

Company No. : 573695 W

**ORNAPAPER BERHAD**  
**(Incorporated in Malaysia)**

**Directors' Report and Audited Financial Statements**  
**31 December 2007**

Company No. : 573695 W

**ORNAPAPER BERHAD (Incorporated in Malaysia)**

**CONTENTS**

	<b>PAGE</b>
DIRECTORS' REPORT	1 - 4
STATEMENT BY DIRECTORS	5
STATUTORY DECLARATION	5
REPORT OF THE AUDITORS	6 - 7
INCOME STATEMENTS	8
BALANCE SHEETS	9 - 10
STATEMENTS OF CHANGES IN EQUITY	11 - 13
CASH FLOW STATEMENTS	14 - 15
NOTES TO THE FINANCIAL STATEMENTS	16 - 56

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 year ended 31 December 2007.

**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 sale of corrugated boards and carton boxes and trading of wrapping paper materials.

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

**RESULTS**

	<b>Group RM</b>	<b>Company RM</b>
Profit for the year from continuing operations	3,148,457	12,696,908
Loss for the year from discontinued operation	(3,048,207)	-
Profit for the year	<u>100,250</u>	<u>12,696,908</u>
Attributable to:		
Equity holders of the Company	1,484,594	12,696,908
Minority interests	(1,384,344)	-
	<u>100,250</u>	<u>12,696,908</u>

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

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

**DIVIDEND**

At the forthcoming Annual General Meeting, a final tax exempt dividend in respect of the financial year ended 31 December 2007 of 1% on 75,250,601 ordinary shares, amounting to a total dividend payable of RM752,506 (1 sen per share) will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2008.

Company No. : 573695 W

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

**DIRECTORS**

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

Lim Tau Lih  
Tuan Haji Azhar bin Nayan  
See Wan Seng  
Siow Kee Yen  
Adillah binti Ahmad Nordin  
Ang Kwee Teng

**DIRECTORS' BENEFITS**

Neither at the end of the financial year, nor at any time during that year, 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 end of the previous financial year, 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 or the fixed salary of a full-time employee of the Company as shown in Note 7 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, except as disclosed in Note 33 to the financial statements.

**DIRECTORS' INTERESTS**

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

	Number of Ordinary Shares of RM1 Each			
	1.1.2007	Acquired	Sold	31.12.2007
<b>Direct interest</b>				
Lim Tau Lih	5,374,045	-	-	5,374,045
Tuan Haji Azhar bin Nayan	25,000	-	-	25,000
Siow Kee Yen	5,000	-	-	5,000
Adillah binti Ahmad Nordin	4,000	-	-	4,000

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

	Number of Ordinary Shares of RM1 Each			
	1.1.2007	Acquired	Sold	31.12.2007
<b>Indirect interest</b>				
See Wan Seng	18,634,888	-	-	18,634,888
Ang Kwee Teng	18,634,888	-	-	18,634,888

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

**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 all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
  - (ii) to ensure that any current assets which were unlikely to realise their values 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.
- (b) At the date of this report, the directors are not aware of any circumstances which would:
- (i) render the amount written off as bad debts or 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.

Company No. : 573695 W

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

(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 year 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 year.

(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 year which will or may affect the ability of the Group or of the Company to meet its 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 year 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 year in which this report is made.

**SIGNIFICANT EVENT**

The significant event is disclosed in Note 36 to the financial statements.

**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 dated 24 April 2008.

  
LIM TAU LIH

  
SEE WAN SENG

Company No. : 573695 W

**ORNAPAPER BERHAD (Incorporated in Malaysia)**

**STATEMENT BY DIRECTORS**

**PURSUANT TO SECTION 169 (15) OF THE COMPANIES ACT, 1965**

We, LIM TAU LIH 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 8 to 56 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2007 and of the results and the cash flows of the Group and of the Company for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 24 April 2008.

  
LIM TAU LIH

  
SEE WAN SENG

**STATUTORY DECLARATION**

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

I, LIM TAU LIH, 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 8 to 56 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 LIM TAU LIH at Melaka in the )  
State of Melaka on 24 April 2008 )

  
LIM TAU LIH

Before me,

  
**CHOO YONG CHUAN**  
PESURUHJAYA SUMPAH  
(COMMISSIONER FOR OATHS)  
508-A, Taman Melaka Raya,  
76000 Melaka.



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

We have audited the accompanying financial statements set out on pages 8 to 56. These financial statements are the responsibility of the Company's directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

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 Financial Reporting 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 2007 and of the results and the cash flows of the Group and of the Company for the year 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 of which we have acted as auditors 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 have considered the financial statements and the auditors' reports thereon of the subsidiaries of which we have not acted as auditors, as indicated in Note 16 to the financial statements, being financial statements that have been included in the consolidated financial statements.

