Part of this was due to the sale of our property at Tuas, Singapore, which yielded a gain on disposal of S$10.9 million. We also had foreign currency gains of S$3.7 million compared with a loss of S$6.1 million in 2018. Excluding these two factors, adjusted pre-tax profit would have still grown from S$37.2 million to S$38.7 million, although currency fluctuations are part and parcel of our business since all our earnings are derived overseas.

In terms of balance sheet, total assets increased from S$512.2 million to S$575.3 million at end-2019, mainly due to the adoption of SFRS(I) 16 Leases which led to lease obligations being capitalised as right of use assets. Total equity decreased slightly from S$258.1 million to S$252.8 million at end-2019, after the dividend payment of S$42.6 million in May 2019.

In last year's Annual Report, I presented an alternative re-formatted version of our financial statements, using the same information in the Annual Report, to make it easier for you to understand our cash flows, our performance, our investments and returns. We have continued that tradition this year, together with our summary performance from 2012 to 2019, in pages 7 to 10.

Wholesale Distribution of Building Materials (Canada and USA)

Taiga did better in 2019 than the year before, recording a pre-tax profit of C$35.85 million versus C$28.97 million. In terms of EBITDA, it was C$57.67 million in 2019, compared with C$42.67 million in 2018.

This is despite a slowdown in the Canadian housing market, as we had expected and indicated in my statement last year (see page 5). New housing starts in Canada in 2019 were down 3.4% from 213,474 units the year earlier. This is expected to level off in 2020 and 2021 (see Table 1).

CHAIRMAN AND CEO'S STATEMENT

Table 1: New housing starts in Canada

Canadian Housing Starts

	2016	2017	2018	2019	2020F	2021F
BMO – Jan 2020	198,000	220,000	214,000	209,000	205,000	205,000
CIBC – Jan 2020	198,000	220,000	214,000	209,000	201,000	207,000
RBC – Feb 2020	198,000	220,000	213,000	209,000	211,000	212,000
Scotia – Jan 2020	198,000	220,000	213,000	209,000	205,000	203,000
TD – Dec 2019	198,500	222,000	214,000	209,000	206,000	210,000
CMHC – Oct 2019	197,916	219,763	212,843	192,250	199,150	199,600
Consensus	198,069	220,294	213,474	206,208	204,525	206,100
Year-on-year change (%)	1.3%	11.2%	-3.1%	-3.4%	-0.8%	0.8%

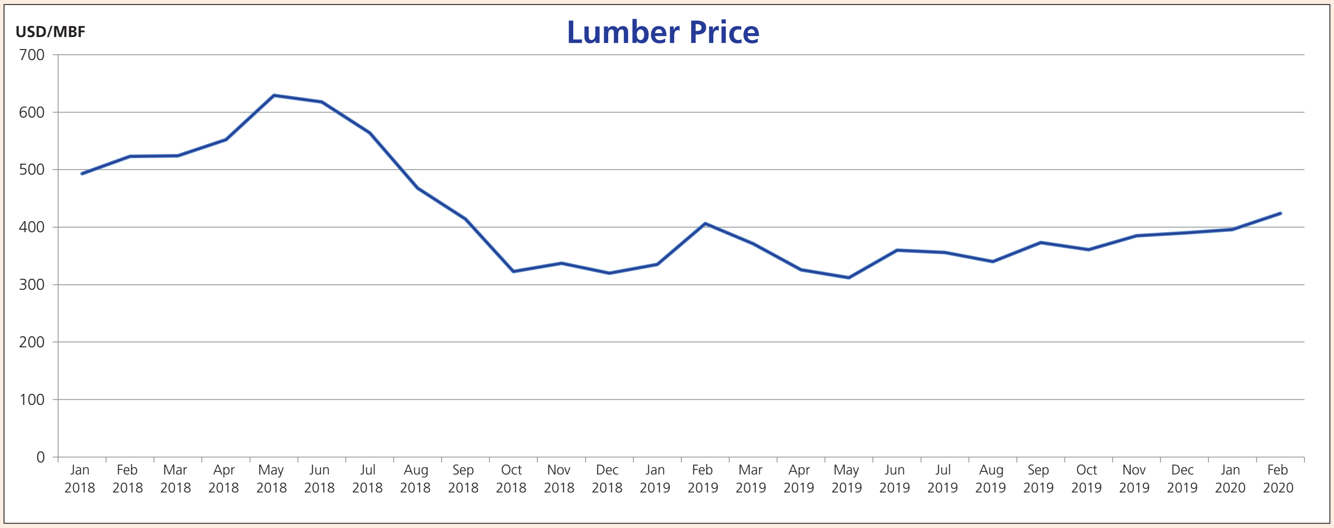
As I articulated before, a marginal rise and fall in the housing market does not in itself impact Taiga's sales and profitability. This is because of the counter-cyclical nature of new homes built and the renovation market. Also, Taiga's size, diversity of products, and geographic coverage tends to have mitigating effects. We always have certain regions that do well and others not so well. We always have certain products where margins are up and others down, for product specific reasons.

What has more short-term effect on our revenue and profitability are the prices of certain building materials, like lumber, treated wood, engineered wood, oriented strand board ("OSB") and plywood.

For example, Chart 1 shows the monthly lumber prices from January 2018 to February 2020. During May to September 2018, lumber prices fell sharply and quickly, from over US$600 to almost US$300 per MBF (thousand board feet). As a wholesale distributor, that carries inventories, Taiga suffers inventory losses. Value sales (our accounting revenue) fell with lower selling prices per unit. But the biggest impact is a compression of our gross margin due to inventory losses.

For 2019, you can see from Chart 1 that lumber prices were gradually drifting upwards, while remaining at a fairly low level of below US$400 per MBF. And although we highlight lumber prices only, prices of building materials generally fluctuate in similar directions. What does this mean?

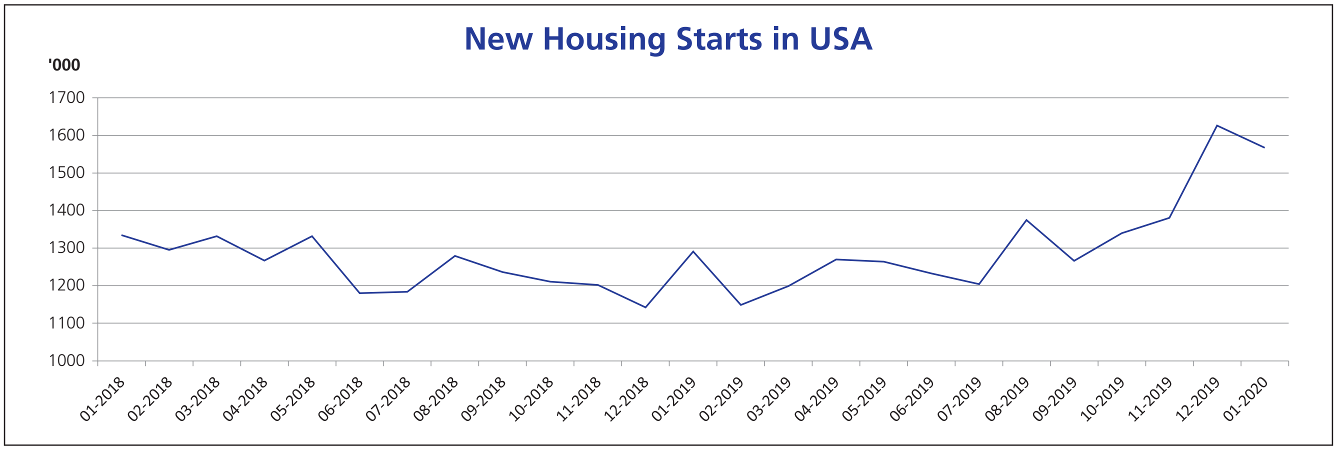
Chart 1: Lumber prices



PPI MARKETS & PRICES

CHAIRMAN AND CEO'S STATEMENT

Chart 2: New housing starts in USA



Firstly, our accounting revenue or sales in value fell to C$1.3 billion, or 10.5% less than in 2018, reflecting the weaker Canadian housing market.

However, our gross margin actually rose from C$122 million to C$130 million, as gross margins improved from 8.4% in 2018 to 10% in 2019. Why did gross margins improve? Because lumber prices were steady and improved gradually during the year. This means we did not suffer inventory loss but instead had some inventory gains.

The reason why I elaborated on this business is not just because it is the single largest contributor to Avarga but also it is difficult to understand.

The point to remember is this: sales in volume tend to be fairly stable over time. We capture a large market share, and are fully diversified in terms of products, services and geographic locations. Sales in value reflect the prices of the products we sell. Obviously, if sales fall, profits will also fall, since our business is basically charging a percentage margin on sales value. But on a year-to-year basis, there is significant impact from inventory gains or losses. Over time, this is neutral to our business.

Consequently, Taiga generates fairly stable and sustainable cash flows over time. The critical factor for our success rests with the fact that we are the lowest cost operator in this space.

The decisions we took in 2018 to firstly acquire more of Taiga (from Kublai, which was an interested person transaction) and to acquire Exterior Wood in USA did well for us.

Sensing that the US housing market had bottomed out (see Chart 2), while the Canadian housing market slowed, we bought Exterior Wood to gain access to all of the Pacific West Coast of USA. We knew we could also add efficiency to the business as we put more product lines into the distribution channel.

In 2019, Exterior Wood's pre-tax profit and operating cash flows grew by more than 80%. Acquired for US$42 million, it generated net cash flow of US$6 million and pre-tax profit of US$6.8 million, with much more synergy to be tapped going forward.

In 2018, Avarga also increased its ownership of Taiga, from 49% to 65.5% for C$27.7 million through the acquisition of Kublai (our interest in Taiga increased further to 67.9% at end-2019 after Taiga conducted some share buybacks). This was an interested person transaction as I was the owner of Kublai. I know shareholders generally do not like interested person transactions and for good reason.

I feel that I need to put this on record. In this case, clearly the Company made a good investment. Taiga's pre-tax profit surged 24% in 2019 compared to 2018. The acquisition of the shares was therefore at only 4.2 times gross earnings and 3.4 times net cash from operating activities.

CHAIRMAN AND CEO'S STATEMENT

Paper Manufacturing (Malaysia)

Our paper manufacturing division reported lower profits in 2019 as 2018 was a bumper year.

China's policies in restricting imports of waste materials for recycling had created massive distortions in the global paper market in 2018. The price of waste paper, our primary raw material, slumped sharply while the selling price of finished products fell much less, held up by high domestic prices and demand in China. As a result, our EBITDA margin rose from 17.4% to 22.3% while EBITDA surged 27% from RM29.3 million in 2017 to RM37.2 million in 2018.

In 2019, the global paper market weakened, as the US-China trade war took its toll. Our EBITDA margin fell only slightly, from 22.3% to 21.4%. However, average selling prices declined just over 10% and sales volume fell slightly. As a result, EBITDA declined 16% from RM37.2 million to RM31.1 million, while pre-tax profit fell 20% from RM30.7 million to RM24.6 million.

Power Generation (Myanmar)

Our 50 MW power plant in Myanmar underwent regularly scheduled major overhaul in 2019 with 10 of the 13 machines overhauled. The balance of 3 machines will be overhauled by the middle of this year. As such, we received far less cash flows last year than before.

Major overhauls are scheduled every 5 to 6 years. Our concession is for 30 years until February 2044. With the first major overhauls largely completed, the power plant will enjoy strong cash flows again for the next few years until the next scheduled major overhaul around mid-2024 to 2025.

On 10 February 2020, the power plant completed its sixth year of operations. I am pleased to note that every year, we have exceeded our annual production commitment of 350 million kWh under the power purchase agreement. Despite some downtime from the overhauls, we produced 370.8 million kWh of electricity for the year to 10 February 2020, up 2.4% from 362.3 million kWh the year before.

Dividends

Over the last few years, the Company has increased its dividends.

In May 2019, we paid out total dividends of 4.5 cents per share, or $42.6 million, comprising a final dividend of 3 cents for 2018 and an interim dividend of 1.5 cents for 2019. This was funded from the sale proceeds of our property in Tuas and more optimal capital management, as I had explained in last year's Annual Report (page 4).

Our total dividend per share for 2018 was 3.5 cents, compared with 1 cent in 2017 to 2018, 1.5 cents in 2016, 0.5 cent in 2015 and 0.15 cent in 2013 to 2014.

We have proposed a final dividend of 0.5 cent for 2019, subject to shareholders approval. Together with the earlier 1.5 cents interim dividend paid in May 2019, total dividend for 2019 is 2.0 cents.

Going forward, barring the occasional major capex needs and opportunistic acquisition deals, we would ideally like to have a dividend payout policy of 40-50% of net profit, to be paid out on a quarterly basis. This will provide shareholders with a constant and regular stream of dividends.

Looking ahead

As I write this, the Covid-19 coronavirus is spreading rapidly and people are panicky. Global equity and commodity markets have slumped. No one knows yet what the ultimate economic impact will look like. Fortunately, there has been no major adverse impact on our businesses yet.

One consequence of this "crisis" is that interest rates have been slashed to record lows. Hopefully, this will spur home buying in the US and Canada when the panic ultimately subsides.

The Company has built a portfolio of quality assets with strong cash generating ability. Our annual after-tax net cash flow from operating activities has jumped from under S$4 million in 2012 to 2013 to above S$55 million in the last 3 years, reaching S$59.8 million last year.

We have been prudent in our investments, making sure risks and rewards commensurate, and our balance sheet is never stretched.

Our investments since 2012 – first in the Myanmar power plant and then Taiga – have been well timed and have yielded good returns. They have elevated our earnings and cash flows to a much higher base. These in turn have supported higher dividends and further investments, such as Taiga's acquisition of Exterior Wood.

Our group net bank borrowings, excluding Taiga's revolving credit and loan notes, are low at just S$36.7 million. In short, we have built the Company up to a much stronger and profitable entity.

CHAIRMAN AND CEO'S STATEMENT

Taiga is already the largest player in Canada. We see exciting opportunities in the US market. Through Exterior Wood, we are further expanding product lines and market reach in the West Coast of USA. This, together with a gradual and careful expansion into the digital space, will be the key focus for Taiga in 2020 and beyond. This will create more growth opportunities, as well as a more diversified exposure to the housing markets in North America.

The Myanmar power plant has completed the bulk of its major overhauls, which took up most of its cash flows last year. With 3 more machines due by mid-2020 and the next major overhaul due in mid-2024 to 2025, it should enjoy relatively strong cash flows in the next few years.

