

Company No. : 573695 W

ORNAPAPER BERHAD
(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements
31 December 2002

Company No. : 573695 W

ORNAPAPER BERHAD
(Incorporated in Malaysia)

CONTENTS

	PAGE
DIRECTORS' REPORT	1 - 5
STATEMENT BY DIRECTORS	6
STATUTORY DECLARATION	6
AUDITORS' REPORT	7 - 8
INCOME STATEMENTS	9
BALANCE SHEETS	10
STATEMENTS OF CHANGES IN EQUITY	11
CASH FLOW STATEMENTS	12 - 13
NOTES TO THE FINANCIAL STATEMENTS	14 - 35

Company No. : 573695 W

ORNAPAPER BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial period ended 31 December 2002.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and provision of management services.

The principal activities of the subsidiaries are manufacturing and trading of corrugated boards and carton boxes.

There have been no significant changes in the nature of the principal activities during the financial period.

RESULTS

	Group 12.3.2002 to 31.12.2002 RM	Company 12.3.2002 to 31.12.2002 RM
Net profit for the period	<u>909,296</u>	<u>42,491</u>

There were no material transfers to or from reserves or provisions during the financial period other than as disclosed in the statements of changes in equity.

In the opinion of the directors, the results of the operations of the Group and of the Company during the financial period were not substantially affected by any item, transaction or event of a material and unusual nature.

Company No. : 573695 W

ORNAPAPER BERHAD
(Incorporated in Malaysia)
DIRECTORS' REPORT

DIVIDEND

No dividend has been paid or declared by the Company since the date of incorporation. The directors do not recommend the payment of any dividend for the current financial period.

DIRECTORS

The names of the directors of the Company in office since the date of incorporation and at the date of this report are :

Martin Ang Mui Chin	(first director, resigned on 2 December 2002)
Gan Peng Teng	(first director, resigned on 2 December 2002)
Datuk Dr. Ting Chung Cheng	(appointed on 2 December 2002)
Tuan Haji Azhar bin Nayan	(appointed on 2 December 2002)
See Wan Seng	(appointed on 2 December 2002)
Siow Kee Yen	(appointed on 2 December 2002)
Adillah binti Ahmad Nordin	(appointed on 2 December 2002)
Ang Kwee Teng	(appointed on 2 December 2002)

DIRECTORS' BENEFITS

Neither at the end of the financial period, nor at any time during that period, did there subsist any arrangement to which the Company was a party, whereby the directors might acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

Since the date of incorporation, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors as shown in Note 5 to the financial statements) by reason of a contract made by the Company or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

Company No. : 573695 W

ORNAPAPER BERHAD
(Incorporated in Malaysia)
DIRECTORS' REPORT

DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial period in shares in the Company and its related corporations during the financial period were as follows:

	Number of Ordinary Shares of RM1 each			
	Date of appointment	Bought	Sold	31 December 2002
Direct				
Datuk Dr. Ting Chung Cheng	9,329,241	-	-	9,329,241
Indirect				
Ang Kwee Teng	20,773,886	-	-	20,773,886
See Wan Seng	20,773,886	-	-	20,773,886

Datuk Dr. Ting Chung Cheng, Ang Kwee Teng and See Wan Seng by virtue of their interest in shares of the Company are also deemed interested in shares of all the Company's subsidiaries to the extent the Company has an interest.

None of the other directors in office at the end of the financial period had any interest in shares in the Company or its related corporations during the financial period.

OTHER STATUTORY INFORMATION

- (a) Before the income statements and balance sheets of the Group and of the Company were made out, the directors took reasonable steps:-
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there were no known bad debts and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

Company No. : 573695 W

ORNAPAPER BERHAD
(Incorporated in Malaysia)
DIRECTORS' REPORT

- (b) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would :
 - (i) require any amount to be written off as bad debts or render the amount provided for as doubtful debts inadequate to any substantial extent; and
 - (ii) render the values attributed to the current assets in the financial statements of the Group and of the Company misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:-
 - (i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial period which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial period.
- (f) In the opinion of the directors:-
 - (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial period which will or may affect the ability of the Group or of the Company to meet their obligations when they fall due; and
 - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial period and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial period in which this report is made.

Company No. : 573695 W

**ORNAPAPER BERHAD
(Incorporated in Malaysia)
DIRECTORS' REPORT**

SIGNIFICANT EVENTS

The significant events during the financial period is disclosed in Note 23 to the financial statements.

SUBSEQUENT EVENT

On 29 January 2003, the enlarged issued and paid up share capital of 62,000,000 ordinary shares of RM1 each was listed and quoted on the Main Board of the Kuala Lumpur Stock Exchange.

AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board
in accordance with a resolution
of the directors

DATUK DR. TING CHUNG CHENG

SEE WAN SENG

Melaka, Malaysia
Date: 7 April 2003

Company No. : 573695 W

ORNAPAPER BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS
PURSUANT TO SECTION 169 (15) OF THE COMPANIES ACT, 1965

We, DATUK DR. TING CHUNG CHENG and SEE WAN SENG, being two of the directors of ORNAPAPER BERHAD, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 9 to 35 are drawn up in accordance with applicable Approved Accounting Standards in Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2002 and of the results and the cash flows of the Group and of the Company for the period then ended.

Signed on behalf of the Board
in accordance with a resolution
of the directors

DATUK DR. TING CHUNG CHENG

SEE WAN SENG

Melaka, Malaysia
Date: 7 April 2003

STATUTORY DECLARATION
PURSUANT TO SECTION 169 (16) OF THE COMPANIES ACT, 1965

I, DATUK DR. TING CHUNG CHENG, being the director primarily responsible for the financial management of ORNAPAPER BERHAD, do solemnly and sincerely declare that the accompanying financial statements set out on pages 9 to 35 are in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the)
abovenamed DATUK DR. TING)
CHUNG CHENG at Melaka in the State)
of Melaka on 7 April 2003)

DATUK DR. TING CHUNG CHENG

Before me,

A. SUPRAMANIAM PIS

**REPORT OF THE AUDITORS TO THE MEMBERS OF
ORNAPAPER BERHAD
(Incorporated in Malaysia)**

We have audited the accompanying financial statements set out on pages 9 to 35. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with applicable Approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable Approved Accounting Standards in Malaysia so as to give a true and fair view of :
 - (i) the financial position of the Group and of the Company as at 31 December 2002 and of the results and the cash flows of the Group and of the Company for the period then ended; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company and by its subsidiaries have been properly kept in accordance with the provisions of the Act.

**REPORT OF THE AUDITORS TO THE MEMBERS OF
ORNAPAPER BERHAD
(Incorporated in Malaysia)**

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors's report on the financial statements of the subsidiaries were not subject to any qualification material to the consolidated financial statements and did not include any comment required to be made under Section 174(3) of the Act.

Ernst & Young
AF: 0039
Chartered Accountants

Lee Ah Too
No. 2187/09/03(J)
Partner

Melaka, Malaysia
Date: 7 April 2003

Company No. : 573695 W

ORNAPAPER BERHAD
(Incorporated in Malaysia)

INCOME STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2002

	Note	Group 12.3.2002 to 31.12.2002 RM	Company 12.3.2002 to 31.12.2002 RM
Revenue	3	8,732,002	126,135
Cost of sales		<u>(6,381,436)</u>	<u>-</u>
Gross profit		2,350,566	126,135
Administrative expenses		(229,830)	-
Selling and marketing expenses		(507,492)	-
Other operating expenses		<u>(362,072)</u>	<u>(59,436)</u>
Profit from operations	4	1,251,172	66,699
Finance cost, net	6	<u>(203,876)</u>	<u>(6,323)</u>
Profit before taxation		1,047,296	60,376
Taxation	7	<u>(138,000)</u>	<u>(17,885)</u>
Net profit for the period		<u>909,296</u>	<u>42,491</u>
Earnings per share (sen)	8	<u>20</u>	

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

Company No. : 573695 W

ORNAPAPER BERHAD
(Incorporated in Malaysia)

BALANCE SHEETS
AS AT 31 DECEMBER 2002

	Note	Group 2002 RM	Company 2002 RM
NON-CURRENT ASSETS			
Property, plant and equipment	9	66,512,743	-
Investment in subsidiaries	10	-	55,783,495
Other investments	11	269,400	-
		<u>66,782,143</u>	<u>55,783,495</u>
CURRENT ASSETS			
Inventories	12	12,863,480	-
Trade receivables	13	33,472,398	-
Other receivables	14	1,217,946	500,909
Cash and bank balances	15	4,764,119	184,798
		<u>52,317,943</u>	<u>685,707</u>
CURRENT LIABILITIES			
Short term borrowings	16	38,490,229	-
Trade payables		5,293,889	-
Other payables	18	3,049,619	1,117,366
		<u>46,833,737</u>	<u>1,117,366</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>5,484,206</u>	<u>(431,659)</u>
		<u>72,266,349</u>	<u>55,351,836</u>
FINANCED BY :			
Share capital	19	54,000,000	54,000,000
Reserves		2,218,641	1,351,836
Shareholders' equity		<u>56,218,641</u>	<u>55,351,836</u>
Long term borrowings	16	4,947,241	-
Deferred taxation	20	777,000	-
Reserve on consolidation		10,323,467	-
Non-current liabilities		<u>16,047,708</u>	<u>-</u>
		<u>72,266,349</u>	<u>55,351,836</u>