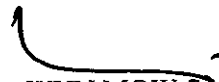
We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information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

The auditors' reports 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

Melaka, Malaysia  
Date: 24 April 2008



WUN MOW SANG  
1821/12/08(J)  
Partner

**ORNAPAPER BERHAD (Incorporated in Malaysia)****INCOME STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007**

		Group		Company	
		2007	2006	2007	2006
Note		RM	RM	RM	RM
		(restated)			
Continuing Operations					
Revenue	3	160,835,204	168,180,654	13,786,200	377,270
Cost of sales		(130,656,899)	(142,427,665)	-	-
Gross profit		30,178,305	25,752,989	13,786,200	377,270
Other income	4	1,887,248	1,660,774	128,381	185,309
Administrative expenses		(7,668,307)	(6,657,452)	(342,344)	(319,705)
Selling and marketing expenses		(9,709,922)	(9,556,034)	(3,970)	(1,716)
Other expenses		(6,023,071)	(5,350,322)	(95,287)	(12,095,144)
Operating profit/(loss)		8,664,253	5,849,955	13,472,980	(11,853,986)
Interest expense		(5,227,593)	(5,074,477)	(162,443)	(185,442)
Profit/(loss) before tax	5	3,436,660	775,478	13,310,537	(12,039,428)
Tax (expense)/income	8	(288,203)	219,387	(613,629)	-
Profit for the year from continuing operations		3,148,457	994,865	12,696,908	(12,039,428)
Discontinued Operation					
Loss for the year from discontinued operation	9	(3,048,207)	(7,452,580)	-	-
Profit/(loss) for the year		100,250	(6,457,715)	12,696,908	(12,039,428)
Attributable to:					
Equity holders of the Company		1,484,594	(3,084,296)	12,696,908	(12,039,428)
Minority interests		(1,384,344)	(3,373,419)	-	-
		100,250	(6,457,715)	12,696,908	(12,039,428)
Earnings/(loss) per share attributable to equity holders of the Company (sen):					
Basic (continuing operations)	10	4.4	1.3		
Basic (discontinued operation)	10	(2.2)	(5.4)		
Basic, for profit/(loss) for the year	10	2.2	(4.1)		
Diluted (continuing operations)	10	4.4	1.3		
Diluted (discontinued operations)	10	(2.2)	(5.4)		
Diluted, for profit/(loss) for the year	10	2.2	(4.1)		

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 2007**

		<b>Group</b>		<b>Company</b>	
	<b>Note</b>	<b>2007 RM</b>	<b>2006 RM (restated)</b>	<b>2007 RM</b>	<b>2006 RM (restated)</b>
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	12	74,370,052	117,811,993	-	-
Investment property	13	409,242	418,477	-	-
Prepaid land lease payments	14	14,663,406	14,779,560	-	-
Goodwill	15	1,633,024	1,633,024	-	-
Investment in subsidiaries	16	-	-	75,585,432	84,497,035
Other investments	17	249,493	276,928	-	-
Deferred tax assets	18	445,684	91,036	20,340	20,340
		<u>91,770,901</u>	<u>135,011,018</u>	<u>75,605,772</u>	<u>84,517,375</u>
<b>Current assets</b>					
Inventories	19	26,248,396	23,958,078	-	-
Trade receivables	20	68,336,511	76,543,814	-	-
Other receivables	21	3,953,094	3,533,935	4,705,344	48,014
Tax recoverable		1,005,943	1,596,696	130,595	130,595
Cash and bank balances	22	3,847,072	6,352,591	70,612	102,098
		<u>103,391,016</u>	<u>111,985,114</u>	<u>4,906,551</u>	<u>280,707</u>
Assets of disposal group classified as held for sale	9	66,563,476	-	8,911,603	-
		<u>169,954,492</u>	<u>111,985,114</u>	<u>13,818,154</u>	<u>280,707</u>
<b>TOTAL ASSETS</b>		<u>261,725,393</u>	<u>246,996,132</u>	<u>89,423,926</u>	<u>84,798,082</u>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity attributable to equity holders of the Company</b>					
Share capital	23	75,250,601	75,250,601	75,250,601	75,250,601
Share premium	24	11,155,900	11,155,900	11,155,900	11,155,900
Foreign exchange reserve	25	(17,393)	(1,699,820)	-	-
Retained earnings/ (Accumulated losses)	26	9,931,609	8,447,015	1,110,327	(11,586,581)
Foreign exchange reserve relating to assets classified as held for sale		(1,999,337)	-	-	-
Shareholders' equity		<u>94,321,380</u>	<u>93,153,696</u>	<u>87,516,828</u>	<u>74,819,920</u>
Minority interests		<u>6,090,015</u>	<u>7,734,734</u>	<u>-</u>	<u>-</u>
<b>Total equity</b>		<u>100,411,395</u>	<u>100,888,430</u>	<u>87,516,828</u>	<u>74,819,920</u>