For our paper business, demand is expected to remain strong while China's environmental restrictions should keep waste paper prices low. However, these restrictions have prompted Chinese paper players to expand elsewhere, including to Malaysia, where several Chinese players are setting up large plants. While they plan to produce and export paper back to China, we also have to be cognizant of the risks these new plants may pose on our domestic market.

While we have built the Company to new heights, the stock market however, has not recognised our efforts. Part of this is because we are a relatively small company with a market capitalisation of S$133 million, and our shares are not actively traded.

At the time of writing, our share price is quite depressed, hovering around 14 cents. This is 35% below our NTA of 21.25 cents per share. Last year, we earned 3.44 cents per share (although part of it was from the Tuas property sale). Our annual dividends ranged between 1 cent and 3.5 cents in the last four years. Whichever yardstick you choose, the stock appears undervalued.

Put in another way, our share price is trading back at 2012 levels. As you can see in pages 7 to 10, from 2012 to 2019, we have grown your Company significantly – revenue from S$50 million to S$1.4 billion and pre-tax profit from S$2.4 million to S$53.3 million. We have generated total after-tax net cash from operations of S$230.3 million in the last eight years.

We have grown from a single paper manufacturing business to include a power plant in Myanmar and Taiga in Canada and USA, without stretching the balance sheet. And we have distributed S$80 million back to shareholders in total dividends in the last eight years.

How can we address this?

Over time, our track record speaks for itself. We will continue to deliver what is expected of us – to create value for the Company and our shareholders. If a business does well, the stock eventually follows.

We will have a more consistent and transparent dividend policy. As I have earlier mentioned, we will endeavour to have a 40-50% dividend payout policy. We will also endeavour to have the dividends paid quarterly. We will keep some cash if opportunities arise. We will also return excess cash, as we did last year. In fact, we would actually prefer to keep cash and reinvest. We know we can generate high returns, but investors are also clearly not as patient.

We may consider resuming our share buyback program, depending on our cash flows. We stopped buying back our shares last year as cash flows from the Myanmar power plant were used for major overhauls. Another option we are looking at is increasing our stake in Taiga, which has a very high ROCE. We will also engage more in investor relations activities.

Since I joined the board in 2012, we have transformed the Company into a more diversified entity with good and sustainable cash flows. A strong foundation has been built, and we are reaping the rewards. It has been an exciting journey so far, thank you for riding with us. We have clearly done a lot. But clearly, our work is never done.

I believe the next phase of our journey should be led by a much younger person who can manage the long game. Building up a truly sustainable and credible investment holding company takes a long time.

I will be stepping down as CEO at the end of May 2020, but will remain as Chairman of the Board and a part-time advisor. Ian Tong will assume the role of CEO.

I believe it is wise to plan for succession and transition when you are still around to provide guidance.

I am absolutely confident that the management will continue to lead your Company to greater heights, even as the global economy slows.

Thank you and God bless,

TONG KOOI ONG
Chairman of the Board and CEO

"Predicting rain doesn't count. Building arks does"
Warren Buffett

CHAIRMAN AND CEO'S STATEMENT

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

	For the Financial Year Ended 31 December (S$ million)							
	2019	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**
Revenue	1,403.9	1,572.7	1,455.2	63.3	61.1	116.9	48.1	50.0
Gross profit	150.4	145.7	132.4	18.7	17.5	15.5	8.1	8.1
EBITDA (before exceptional items)	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	(12.7)	(8.0)	(7.0)	(2.6)	(2.6)	(2.9)	(3.2)	(3.1)
Amortisation of intangibles	(5.2)	(4.8)	(4.3)	–	–	–	–	–
Amortisation of deferred gain	0.1	0.4	0.4	–	–	–	–	–
Forex gains/(losses)	3.7	(6.1)	(3.9)	1.1	3.4	1.7	0.0	(0.2)
Gain on extinguishment of Taiga notes	–	–	2.4	–	–	–	–	–
Gain on disposal of Kajang land	–	–	1.2	–	–	–	–	–
Gain on disposal of Tuas factory	10.9	–	–	–	–	–	–	–
Cash items:								
Net interest expense	(11.9)	(8.6)	(15.5)	0.5	0.4	0.2	0.3	0.3
	(15.1)	(27.1)	(36.2)	(1.0)	1.2	(1.0)	(2.9)	(3.0)
Pre-tax profit	**53.3**	**31.1**	**25.1**	**13.1**	**13.3**	**9.7**	**1.5**	**2.4**
Net cash generated from operating activities (after tax)	**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)	(1.5)	(9.7)	–	–	–	–	–
Repayment of Taiga lease obligations	(4.9)	(2.5)	(2.0)	–	–	–	–	–
Sub-total	(6.7)	(4.0)	(11.7)	–	–	–	–	–
Net excess cash from operations	**53.1**	**52.7**	**44.8**	**18.4**	**18.8**	**14.0**	**2.4**	**3.7**

CHAIRMAN AND CEO'S STATEMENT

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

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

CHAIRMAN AND CEO'S STATEMENT

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

	For the Financial Year Ended 31 December (S$ million)							
	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)	0.7	30.1	63.1	–	–	27.8	7.1	–
Increase in cash at bank	–	–	–	(2.3)	(14.1)	–	–	(55.0)
Sub-total	**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)	**(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)	(36.0)	(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)	**(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	**(0.7)**	**(30.1)**	**(63.1)**	**2.3**	**14.1**	**(27.8)**	**(7.1)**	**55.0**

CHAIRMAN AND CEO'S STATEMENT

Table 2: Summary of Avarga's performance and cashflows from 2012 to 2019

From 2012 to 2019, we have generated cumulative:

	S$ million	S$ million
Revenue		4,771.2
Gross profit		496.4
EBITDA (before exceptional items)		234.6
Pre-tax profit		149.5
Net cash from operating activities		**230.3**
Net excess cash from operating activities		**207.9**
What did we use it for?		
Capex – PPE (net)		(15.1)
Investment in Myanmar Power Plant		(58.7)
Acquisition of non-controlling interests in UPP Pulp & Paper		(4.9)
Acquisition of Taiga		(87.1)
– Taiga ordinary shares	(20.5)	
– Taiga subordinated notes (later converted to shares)	(57.3)	
– additional Taiga stake via Kublai Canada	(9.3)	
Investing activities made by Taiga		(111.1)
– redemption of outstanding Taiga 14% notes	(15.9)	
– acquisition of Exterior Wood by Taiga	(55.1)	
– share buyback and cancelled	(6.0)	
– changes in Taiga RCF	(34.1)	
Portfolio investments		
– stake in Archisen		(0.5)
– stake in Classic Scenic		(2.8)
Share buyback: Avarga treasury shares		(0.6)
Dividends to Avarga shareholders		(80.2)
Others		1.2
Subtotal		**(359.8)**
Deficit		**(151.9)**
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)		57.4
Sub-total		**151.9**

BOARD OF DIRECTORS

TONG KOOI ONG

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

Mr. Tong is an entrepreneur and an analyst.

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

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

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

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

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

TONG IAN

Executive Director
Appointed to the Board on 7 March 2017

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

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

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

Mr. Tong 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.

KALIMULLAH BIN MASHEERUL HASSAN

Independent Director
Appointed to the Board on 20 April 2013

Dato' Seri Kalimullah Hassan, a Malaysian, age 62, is a former journalist and went into business in 1995.

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

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

He remains as Chairman of ECM Libra Group Berhad and ECM Libra Foundation. He is also a member of the Board of Governors of his alma mater, the Methodist Boys School (Penang) and a member of the Board of Trustees of the Government-owned Tunku Abdul Rahman Foundation.

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 brings with her a rare blend of legal, business, financial and diplomatic experience.

Ms. Ng started her career 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.

Subsequent to legal practice, 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 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.

Ms. Ng is on the boards of Starhub Limited, Yanlord Land Group Limited and other companies listed on the mainboard of the Singapore Exchange, having also previously served as a director of Fairprice and Eu Yan Sang Limited.

Ms. Ng is Singapore's Non-Resident Ambassador to the Republic of Hungary and a board member of the Singapore International Foundation.

CHAN LAY HOON

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

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

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

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

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

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 Deloitte 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 Deloitte 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 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 also a Director of Berjaya Media Berhad until his retirement in September 2017.

Mr. Loh is now involved in some private ventures and is an Independent Non-Executive Director of two companies listed on Bursa Malaysia, namely Bermaz Auto Berhad and Tropicana Corporation Berhad (re-appointed on 1 August 2018). He also 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 Nomination Committee.

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.

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

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

BRIAN FLAGEL
Director
Appointed to the Board on 17 November 2010

Mr. Flagel is President of Custom Consulting. Mr. Flagel retired from public service in Canada as Executive Director, Canada Border Services Agency ("**CBSA**"). He held several executive positions in CBSA where he was responsible for operational service delivery, international trade movements, strategic planning, professional standards and facility planning. He was Director, Canada Border Services, Vancouver International Airport for several years, and was Director, Global Trade Services, FedEx, Europe, Middle East and Africa Division from 1995 to 1998. Mr. Flagel received a Bachelor of Arts from the University of Manitoba.

CAM WHITE
Director
Appointed to the Board on 20 July 2012
(Passed away on 28 February 2020)

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

TAIGA BUILDING PRODUCTS LTD. DIRECTORS

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**") on 1 February 2018 and as a Director of Avarga Limited on 7 March 2017 which he resigned on 10 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.

KEY MANAGEMENT PERSONNEL

KOH WAN KAI

President, Paper Manufacturing
Avarga Limited

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

Mr. Koh holds a Bachelor of Accountancy from the National University of Singapore. He is a Fellow member of the Institute of Singapore Chartered Accountants.

KHOO HSIEN MING, KEVIN

President, Investments and Power Generation
Avarga Limited

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

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

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

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

EDWARD LEE ENG CHEW

Executive Vice President (Corporate and Legal Service)
UPP Pulp & Paper (M) Sdn. Bhd.

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

TAI LAI YEEN

Group Finance Manager
Avarga Limited

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

TRENT BALOG

President and Chief Executive Officer
Taiga Building Products Ltd.

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

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

KEY MANAGEMENT PERSONNEL

RUSSELL PERMANN

Chief Operating Officer and Executive VP – Envirofor & USA
Taiga Building Products Ltd.

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

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

MARK SCHNEIDEREIT-HSU

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

Mr. Schneidereit-Hsu joined Taiga in 2005 as a Financial and Risk Analyst. In 2007 he was promoted to Manager, Corporate Planning, responsible for treasury, strategic planning, real estate, insurance and human resource. Mr. Schneidereit-Hsu was appointed as the Chief Financial Officer of Taiga effective 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).

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 ("**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, the SGX-ST and consultants.

During the financial year, Mr. Loh Chen Peng joined the Board. He was briefed on the Group's business and operations. Mr. Loh attended trainings and professional development programs conducted by Malaysian Institute of Accountants, Bursa Malaysia Berhad, KPMG International, The Iclif Leadership and Governance Centre, Deloitte Risk Advisory Sdn Bhd and Institute of Corporate Directors Malaysia.

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

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

(b) corporate or financial restructuring;

(c) financial/funding arrangements;

(d) material capital expenditures;

(e) share issuances;

(f) dividend payments to shareholders; and

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

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.

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

REPORT ON CORPORATE GOVERNANCE

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

During FY2019, the Board conducted regular scheduled meetings on a quarterly basis to coincide with the announcement of the Group's quarterly and full year financial results and to keep abreast of significant business activities and overall business environment.

Apart from board meetings, important or urgent matters concerning the Group are also presented for the Board's decision by way of written resolutions, fax, electronic mail and telephone conferencing. The Company's constitution (the "**Constitution**") provides for meetings to be held via telephone, radio, conference television or similar communication equipment or any other form of audio or audio-visual communication by which all persons participating in the meeting are able to hear and be heard by all other participants, for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Details of the number of Board meetings held in the year and attendance of each Board member at those meetings and meetings of the various Board Committees are provided on page 44 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) attend 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.

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, Dato' Seri Kalimullah Bin Masheerul Hassan, Ms. Chan Lay Hoon and Mr. Loh Chen Peng. It is chaired by Mr. Tong Kooi Ong who is also the Chief Executive Officer of the Company ("**CEO**"). He is responsible for the leadership and objective functioning of the Board.

REPORT ON CORPORATE GOVERNANCE

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

Mr. Tong Kooi Ong	Executive Chairman and Chief Executive Officer
Mr. Tong Ian	Executive Director
Mr. Gary Ho Kuat Foong	Lead Independent Director
Ms. Ng Shin Ein	Independent Director
Dato' Seri Kalimullah Bin Masheerul Hassan	Independent Director
Ms. Chan Lay Hoon	Non-Independent Non-Executive Director
Mr. Loh Chen Peng	Independent Director

The Chairman of the Board and CEO is the same person. 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 continue 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.

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

The Board is of the view that the current Board 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 utilizing 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.

REPORT ON CORPORATE GOVERNANCE

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.

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 also the CEO. For FY2019, the role of the Chairman is not separate from that of the CEO as the Board believes that there is an appropriate balance of power, adequate accountability and capacity of the Board for independent decision making as reflected in the internal controls established with the Group. As the Chairman of the Board, Mr. Tong's role includes:

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

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

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

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

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

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

(g) promoting high standards of corporate governance.

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

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

REPORT ON CORPORATE GOVERNANCE

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 all members of NC and RC 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.

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 and 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:

Dato' Seri Kalimullah Bin Masheerul Hassan	(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;

REPORT ON CORPORATE GOVERNANCE

(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.

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, all Directors, save for the Managing Director, are required to submit themselves for re-nomination and re-appointment at regular intervals and at least once every three (3) years. Pursuant to Rule 720(5) of the Listing Manual, an issuer must have all directors submit themselves for re-nomination and re-appointment at least once every three years.

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, Dato' Seri Kalimullah Bin Masheerul Hassan and Mr. Loh Chen Peng 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 FY2019, the NC was satisfied that the Directors who have multiple board representations have devoted sufficient time and attention to the affairs

REPORT ON CORPORATE GOVERNANCE

of the Group to discharge their duties as Directors of the Company. Each Director has control over their time, and there was a high rate of attendance at Board and Board Committee meetings. Accordingly, the NC and the Board have not set a maximum number of board representations a Director may hold, and have not prescribed or adopted guidelines to address competing time commitments of directors on multiple boards.

No alternate directors have been appointed by the Board.

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

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

Principle 5: Board Performance

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

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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, including the Chairman, are independent and non-executive Directors.