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

Company No. : 573695 W

ORNAPAPER BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2002

	Share capital RM	Non- distributable Share premium RM	Distributable Retained profit RM	Total RM
Group				
Date of incorporation	2	-	-	2
Issue of share capital	499,998	-	-	499,998
Acquisition of subsidiaries	52,649,204	2,632,460	-	55,281,664
Rights issue	850,796	-	-	850,796
Shares issuance expenses	-	(1,323,115)	-	(1,323,115)
Net profit for the period	-	-	909,296	909,296
At 31 December 2002	<u>54,000,000</u>	<u>1,309,345</u>	<u>909,296</u>	<u>56,218,641</u>
Company				
Date of incorporation	2	-	-	2
Issue of share capital	499,998	-	-	499,998
Acquisition of subsidiaries	52,649,204	2,632,460	-	55,281,664
Rights issue	850,796	-	-	850,796
Shares issuance expenses	-	(1,323,115)	-	(1,323,115)
Net profit for the period	-	-	42,491	42,491
At 31 December 2002	<u>54,000,000</u>	<u>1,309,345</u>	<u>42,491</u>	<u>55,351,836</u>

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

Company No. : 573695 W

ORNAPAPER BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2002

	Group 12.3.2002 to 31.12.2002 RM	Company 12.3.2002 to 31.12.2002 RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	1,047,296	60,376
Adjustments for :		
Depreciation	320,071	-
Provision for doubtful debts	22,209	-
Gross dividend	-	(113,635)
Interest expenses	229,694	6,323
Interest income	(25,818)	-
Operating profit/(loss) before working capital changes	<u>1,593,452</u>	<u>(46,936)</u>
Decrease in receivables	(761,239)	(3,333)
Decrease in inventories	(374,264)	-
Increase/(decrease) in payables	<u>(1,863,447)</u>	<u>1,117,366</u>
Cash (used in)/generated from operations	(1,405,498)	1,067,097
Interest paid	(229,694)	(6,323)
Interest received	25,818	-
Taxation paid	(65,592)	-
Net cash (used in)/generated from operating activities	<u>(1,674,966)</u>	<u>1,060,774</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from issuance of shares	1,350,796	1,350,796
Shares issuance expenses	(1,323,115)	(1,806,758)
Net inflow/(outflow) from acquisition of subsidiaries	4,834,605	(501,831)
Net dividends received	-	81,817
Purchase of property, plant and equipment	<u>(3,976,877)</u>	<u>-</u>
Net cash generated from/(used in) investing activities	<u>885,409</u>	<u>(875,976)</u>

Company No. : 573695 W

ORNAPAPER BERHAD
(Incorporated in Malaysia)
CASH FLOW STATEMENTS

	Group 12.3.2002 to 31.12.2002 RM	Company 12.3.2002 to 31.12.2002 RM
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of term loan	(116,371)	-
Repayment of hire purchase	(177,933)	-
Short term borrowings	1,960,246	-
Net cash generated from financial activities	<u>1,665,942</u>	<u>-</u>
NET INCREASE IN CASH AND		
CASH EQUIVALENTS	876,385	184,798
CASH AND CASH EQUIVALENTS AT BEGINNING		
OF THE YEAR	<u>-</u>	<u>-</u>
CASH AND CASH EQUIVALENTS AT END		
OF THE YEAR (NOTE 15)	<u>876,385</u>	<u>184,798</u>

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

Company No. : 573695 W

ORNAPAPER BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2002

1. CORPORATE INFORMATION

The principal activities of the Company are investment holding and provision of management services. The principal activities of the subsidiaries are manufacturing and trading of corrugated boards and carton boxes. There have been no significant changes in the nature of the principal activities during the financial period.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Board of the Kuala Lumpur Stock Exchange subsequent to the financial period. The registered office of the Company is located at Tingkat 10-Lot 6, Jalan Graha Maju, 75300 Melaka.

The number of employees in the Group at the end of the financial period was 387. There was no employee in the Company at the end of the financial period. The accounting records of the Company are maintained by the employees of a subsidiary.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 7 April 2003.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial statements of the Group and of the Company have been prepared under the historical cost convention and comply with the provisions of the Companies Act, 1965 and applicable Approved Accounting Standards in Malaysia.

(b) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries. Subsidiaries are those companies in which the Group has a long term equity interest and where it has power to exercise control over the financial and operating policies so as to obtain benefits therefrom.

Company No : 573695W

ORNAPAPER BERHAD
(Incorporated in Malaysia)
NOTES TO THE FINANCIAL STATEMENTS

Subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition and these values are reflected in the consolidated balance sheet. The difference between the cost of an acquisition and the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition is included in the consolidated balance sheet as goodwill or negative goodwill arising on consolidation.

Intragroup transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

The gain or loss on disposal of a subsidiary company is the difference between net disposal proceeds and the Group's share of its net assets.

(c) Reserve on Consolidation

Reserve on consolidation represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary over the cost of acquisition at the date of acquisition. Reserve on consolidation arising on the acquisition of subsidiaries is presented separately in the balance sheet. Reserve on consolidation is not amortised.