Company No. : 573695 W

**ORNAPAPER BERHAD (Incorporated in Malaysia)**  
**BALANCE SHEETS**

		<b>Group</b>		<b>Company</b>	
	<b>Note</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
		<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
			<b>(restated)</b>		<b>(restated)</b>
<b>Non-current liabilities</b>					
Long-term borrowings	27	13,362,377	24,124,193	1,387,564	1,972,526
Deferred tax liabilities	18	3,680,068	3,670,747	-	-
Non-current liabilities		<u>17,042,445</u>	<u>27,794,940</u>	<u>1,387,564</u>	<u>1,972,526</u>
<b>Current liabilities</b>					
Short term borrowings	27	81,305,254	77,627,464	463,610	246,568
Trade payables	29	11,948,722	32,960,241	-	-
Other payables	30	6,251,573	7,706,536	55,924	7,759,068
Current tax payable		103,489	18,521	-	-
		<u>99,609,038</u>	<u>118,312,762</u>	<u>519,534</u>	<u>8,005,636</u>
Liabilities directly associated with assets classified as held for sale	9	44,662,515	-	-	-
		<u>144,271,553</u>	<u>118,312,762</u>	<u>519,534</u>	<u>8,005,636</u>
<b>Total liabilities</b>		<u>161,313,998</u>	<u>146,107,702</u>	<u>1,907,098</u>	<u>9,978,162</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>261,725,393</u>	<u>246,996,132</u>	<u>89,423,926</u>	<u>84,798,082</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 YEAR ENDED 31 DECEMBER 2007**

	Attributable to Equity Holders of the Company							Total equity RM
	Non-Distributable			Distributable				
	Share capital (Note 23) RM	Share premium (Note 24) RM	Foreign exchange reserve (Note 25) RM	Relating to assets held for sale RM	Retained earnings (Note 26) RM	Total RM	Minority interests RM	
<b>Group - 2006</b>								
At 1 January 2006	75,250,601	11,155,900	(479,126)	-	808,904	86,736,279	12,499,412	99,235,691
Effect of FRS 3 (Note 2.2(b))	-	-	-	-	4,815,190	4,815,190	-	4,815,190
- Previously stated	75,250,601	11,155,900	(479,126)	-	5,624,094	91,551,469	12,499,412	104,050,881
- Prior year adjustment (Note 2.4)	-	-	-	-	5,907,217	5,907,217	-	5,907,217
- Restated	75,250,601	11,155,900	(479,126)	-	11,531,311	97,458,686	12,499,412	109,958,098
Foreign currency translation, representing net expense recognised directly in equity	-	-	(1,220,694)	-	-	(1,220,694)	(1,391,259)	(2,611,953)
Loss for the year	-	-	-	-	(3,084,296)	(3,084,296)	(3,373,419)	(6,457,715)
Total recognised income and expense for the year	-	-	(1,220,694)	-	(3,084,296)	(4,304,990)	(4,764,678)	(9,069,668)
At 31 December 2006	75,250,601	11,155,900	(1,699,820)	-	8,447,015	93,153,696	7,734,734	100,888,430

Company No. : 573695 W

**ORNAPAPER BERHAD (Incorporated in Malaysia)**  
**STATEMENTS OF CHANGES IN EQUITY**

	Attributable to Equity Holders of the Company					Total RM	Minority interests RM	Total equity RM
	Non-Distributable		Distributable					
	Share capital (Note 23) RM	Share premium (Note 24) RM	Foreign exchange reserve (Note 25) RM	Relating to Assets Held for sale RM	Retained earnings (Note 26) RM			
<b>Group - 2007</b>								
At 1 January 2007								
- Previously stated	75,250,601	11,155,900	(1,699,820)	-	2,605,311	87,311,992	7,734,734	95,046,726
- Prior year adjustment (Note 2.4)	-	-	-	-	5,841,704	5,841,704	-	5,841,704
- Restated	75,250,601	11,155,900	(1,699,820)	-	8,447,015	93,153,696	7,734,734	100,888,430
Foreign currency translation, representing net expense recognised directly in equity	-	-	(316,910)	-	-	(316,910)	(260,375)	(577,285)
Amount recognised directly in equity relating to assets classified as held for sale	-	-	1,999,337	(1,999,337)	-	-	-	-
Profit/(loss) for the year	-	-	-	-	1,484,594	1,484,594	(1,384,344)	100,250
Total recognised income and expense for the year	-	-	1,682,427	(1,999,337)	1,484,594	1,167,684	(1,644,719)	(477,035)
At 31 December 2007	75,250,601	11,155,900	(17,393)	(1,999,337)	9,931,609	94,321,380	6,090,015	100,411,395