The composition of the RC is as follows:

Ms. Ng Shin Ein	(Chairman)
Dato' Seri Kalimullah Bin Masheerul Hassan	(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;

(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.

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

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

No remuneration consultants have been appointed for FY2019.

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 forthcoming annual general meeting ("**AGM**"), no member of the RC may by himself or herself decide on his or her own remuneration.

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 AGM.

The RC has approved a variable bonus system known as the Pay for Performance Remuneration Framework, for the executive directors and key management personnel, which takes into account a risk assessment matrix, and broad key performance indicators relating to the Group, such as the profit, rate of return and gearing. These performance conditions reflect the core values of the Group. 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.

REPORT ON CORPORATE GOVERNANCE

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 FY2019 is set out below:

(a) Directors of the Company	Fees (S$)	Salary (S$)	Bonus (S$)	Benefits (S$)	Total (S$)
Mr. Tong Kooi Ong	–	500,000	500,000	38,693	1,038,693
Mr. Tong Ian	–	202,500	182,500	–	385,000
Mr. Gary Ho Kuat Foong	70,000	–	–	–	70,000
Ms. Ng Shin Ein	70,000	–	–	–	70,000
Dato' Seri Kalimullah Bin Masheerul Hassan	70,000	–	–	–	70,000
Ms. Chan Lay Hoon[1]	49,817	–	–	–	49,817
Mr. Loh Chen Peng[2]	9,218	–	–	–	9,218
Mr. Garson David Lee[3]	44,522	–	–	–	44,522
Mr. Koh Wan Kai[4]	–	41,600	–	–	41,600
Mr. Khoo Hsien Ming Kevin[5]	–	33,070	–	–	33,070
Mr. Ong Pang Liang[6]	12,283	–	–	–	12,283

Notes:

[1] Ms. Chan Lay Hoon appointed to the Board on 8 March 2019.

[2] Mr. Loh Chen Peng appointed to the Board on 9 November 2019.

[3] Mr. Garson David Lee resigned as Director on 10 September 2019.

[4] Mr. Koh Wan Kai resigned as Executive Director on 8 March 2019 and remains as Key Management personnel.

[5] Mr. Khoo Hsien Ming Kevin resigned as Executive Director on 8 March 2019 and remains as Key Management personnel.

[6] Mr. Ong Pang Liang resigned as Director on 8 March 2019.

(b) Directors of Subsidiary, Taiga	Fees (S$)	Salary (S$)	Bonus (S$)	Benefits (S$)	Total (S$)
Mr. Douglas J. Morris	44,630	–	–	–	44,630
Mr. Brian Flagel	64,309	–	–	–	64,309
Mr. Cam White[4]	41,153	–	–	–	41,153
Mr. Peter Buecking[1]	44,834	–	–	–	44,834
Mr. Otto-Hans Nowak[2]	52,646	–	–	–	52,646
Mr. Garson David Lee[3]	10,317	–	–	–	10,317

Notes:

[1] Mr. Peter Buecking resigned as a Director on 13 August 2019.

[2] Mr. Otto-Hans Nowak resigned as a Director on 8 November 2019.

[3] Mr. Garson David Lee appointed to the Board on 8 November 2019.

[4] Mr. Cam White passed away on 28 February 2020.

REPORT ON CORPORATE GOVERNANCE

(c) Top 5 Key Management Personnel	Salary (%)	Bonus (%)	Benefits (%)	Total (%)
Remuneration in the band above S$250,000 to S$500,000				
Mr. Koh Wan Kai	45	54	1	100
Mr. Khoo Hsien Ming Kevin	45	55	–	100
Mr. Mark Schneidreit-Hsu	49	51	–	100
Remuneration in the band above S$500,000 to S$750,000				
Mr. Trent Balog	31	55	14	100
Mr. Russ Permann	34	61	5	100

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

Total remuneration paid to the key management personnel (who are not Directors or the CEO) for FY2019 was approximately S$2,927,000.

The RC met once during the year to decide on Directors' fees, review the remuneration packages of the Executive Directors, assess the performance of senior management and determine their compensation packages (including bonus awards) for FY2019. 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 FY2019 are set out below:

Between S$1,000,000 to S$1,100,000

Name	Designation	Relationship
Mr. Tong Kooi Ong	Executive Chairman and Chief Executive Officer	Substantial shareholder and father of Mr. Tong Ian (Executive Director)

Between S$300,000 to S$400,000

Name	Designation	Relationship
Mr. Tong Ian	Executive Director	Son of Mr. Tong Kooi Ong (substantial shareholder, Executive Chairman and Chief Executive Officer)

The Group's remuneration framework comprises fixed pay and short-term and long-term incentives and is aimed to be aligned with the long-term interest and risk policies of the Group. The Group subscribes to linking remuneration to the performance of the Group, as well as individual Directors and key management personnel, based on an annual appraisal of employees and using indicators such as competencies, key result areas, performance rating, and potential of the employees. Long-term incentive schemes are put in place to motivate and reward employees and align their interests with those of shareholders to maximise long-term shareholder value. Industry practices and norms are also taken into consideration. The RC has approved a variable bonus system known as the Pay for Performance ("**P4P**") Remuneration Framework, for the executive directors and key management personnel.

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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 2019 was calculated at 8.22% (8.52% in 2018).

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.

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.

REPORT ON CORPORATE GOVERNANCE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In FY2019, 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.

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 2019.

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

The Board has received assurance from the CEO and the Executive Director that, as at 31 December 2019, 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.

REPORT ON CORPORATE GOVERNANCE

The Board has also received assurance from the CEO, Executive Director, President 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 2019 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 three (3) of 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)
Dato' Seri Kalimullah Bin Masheerul Hassan	(Member)
Ms. Chan Lay Hoon	(Member)
Mr. Loh Chen Peng	(Member)

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

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

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

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

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

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

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

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

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

REPORT ON CORPORATE GOVERNANCE

(h) review with the external auditors:

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

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

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

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

(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;

REPORT ON CORPORATE GOVERNANCE

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

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

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

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

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

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

Service Category	**Fees Paid/Payable (S$'000)**
Audit Service	105
Non-Audit Service	14
Total Fees	119

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

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

Service Category	**Fees Paid/Payable (S$'000)**
Audit Service	294
Non-Audit Service	117
Total Fees	411

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

The 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 and Executive Director.

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

Where outsourced internal audit services are required to supplement the internal audit work for the financial year, the appointment of the internal audit firm to perform such services is approved by the ARMC. For FY2019, no internal audit firm was appointed by the Group to perform internal audit services. The internal audit function of the Group was carried out in house by the Accountant of the Company for the Group's operations in Malaysia, and by the manager of Internal Audit & Process Control of Taiga for Taiga's operations. The internal audit charter ensures the internal audit department has full access to all documents, records, properties and personnel of the Group, including the ARMC, and has appropriate standing within the Group.

The Group's internal auditors for FY2019 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 FY2019, the ARMC is of the view that the internal audit function is independent, effective and adequately resourced.

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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.

AGM is the principal forum for dialogue with shareholders. The Board welcomes questions and comments relating to the Group's business or performance from shareholders at AGMs. Shareholders are given an opportunity to air their views and direct questions to the Board on matters affecting the Group. The Chairman of the Board and the respective Chairman of the ARMC, NC and RC, all other Directors, Management and representatives of the external audit firm are normally present at the AGM to address questions from shareholders. Details of the Directors' attendance at general meetings held during the financial year is provided on page 44 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

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 FY2019, the Company has paid an interim dividend of 1.5 cents per share and will be paying an additional final dividend of 0.5 cent per share, if approved by the shareholders of the Company at the forthcoming 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 40-50% of net profit 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.

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 2019

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	Executive Chairman and Chief Executive Officer	3Cnergy Limited	–
Mr. Tong Ian	–	7 March 2017 28 April 2017	Executive	–	–
Mr. Gary Ho Kuat Foong	Chairman: ARMC Member: NC	31 October 2006 27 April 2018	Lead Independent	Secure Group Limited	Thomson Medical Group Limited

REPORT ON CORPORATE GOVERNANCE

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)
Ms. Ng Shin Ein	Chairman: RC Member: ARMC and NC	20 April 2013 26 April 2019	Independent	Yanlord Land Group Limited Starhub Limited Sabana Shari'ah Compliant Industrial Real Estate Investment Trust	Eu Yan Sang Limited
Dato' Seri Kalimullah Bin Masheerul Hassan	Chairman: NC Member: ARMC and RC	20 April 2013 26 April 2019	Independent	–	–
Ms. Chan Lay Hoon	Member: ARMC	8 March 2019 26 April 2019	Non-Independent, Non-Executive	–	Thomson Medical Group Limited
Mr. Loh Chen Peng	Member: ARMC and RC	9 November 2019	Independent	3Cnergy Limited	–

Directors standing for re-election at the Annual General Meeting

The following information relating to Mr. Tong Kooi Ong, Mr. Tong Ian and Mr. Loh Chen Peng, each of whom is standing for re-election as a Director at the forthcoming AGM, is provided pursuant to Rule 720(6) of the Listing Manual.

Name of Director	Mr. Tong Kooi Ong	Mr. Tong Ian	Mr. Loh Chen Peng
Date of Appointment	15 March 2012	7 March 2017	9 November 2019
Date of last re-appointment (if applicable)	–	28 April 2017	–
Age	60	32	66
Country of principal residence	Singapore	Singapore	Malaysia
The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process)	The NC noted that in accordance with the Constitution, Mr. Tong Kooi Ong shall be required to retire at this Annual General Meeting. Mr. Tong Kooi Ong agreed to retire and stand for re-election. The NC approved the re-election and re-nomination of Mr. Tong Kooi Ong.	The NC noted that in accordance with the Constitution, Mr. Tong Ian shall be required to retire at this Annual General Meeting. Mr. Tong Ian agreed to retire and stand for re-election. The NC approved the re-election and re-nomination of Mr. Tong Ian.	The Board has considered the NC's recommendation and assessment of Mr. Loh Chen Peng's qualification, expertise and experience, and is satisfied that his appointment will be beneficial to the Board and to the Company.

REPORT ON CORPORATE GOVERNANCE

Name of Director	Mr. Tong Kooi Ong	Mr. Tong Ian	Mr. Loh Chen Peng
Whether the appointment is executive, and if so, the area of responsibility	Executive. Responsible for directing the Company's overall strategy and growth	Executive 1. To oversee the business and operations of Taiga Building Products Ltd. 2. To explore business opportunities and investments in North America, Europe and elsewhere. 3. To participate in general operational matters of the Company.	Non-Executive, Independent Director
Job Title	Executive Chairman and Chief Executive Officer	Executive Director	Independent Director and Member of ARMC and RC
Professional qualifications	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	Bachelor of Arts in Sociology from Trinity Western University and a Masters in Management from Sauder School of Business, University of British Columbia, Canada	Malaysian Institute of Certified Public Accountants
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
Shareholding interest in the listed issuer and its subsidiaries	Yes Please refer to the "**Directors' Statement**" section of this Annual Report	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	Father of Mr. Tong Ian (Executive Director)	Son of Mr. Tong Kooi Ong (Executive Chairman, Chief Executive Officer and substantial shareholder)	No
Conflict of interest (including any competing business)	No	No	No
Undertaking (in the format set out in Appendix 7.7) under Rule 720(1) has been submitted to the Company	Yes	Yes	Yes

REPORT ON CORPORATE GOVERNANCE

Name of Director	Mr. Tong Kooi Ong	Mr. Tong Ian	Mr. Loh Chen Peng
Other Principal Commitments including Directorships – Past (for the last 5 years) and Present	**Past directorships:** 1. Hastor Property Services Pte Ltd 2. HSR International Realtors Pte Ltd 3. 3Cnergy Sdn Bhd 4. Big Data Research Sdn Bhd 5. Creative Destroyer Sdn Bhd 6. Edge Insider Sdn Bhd 7. Emerwood Sdn Bhd 8. Foxcraft Sdn Bhd 9. Fz Sdn Bhd 10. Net Edge Online Sdn Bhd 11. Orientis Solutions Sdn Bhd 12. Phileo Group Sdn Bhd 13. Phileo Spring Sdn Bhd 14. Prima Fajar Sdn Bhd 15. Publiq Development Group Sdn Bhd 16. Red Riches Sdn Bhd 17. Seed2tree Sdn Bhd 18. The Edge Communications Sdn Bhd 19. The Edge Communications Network Sdn Bhd 20. The Edge Markets Sdn Bhd 21. The Edge Property Sdn Bhd 22. The Edge TV Sdn Bhd 23. TKO Concepts Sdn Bhd 24. Phileo Development Ltd 25. Phileo Investments Ltd 26. The Edge Property Pte Ltd 27. UPP Capital (M) Sdn Bhd 28. Menchies Singapore Pte Ltd 29. The Edge Review Pte Ltd	**Past directorships:** 1. Phileo Group Sdn Bhd 2. TKO Concepts Sdn Bhd 3. FASTrack Autosports Pte Ltd 4. TKO Concepts Pte Ltd 5. Archisen Pte Ltd 6. Kublai Canada Ltd 7. Icon Ventures Group Inc **Present directorships:** 1. Phileo Group Pte Ltd 2. Phileo Capital Pte Ltd 3. Seed2tree.com Pte Ltd 4. The Edge Media Group Pte Ltd 5. The Edge Property Pte Ltd 6. Olivia Holdings Pte Ltd 7. Axio Developments Ltd 8. Phileo Group Holdings Ltd 9. Phileo Development Ltd 10. Taiga Building Products Ltd 11. Avarga Canada Limited 12. UPP Investments Luxembourg S.á.r.l. 13. Phileo Capital Ltd 14. 3Cs Investments Ltd 15. Genghis Investments Ltd 16. TGC Investments Ltd 17. Publiq Development Group Sdn Bhd 18. Potensi Laris Sdn Bhd 19. Old Skool Ventures Limited 20. 3C Med Sdn Bhd 21. 3C Dev Sdn Bhd 22. financialzoo Limited	**Past directorships:** 1. AmInvestment Bank Berhad 2. Ambank Berhad 3. AmIslamic Bank Berhad 4. Berjaya Media Berhad 5. Reversemortgage Sdn Bhd 6. Seed2Tree Sdn Bhd **Present directorships:** 1. Bermaz Auto Berhad 2. Tropicana Corporation Berhad 3. Juara Sergap Sdn Bhd 4. 3Cnergy Limited