(d) Investment in Subsidiaries

The Company's investments in subsidiaries are stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(1).

On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is charged or credited to the income statement.

(e) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2 (1).

Company No : 573695W

ORNAPAPER BERHAD
(Incorporated in Malaysia)
NOTES TO THE FINANCIAL STATEMENTS

Capital work-in-progress is not depreciated. Leasehold land is depreciated over the period of the respective leases which range from 60 years to 98 years. Depreciation of other property, plant and equipment is provided for on a straight line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates :

Factory building	2%
Plant and machinery, factory equipment and electrical installation	5% - 20%
Other assets	10% - 20%

Upon the disposal of an item of property, plant or equipment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement.

(f) Inventories

Inventories are stated at the lower of cost (determined on the first-in, first-out basis) and net realisable value. Cost of finished goods includes direct materials, direct labour, other direct costs and appropriate production overheads. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

(g) Foreign Currency Transactions

Transactions in foreign currency are initially converted into Ringgit Malaysia at rate of exchange ruling at the transaction dates. At each balance sheet date, foreign currency monetary items are translated into Ringgit Malaysia at exchange rate ruling at that date. Non-monetary items which are carried at historical cost are translated using the historical rate as of the date of acquisition and non monetary items which are carried at fair value are translated using the exchange rate that existed when the values were determined. All exchange differences are taken to the income statement.

The principal exchange rate for every unit of foreign currency ruling at balance sheet date used is as below :

	2002 RM
United States Dollar	3.80

Company No : 573695W

ORNAPAPER BERHAD
(Incorporated in Malaysia)
NOTES TO THE FINANCIAL STATEMENTS

(h) Cash and Cash Equivalents

For the purposes of the cash flow statements, cash and cash equivalents include cash on hand and at bank, net of outstanding bank overdrafts.

(i) Deferred Tax

The tax expense for the period is based on the profit for the period, as adjusted for tax purposes, together with a charge or credit for deferred taxation.

Deferred taxation is provided for by the liability method for all timing differences except when there is reasonable evidence that these timing differences will not reverse in the foreseeable future. Deferred tax benefits are only recognised when there is a reasonable expectation of realisation in the near future.

(j) Revenue Recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

(i) Sale of goods

Revenue relating to sale of goods is recognised net of sales taxes and discounts upon the transfer of risks and rewards.

(ii) Dividend income

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

(k) Hire Purchase and Finance Lease

Assets acquired by way of hire purchase are stated at an amount equal to the lower of their fair values and the present value of the minimum hire purchase payments at the inception of the hire purchase, less accumulated depreciation and impairment losses. The corresponding liability is included in the balance sheet as borrowings. In calculating the present value of the minimum hire purchase payments, the discount factor used is the interest rate implicit in the hire purchase, when it is practicable to determine; otherwise, the Company's incremental borrowing rate is used.

Company No : 573695W

ORNAPAPER BERHAD
(Incorporated in Malaysia)
NOTES TO THE FINANCIAL STATEMENTS

Hire purchase payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total hire purchase commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant hire purchase so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for hire purchased assets is consistent with that for depreciable property, plant and equipment as described in Note 2 (e).

(l) Impairment of Assets

At each balance sheet date, the Group reviews the carrying amounts of its assets, other than inventories and assets arising from financial assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

An impairment loss is charged to the income statement immediately.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recognised to the extent of the carrying amount of the asset that would have been determined (net of depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately.

(m) Financial Instruments

Financial instruments are recognised in the balance sheet when the Group has become a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Company No : 573695W

ORNAPAPER BERHAD
(Incorporated in Malaysia)
NOTES TO THE FINANCIAL STATEMENTS

(i) Other Non-Current Investments

Non-current investments other than investments in subsidiaries are stated at cost less provision for any permanent diminution in value. Such provision is made when there is a decline other than temporary in the value of investments and is recognised as an expense in the period in which the decline occurred.

On disposal of an investment, the difference between net disposal proceeds and its carrying amount is charged or credited to the income statement.

(ii) Marketable Securities

Marketable securities are carried at the lower of cost and market value, determined on an aggregate basis. Cost is determined on the weighted average basis while market value is determined based on quoted market values. Increases or decreases in the carrying amount of marketable securities are credited or charged to the income statement. On disposal of marketable securities, the difference between net disposal proceeds and the carrying amount is charged or credited to the income statement.

(iii) Trade Receivables

Trade receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date.

(iv) Trade Payables

Trade payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

(v) Interest-Bearing Borrowings

Interest-bearing bank loans and overdrafts are recorded at the amount of proceeds received, net of transaction costs. Borrowing costs are charged to the income statement as an expense in the period in which they are incurred.