Company No. : 573695 W

**ORNAPAPER BERHAD (Incorporated in Malaysia)**  
**STATEMENTS OF CHANGES IN EQUITY**

	← Non-Distributable →		Distributable Retained earnings/ (Accumulated losses)	Total
	Share capital (Note 23) RM	Share premium (Note 24) RM	(Note 26) RM	RM
<b>Company</b>				
At 1 January 2006	75,250,601	11,155,900	452,847	86,859,348
Loss for the year, representing total recognised income and expense for the year	-	-	(12,039,428)	(12,039,428)
At 31 December 2006	75,250,601	11,155,900	(11,586,581)	74,819,920
Profit for the year, representing total recognised income and expense for the year	-	-	12,696,908	12,696,908
At 31 December 2007	75,250,601	11,155,900	1,110,327	87,516,828

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 YEAR ENDED 31 DECEMBER 2007**

		Group		Company	
	Note	2007 RM	2006 RM	2007 RM	2006 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Profit/(loss) before tax					
- Continuing operations		3,436,660	775,478	13,310,537	(12,039,428)
- Discontinued operation		(3,048,207)	(7,452,580)	-	-
Adjustments for :					
Depreciation					
- Property, plant and equipment	12	8,756,348	9,331,962	-	-
- Investment property	13	9,235	9,235	-	-
Amortisation of land lease payments	14	252,428	220,112	-	-
Loss/(gain) on disposal of property, plant and equipment		1,102,235	(55,795)	-	-
Impairment loss on investment in subsidiary		-	-	-	12,000,000
Investment written off		25,000	-	-	-
Unrealised foreign exchange losses/(gains)					
		97,246	(182,494)	(121,353)	(174,906)
Bad debts written off		6,412	3,394	-	-
Provision for doubtful debts		2,842,029	(77,064)	-	-
Dividend income		(157)	(819)	-	-
Interest expense		6,881,670	6,748,988	162,443	185,442
Interest income		(99,740)	(517,398)	(246)	(341)
Operating profit/(loss) before working capital changes					
		20,261,159	8,803,019	13,351,381	(29,233)
(Increase)/decrease in inventories		(9,305,298)	767,503	-	-
Increase in receivables		(12,856,536)	(2,590,596)	(4,657,330)	(73,806)
Increase/(decrease) in payables		5,917,120	10,308,864	(7,703,144)	590,032
Cash generated from operations		4,016,445	17,288,790	990,907	486,993
Interest paid		(6,881,670)	(6,748,988)	(162,443)	(185,442)
Interest received		99,740	517,398	246	341
Taxes refunded/(paid)		42,191	(17,855)	(613,629)	49,672
Net cash (used in)/generated from operating activities		(2,723,294)	11,039,345	215,081	351,564



Company No. : 573695 W

**ORNAPAPER BERHAD (Incorporated in Malaysia)**  
**CASH FLOW STATEMENTS**

		<b>Group</b>		<b>Company</b>	
	<b>Note</b>	<b>2007 RM</b>	<b>2006 RM</b>	<b>2007 RM</b>	<b>2006 RM</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Net dividends received		157	819	-	-
Decrease in other investments		-	613	-	-
Proceeds from disposal of property, plant and equipment		601,240	842,026	-	-
Prepaid land lease payments	14	(581,708)	-	-	-
Purchase of property, plant and equipment	12(c)	(5,800,292)	(1,585,480)	-	-
Net cash used in investing activities		<u>(5,780,603)</u>	<u>(742,022)</u>	<u>-</u>	<u>-</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Repayment of term loans		(6,138,269)	(17,578,586)	(246,567)	(266,000)
Repayment of finance lease payables		(3,558,303)	(3,626,547)	-	-
Short term borrowings		<u>19,219,285</u>	<u>(639,953)</u>	<u>-</u>	<u>-</u>
Net cash generated from/(used in) financing activities		<u>9,522,713</u>	<u>(21,845,086)</u>	<u>(246,567)</u>	<u>(266,000)</u>
<b>CASH AND CASH EQUIVALENTS</b>					
Net increase/(decrease) during the year		1,018,816	(11,547,763)	(31,486)	85,564
Effect of foreign exchange rate changes		1,006,442	2,893,177	-	-
At beginning of year		<u>(6,054,907)</u>	<u>2,599,679</u>	<u>102,098</u>	<u>16,534</u>
At end of year	22	<u>(4,029,649)</u>	<u>(6,054,907)</u>	<u>70,612</u>	<u>102,098</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  
31 DECEMBER 2007**

**1. CORPORATE INFORMATION**

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Board of Bursa Malaysia Securities Berhad. The principal place of business is situated at No. 8998, Kawasan Perindustrian Peringkat IV, Batu Berendam, 75350 Melaka, Malaysia.