REPORT ON CORPORATE GOVERNANCE

Name of Director	Mr. Tong Kooi Ong	Mr. Tong Ian	Mr. Loh Chen Peng
	30. 3Cnergy Property Management Pte Ltd 31. HSR Property Consultants Pte Ltd 32. Whitehouse Holdings Private Ltd 33. The Edge Markets Pte Ltd 34. Maha Vivajaya Sdn Bhd 35. United Overseas Venture Sdn Bhd 36. TKO Concepts Pte Ltd 37. C.T. Nominee Ltd 38. Reversemortgage Sdn Bhd **Present directorships:** 1. 3Cnergy Limited 2. UPP Greentech Pte Ltd 3. Avarga Investment Pte Ltd 4. UPP Industries Pte Ltd 5. UPP Pulp & Paper (M) Sdn Bhd 6. M+S Pte Ltd 7. Marina South Investments Pte Ltd 8. Ophir-Rochor Investments Pte Ltd 9. Asia Analytica Pte Ltd 10. Insider Asia Pte Ltd 11. Moresby Central Pte Ltd 12. Phileo Group Pte Ltd 13. The Edge Media Group Pte Ltd 14. The Edge Publishing Pte Ltd 15. Asia Analytica Sdn Bhd 16. Capai Bumi Sdn Bhd 17. Lojing Highland Resort Development Sdn Bhd 18. I.T. Nominee Ltd		

REPORT ON CORPORATE GOVERNANCE

Name of Director	Mr. Tong Kooi Ong	Mr. Tong Ian	Mr. Loh Chen Peng
	19. Taiga Building Products Ltd 20. financialzoo Ltd 21. Edgeprop Sdn Bhd 22. Harmoni Pelangi Sdn Bhd 23. Harmoni Bintang Sdn Bhd 24. Equilands Sdn Bhd		
Information required under items (a) to (k) of Appendix 7.4.1 of the Listing Manual	There is no change to the responses previously disclosed by Mr. Tong Kooi Ong under items (a) to (k) of Appendix 7.4.1 of the Listing Manual which were all "No". The Appendix 7.4.1 information in respect of Mr. Tong Kooi Ong's appointment as Director was announced on 15 March 2012.	There is no change to the responses previously disclosed by Mr. Tong Ian under items (a) to (k) of Appendix 7.4.1 of the Listing Manual which were all "No". The Appendix 7.4.1 information in respect of Mr. Tong Ian's appointment as Director was announced on 7 March 2017.	There is no change to the responses previously disclosed by Mr. Loh Chen Peng under items (a) to (k) of Appendix 7.4.1 of the Listing Manual which were all "No". The Appendix 7.4.1 information in respect of Mr. Loh Chen Peng's appointment as Director was announced on 9 November 2019.
(Applicable to appointment of director only) Any prior experience as a Director of an issuer listed on the Exchange? If Yes, please provide details of prior experience. If No, please state if the Director has attended or will be attending training on the roles and responsibilities of a Director of a listed issuer as prescribed by the Exchange. Please provide details of relevant experience and the Nominating Committee's reasons for not requiring the Director to undergo training as prescribed by the Exchange (if applicable)	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.

REPORT ON CORPORATE GOVERNANCE

Attendance at Board, Board Committees and General Meetings for the financial year ended 31 December 2019

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	4	3	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	1	1
Mr. Tong Ian	4	4	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	1	1
Mr. Gary Ho Kuat Foong	4	4	4	4	1	1	N.A.	N.A.	1	1
Ms. Ng Shin Ein	4	4	4	4	1	1	1	1	1	1
Dato' Seri Kalimullah Bin Masheerul Hassan	4	4	4	4	1	1	1	1	1	1
Ms. Chan Lay Hoon[(1)]	4	3	4	3	N.A.	N.A.	N.A.	N.A.	1	1
Mr. Loh Chen Peng[(2)]	4	N.A.	4	N.A.	N.A.	N.A.	1	N.A.	1	N.A.

Notes:

(1) Ms. Chan Lay Hoon appointed to the Board on 8 March 2019.
(2) Mr. Loh Chen Peng appointed to the Board on 9 November 2019.

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 two (2) weeks before the announcement of the Group's quarterly financial results, as the case may be, and if they are in possession of unpublished material and price-sensitive information. In the case of the Group's full year financial results announcement, the applicable period is one (1) month before the announcement of financial results.

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

REPORT ON CORPORATE GOVERNANCE

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.

There were no interested person transactions for FY2019.

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.

Our CSR efforts are currently centred on two schools in Myanmar. Our primary focus is on a government primary school near our power plant, No. 16 Basic Education Primary School, Insein township, which is home to over 800 students.

REPORT ON CORPORATE GOVERNANCE

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

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

In 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 near our power plant in Insein township 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.

In Malaysia, we donated RM30,000 in 2019 to Persatuan Kebajikan Amal Da Ai Malaysia, a non-profit charitable child care centre looking after mentally and physically handicapped children on a full-time, lived in basis.

The Group will continue to identify potential CSR projects, particularly in Myanmar, where we see an opportunity to improve living and education standards.

SUSTAINABILITY REPORT

The Company is working towards the issuance of its sustainability report for FY2019 by 31 May 2020 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 2019

The directors present their statement to the members together with the audited financial statements of the Group for the financial year ended 31 December 2019 and the balance sheet of the Company as at 31 December 2019.

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 59 to 151 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 2019 and the financial performance, changes in equity and cash flows of the Group for the financial year covered by the consolidated financial statements; and

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

Directors

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

Tong Kooi Ong	(Executive Chairman and Chief Executive Officer)
Tong Ian	(Executive Director)
Gary Ho Kuat Foong	
Ng Shin Ein	
Kalimullah Bin Masheerul Hassan	
Chan Lay Hoon	(Appointed on 8 March 2019)
Loh Chen Peng	(Appointed on 9 November 2019)

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, other than as disclosed under "**Share options**" in this statement.

Directors' interests in shares or debentures

According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

	Holdings registered in name of director or nominee		Holdings in which a director is deemed to have an interest	
	At 31.12.2019	**At 1.1.2019**	**At 31.12.2019**	**At 1.1.2019**
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	671,400	–	–
Kalimullah Bin Masheerul Hassan	–	–	30,000,000	30,000,000

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Directors' interests in shares or debentures (Continued)

Mr Tong Kooi Ong, who by virtue of his interest of not less than 20% of the issued 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 31.12.2019	At 1.1.2019
Taiga Building Products Ltd.		
– No. of ordinary shares	111,520,583	115,563,638

The directors' interests in the ordinary shares of the Company as at 21 January 2020 were the same as those as at 31 December 2019.

Share options

<u>Avarga Group Employees' Share Option Scheme 2018</u>

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),

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Share options (Continued)

Avarga Group Employees' Share Option Scheme 2018 (Continued)

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.

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.

DIRECTORS' STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Share options (Continued)

Avarga Group Employees' Share Option Scheme 2018 (Continued)

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.

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

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

Audit and Risk Management Committee ("ARMC")

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

Gary Ho Kuat Foong (Chairman)
Ng Shin Ein
Kalimullah Bin Masheerul Hassan
Chan Lay Hoon
Loh Chen Peng

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 2019 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 2019

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	**Tong Ian**
Director	*Director*

23 March 2020

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 2019, 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 59 to 151.

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 2019 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)

Key audit matter	How our audit addressed the matter
Adoption of SFRS(I) 16 *Leases* *(Refer Note 2.15 and Note 19 to the financial statements)*	
The Group adopted SFRS(I) 16 *Leases* on 1 January 2019 and elected to record the cumulative effect of the initial application of SFRS(I) 16 within the opening balance of retained profits. Comparative figures are not restated. For leases previously classified as operating, the Group has elected to follow the transition guidance in SFRS(I) 16 and recognised the right-of-use asset at an amount equal to the lease liability, adjusted by the carrying amount of any prepaid or accrued lease payments. For leases where the land and building were previously determined to be differently, management has reassessed and concluded that the land and building represents a single component as • The Group would not be able to benefit from the building lease without the land lease and vice versa. • The land and building elements are highly inter related and it would be virtually impossible for the Group to rent the land without the building and vice versa. As such, management has elected to apply the transition guidance for operating leases to both the land and buildings. The lease liabilities were initially measured by discounting the lease payments over the lease terms. For leases with extension options, the Group applied significant judgement in determining whether such extension options should be reflected. As at 31 December 2019, the Group's lease liabilities amounted approximately to $100.0 million. We focused on the adoption of SFRS(I) 16 in view of the significant effort required to audit the lease liabilities recognised due to the numerous number of leases and significant judgement applied in determining whether the facts and circumstances created an economic incentive for the Group to exercise the lease extension option and whether the discount rates used are appropriate.	In relation to the recognition of lease liabilities, we have performed the following procedures: • Obtained an understanding of the internal controls, including the new processes and controls in relation to the application of SFRS(I) 16. • Obtained an understanding of the lease contracts identified by management and assessed the appropriateness of management's identification of those contracts as leases based on contractual agreements. • Assessed the reasonableness of management's expectation of the lease period using our understanding of the Group's historical lease periods for similar assets, importance of the leased asset to the Group's business and whether the cost of obtaining replacement asset would be significant. • Assessed the reasonableness of discount rate used in the computation of lease liabilities and tested the calculation of the lease liabilities based on lease payments over the expected lease terms. • Reviewed the disclosures made in the financial statements on the lease liabilities including the disclosure on the critical judgements applied by management in the determination of the lease terms.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF AVARGA LIMITED

Key Audit Matters (Continued)

Key audit matter	How our audit addressed the matter
Impairment of non-financial assets – Goodwill *(Refer to Note 2.10(a) and Note 14(a) to the financial statements)*	
As at 31 December 2019, goodwill recognised in the consolidated balance sheet in relation to the acquisition of Taiga Building Products Ltd. on 31 January 2017 and Exterior Wood, Inc. on 31 July 2018 amounted to $21.8 million and $10.5 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 goodwill was not impaired as at 31 December 2019. 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.	We have discussed with management and with the assistance of our internal valuation specialists, we have carried out the following procedures: • Critically evaluated whether the methodology used by management to determine the recoverable amount of goodwill complies with SFRS(I) 1-36 *Impairment of Assets* and assessed the appropriateness of the inclusion of all relevant assets and liabilities in the CGU. • Analysed the projected cash flows used in the value-in-use calculation to determine whether they are reasonable and that assumptions used are supportable taking into consideration each CGU's current and past performances, management's future plan and expectation of market developments, as well as our understanding of the business climate for the building products industry. • Evaluated the reasonableness and reviewed the appropriateness of key assumptions used by management such as the estimated gross margin, growth rate and discount rate, by benchmarking and comparing against historical data, peer information and other market data. Particularly for discount rate, recalculation and benchmarking of discount rate applied was performed with involvement of our internal valuation specialist. • Evaluated management's sensitivity analysis of the recoverable amounts and assessed the impact to the recoverable amounts when reasonable possible changes to the key assumptions are made. • Reviewed the adequacy of the disclosures made in relation to the impairment assessment of goodwill in the financial statements.

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 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 2019, the Group recognised revenue from wholesale of building products and trading of paper products of $1,337.1 million and $48.1 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 2020

BALANCE SHEETS

AS AT 31 DECEMBER 2019

	Note	Group		Company	
		2019 $'000	2018 $'000	2019 $'000	2018 $'000
ASSETS					
Current assets					
Cash and cash equivalents	4	19,245	22,372	4,618	2,596
Trade and other receivables	5	102,027	109,537	125,312	145,605
Service concession receivables	6	16,029	16,232	–	–
Inventories	7	169,475	157,955	–	–
Derivative financial instruments	16	–	56	–	–
		306,776	306,152	129,930	148,201
Asset held-for-sale	13	–	7,742	–	–
		306,776	313,894	129,930	148,201
Non-current assets					
Property, plant and equipment	8	174,807	99,692	664	423
Investments in subsidiary corporations	12	–	–	34,854	35,126
Other receivables	5	–	–	8,419	12,788
Service concession receivables	6	24,512	24,622	–	–
Financial assets, at fair value through profit or loss ("FVPL")	11	500	500	500	500
Financial assets, at fair value through other comprehensive income ("FVOCI")	10	1,964	2,158	–	–
Intangible assets	14	66,548	71,062	–	–
Deferred income tax assets	23	196	270	–	–
		268,527	198,304	44,437	48,837
Total assets		575,303	512,198	174,367	197,038

BALANCE SHEETS

AS AT 31 DECEMBER 2019

		Group		Company	
	Note	2019 $'000	2018 $'000	2019 $'000	2018 $'000
LIABILITIES					
Current liabilities					
Trade and other payables	15	76,583	65,855	2,080	1,685
Derivative financial instruments	16	136	–	–	–
Revolving credit facility	17	42,279	64,680	–	–
Bank borrowings	18	40,588	29,739	–	–
Lease liabilities/finance lease liabilities	19	4,746	2,498	124	–
Current income tax liabilities		14,747	4,430	–	–
		179,079	167,202	2,204	1,685
Non-current liabilities					
Bank borrowings	18	15,361	28,621	–	–
Lease liabilities/finance lease liabilities	19	95,232	20,487	212	–
Deferred gain	20	2,683	2,724	–	–
Provisions	21	590	669	–	–
Subordinated notes	22	12,900	12,525	–	–
Deferred income tax liabilities	23	16,633	21,828	–	–
		143,399	86,854	212	–
Total liabilities		322,478	254,056	2,416	1,685
NET ASSETS		252,825	258,142	171,951	195,353
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	24	169,582	169,582	169,582	169,582
Treasury shares	24	(628)	(628)	(628)	(628)
Retained profits		54,651	62,467	2,923	26,325
Other reserves	25	(22,399)	(21,309)	74	74
		201,206	210,112	171,951	195,353
Non-controlling interests	12	51,619	48,030	–	–
Total equity		252,825	258,142	171,951	195,353

The accompanying notes form an integral part of these financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Note	2019 $'000	2018 $'000
Revenue	27	1,403,873	1,572,677
Cost of sales		(1,253,516)	(1,426,950)
Gross profit		150,357	145,727
Other gains/(losses), net			
– Interest income – bank deposits		330	377
– Loss allowance for trade receivables, net	37(a)	(168)	(1,500)
– Others	28	14,924	(4,832)
Expenses			
– Distribution		(28,035)	(28,150)
– Selling and administrative		(71,868)	(71,522)
– Finance	31	(12,220)	(8,973)
Profit before income tax		53,320	31,127
Income tax expense	32	(12,732)	(11,032)
Net profit		40,588	20,095
Other comprehensive (loss)/income:			
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences arising from consolidation			
– (Losses)/gains		(1,750)	1,047
Items that will not be reclassified subsequently to profit or loss:			
Financial assets, at FVOCI			
– Fair value changes – equity investments	10	(194)	(1,109)
Currency translation differences arising from consolidation			
– Gains/(losses)		147	(495)
Other comprehensive loss, net of tax		(1,797)	(557)
Total comprehensive income		38,791	19,538
Net profit attributable to:			
Equity holders of the Company		32,562	11,163
Non-controlling interests		8,026	8,932
		40,588	20,095
Total comprehensive income attributable to:			
Equity holders of the Company		30,618	11,101
Non-controlling interests		8,173	8,437
		38,791	19,538
Earnings per share ("EPS") for profit attributable to equity holders of the Company (cents per share)			
– Basic EPS	33	3.44	1.25
– Diluted EPS	33	3.44	1.25

The accompanying notes form an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

		← 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 31 December 2018		169,582	(628)	62,467	(600)	(20,046)	(663)	(21,309)	48,030	258,142
Adoption of SFRS(I) 16 *Leases*	2.2	–	–	1,850	–	–	–	–	974	2,824
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

The accompanying notes form an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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

[1] Retained profits of the Group are fully distributable.