Company No : 573695W

ORNAPAPER BERHAD
(Incorporated in Malaysia)
NOTES TO THE FINANCIAL STATEMENTS

(vi) Equity Instruments

Ordinary shares are classified as equity. The transaction costs of an equity transaction, other than in the context of a business combination, are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided. Cost of issuing equity securities in connection with a business combination are included in the cost of acquisition.

Dividends on ordinary shares are recognised in equity in the period in which they are declared.

3. REVENUE

Revenue of the Company represents dividend income and management fees receivable from subsidiaries.

Revenue of the subsidiaries comprise invoiced value sales net of discounts and returns.

4. PROFIT FROM OPERATIONS

Profit from operations is stated after charging :

	Group	Company
	12.3.2002	12.3.2002
	to	to
	31.12.2002	31.12.2002
	RM	RM
Auditors' remuneration		
- Special audit	1,000	1,000
- current year	30,750	20,000
Doubtful debts	22,209	-
Depreciation	320,071	-
Directors' remuneration (Note 5)	85,960	15,000
Rental expense	24,400	-
Staff costs	641,665	-
	<hr/>	<hr/>

Company No : 573695W

ORNAPAPER BERHAD
(Incorporated in Malaysia)
NOTES TO THE FINANCIAL STATEMENTS

5. DIRECTORS' REMUNERATION

	Group 12.3.2002 to 31.12.2002 RM	Company 12.3.2002 to 31.12.2002 RM
Directors of the Company		
Executive:		
Salaries and other emoluments	30,102	-
Fees	20,000	-
Benefits-in-kind	4,150	-
	<u>54,252</u>	<u>-</u>
Non-Executive:		
Fees	<u>15,000</u>	<u>15,000</u>
Other Directors		
Executive:		
Salaries and other emoluments	5,858	-
Fees	15,000	-
	<u>20,858</u>	<u>-</u>
Analysis excluding benefits-in-kind:		
Total executive directors' remuneration excluding benefits-in-kind	70,960	-
Total non-executive directors' remuneration excluding benefits-in-kind	<u>15,000</u>	<u>15,000</u>
Total directors' remuneration excluding benefits-in-kind (Note 4)	<u>85,960</u>	<u>15,000</u>

Company No : 573695W

ORNAPAPER BERHAD
(Incorporated in Malaysia)
NOTES TO THE FINANCIAL STATEMENTS

The number of directors of the Company whose total remuneration during the period fell within the following bands is analysed below:

	Number of Directors	
	Group	Company
Executive directors:		
Below RM50,000	7	-
Non-Executive directors:		
Below RM50,000	2	2

6. FINANCE COST, NET

	Group	Company
	12.3.2002	12.3.2002
	to	to
	31.12.2002	31.12.2002
	RM	RM
Interest expense	229,694	6,323
Interest income	(25,818)	-
	<u>203,876</u>	<u>6,323</u>

7. TAXATION

	Group	Company
	12.3.2002	12.3.2002
	to	to
	31.12.2002	31.12.2002
	RM	RM
Tax expense for the period	<u>138,000</u>	<u>17,885</u>

Company No. : 573695W

ORNAPAPER BERHAD
(Incorporated in Malaysia)
NOTES TO THE FINANCIAL STATEMENTS

The effective tax rate of the Group is lower than the statutory tax rate principally due to the claims of reinvestment allowances.

The effective tax rate of the Company is higher than the statutory tax rate principally due to certain expenses being disallowed for taxation purposes.

8. EARNINGS PER SHARE

Basic earnings per share of the Group is calculated by dividing the net profit for the period of RM909,296 by the weighted average number of ordinary shares of 4,645,615 in issue during the financial period.

9. PROPERTY, PLANT AND EQUIPMENT

Group	Long term leasehold land RM	Factory buildings RM	Plant, machinery, factory equipment and electrical installation RM	* Other assets RM	Capital work-in -progress RM	Total RM
Cost						
Acquisition of subsidiaries	6,543,122	15,154,840	55,134,752	4,636,908	1,166,525	82,636,147
Additions	2,557,776	-	383,961	35,140	1,000,000	3,976,877
At 31 December 2002	<u>9,100,898</u>	<u>15,154,840</u>	<u>55,518,713</u>	<u>4,672,048</u>	<u>2,166,525</u>	<u>86,613,024</u>
Accumulated Depreciation						
Acquisition of subsidiaries	479,932	1,680,036	14,370,058	3,250,184	-	19,780,210
Depreciation charge for the period	6,198	24,382	248,761	40,730	-	320,071
At 31 December 2002	<u>486,130</u>	<u>1,704,418</u>	<u>14,618,819</u>	<u>3,290,914</u>	<u>-</u>	<u>20,100,281</u>

Company No. : 573695W

ORNAPAPER BERHAD
(Incorporated in Malaysia)
NOTES TO THE FINANCIAL STATEMENTS

	Long term leasehold land RM	Factory buildings RM	Plant, machinery, factory equipment and electrical installation RM	* Other assets RM	Capital work-in -progress RM	Total RM
Net Book Value	8,614,768	13,450,422	40,899,894	1,381,134	2,166,525	66,512,743

* Other assets comprise motor vehicles, office equipment, furniture, fittings and office renovation.