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

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on [ date ].

**2. SIGNIFICANT ACCOUNTING POLICIES**

**2.1 Basis of Preparation**

The financial statements comply with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia ("FRS"). At the beginning of the current financial year, the Company adopted new and revised FRSs as described fully in Note 2.3.

The financial statements of the Company have also been prepared on a historical basis, unless otherwise indicated in the accounting policies below.

The financial statements are presented in Ringgit Malaysia (RM).

**2.2 Summary of Significant Accounting Policies**

**(a) Subsidiaries and Basis of Consolidation**

**(i) Subsidiaries**

Subsidiaries are entities over which the Group has the ability to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of any potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

In the Company's separate financial statements, investments in subsidiaries are stated at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

**ORNAPAPER BERHAD (Incorporated in Malaysia)**

**NOTES TO THE FINANCIAL STATEMENTS**

**(ii) Basis of Consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the balance sheet date. The financial statements of the subsidiaries are prepared for the same reporting date as the Company.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. In preparing the consolidated financial statements, intragroup balances, transactions and unrealised gains or losses are eliminated in full. Uniform accounting policies are adopted in the consolidated financial statements for like transactions and events in similar circumstances.

Acquisitions of subsidiaries are accounted for using the purchase method. The purchase method of accounting involves allocating the cost of the acquisition to the fair values of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

Any excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the acquisition date and the minorities' share of changes in the subsidiaries' equity since then.

**(b) Goodwill**

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is, instead, reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Prior to 1 January 2006, negative goodwill was stated at cost and offsetted against goodwill which was stated at cost less impairment loss and are not amortised. Under FRS 3, which became applicable during the previous year, the negative goodwill as at 1 January 2006 of RM4,815,190 was derecognised with a corresponding increase in retained earnings.

**ORNAPAPER BERHAD (Incorporated in Malaysia)**

**NOTES TO THE FINANCIAL STATEMENTS**

**(c) Property, Plant and Equipment and Depreciation**

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Subsequent to recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Capital work-in-progress is not depreciated. 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%

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in profit or loss.

**(d) Investment Properties**

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Such properties are initially measured at cost, including transaction costs. Subsequent to recognition, investment properties are stated at cost less accumulated depreciation and any accumulated impairment losses. Freehold land is not depreciated. Other investment properties are depreciated on a straight line basis over the estimated useful life of 50 years.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year in which they arise.

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the Group holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value.

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

**(e) Impairment of Non-Financial Assets**

The carrying amounts of assets, other than investment property, inventories, deferred tax assets and non-current assets (or disposal groups) held for sale, if any, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

For goodwill, intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date or more frequently when indicators of impairment are identified.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating unit ("CGU") to which the asset belongs to. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

An impairment loss is recognised in profit or loss in the period in which it arises. Impairment loss on goodwill is not reversed in a subsequent period. 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 an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of 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.

**(f) Inventories**

Inventories are stated at lower of cost and net realisable value.

Cost is determined using the weighted average method. The cost of raw materials comprises costs of purchase. The costs of finished goods and work-in-progress comprise costs of raw materials, direct labour, other direct costs and appropriate proportions of manufacturing overheads based on normal operating capacity.

**ORNAPAPER BERHAD (Incorporated in Malaysia)**

**NOTES TO THE FINANCIAL STATEMENTS**

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**(g) 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 recognised directly in 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.

**(i) 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.

**(ii) Other Non-Current Investments**

Non-current investments other than investments in subsidiaries are stated at cost less impairment losses. On disposal of an investment, the difference between net disposal proceeds and its carrying amount is recognised in profit or loss.

**(iii) 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 recognised in profit or loss. On disposal of marketable securities, the difference between net disposal proceeds and the carrying amounts is recognised in profit or loss.

**(iv) 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.

**(v) 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.

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

(vi) Interest-Bearing Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

(vii) Equity Instruments

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

The transaction costs of an equity transaction 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.