The accompanying notes form an integral part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Note	2019 $'000	2018 $'000
Cash flows from operating activities			
Net profit		40,588	20,095
Adjustments for:			
– Income tax expense	32	12,732	11,032
– Depreciation of property, plant and equipment	29	12,679	8,030
– Amortisation of intangible assets	29	5,241	4,845
– Amortisation of deferred gain	28	(123)	(398)
– Gain on disposal of property, plant and equipment	28	(14)	(157)
– Gain on disposal of asset held-for-sale	28	(10,864)	–
– Provisions		(98)	(124)
– Loss allowance for trade receivables, net		168	1,500
– Net fair value loss/(gain) on derivatives		192	(94)
– Finance income	27	(4,586)	(4,854)
– Dividend income from listed equity security	28	(137)	(139)
– Interest income		(330)	(377)
– Interest expense	31	12,220	8,973
– Unrealised currency translation (gains)/losses		(56)	4,019
		67,612	52,351
Change in working capital, net of effects from acquisition of subsidiary corporations:			
– Trade and other receivables and service concession receivables		11,046	37,367
– Inventories		(11,520)	1,657
– Trade and other payables		10,068	(23,781)
Cash generated from operations		77,206	67,594
Interest received		330	377
Interest paid		(9,621)	(6,823)
Income tax paid		(8,083)	(4,452)
Net cash provided by operating activities		59,832	56,696
Cash flows from investing activities			
Additions to property, plant and equipment		(2,277)	(5,411)
Disposal of property, plant and equipment		195	210
Disposal of asset held-for-sale		18,406	–
Purchase of financial assets, at FVPL	11	–	(500)
Net cash outflow on acquisition of a subsidiary corporation	39	–	(55,103)
Dividend income from listed equity security		137	139
Net cash provided by/(used in) investing activities		16,461	(60,665)

The accompanying notes form an integral part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Note	2019 $'000	2018 $'000
Cash flows from financing activities			
Acquisition of non-controlling interests	12	–	(9,253)
Share issue expenses	24	–	(31)
Purchase of treasury shares	24	–	(628)
Purchase of treasury shares by a subsidiary corporation	12	(4,328)	(1,684)
Principal payment of lease liabilities		(4,852)	(2,440)
Changes in revolving credit facility		(23,802)	(1,903)
Proceeds from bank borrowings		31,300	41,266
Repayment of bank borrowings		(33,277)	(27,099)
Interest paid		(1,761)	(1,540)
Dividends paid to equity holders of the Company	26	(42,613)	(8,766)
Net cash used in financing activities		(79,333)	(12,078)
Net decrease in cash and cash equivalents		(3,040)	(16,047)
Cash and cash equivalents			
Beginning of financial year		22,372	38,701
Effects of currency translation on cash and cash equivalents		(87)	(282)
End of financial year	4	19,245	22,372

Reconciliation of liabilities arising from financing activities

	1 January 2019 $'000	Cash flows $'000	Non-cash changes: Impact on adoption of SFRS(I) 16 $'000	Non-cash changes: Addition $'000	Non-cash changes: 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

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

The accompanying notes form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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 West Lobby, Singapore 237994.

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

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

The preparation of financial statements in conformity with SFRS(I) requires management to exercise its judgement in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

2.2 Interpretations and amendments to published standards effective in 2019

On 1 January 2019, 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 except for the adoption of SFRS(I) 16 *Leases*:

Adoption of SFRS(I) 16 *Leases*

When the Group is the lessee

Prior to the adoption of SFRS(I) 16, non-cancellable operating lease payments were not recognised as liabilities in the balance sheet. These payments were recognised as rental expenses over the lease term on a straight-line basis.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Interpretations and amendments to published standards effective in 2019 (Continued)

Adoption of SFRS(I) 16 *Leases* (Continued)

When the Group is the lessee (Continued)

The Group's accounting policy on leases after the adoption of SFRS(I) 16 is as disclosed in Note 2.15.

On initial application of SFRS(I) 16, the Group has elected to apply the following practical expedients:

(i) For all contracts entered into before 1 January 2019 and that were previously identified as leases under SFRS(I) 1-17 *Leases* and SFRS(I) INT 4 *Determining whether an Arrangement contains a Lease*, the Group has not reassessed if such contracts contain leases under SFRS(I) 16; and

(ii) On a lease-by-lease basis, the Group has:

(a) applied a single discount rate to a portfolio of leases with reasonably similar characteristics;

(b) relied on previous assessments on whether leases are onerous as an alternative to performing an impairment review;

(c) accounted for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;

(d) excluded initial direct costs in the measurement of the right-of-use ("**ROU**") asset at the date of initial application; and

(e) used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

There were no onerous contracts as at 1 January 2019.

On initial application, for leases previously classified as operating leases under SFRS(I) 1-17, the Group has elected to record right-of-use assets based on the corresponding lease liabilities, adjusted for any deferred lease inducements and any lease payments made at or before the commencement date that were recorded in other non-current liabilities and other current asset, on the balance sheet as at 1 January 2019. For moveable equipment leases previously classified as finance leases under SFRS(I) 1-17, the Group measured the right-of-use assets and lease liabilities as previously accounted for without adjustment.

For recording new right-of-use assets under SFRS(I) 16, the Group discounted future lease payments using its incremental borrowing rate as at 1 January 2019. The rates applied were 5.1% for Canadian land and buildings, 5.6% for United States land and buildings and 4.8% for moveable equipment.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Interpretations and amendments to published standards effective in 2019 (Continued)

Adoption of SFRS(I) 16 *Leases* (Continued)

When the Group is the lessee (Continued)

The Group has elected to apply the practical expedient to grandfather the assessment of which transactions are leases on the date of initial application, as previously assessed under SFRS(I) 1-17 and SFRS(I) INT 4. The Group applied the definition of a lease under SFRS(I) 16 to contracts entered into or changed on or after 1 January 2019. The Group has also elected to apply the practical expedient on facility leases, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

Under SFRS(I) 1-17, the Group had previously accounted for the building component of certain warehouse leases as finance leases and the land component as operating leases. On adoption, the Group derecognised the amounts previously recognised as leased assets of $17.1 million and finance lease obligations of $20.9 million with the difference of $3.8 million being credited to deficit as a result of the adoption of SFRS(I) 16, offset by an increase in deferred tax liabilities of $1.0 million thus resulting in a net increase in opening retained profits of $2.8 million as at 1 January 2019. New right-of-use assets were recorded for the entire single lease component of each warehouse location leased by the Group, resulting in the recognition of new right-of-use assets along with the corresponding lease liabilities. The increase was due to adopting the policy of recognising the lease as a single component along with including renewal terms determined by management to be reasonably certain to be exercised.

As previously disclosed in the Group's financial statements as at 31 December 2018, the Group has operating lease commitments of $27.4 million. Of these operating lease commitments, $1.9 million did not meet the requirements to be recognised as right-of-use assets. However, the lease liabilities recognised on the adoption of SFRS(I) 16 were significantly higher than this amount as the Group determined that renewal options of between 2 and 10 years were reasonably certain to be exercised on several warehouse leases. These renewal options had not been included in the minimum operating lease commitments that had been previously disclosed.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Interpretations and amendments to published standards effective in 2019 (Continued)

Adoption of SFRS(I) 16 *Leases* (Continued)

When the Group is the lessee (Continued)

The effects of adoption of SFRS(I) 16 on the Group's financial statements as at 1 January 2019 are as follows:

	Increase $'000
Right-of-use assets included in property, plant and equipment	80,328
Lease liabilities	76,475
Retained profits	2,824
Deferred tax liabilities	1,029

An explanation of the differences between the operating lease commitments previously disclosed in the Group's financial statements as at 31 December 2018 and the lease liabilities recognised in the balance sheet as at 1 January 2019 are as follows:

	$'000
Operating lease commitment disclosed as at 31 December 2018	27,409
Add: Extension options which are reasonably certain to be exercised	94,695
Less: Short-term leases	(1,927)
Less: Effect of discounting using the incremental borrowing rate	(43,702)
	76,475
Add: Finance lease liabilities recognised as at 31 December 2018	22,985
Lease liabilities recognised as at 1 January 2019	99,460

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Revenue recognition

(i) Wholesale of building products

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

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

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

A receivable (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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Revenue recognition (Continued)

(ii) Trading of paper products

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

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

The Group does not operate any customer loyalty programme.

(iii) Construction revenue

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

(iv) Operating and maintenance income

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Revenue recognition (Continued)

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Group accounting (Continued)

(a) Subsidiary corporations (Continued)

(i) Consolidation (Continued)

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.

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

(ii) Acquisitions

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Group accounting (Continued)

(a) Subsidiary corporations (Continued)

(iii) Disposals

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

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

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

(b) Transactions with non-controlling interests

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

2.5 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Property, plant and equipment (Continued)

(a) Measurement (Continued)

(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%

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Property, plant and equipment (Continued)

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Service concession arrangement (Continued)

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Impairment of non-financial assets (Continued)

(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 2019

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 2019

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. Note 37(a) details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by the SFRS(I) 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial assets (Continued)

(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 2019

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

(a) The accounting policy for leases before 1 January 2019 are as follows:

When the Group is the lessee

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

(i) Lessee – Finance leases

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

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

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

(ii) Lessee – Operating leases

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Leases (Continued)

(b) The accounting policy for leases from 1 January 2019 are as follows:

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".

(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Leases (Continued)

(b) The accounting policy for leases from 1 January 2019 are as follows: (Continued)

When the Group is the lessee (Continued)

(ii) Lease liabilities (Continued)

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Inventories

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

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

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

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

2.17 Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Income taxes (Continued)

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

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

2.18 Provisions

Provisions for warranty and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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

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

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

2.19 Employee compensation

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

(a) *Defined contribution plans*

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Employee compensation (Continued)

(b) *Share-based compensation*

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

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

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

(c) *Profit sharing and bonus plan*

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

(d) *Short-term compensated absences*

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Financial guarantees

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

Financial guarantees contracts are initially measured at fair value 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 year, adjusted for own shares held.

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

2.23 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Currency translation (Continued)

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.24 Segment reporting

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

2.25 Cash and cash equivalents

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

2.26 Share capital and treasury shares

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

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

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

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

2.27 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

3 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

3.1 Critical accounting estimates and assumptions (Continued)

(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 $1,268,000 (2018: $803,000) 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.

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 10% from management estimates, the carrying amount of the service concession receivables will be increased/decreased by $1,289,000 (2018: $319,000) and correspondingly to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

3 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

3.1 Critical accounting estimates and assumptions (Continued)

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

The Group's and the Company's unrecognised tax losses, capital allowances and merger and acquisition allowances are set out in Note 23.

3.2 Critical judgements in applying the entity's accounting policies

(a) Impairment of trade receivables

As at 31 December 2019, the Group's trade receivables amounted to $95,977,000 (2018: $104,868,000) (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 $1,149,000 (2018: $2,452,000) (Note 5) for trade receivables was recognised as at 31 December 2019.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

3 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

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

(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 $1,695,000 (2018: $1,580,000).

(c) *Critical judgement over the lease terms*

As at 31 December 2019, the Group's lease liabilities, which are measured with reference to an estimate of the lease terms, amounted to $99,978,000, of which $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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

4 CASH AND CASH EQUIVALENTS

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Cash at bank and on hand	10,028	10,222	4,613	2,571
Short-term bank deposits	9,217	12,150	5	25
	19,245	22,372	4,618	2,596

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	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
United States Dollar	5,732	5,388	4,070	1,915

Acquisition of subsidiary corporations

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

5 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Current				
Trade receivables – non-related parties	95,977	104,868	55	17
Less: Loss allowance (Note 37(a))	(1,149)	(2,452)	–	–
Trade receivables – net	94,828	102,416	55	17
Non-trade amounts due from subsidiary corporations (Note 37(g))	–	–	41,708	64,281
Loan to subsidiary corporations	–	–	83,487	81,236
Deposits	779	225	37	35
Prepayments	3,143	3,093	18	23
Other receivables – non-related parties	3,277	3,803	7	13
	7,199	7,121	125,257	145,588
	102,027	109,537	125,312	145,605
Non-current				
Loan to a subsidiary corporation	–	–	8,419	12,788
	102,027	109,537	133,731	158,393

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

5 TRADE AND OTHER RECEIVABLES (CONTINUED)

Trade receivables of $85,410,000 (2018: $91,098,000) 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 are repayable on demand.

Total current and non-current loan to a subsidiary corporation by the Company amounted to $12,628,000 (2018: $17,050,000) 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 $53,400,000 (2018: $51,848,000) are unsecured, interest-free and are repayable on demand.

The carrying amount of the non-current loan to a subsidiary corporation approximates its fair value that is determined from the cash flow analysis discounted at effective interest rate of 8% (2018: 8%), which is 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.