(a) The net book value of property, plant and equipment pledged to financial institutions for bank borrowings as referred to Note 16 are as follows.

	Group 2002 RM
Long term leasehold land	8,614,768
Factory buildings	13,450,422
Plant and machinery, factory equipment and electrical installation	40,427,870
Other assets	1,347,402
Capital work-in-progress	2,166,525
	<u>66,006,987</u>

(b) Net book value of property, plant and equipment held under hire purchase agreements are as follow:

	Group 2002 RM
Plant and machinery	10,059,755
Motor vehicles	462,426
Factory equipment	160,388
	<u>10,682,569</u>

Company No. : 573695W

ORNAPAPER BERHAD
(Incorporated in Malaysia)
NOTES TO THE FINANCIAL STATEMENTS

(c) Included in property, plant and equipment of the Group are fully depreciated assets which are still in use costing RM2,705,888.

10. INVESTMENT IN SUBSIDIARIES

	Company 2002 RM
Unquoted shares at cost	<u>55,783,495</u>

Details of the subsidiaries are as follows :

Name of Subsidiaries	Country of Incorporation	Equity Interest Held (%) 2002	Principal Activities
Ornapaper Industry (M) Sdn. Bhd.	Malaysia	100	Manufacturing of corrugated board and carton boxes
Ornapaper Industry (Batu Pahat) Sdn. Bhd.	Malaysia	100	Manufacturing of carton boxes

Acquisition of subsidiaries:

On 1 December 2002, the Group acquired 100% equity interest in Ornapaper Industry (M) Sdn. Bhd. and Ornapaper Industry (Batu Pahat) Sdn. Bhd. for a total consideration of RM55,783,497 which consists of cash consideration of RM501,831 and the issue of 52,649,104 new ordinary shares of RM1 each of the Company at an issue price of RM1.05 each.

The effect of the acquisition on the financial results of the Group from the date of acquisition to 31 December is as follows:

	RM
Revenue	8,732,002
Operating costs	<u>(7,763,270)</u>
Net profit	<u>968,732</u>

Company No. : 573695W

ORNAPAPER BERHAD
(Incorporated in Malaysia)
NOTES TO THE FINANCIAL STATEMENTS

The effect of the acquisition on the financial position of the Group as at 31 December 2002 is as follows:

	RM
Property, plant and equipment	66,512,743
Other investments	269,400
Inventories	12,863,480
Trade and other receivables	34,189,435
Cash and bank	4,579,321
Short term borrowings	(38,490,229)
Trade and other payables	(7,226,142)
Long term borrowings	(4,947,241)
Deferred taxation	(777,000)
Reserve on consolidation	(10,323,467)
Group's share of net assets	<u>56,650,300</u>

The fair value of the assets acquired and liabilities assumed from the acquisition of the subsidiaries are as follows:

	1.12.2002
	RM
Net assets acquired:	
Property, plant and equipment	62,855,937
Other investments	269,400
Inventories	12,489,216
Trade and other receivables	33,938,200
Cash and bank	5,803,071
Bank overdraft	(466,635)
Short term borrowings	(29,902,090)
Trade and other payables	(10,206,955)
Hire purchase creditors	(7,523,000)
Term loan	(458,704)
Taxation	85,522
Deferred Taxation	(777,000)
Fair value of total net assets	<u>66,106,962</u>
Reserve on acquisition	(10,323,467)
Total consideration	<u>55,783,495</u>

Company No. : 573695W

ORNAPAPER BERHAD
(Incorporated in Malaysia)
NOTES TO THE FINANCIAL STATEMENTS

1.12.2002
RM

Satisfied by:

Cash	501,831
Shares issued	<u>55,281,664</u>
	<u>55,783,495</u>

Net cash inflow arising on acquisition:

Cash consideration	501,831
Cash and cash equivalents of subsidiaries acquired	<u>(5,336,436)</u>
	<u>(4,834,605)</u>

11. OTHER INVESTMENTS

Group
2002
RM

At cost :

Quoted shares	19,400
Unquoted shares	225,000
Club membership	<u>25,000</u>
	<u>269,400</u>

Market value of quoted shares

17,120

12. INVENTORIES

Group
2002
RM

At costs :

Raw materials	12,356,283
Finished goods	<u>507,197</u>
	<u>12,863,480</u>

Company No. : 573695W

ORNAPAPER BERHAD
(Incorporated in Malaysia)
NOTES TO THE FINANCIAL STATEMENTS

13. TRADE RECEIVABLES

	Group 2002 RM
Trade receivables	35,372,878
Less : Provision for doubtful debts	<u>(1,900,480)</u>
	<u>33,472,398</u>

The Group's normal credit term ranges from 30 to 120 days. Other credit terms are assessed and approved on a case-by-case basis.