The consideration paid, including attributable transaction costs on repurchased ordinary shares of the Company that have not been cancelled, are classified as treasury shares and presented as a deduction from equity. No gain or loss is recognised in profit or loss on the sale, re-issuance or cancellation of treasury shares. When treasury shares are reissued by resale, the difference between the sales consideration and the carrying amount is recognised in equity.

**(h) Leases**

(i) Classification

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incidental to ownership. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. All leases that do not transfer substantially all the risks and rewards are classified as operating leases, with the following exception:

- Property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and
- Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease.

**ORNAPAPER BERHAD (Incorporated in Malaysia)**

**NOTES TO THE FINANCIAL STATEMENTS**

**(ii) Finance Leases - the Group as Lessee**

Assets acquired by way of hire purchase or finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, 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 lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Group's incremental borrowing rate is used. Any initial direct costs are also added to the carrying amount of such assets.

Lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised in the profit or loss over the term of the relevant lease 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 leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 2.2(c).

**(iii) Operating Leases - the Group as Lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

In the case of a lease of land and buildings, the minimum lease payments or the up-front payments made are allocated, whenever necessary, between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and buildings element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

**(iv) Operating Leases - the Group as Lessor**

Assets leased out under operating leases are presented on the balance sheets according to the nature of the assets. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

**(i) Income Tax**

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year end and is measured using the tax rates that have been enacted at the balance sheet date.



**ORNAPAPER BERHAD (Incorporated in Malaysia)**

**NOTES TO THE FINANCIAL STATEMENTS**

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised as income or an expense and included in the profit or loss for the period, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or the amount of any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination.

**(j) Employee Benefits**

**(i) Short Term Benefits**

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

**(ii) Defined Contributions Plans**

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in the profit or loss as incurred. As required by law, companies in Malaysia make such contributions to the Employees Provident Fund. Some of the Group's foreign subsidiaries also make contributions to their respective countries' statutory pension schemes.

**(k) Revenue Recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

**ORNAPAPER BERHAD (Incorporated in Malaysia)**

**NOTES TO THE FINANCIAL STATEMENTS**

(i) Sale of Goods

Revenue is recognised net of sales taxes and upon transfer of significant risks and rewards of ownership to the buyer. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(ii) Dividend Income

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

(iii) Management Fee

Management fee is recognised when service is rendered.

**(I) Foreign Currencies**

(i) Functional and Presentation Currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the Company’s functional currency.

(ii) Foreign Currency Transactions

In preparing the financial statements of the individual entities, transactions in currencies other than the entity’s functional currency (foreign currencies) are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in profit or loss for the period except for exchange differences arising on monetary items that form part of the Group’s net investment in foreign operation. Exchange differences arising on monetary items that form part of the Group’s net investment in foreign operation, where that monetary item is denominated in either the functional currency of the reporting entity or the foreign operation, are initially taken directly to the foreign currency translation reserve within equity until the disposal of the foreign operations, at which time they are recognised in profit or loss.

**ORNAPAPER BERHAD (Incorporated in Malaysia)**

**NOTES TO THE FINANCIAL STATEMENTS**

Exchange differences arising on monetary items that form part of the Group's net investment in foreign operation, where that monetary item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, are recognised in profit or loss for the period. Exchange differences arising on monetary items that form part of the Company's net investment in foreign operation, regardless of the currency of the monetary item, are recognised in profit or loss in the Company's financial statements or the individual financial statements of the foreign operation, as appropriate.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

**(iii) Foreign Operations**

The results and financial position of foreign operations that have a functional currency different from the presentation currency (RM) of the consolidated financial statements are translated into RM as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate prevailing at the balance sheet date;
- Income and expenses for each income statement are translated at average exchange rates for the year, which approximates the exchange rates at the dates of the transactions; and
- All resulting exchange differences are taken to the foreign currency translation reserve within equity.

Goodwill and fair value adjustments arising on the acquisition of foreign operations on or after 1 January 2007 are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated at the closing rate at the balance sheet date. Goodwill and fair value adjustments which arose on the acquisition of foreign subsidiaries before 1 January 2007 are deemed to be assets and liabilities of the parent company and are recorded in RM at the rates prevailing at the date of acquisition.

**(m) Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**ORNAPAPER BERHAD (Incorporated in Malaysia)**

**NOTES TO THE FINANCIAL STATEMENTS**

**(o) Non-current Assets (or Disposal Groups) Held for Sale and Discontinued Operation**

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary.

Immediately before classification as held for sale, the measurement of the non-current assets (or all the assets and liabilities in a disposal group) is brought up-to-date in accordance with applicable FRSs. Then, on initial classification as held for sale, non-current assets or disposal groups (other than investment properties, deferred tax assets, employee benefits assets, financial assets and inventories) are measured in accordance with FRS 5 that is at the lower of carrying amount and fair value less costs to sell. Any differences are included in profit or loss.