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	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
United States Dollar	1,383	1,826	8,653	15,097
Canadian Dollar	–	–	91,433	86,621

6 SERVICE CONCESSION RECEIVABLES

	Group	
	2019 $'000	2018 $'000
Current portion	16,029	16,232
Non-current portion	24,512	24,622
	40,541	40,854

During the financial year, the Group recognised finance income of $4,586,000 (2018: $4,854,000) as revenue from service concession arrangement (Note 27). The effective interest rate applied is 12% (2018: 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

6 SERVICE CONCESSION RECEIVABLES (CONTINUED)

Service concession arrangement

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

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

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

The counterparty of the above service concession arrangement is a governmental body in the Republic of the Union of Myanmar 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	
	2019 $'000	**2018 $'000**
At cost		
Building products:		
– Allied building products	28,938	27,719
– Lumber products	104,143	94,673
– Panel products	28,297	26,088
Paper products:		
– Finished goods	4,940	5,545
– Raw materials	1,666	2,050
Work-in-progress	5	7
Production consumables	1,486	1,873
	169,475	157,955

The cost of inventories recognised as an expense and included in "cost of sales" amounted to $20,852,000 (2018: $25,932,000). The Group has recognised a write-down on its slow-moving inventories amounting to $3,511,000 (2018: $2,235,000) (Note 29).

Inventories of $162,291,000 (2018: $149,784,000) 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 2019

8 PROPERTY, PLANT AND EQUIPMENT

	Freehold land $'000	Leasehold land, buildings and leasehold improvements $'000	Treating equipment, warehouse equipment and plant and machinery $'000	Furniture, fixtures and office equipment $'000	Motor vehicles $'000	Computer system and license $'000	Total $'000
Group							
2019							
Cost							
Beginning of financial year	9,590	55,457	70,782	3,086	1,622	6,105	146,642
Adoption of SFRS(I) 16 (Note 2.2)	–	75,553	1,269	13	–	–	76,835
	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	–	11,187	31,613	1,560	883	1,707	46,950
Adoption of SFRS(I) 16 (Note 2.2)	–	(3,493)	–	–	–	–	(3,493)
	–	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 2019

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

8 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Leasehold building $'000	Furniture, fixtures, and office equipment $'000	Motor vehicles $'000	Total $'000
Company				
2019				
Cost				
Beginning of financial year	–	74	435	509
Adoption of SFRS(I) 16	–	13	–	13
	–	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
2018				
Cost				
Beginning of financial year	–	71	430	501
Additions	–	6	435	441
Disposals	–	–	(430)	(430)
Written off	–	(3)	–	(3)
End of financial year	–	74	435	509
Accumulated depreciation				
Beginning of financial year	–	63	430	493
Charge for the financial year	–	12	14	26
Disposals	–	–	(430)	(430)
Written off	–	(3)	–	(3)
End of financial year	–	72	14	86
Net book value				
End of financial year	–	2	421	423

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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 2019, the development costs of the upgrading projects that are not ready for use were $153,000 (2018: $427,000). 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 2019 was $660,000 (2018: $2,245,000). This amount, plus other construction-in-progress of $5,120,000 (2018: $3,055,000), is not yet subject to depreciation.

Bank borrowings of $18,449,000 (2018: $28,860,000) (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 $1,419,000 (2018: $1,447,000) and $1,699,000 (2018: $1,836,000) respectively.

Included within additions in the prior financial year's consolidated financial statements are treating equipment, warehouse equipment and plant and machinery acquired under finance leases amounting to $561,000.

As at 31 December 2018, the net book values of leasehold land, buildings and improvements and treating equipment, warehouse equipment and plant and machinery held under finance leases were $17,267,000 and $1,184,000 (Note 19) 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 2019

9 LEASES – THE GROUP AS A LESSEE (CONTINUED)

(a) *Carrying amounts*

ROU assets classified within Property, plant and equipment

	Group		Company	
	31 December 2019 $'000	**1 January 2019 $'000**	**31 December 2019 $'000**	**1 January 2019 $'000**
Leasehold land, buildings and leasehold improvements	93,875	96,204	319	–
Treating equipment, warehouse equipment and plant and machinery	3,827	2,563	–	–
Furniture, fixtures and office equipment	10	13	10	13
	97,712	98,780	329	13

(b) *Depreciation charge during the financial year*

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

(c) *Interest expense*

Interest expense on lease liabilities of the Group for the financial year ended 31 December 2019 was $4,754,000.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

9 LEASES – THE GROUP AS A LESSEE (CONTINUED)

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

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

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

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

10 FINANCIAL ASSETS, AT FVOCI

	Group	
	2019 $'000	2018 $'000
Listed equity security – Classic Scenic Berhad (Malaysia)		
Beginning of financial year	2,158	3,267
Fair value losses	(194)	(1,109)
End of financial year	1,964	2,158

Financial assets, 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 $137,000 (2018: $139,000) from the listed equity security during the financial year (Note 28).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

11 FINANCIAL ASSETS, AT FVPL

	Group and Company	
	2019 $'000	2018 $'000
Unlisted equity security – Singapore		
Beginning of financial year	500	–
Additions	–	500
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 the initial cost of investment in view that the investment was recently made during the financial year ended 31 December 2018.

12 INVESTMENTS IN SUBSIDIARY CORPORATIONS

	Company	
	2019 $'000	2018 $'000
Equity investments at cost		
Beginning of financial year	35,126	20,533
Additions	–	14,593
Disposal	(272)	–
End of financial year	34,854	35,126

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

12 INVESTMENTS IN SUBSIDIARY CORPORATIONS (CONTINUED)

The Group has the following subsidiary corporations as at 31 December 2019 and 2018:

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	
			2019 %	2018 %	2019 %	2018 %	2019 %	2018 %
Held by the Company								
[1]UPP Industries Pte. Ltd.	Singapore	Investment holding, rental and management of property	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	–	–
[3]UPP Investments Luxembourg S.à.r.l.	Luxembourg	Investment holding	100	100	100	100	–	–
[3]Avarga Canada Limited*	Canada	Investment holding	23	–	100	100	–	–
[3]Kublai Canada Limited*	Canada	Investment holding	–	100	100	100	–	–
Held through subsidiary corporations								
[2]Avarga (M) Sdn. Bhd.	Malaysia	Investment holding	–	–	100	100	–	–
[2]UPP Pulp & Paper (M) Sdn. Bhd.	Malaysia	Manufacture and sale of paper products and trading in recycled fibre	–	–	100	100	–	–
[2]UPP Recycled Fibre (M) Sdn. Bhd.	Malaysia	Dormant	–	–	100	100	–	–
[3]UPP-MSP Engineering Limited**	Myanmar	Dormant	–	–	–	75	–	25
[3]UPP Power (Myanmar) Limited	Myanmar	Design, operate and maintain power plants for electricity generation and sell the electricity produced to the Myanmar Government	–	1	100	100	–	–
[3]Avarga Canada Limited*	Canada	Investment holding	23	–	100	100	–	–
[4][5]Taiga Building Products Ltd. and its subsidiary corporations	Canada	Independent wholesale distributor of building products	–	–	67.9	65.5	32.1	34.5

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

12 INVESTMENTS IN SUBSIDIARY CORPORATIONS (CONTINUED)

* Avarga Canada Limited and Kublai Canada Limited had amalgamated as one company on 1 January 2019. The name of the amalgamated company is remained as Avarga Canada Limited.

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

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

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

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

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

(5) During the financial year ended 31 December 2019, Taiga had reacquired some of its ownership interest and resulted in the increase in the Group's shareholding in Taiga to 67.9%.

Carrying value of non-controlling interests

	2019 $'000	2018 $'000
Taiga Building Products Ltd. ("**Taiga**") and its subsidiary corporations	51,619	48,021
Other subsidiary corporations with immaterial non-controlling interests	–	9
Total	51,619	48,030

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

	2019 $'000	2018 $'000
Current		
Assets	253,260	247,417
Liabilities	(135,583)	(138,770)
Total current net assets	117,677	108,647
Non-current		
Assets	198,015	125,681
Liabilities	(134,287)	(76,638)
Total non-current net assets	63,728	49,043
Net assets	181,405	157,690

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

12 INVESTMENTS IN SUBSIDIARY CORPORATIONS (CONTINUED)

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

	2019 $'000	2018 $'000
Revenue	1,337,120	1,506,267
Profit before income tax	32,730	25,564
Income tax expense	(9,098)	(7,775)
Profit after tax	23,632	17,789
Other comprehensive (loss)/income	(2,922)	3,568
Total comprehensive income	20,710	21,357
Total comprehensive income allocated to non-controlling interests	7,103	10,478
Dividends paid to non-controlling interests	–	–

Summarised cash flows for the financial year ended 31 December

	2019 $'000	2018 $'000
Net cash provided by operating activities	43,480	35,120
Net cash used in investing activities	(1,715)	(59,251)
Net cash (used in)/provided by financing activities	(41,766)	24,132

Transaction with non-controlling interests

Deemed acquisition of additional interest in a subsidiary corporation

During the financial year, Taiga acquired 4,043,055 (2018: 1,259,471) shares of its own in the open market for cash consideration of C$4,154,000, i.e. approximately $4,328,000 (2018: C$1,658,000, i.e. approximately $1,684,000). This has resulted in a decrease in non-controlling interests of $5,567,000 (2018: $711,000) and an increase in equity attributable to owners of the Company of $1,239,000 (2018: decrease of $973,000). The effect of the Taiga shares buy-back transactions is summarised as follows:

	2019 $'000	2018 $'000
Carrying amount of non-controlling interests deemed acquired	5,567	711
Consideration transferred to non-controlling interests	(4,328)	(1,684)
Increase/(decrease) in equity attributable to owners of the Company	1,239	(973)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

12 INVESTMENTS IN SUBSIDIARY CORPORATIONS (CONTINUED)

For the financial year ended 31 December 2018:

Acquisition of additional interest in a subsidiary corporation

On 28 September 2018, the Company acquired additional 15.9% of the issued shares of Taiga for a purchase consideration of C$27,691,000 (approximately $29,102,000), by a combination of cash in the amount of C$8,804,000 (approximately $9,253,000) and the issuance of 73,439,000 shares at an issue price of $0.26 per share (Note 24). The Group now holds 65.1% of the equity share capital of Taiga before the effect of the Taiga's shares buyback transactions. The carrying amount of the non-controlling interests in Taiga on the date of acquisition was $75,104,000. The Group derecognised non-controlling interests of $23,584,000 and recorded a decrease in equity attributable to owners of the Company of $5,518,000. The effect of changes in the ownership interest of Taiga on the equity attributable to owners of the Company during the financial year ended 31 December 2018 was summarised as follows:

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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	–	–
2018		
Cost		
Beginning and end of financial year	10,545	10,545
Accumulated depreciation		
Beginning and end of financial year	2,803	2,803
Net book value		
End of financial year	7,742	7,742

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).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

14 INTANGIBLE ASSETS

	Group	
	2019 $'000	2018 $'000
Composition		
Goodwill (Note (a))	32,322	31,895
Customers relationships and brand name (Note (b))	29,550	33,813
Favourable lease terms (Note (c))	4,676	5,354
	66,548	71,062

(a) Goodwill

	Group	
	2019 $'000	2018 $'000
Cost		
Beginning of financial year	31,895	22,538
Acquisition of a subsidiary corporation (Note 39)	–	10,689
Currency translation differences	427	(1,332)
End of financial year	32,322	31,895
Accumulated impairment		
Beginning and end of financial year	–	–
Net book value		
End of financial year	32,322	31,895

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

Impairment test for goodwill

Goodwill is allocated to the Group's cash-generating units ("**CGUs**") identified according to countries of operation and business segments. The Group performed its impairment testing by comparing the carrying value of the CGU against its value-in-use.

Out of the total goodwill of $32,322,000 (2018: $31,895,000), goodwill allocated to a CGU in the building products for United States amounted to $10,483,000 (2018: $10,690,000).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

14 INTANGIBLE ASSETS (CONTINUED)

(a) Goodwill (Continued)

Impairment test for goodwill (Continued)

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 3%. 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 an after-tax discount rate of 11%. The value-in-use of the CGU was determined to be higher than its carrying amount and therefore no allowance for impairment of goodwill was provided. As at 31 December 2018, impairment assessment of the goodwill allocated to the building products for United States was performed using the fair value determined based on consideration paid less cost of disposal of the CGU as the acquisition of EWI took place just 5 months prior to 31 December 2018.

The remaining goodwill have been allocated to a CGU in the building products for Canada. The recoverable amount of the CGU was determined based on value-in-use calculation using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rate applied to the cash flow projections, forecasted growth margin and the forecasted growth rates used to extrapolate cash flow projections beyond the five-year period were 4.2%, 9.6% and 1.0% (2018: 4.9%, 8.8% and 2.0%) respectively. Based on the impairment test, the value-in-use of the CGU exceeded its carrying amounts. As a result, no allowance for impairment of goodwill was provided. There is a material degree of uncertainty with respect to the estimates of the recoverable amount of the CGU's net assets.

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

(b) Customers relationships and brand name

	Group	
	2019 $'000	**2018 $'000**
Cost		
Beginning of financial year	40,328	23,365
Acquisition of a subsidiary corporation (Note 39)	–	18,219
Currency translation differences	301	(1,256)
End of financial year	40,629	40,328
Accumulated amortisation		
Beginning of financial year	6,515	3,059
Amortisation charge	4,406	3,743
Currency translation differences	158	(287)
End of financial year	11,079	6,515
Net book value		
End of financial year	29,550	33,813

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

14 INTANGIBLE ASSETS (CONTINUED)

(c) Favourable lease terms

	Group	
	2019 $'000	2018 $'000
Cost		
Beginning of financial year	7,553	8,027
Currency translation differences	226	(474)
End of financial year	7,779	7,553
Accumulated amortisation		
Beginning of financial year	2,199	1,208
Amortisation charge	835	1,102
Currency translation differences	69	(111)
End of financial year	3,103	2,199
Net book value		
End of financial year	4,676	5,354

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

	Group	
	2019 $'000	2018 $'000
Administrative expenses (Note 29)	5,241	4,845

15 TRADE AND OTHER PAYABLES

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Trade payables – non-related parties	46,604	35,691	–	–
Accrued operating expenses	29,148	29,387	1,978	1,630
Other payables – non-related parties	243	304	102	55
Provisions (Note 21)	588	473	–	–
	76,583	65,855	2,080	1,685

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

15 TRADE AND OTHER PAYABLES (CONTINUED)

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

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
United States Dollar	7,227	5,228	25	113
Canadian Dollar	–	693	–	698

16 DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2019 $'000	2018 $'000
Financial (liabilities)/assets at fair value through profit or loss which are held for trading		
– Lumber futures contract	(136)	56

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

17 REVOLVING CREDIT FACILITY

	Group	
	2019 $'000	2018 $'000
Revolving credit facility	43,474	66,140
Financing costs, net of amortisation	(1,195)	(1,460)
	42,279	64,680

The Group renewed its senior credit facility with a syndicate of lenders led by JPMorgan Chase Bank on 28 June 2018 (the "**Facility**"). The Facility was increased from C$225 million to C$250 million, with an option to increase the limit by up to C$50 million. The Facility also features an ability to draw on additional term loans in an aggregate amount of approximately C$23 million at favourable rates, which the Group's significant subsidiary corporation, Taiga, utilised in year 2018 for business acquisition referred to in Note 39. The Facility continues to bear interest at variable rates plus variable margins, is secured by a first perfected security interest in all personal property of Taiga and certain of its subsidiary corporations, and will mature on 28 June 2023. Taiga's ability to borrow under the Facility is based upon a defined percentage of accounts receivables and inventories. The terms, conditions, and covenants of the Facility have been met as at 31 December 2019 and 2018.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

17 REVOLVING CREDIT FACILITY (CONTINUED)

The Group's revolving credit facility includes an amount of $1,923,000 (2018: $1,871,000) 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	
	2019	**2018**
	$'000	**$'000**
Current	40,588	29,739
Non-current	15,361	28,621
Total borrowings	55,949	58,360

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	
	2019	**2018**
	$'000	**$'000**
6 months or less	55,949	58,360

Security granted

Total borrowings include secured liabilities of $18,449,000 (2018: $28,860,000) 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

19 LEASE LIABILITIES/FINANCE LEASE LIABILITIES

Lease liabilities

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

	Group 2019 $'000
Minimum lease payments due over the lives of the right-of-use leases:	
– Not later than one year	9,781
– Between one and five years	33,893
– Later than five years	118,659
	162,333
Less: Future finance charges	(62,355)
Present value of lease liabilities	99,978

The present values of lease liabilities are analysed as follows:

	Group 2019 $'000
Current	
– Not later than one year	4,746
Non-current	
– Between one and five years	15,808
– Later than five years	79,424
	95,232
Total	99,978

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

19 LEASE LIABILITIES/FINANCE LEASE LIABILITIES (CONTINUED)

Lease liabilities (Continued)

As at 31 December 2019, 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 4.8% to 5.6%.