The Group has no significant concentration of credit risk that may arise from exposure to a single debtor or groups of debtors.

14. OTHER RECEIVABLES

	Group 2002 RM	Company 2002 RM
Deposits and prepayments	903,086	2,500
Other receivables	301,746	-
Due from a subsidiary	-	833
Prepayment of taxation	13,114	497,576
	<u>1,217,946</u>	<u>500,909</u>

The Group has no significant concentration of credit risk that may arise from exposure to a single debtor or groups of debtors.

The amount due from a subsidiary is unsecured, interest free and has no fixed terms of repayment.

Company No. : 573695W

ORNAPAPER BERHAD
(Incorporated in Malaysia)
NOTES TO THE FINANCIAL STATEMENTS

15. CASH AND CASH EQUIVALENTS

	Group 2002 RM	Company 2002 RM
Cash on hand and at banks	4,738,985	184,798
Fixed deposit with a licensed bank	25,134	-
Cash and bank balances	<u>4,764,119</u>	<u>184,798</u>
Less: Bank overdraft (Note 16)	<u>(3,887,734)</u>	<u>-</u>
Cash and cash equivalents	<u>876,385</u>	<u>184,798</u>

The fixed deposit with a licensed bank of the Group has been pledged to a bank for bank guarantee granted to a subsidiary.

The weighted average interest rate during the financial period and the average maturity of deposit as at 31 December 2002 were as follows :

	Weighted Average Interest Rate	Average Maturity Day
Licensed bank	4%	365

16. BORROWINGS

	Group 2002 RM
Short Term Borrowings	
Secured :	
Bank overdrafts (Note 15)	3,887,734
Bankers' acceptances	31,862,336
Term loan	342,333
Hire purchase payables (Note 17)	<u>2,397,826</u>
	<u>38,490,229</u>

Company No. : 573695W

ORNAPAPER BERHAD
(Incorporated in Malaysia)
NOTES TO THE FINANCIAL STATEMENTS

	Group 2002 RM
Long Term Borrowings	
Secured :	
Term loan	-
Hire purchase payables (Note 17)	4,947,241
	<u>4,947,241</u>
Total Borrowings	
Bank overdrafts	3,887,734
Bankers' acceptances	31,862,336
Term loan	342,333
Hire purchase payables (Note 17)	7,345,067
	<u>43,437,470</u>
Maturity of borrowings (excluding hire purchase)	
Within one year	<u>36,092,403</u>

The weighted average interest effective rates during the financial period for borrowings, excluding hire purchase payables, were as follows:

	Group 2002 %
Bank overdrafts	7.90
Bankers' acceptances	3.40
Term loan	7.75

The borrowings are secured by certain assets of the Group as disclosed in Note 9.

Company No. : 573695W

ORNAPAPER BERHAD
(Incorporated in Malaysia)
NOTES TO THE FINANCIAL STATEMENTS

17. HIRE PURCHASE PAYABLES

	2002
	RM
Minimum hire purchase payments :	
Not later than 1 year	3,167,390
Later than 1 and not later than 2 years	2,962,570
Later than 2 years and not later than 5 years	2,564,832
	<u>8,694,792</u>
Less : Future finance charges	<u>(1,349,725)</u>
	<u>7,345,067</u>
Present value of hire purchase liabilities :	
Not later than 1 year	2,397,826
Later than 1 year and not later than 2 years	2,520,026
Later than 2 years and not later than 5 years	2,427,215
	<u>7,345,067</u>
Analysed as :	
Due within 12 months (Note 16)	2,397,826
Due after 12 months (Note 16)	4,947,241
	<u>7,345,067</u>

The hire purchase liabilities bore interest during the period of between 4.75% to 13.20% per annum.

18. OTHER PAYABLES

	Group	Company
	2002	2002
	RM	RM
Due to a subsidiary	-	1,063,734
Other payables	2,224,048	-
Accruals	825,571	53,632
	<u>3,049,619</u>	<u>1,117,366</u>

The amount due to a subsidiary is unsecured, bears interest of 1.2% per annum and has no fixed terms of repayment.

Company No. : 573695W

ORNAPAPER BERHAD
(Incorporated in Malaysia)
NOTES TO THE FINANCIAL STATEMENTS

19. SHARE CAPITAL

	Number of Ordinary Shares of RM1 Each 2002	Amount 2002 RM
Authorised :		
At date of incorporation	100,000	100,000
Created during the period	<u>99,900,000</u>	<u>99,900,000</u>
	<u>100,000,000</u>	<u>100,000,000</u>
Issued and fully paid :		
At date of incorporation	2	2
Issued and paid up during the period	<u>53,999,998</u>	<u>53,999,998</u>
At 31 December	<u>54,000,000</u>	<u>54,000,000</u>

The new ordinary shares rank pari passu in all respects with the existing ordinary shares.