A component of the Group is classified as a discontinued operation when the criteria to be classified as held for sale have been met or it has been disposed of and such a component represents a separate major line of business or geographical area of operations, is part of a single co-ordinated major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

**2.3 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs**

The Malaysian Accounting Standards Board ("MASB") has issued the following new and revised FRSs that are effective for financial periods beginning on or after 1 October 2006 and 1 January 2007 and the Group has also early adopted FRS 112 - Income Taxes, for its financial period beginning 1 January 2007:

- (i) FRS 6 - Exploration for and Evaluation of Mineral Resources
- (ii) FRS 112 - Income Taxes
- (iii) FRS 117 - Leases
- (iv) FRS 124 - Related Party Disclosures
- (v) Amendment to FRS 119<sub>2004</sub> - Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures

The new and revised FRSs above do not have any other significant impact on the financial statements of the Company except for the changes in accounting policies and their effects as follows:

- (i) FRS 112 - Income Taxes

Prior to 1 January 2007, recognition of deferred tax on assets that qualify for re-investment or other similar allowances in excess of normal capital allowances was prohibited. The adoption of the revised FRS 112 has resulted in a change in the accounting policy whereby deferred tax is to be recognised on such unused allowances to the extent that it is probable that future taxable profit will be available against which these unused allowances can be utilised.

**ORNAPAPER BERHAD (Incorporated in Malaysia)**

**NOTES TO THE FINANCIAL STATEMENTS**

(ii) FRS 117 - Leases

Prior to 1 January 2007, leasehold land held for own use was classified as property, plant and equipment and was stated at cost less accumulated depreciation and impairment losses, if any. The adoption of the revised FRS 117 has resulted in a change in the accounting policy whereby leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. Leasehold land held for own use is now classified as operating lease and where necessary, the minimum lease payments or the up-front payments made are allocated between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and buildings element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

(iii) FRS 124 - Related Party Disclosures

The adoption of FRS 124 gave rise to additional disclosures on related party transactions and balances but has no effect on the results and financial position of the Group and of the Company.

**2.4 Effects of new and revised FRSs on the current year's financial statements**

The changes in accounting policies as a result of the new and revised FRSs as disclosed in Note 2.3 had the effect of increasing/(decreasing) the line items in the Group's financial statements for the current financial year by the following amounts:

	<b>Effect of FRS 112 RM</b>	<b>Effect of FRS 117 RM</b>	<b>Total RM</b>
<b>Balance sheet</b>			
Deferred tax assets	445,684	-	445,684
Deferred tax liabilities	(4,805,188)	-	(4,805,188)
Retained profits	4,805,188	-	4,805,188
Property, plant and equipment	-	(14,663,406)	(14,663,406)
Prepaid land lease payments	-	14,663,406	14,663,406
<b>Income statement</b>			
Tax expense	590,832	-	590,832
Profit for the year	(590,832)	-	(590,832)

There is no impact on the Company's financial statements for the current year.

**ORNAPAPER BERHAD (Incorporated in Malaysia)**

**NOTES TO THE FINANCIAL STATEMENTS**

The following comparatives in the Group's financial statements have been restated as follows:

	<b>Previously stated RM</b>	<b>Effect of FRS 112 RM</b>	<b>Effect of FRS 117 RM</b>	<b>Restated RM</b>
<b>Balance sheet</b>				
Property, plant and equipment	132,591,553	-	(14,779,560)	117,811,993
Prepaid land lease payments	-	-	14,779,560	14,779,560
Deferred tax liability	9,512,451	(5,841,704)	-	3,670,747
Retained profits:				
At 1 January 2006	5,624,094	5,907,217	-	11,531,311
At 31 December 2006	2,605,311	5,841,704	-	8,447,015
<b>Income statement</b>				
Tax income	284,900	(65,513)	-	219,387
Loss for the year	(6,392,202)	(65,513)	-	(6,457,715)

There is no impact on the comparatives in the Company's financial statements.