For the financial year ended 31 December 2019, expenses for short-term leases that were not capitalised as right-of-use assets totalled $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 ("**CPI**").

Finance lease liabilities

As at 31 December 2018, the Group leases certain buildings and operating equipment from non-related parties under finance leases. Lease payments represent blended payments consisting of principal and interest based on interest rates ranging from 5.6% to 8.4%.

Finance lease liabilities were reclassified to lease liabilities on 1 January 2019 arising from the adoption of SFRS(I) 16. The impact of adoption is disclosed in Note 2.2.

	Group 2018 $'000
Minimum lease payments due over the lives of the finance leases:	
– Not later than one year	3,998
– Between one and five years	13,827
– Later than five years	14,063
	31,888
Less: Future finance charges	(8,903)
Present value of finance lease liabilities	22,985

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

19 LEASE LIABILITIES/FINANCE LEASE LIABILITIES (CONTINUED)

Finance lease liabilities (Continued)

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

	Group 2018 $'000
Current	
– Not later than one year	2,498
Non-current	
– Between one and five years	9,411
– Later than five years	11,076
	20,487
Total	22,985

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

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

As at 31 December 2018, the fair value of the finance lease liabilities amounted to $22,953,000. This fair value was determined using current borrowing rates for similar debt instruments. The fair value was within Level 2 of the fair value hierarchy.

20 DEFERRED GAIN

The deferred gain relates to proceeds in excess of the net book value of certain buildings sold in the sale and leaseback transactions completed by Taiga prior to the Group's acquisition on 31 January 2017. The deferred gain is amortised over the lease terms of the buildings, which are being accounted for as leases liability (2018: finance lease liabilities). Amortisation for the financial year ended 31 December 2019 amounted to $123,000 (2018: $398,000) is included in "Other gains/(losses), net – Others" (Note 28).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

21 PROVISIONS

The following table summarises the movements in the provisions:

	Lease $'000	Warranty $'000	Other $'000	Total $'000
Group				
2019				
Beginning of financial year	760	382	–	1,142
Provision (utilised)/made	(132)	194	–	62
Amortisation of discount	33	–	–	33
Currency translation differences	(71)	12	–	(59)
End of financial year	590	588	–	1,178
Included in trade and other payables (Note 15)	–	(588)	–	(588)
Non-current provisions	590	–	–	590
2018				
Beginning of financial year	901	382	30	1,313
Provision (utilised)/made	(132)	24	(29)	(137)
Amortisation of discount	42	–	–	42
Currency translation differences	(51)	(24)	(1)	(76)
End of financial year	760	382	–	1,142
Included in trade and other payables (Note 15)	(91)	(382)	–	(473)
Non-current provisions	669	–	–	669

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%.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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 2019 and 2018.

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	
	2019 **$'000**	**2018** **$'000**
Deferred income tax assets		
To be recovered after one year	(196)	(270)
Deferred income tax liabilities		
To be settled after one year	16,633	21,828
Net deferred income tax liabilities		
To be settled after one year	16,437	21,558

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

	Group	
	2019 **$'000**	**2018** **$'000**
Beginning of financial year	21,558	9,731
Acquisition of a subsidiary corporation (Note 39)	–	6,730
Tax (credited)/charged to		
– Profit or loss (Note 32)	(6,688)	5,734
– Other comprehensive income	1,013	218
Currency translation differences	554	(855)
End of financial year	16,437	21,558

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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 $7,960,000 (2018: $7,785,000), $3,908,000 (2018: $3,914,000) and $5,525,000 (2018: $3,645,000) respectively and the Company has unrecognised tax losses and merger and acquisition allowances of approximately $Nil (2018: $797,000) and $5,525,000 (2018: $3,645,000) 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 (2018: $5,506,000) relating to Avarga (M) Sdn. Bhd.. Out of this amount, $5,489,000 (2018: $5,506,000) 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					
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
2018					
Beginning of financial year	1,803	15,378	9,020	–	26,201
Acquisition of a subsidiary corporation	–	409	4,473	–	4,882
Charged/(credited) to					
– Profit or loss	6,094	(823)	(1,352)	–	3,919
– Other comprehensive income	–	7	211	–	218
Currency translation differences	(316)	(402)	(620)	–	(1,338)
End of financial year	7,581	14,569	11,732	–	33,882

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

23 DEFERRED INCOME TAXES (CONTINUED)

Deferred income tax assets

	Finance lease liabilities $'000	Unutilised investment and reinvestment allowances $'000	Provisions and others $'000	Deferred gain on sale and leaseback $'000	Total $'000
Group					
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)
2018					
Beginning of financial year	(7,026)	(7,682)	(937)	(825)	(16,470)
Acquisition of a subsidiary corporation	–	–	1,848	–	1,848
Charged/(credited) to profit or loss	419	2,258	(1,019)	157	1,815
Currency translation differences	402	4	34	43	483
End of financial year	(6,205)	(5,420)	(74)	(625)	(12,324)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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				
2019				
Beginning and end of financial year	950,106	(3,037)	169,582	(628)
2018				
Beginning of financial year	876,667	–	150,519	–
Shares issued (Note 12)	73,439	–	19,094	–
Share issue expenses	–	–	(31)	–
Treasury shares purchased	–	(3,037)	–	(628)
End of financial year	950,106	(3,037)	169,582	(628)

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

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

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

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.

As at 31 December 2019, the Company has acquired 3,037,000 (2018: 3,037,000) shares in the Company in the open market for consideration of $628,000 (2018: $628,000). 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 836,667,121 (2018: 836,667,121).

Subsequent to the financial year end, the Company issued 39,221 ordinary shares for a total consideration of approximately $15,000 for cash by warrants conversion. The newly issued shares rank *pari passu* in all respects with the previously issued shares.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

25 OTHER RESERVES

	Group		Company	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Composition:				
Capital reserve	360	(600)	74	74
Currency translation reserve	(21,902)	(20,046)	–	–
Fair value reserve	(857)	(663)	–	–
	(22,399)	(21,309)	74	74

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

The fair value reserve represents the cumulative fair value changes, net of tax, of financial assets, at FVOCI until they are disposed of or impaired.

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

Other reserves are non-distributable.

26 DIVIDENDS

	Group	
	2019	**2018**
	$'000	**$'000**
Ordinary dividends		
Final dividend paid in respect of the previous financial year of 3.0 cents (2018: 0.5 cents) per share	28,409	4,383
Interim dividend paid in respect of the current financial year of 1.5 cents (2018: 0.5 cents) per share	14,204	4,383
	42,613	8,766

At the forthcoming Annual General Meeting, a final dividend of 0.5 cents per share amounting to a total of $4,735,000 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 2020.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

27 REVENUE

	Group	
	2019 $'000	2018 $'000
Sale of goods		
– Paper products	48,058	55,907
– Building products	1,337,108	1,506,267
Operating and maintenance income	14,121	5,649
Finance income (Note 6)	4,586	4,854
	1,403,873	1,572,677

28 OTHER GAINS/(LOSSES), NET – OTHERS

	Group	
	2019 $'000	2018 $'000
Gain on disposal of property, plant and equipment	14	157
Bad debts recovered	262	28
Dividend income from listed equity security (Note 10)	137	139
Currency exchange gain/(loss), net	3,664	(6,063)
Amortisation of deferred gain (Note 20)	123	398
Gain on disposal of asset held-for-sale (Note 13)	10,864	–
Others	(140)	509
	14,924	(4,832)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

29 EXPENSES BY NATURE

	Group	
	2019	**2018**
	$'000	**$'000**
Fees on audit services paid/payable to:		
– Auditor of the Company	89	80
– Other auditors	321	347
Fees on non-audit services paid/payable to:		
– Auditor of the Company	10	9
– Other auditors	138	163
Purchase of inventories	32,372	45,716
Depreciation of property, plant and equipment (Note 8)	12,679	8,030
Amortisation of intangible assets (Note 14(d))	5,241	4,845
Directors' fees	584	786
Employee compensation (Note 30)	67,155	65,433
General office expenses	12,437	11,931
General and professional fees	1,472	2,597
Manufacturing overhead	2,777	2,832
Product and treating costs	1,156,912	1,333,748
Freight/transportation expenses	34,031	35,474
Utilities	11,208	10,794
Inventories write-down (Note 7)	3,511	2,235
Warehouse costs	10,637	15,382
Operating and maintenance fees	11,461	3,592
Other expenses	1,904	2,412
Changes in inventories	(11,520)	(19,784)
Total cost of sales, distribution and selling and administrative expenses	1,353,419	1,526,622

30 EMPLOYEE COMPENSATION

	Group	
	2019	**2018**
	$'000	**$'000**
Salaries, bonuses and wages	66,598	64,906
Employer's contribution to defined contribution plans	357	313
Other short-term benefits	200	214
	67,155	65,433

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

31 FINANCE EXPENSES

	Group	
	2019 $'000	2018 $'000
Interest expense		
– Revolving credit facility and other short-term liabilities	3,846	4,954
– Lease liabilities/finance lease liabilities and bank borrowings	7,132	2,802
– Subordinated notes	900	868
– Amortisation of financing costs	342	346
– Bank overdraft	–	3
	12,220	8,973

32 INCOME TAX EXPENSE

	Group	
	2019 $'000	2018 $'000
Tax expense attributable to profit is made up of:		
Profit for the financial year		
Current income tax		
– Singapore	–	–
– Foreign	19,390	4,941
	19,390	4,941
Deferred income tax (Note 23)	(6,688)	5,734
	12,702	10,675
Under provision in prior financial year		
Current income tax	30	357
	12,732	11,032

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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 2019 and 2018 is as follows:

	Group	
	2019 **$'000**	**2018** **$'000**
Profit before income tax	53,320	31,127
Tax at the domestic rates applicable to profit in the countries where the Group operates	12,335	8,150
Effects of:		
– Expenses not deductible for tax purposes	1,718	3,191
– Income not subject to tax	(1,421)	(1,212)
– Under-provision of tax in prior financial years	30	357
– Effect of change in tax rate	(35)	59
– Utilisation of previously unrecognised deferred tax assets	(258)	–
– Deferred tax asset not recognised	–	191
– Other taxes	37	229
– Others	326	67
Tax charge	12,732	11,032

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 11 February 2014 to 10 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	
	2019 **$'000**	**2018** **$'000**
Net profit attributable to equity holders of the Company ($'000)	32,562	11,163
Weighted average number of ordinary shares outstanding for basic earnings per share ('000)	947,069	895,257
Basic earnings per share (cents per share)	3.44	1.25

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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	
	2019 **$'000**	**2018** **$'000**
Net profit attributable to equity holders of the Company ($'000)	32,562	11,163
Weighted average number of ordinary shares outstanding for basic earnings per share ('000)	947,069	895,257
Adjustments for warrants ('000)	–*	–*
	947,069	895,257
Diluted earnings per share (cents per share)	3.44	1.25

* The outstanding warrants of 836,667,121 (2018: 836,667,121) are not assumed to be exercised because they were anti-dilutive during the financial years ended 31 December 2019 and 2018.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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 2019 and 2018 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	
	2019 **$'000**	**2018** **$'000**
Salaries and bonuses	4,722	5,419
Directors' fees	584	786
Employer's contribution to defined contribution plans	249	281
Other short-term benefits	44	37
	5,599	6,523
Comprise amounts paid/payable to:		
Directors of the Company	2,197	2,265
Directors of the subsidiary corporations	258	403
Other key management personnel	3,144	3,855
	5,599	6,523

35 COMMITMENTS

Operating lease commitments – where the Group is a lessee

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

As at 31 December 2018, the future minimum lease payables under non-cancellable operating leases contracted for at the balance sheet date but not recognised as liabilities, are as follows:

	Sale and leaseback $'000	**Others $'000**	**Total $'000**
Group			
31 December 2018			
Not later than one year	1,797	2,708	4,505
Between one and five years	7,002	6,878	13,880
Later than five years	4,155	4,869	9,024
	12,954	14,455	27,409

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

35 COMMITMENTS (CONTINUED)

Operating lease commitments – where the Group is a lessee (Continued)

The certain sales and leaseback operating leases completed in 2014 and expire in February 2034. Rental rates are subject to adjustments every five years based on consumer price index. For each property, the Group has two options to renew for five years each.

The other sales and leaseback operating leases completed in 2006 and will be expiring in February 2021 or February 2026 depending on the property. Rental rates are subject to adjustments every five years based on consumer price index. For each property, the Group has three options to renew for five years each.

Total operating lease payments recognised as an expense for the financial year ended 31 December 2018 were $4,514,000.