20. DEFERRED TAXATION

	Group 2002 RM
Acquisition of subsidiaries/ 31 December	<u>777,000</u>

The deferred taxation provided in the financial statements is in respect of timing differences between book depreciation and corresponding capital allowances.

Company No. : 573695W

ORNAPAPER BERHAD
(Incorporated in Malaysia)
NOTES TO THE FINANCIAL STATEMENTS

21. FINANCIAL INSTRUMENTS

(a) Financial Risk Management Objectives and Policies

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its interest rate, foreign exchange, liquidity and credit risks. The Group operates within clearly defined guidelines that are approved by the Board and the Group's policy is to not engage in speculative transactions.

(b) Interest Rate Risk

The Group's primary interest rate risk relates to interest-bearing debt, as the Company had no substantial long-term interest-bearing assets as at 31 December 2002.

The Group manages its interest rate exposure by maintaining a prudent mix of fixed and floating rate borrowings. The Group actively reviews its debt portfolio, taking into account the investment holding period and nature of its assets. This strategy allows it to capitalise on cheaper funding in a low interest rate environment and achieve a certain level of protection against rate hikes.

The information on maturity dates and effective interest rates of financial assets and liabilities are disclosed in their respective notes.

(c) Foreign Exchange Risk

The Group operates locally and is not exposed to various currencies, except for United States Dollar. Foreign currency denominated liabilities together with expected cash flows to highly probable purchases give rise to foreign exchange exposures.

Foreign exchange exposures in transactional currencies other than functional currencies of the operating entities are kept to an acceptable level.

Company No. : 573695W

ORNAPAPER BERHAD
(Incorporated in Malaysia)
NOTES TO THE FINANCIAL STATEMENTS

(d) Liquidity Risk

The Group actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all refinancing, repayment and funding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements. In addition, the Group strives to maintain available banking facilities of a reasonable level to its overall debt position. As far as possible, the Group raises committed funding from both capital markets and financial institutions and prudently balances its portfolio with some short term funding so as to achieve overall cost effectiveness.

(e) Credit Risk

Credit risks, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised and monitored via strictly limiting the Company's associations to business partners with high creditworthiness. Trade receivables are monitored on an ongoing basis via Group management reporting procedures.

The Group does not have any significant exposure to any individual customer or counterparty nor does it have any major concentration of credit risk related to any financial instruments.

22. COMMITMENT

	Group 2002 RM
Capital expenditure : Approved and contracted for	<u>1,000,000</u>

23. SIGNIFICANT EVENTS

On 27 August 2002, the Company obtained approval from the Securities Commission on its proposed restructuring and listing on the Main Board of the Kuala Lumpur Stock Exchange ("KLSE"). The restructuring scheme involves the following :

(a) issue of 499,998 new ordinary shares of RM1.00 each.

Company No. : 573695W

ORNAPAPER BERHAD
(Incorporated in Malaysia)
NOTES TO THE FINANCIAL STATEMENTS

(b) acquisitions of the entire issued and paid up share capital of Ornapaper Industry (M) Sdn. Bhd.(“OISB(M)”) and Ornapaper Industry (Batu Pahat) Sdn. Bhd.(“ OISB(BP)”) for a total purchase consideration of RM55,783,495 based on the audited NTA of the respective companies as at 31 December 2001. The amount was satisfied by an issue of 52,649,204 new ordinary shares of RM1.00 each in the Company at an issue price of approximately RM1.05 and cash of RM501,831 per share as follows :

Company	No. of shares acquired	Equity interest acquired %	Purchase consideration	No. of new shares to be issued	Cash RM
OISB(M)	22,727,000	100	54,779,833	52,171,270	-
OISB(BP)	1,000,000	100	<u>1,003,662</u>	<u>477,934</u>	<u>501,831</u>
			<u>55,783,495</u>	<u>52,649,204</u>	<u>501,831</u>

(c) rights issue of 850,796 new ordinary shares of RM1.00 each in the Company at an issue price of RM1.00 per share.

(d) public issue of 8,000,000 new ordinary shares of RM1.00 each in the Company at an issue price of RM1.60 per share.

24. SUBSEQUENT EVENT

On 29 January 2003, the enlarged issued and paid up share capital of 62,000,000 ordinary shares of RM1 each was listed and quoted on the Main Board of the Kuala Lumpur Stock Exchange.

25. SEGMENT INFORMATION

The segmental information is not prepared as the Group is principally involved in manufacturing and trading of corrugated boards and carton boxes which is predominantly carried out in Malaysia.

26. COMPARATIVE FIGURES

There is no comparative figures as this is the first set of financial statements since date of incorporation.