As disclosed in Note 2.2, the Group has adopted SFRS(I) 16 on 1 January 2019. These lease payments have been recognised as ROU assets and lease liabilities on the balance sheet as at 31 December 2019, except for short-term and low value leases.

36 CONTINGENT LIABILITIES

Financial support

The Company has given letters of financial support to certain subsidiary corporations in the Group with net current liabilities position at the balance sheet date to enable these subsidiary corporations to operate as going concern and to meet their liabilities as and when they fall due.

Other Outstanding Legal Matters

Certain subsidiary corporations in the Group are involved in various non-material legal actions and claims arising in the course of its business. The financial impact individually or in aggregate resulting from these actions and claims is not expected to be significant. The individual and aggregate outcomes cannot be determined at this time.

Canada Revenue Agency ("CRA") Reassessment

During the 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. 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

37 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

(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.

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	
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
2018	
Balance at 1 January 2018	870
Loss allowance recognised in profit or loss during the financial year on:	
– Assets acquired/originated	1,500
Written off	(10)
Currency translation differences	92
Balance at 31 December 2018 (Note 5)	2,452

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

37 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

37 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 2019

37 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 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
At 31 December 2018			
Trade and other payables	65,382	–	–
Revolving credit facility	64,680	–	–
Bank borrowings	30,499	22,276	6,610
Finance lease liabilities	3,998	13,827	14,063
Subordinated notes	877	15,155	–
	165,436	51,258	20,673
Company			
At 31 December 2019			
Trade and other payables	2,080	–	–
Lease liabilities	124	212	–
	2,204	212	–
At 31 December 2018			
Trade and other payables	1,685	–	–

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

37 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.

	2019 $'000	2018 $'000
Group		
Less than 1 year		
Held for trading		
– Net-settled Lumber futures	(136)	56

(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 (2018: 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 $755,000 (2018: $890,000) as a results of higher/lower interest expense on these borrowings.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

37 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 2019 and 2018, 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 2% (2018: 5%) 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	
	2019 $'000	**2018 $'000**
Group and Company		
CAD against SGD		
– Strengthened	1,518	3,566
– Weakened	(1,518)	(3,566)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

37 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% (2018: 34%) with all other variable including tax rate being held constant, the effects on other comprehensive income would have been:

	Increase/(decrease) Other comprehensive income	
	2019 $'000	**2018 $'000**
Group		
Listed in Malaysia		
– increased by	177	732
– decreased by	(177)	(732)

(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 2019

37 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 2019 and 2018.

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	
	2019 $'000	**2018 $'000**	**2019 $'000**	**2018 $'000**
Net debt	191,861	136,178	–	–
Total capital	186,277	187,080	171,951	195,353
Gearing ratio (times)	1.03	0.73	–	–

The Group is in compliance with all externally imposed capital requirements for the financial years ended 31 December 2019 and 2018. The Company is not subjected to capital requirements for the financial years ended 31 December 2019 and 2018.

Following the adoption of SFRS(I) 16, the net debt to equity ratio of the Group increased from 0.73 times on 31 December 2018 to 1.12 times on 1 January 2019.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

37 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 2019			
Assets			
Financial assets, at FVPL	–	–	500
Financial assets, at FVOCI	1,964	–	–
Liabilities			
Derivative financial instruments	–	(136)	–
31 December 2018			
Assets			
Financial assets, at FVPL	–	–	500
Financial assets, at FVOCI	2,158	–	–
Derivative financial instruments	–	56	–

	Level 1 $'000	Level 2 $'000	Level 3 $'000
Company			
31 December 2019			
Financial assets, at FVPL	–	–	500
31 December 2018			
Financial assets, 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 2019 and 2018.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

37 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) *Fair value measurements (Continued)*

The fair value of financial instruments traded in active markets (financial assets, at FVOCI) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets 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 2019 and 2018.

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 2019		
Financial assets, at amortised cost	158,670	138,331
Financial liabilities, at amortised cost	287,101	2,416
31 December 2018		
Financial assets, at FVPL	556	500
Financial assets, at amortised cost	169,670	160,966
Financial liabilities, at amortised cost	223,932	1,685

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

37 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 2019			
Due from subsidiary corporations	53,041	(11,333)	41,708
At 31 December 2018			
Due from subsidiary corporations	73,162	(8,881)	64,281

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 2019

38 SEGMENT INFORMATION

The Group's chief operating decision-maker ("**CODM**") comprises of the Chief Executive Officer, the Chief Operating Officer, President, Investments and the heads of each business within each primary geographic segment. Management has determined the operating segments based on the reports reviewed by the CODM that are used to make strategic decisions, 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

38 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	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000	2019 $'000	2018 $'000	2019 $'000	2018 $'000	2019 $'000	2018 $'000	2019 $'000	2018 $'000		2019 $'000	2018 $'000
Revenue:															
External customers	48,058	55,907	18,707	10,503	1,337,108	1,506,267	–	–	1,403,873	1,572,677	–	–		1,403,873	1,572,677
Results:															
Finance expenses	(4)	(4)	–	–	(11,350)	(8,332)	(866)	(637)	(12,220)	(8,973)	–	–		(12,220)	(8,973)
Interest income	283	299	–	–	–	–	47	78	330	377	–	–		330	377
Depreciation*	(2,417)	(2,453)	(4)	(4)	(10,071)	(5,542)	(187)	(31)	(12,679)	(8,030)	–	–		(12,679)	(8,030)
Amortisation of intangible assets	–	–	–	–	(5,241)	(4,845)	–	–	(5,241)	(4,845)	–	–		(5,241)	(4,845)
Segment profit/(loss) before income tax*	8,112	10,271	5,990	5,680	32,731	25,565	6,487	(10,389)	53,320	31,127	–	–		53,320	31,127
Assets:															
Additions to:–															
– Property, plant and equipment	515	428	–	7	4,697	15,895	374	440	5,586	16,770	–	–		5,586	16,770
– Intangible assets	–	–	–	–	–	28,908	–	–	–	28,908	–	–		–	28,908
Segment assets*	72,880	83,280	40,878	41,149	451,079	372,829	10,270	14,670	575,107	511,928	196	270	A	575,303	512,198
Segment liabilities*	2,610	3,193	4,633	968	243,175	191,935	40,680	31,702	291,098	227,798	31,380	26,258	B	322,478	254,056

* The Group has adopted SFRS(I)16 *Leases* on 1 January 2019, which requires the recognition of right-of-use assets and lease liabilities for lease contracts that were previously classified as operating leases (see Note 2.2). As a result, the Group recognised $98,780,000 of right-of-use assets and $99,460,000 of liabilities from those lease contracts. The assets and liabilities are included in the building products and Others segments as at 31 December 2019. The Group has applied SFRS(I) 16 using the modified retrospective approach, under which comparative information is not restated (see Note 2.2), accordingly the segment assets and liabilities as at 31 December 2019 and 2018 are not entirely comparable.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

38 SEGMENT INFORMATION (CONTINUED)

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

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

	Group	
	2019 $'000	2018 $'000
Deferred income tax assets	196	270

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

	Group	
	2019 $'000	2018 $'000
Income tax payables	14,747	4,430
Deferred income tax liabilities	16,633	21,828
	31,380	26,258

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	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Canada	1,075,710	1,275,989	142,186	72,318
United States	261,398	230,278	55,632	53,093
Malaysia	42,762	46,540	42,795	44,836
Singapore	493	970	664	423
Myanmar	18,707	10,503	78	84
Sri Lanka	1,384	2,015	–	–
Australia	1,316	1,448	–	–
Others	2,103	4,934	–	–
	1,403,873	1,572,677	241,355	170,754

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 2019

39 BUSINESS COMBINATIONS

For the financial year ended 31 December 2018:

On 31 July 2018, the Group acquired 100% equity interest in Exterior Wood, Inc. ("**EWI**"). EWI has been operating a wood treatment facility and distribution centre in Washougal, Washington since 1977, and services retail building supply centres throughout the western United States and Canada with a wide array of pressure treated products. The acquisition will expand Taiga's existing wood treatment operations at three facilities in Canada, with additional penetration into the United States market. As a result of the acquisition, EWI became a subsidiary corporation of the Group.

Details of the consideration paid, the assets acquired and liabilities assumed, the non-controlling interest recognised and the effects on the cash flows of the Group, at the acquisition date, were as follows:

(a) Purchase consideration

	$'000
Cash paid and consideration transferred for the business	58,102

(b) Effect on cash flows of the Group

	$'000
Cash paid (as above)	58,102
Less: Cash and cash equivalents in subsidiary corporation acquired	(2,999)
Net cash outflow on acquisition	55,103

(c) Identified assets acquired and liabilities assumed

	At fair value $'000
Property, plant and equipment (Note 8)	11,230
Trade and other receivables (Note (e) below)	10,683
Cash and cash equivalents	2,999
Inventories	21,440
	46,352
Trade and other payables	(3,552)
Line of credit payable	(6,876)
Deferred income tax liabilities (Note 23)	(6,730)
	(17,158)
Total identifiable net assets	29,194
Add: Goodwill (Note 14(a))	10,689
Add: Intangible assets (Note 14(b))	18,219
Consideration transferred for the business	58,102

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

39 BUSINESS COMBINATIONS (CONTINUED)

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

(d) Acquisition-related costs

Acquisition-related costs of $805,000 was included in "selling and administrative expenses" in the consolidated statement of comprehensive income for the financial year ended 31 December 2018.

(e) Acquired receivables

The fair value of trade and other receivables was $10,683,000 and includes trade receivables with a fair value of $10,295,000. The gross contractual amount for trade receivables due was $10,621,000, of which $326,000 was expected to be uncollectible.

(f) Goodwill arising from acquisition

The goodwill recognised of $10,689,000 was primarily attributed to the expected synergies arising from the acquisition and the expertise and reputation of the assembled management and workforce.

(g) Revenue and profit contribution

From the date of the acquisition, the acquired business contributed revenue of $36,618,000 and a net loss of $1,817,000 to the Group. Had EWI been consolidated from 1 January 2018, consolidated revenue and consolidated net profit for the financial year ended 31 December 2018 would have been $1,636,197,000 and $25,231,000 respectively.

40 NEW OR REVISED ACCOUNTING STANDARDS AND INTERPRETATIONS

Amendments to SFRS(I) 3 *Business Combination* (effective for annual periods beginning on or after 1 January 2020)

The amendments provide new guidance on the assessment of whether an acquisition meets the definition of a business under SFRS(I) 3. To be considered a business, an acquisition would have to include an output and a substantive process that together significantly contribute to the ability to create outputs. A framework is introduced to evaluate when an input and substantive process are present. To be a business without outputs, there will now need to be an organised workforce.

The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.

It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

40 NEW OR REVISED ACCOUNTING STANDARDS AND INTERPRETATIONS (CONTINUED)

Amendments to SFRS(I) 3 *Business Combination* (effective for annual periods beginning on or after 1 January 2020) (Continued)

Entities can apply a 'concentration test' that, if met, eliminates the need for further assessment. Under this optional test, where substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The assets acquired would not represent a business.

These amendments are applied to business combinations and asset acquisitions with acquisition date on or after 1 January 2020. Early application is permitted. The Group does not expect any significant impact arising from applying these amendments.

41 EVENTS OCCURING AFTER BALANCE SHEET DATE

The impact of the coronavirus disease 2019 (COVID-19) outbreak on public life and industry in various countries, including the jurisdictions in which the Group operates, may affect the demand of the Group's products and results in a negative impact on the financial performance of the Group in the coming financial years. The Group is unable to qualify the magnitude and duration of such impact at this time given the fluidity of the situation.

42 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 2020.

ADDITIONAL SGX DISCLOSURES IN THE ANNUAL REPORT

MATERIAL CONTRACTS

Since the end of the financial year ended 31 December 2019, 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 45 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 2020

ISSUED AND FULLY PAID UP CAPITAL	:	S$169,596,374.34
NO. OF SHARES ISSUED	:	950,145,342
NO. OF TREASURY SHARES HELD	:	3,037,000
NO. OF SUBSIDIARY HOLDINGS HELD	:	NIL
NO. OF ISSUED SHARES (EXCLUDING TREASURY SHARE)	:	947,108,342
CLASS OF SHARES	:	ORDINARY SHARES
VOTING RIGHTS	:	1 VOTE PER SHARE

Size of Shareholdings	Number of Shareholders	%	Number of Shares	%
1 – 99	107	3.05	1,792	0.00
100 – 1,000	314	8.96	294,370	0.03
1,001 – 10,000	1,372	39.16	7,904,217	0.83
10,001 – 1,000,000	1,678	47.89	133,652,151	14.07
1,000,001 and above	33	0.94	808,292,812	85.07
Total	**3,504**	**100.00**	**950,145,342**	**100.00**

TOP 20 SHAREHOLDERS

S/No.	Name	Number of Shares Held	%
1	CGS-CIMB SECURITIES (SINGAPORE) PTE LTD	226,770,082	23.94
2	LIM ENG HOCK	183,246,925	19.35
3	UOB KAY HIAN PTE LTD	110,928,500	11.71
4	CITIBANK NOMINEES SINGAPORE PTE LTD	81,915,175	8.65
5	RAFFLES NOMINEES (PTE) LIMITED	37,658,800	3.98
6	OCBC SECURITIES PRIVATE LTD	31,470,590	3.32
7	DBS NOMINEES PTE LTD	23,933,297	2.53
8	MAYBANK KIM ENG SECURITIES PTE. LTD	18,356,826	1.94
9	RHB SECURITIES SINGAPORE PTE LTD	13,798,200	1.46
10	UNITED OVERSEAS BANK NOMINEES PTE LTD	11,124,354	1.17
11	HSBC (SINGAPORE) NOMINEES PTE LTD	8,973,200	0.95
12	LIM JUEXIN LEONARD	6,466,000	0.68
13	PHILLIP SECURITIES PTE LTD	6,087,170	0.64
14	KHOO POH KOON	5,748,001	0.61
15	OCBC NOMINEES SINGAPORE PTE LTD	3,969,093	0.42
16	WONG SUEI HORNG	3,705,100	0.39
17	CHIEW POH CHENG	3,140,000	0.33
18	DIANA SNG SIEW KHIM	2,573,000	0.27
19	IWAN RUSLI @ LIE TJIN VAN	2,450,000	0.26
20	ABN AMRO CLEARING BANK N.V.	2,218,600	0.23
	Total	**784,532,913**	**82.83**

Source: The Central Depository (Pte) Limited

SHAREHOLDING STATISTICS

AS AT 16 MARCH 2020

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

Notes:

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

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

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

Approximately 45.93% 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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