**2.5 Standards and Interpretations Issued but Not Yet Effective**

At the date of authorisation of these financial statements, the following FRSs, amendments to FRSs and Interpretations were issued but not yet effective and have not been applied by the Company:

- (i) FRS 107 - Cash Flow Statements
- (ii) FRS 111 - Construction Contracts
- (iii) FRS 118 - Revenue
- (iv) FRS 120 - Accounting for Government Grants and Disclosure of Government
- (v) FRS 134 - Interim Financial Reporting
- (vi) FRS 137 - Provisions, Contingent Liabilities and Contingent Assets
- (vii) FRS 139 - Financial Instruments : Recognition and Measurement
- (viii) Amendment to FRS 121 - The Effect of Changes in Foreign Exchange Rates
- (ix) IC Interpretation 1 - Changes in Existing Decommissioning, Restoration & Similar
- (x) IC Interpretation 2 - Members' Shares in Co-operative Entities & Similar Instruments
- (xi) IC Interpretation 5 - Rights to Interests arising from Decommissioning, Restoration & Environmental Rehabilitation Funds
- (xii) IC Interpretation 6 - Liabilities arising from Participating in a Specific Market – Waste Electrical & Electronic Equipment
- (xiii) IC Interpretation 7 - Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
- (xiv) IC Interpretation 8 - Scope of FRS 2

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

The above FRSs, amendments to FRSs and Interpretations, except for FRS 139, will become effective for financial periods beginning on or after 1 July 2007 and are expected to have no significant impact on the financial statements of the Group and of the Company upon their initial application. The Group and the Company are exempted from disclosing the possible impact, if any, to the financial statements upon the initial application of FRS 139, the effective date of which has been deferred.

**2.6 Significant Accounting Estimates and Judgements**

**(a) Critical Judgements Made in Applying Accounting Policies**

There were no critical judgments made by management in the process of applying the Company's accounting policies that could have any significant effect on the amounts recognised in the financial statements.

**(b) Key Sources of Estimation Uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**(i) Depreciation of plant and machinery**

The cost of plant and machinery for the manufacture of carton boxes is depreciated on a straight-line basis over the assets' useful lives. Management estimates the useful lives of these plant and machinery to be within 5 to 20 years which are common life expectancies applied in the industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

**(ii) Impairment of goodwill**

The Group determines whether goodwill are impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash-generating units ("CGU") to which goodwill are allocated. Estimating a value-in-use amount requires management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2007 is RM1,633,024 (2006 : RM1,633,024) . Further details are disclosed in Note 15.

**(iii) Deferred tax assets**

Deferred tax assets are recognised for all unabsorbed tax losses, capital allowances and re-investment allowances to the extent that it is probable that taxable profit will be available against which the tax losses and such allowances can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The total carrying value of unutilised tax losses and unabsorbed allowances of the Group and of the Company relating to continuing operations was RM21,853,000 (2006: RM23,659,000), all of which was recognised as deferred tax assets.

**ORNAPAPER BERHAD (Incorporated in Malaysia)**

**NOTES TO THE FINANCIAL STATEMENTS**

**3. REVENUE**

	<b>Group</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Sales of goods	160,835,204	168,180,654	-	-
Dividend income from subsidiary	-	-	13,636,200	227,270
Management fees from subsidiaries	-	-	150,000	150,000
	<u>160,835,204</u>	<u>168,180,654</u>	<u>13,786,200</u>	<u>377,270</u>

**4. OTHER INCOME**

	<b>Group</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Dividend income on equity investments, quoted in Malaysia	157	819	-	-
Foreign exchange differences	128,135	839,965	128,135	184,968
Interest income	64,962	498,188	246	341
Office rental received	236,400	175,100	-	-
Insurance claim	1,281,784	-	-	-
Others	175,810	146,702	-	-
	<u>1,887,248</u>	<u>1,660,774</u>	<u>128,381</u>	<u>185,309</u>

**5. PROFIT/(LOSS) BEFORE TAX**

The following amounts have been included at arriving at profit/(loss) before tax:

	<b>Group</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Employee benefits expense (Note 6)	17,933,947	18,739,852	13,428	107,930
Non-executive directors' remuneration (Note 7)	128,420	101,500	89,500	71,500
Auditors' remuneration				
- Statutory audit (current year)	112,197	112,109	27,000	25,000
- Statutory audit (prior year)	-	(4,300)	-	9,250
- Other services	16,965	68,460	41,317	41,000



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

	<b>Group</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Bad debts written off	6,412	3,394	-	-
Provision for doubtful debts	1,978,481	(292,098)	-	-
Foreign exchange losses	127,497	-	-	-
Impairment loss on investment in subsidiary	-	-	-	12,000,000
Depreciation				
- Property, plant and equipment (Note 12)	5,952,532	6,460,044	-	-
- Investment property (Note 13)	9,235	9,235	-	-
Amortisation of prepaid land lease payments (Note 14)	243,148	210,832	-	-
Loss/(gain) on disposal of property, plant and equipment	1,102,235	(55,795)	-	-
Investment written off	25,000	-	-	-
Minimum operating lease payments				
- Land and buildings	600,607	590,130	-	-
- Plant and equipment	17,400	13,200	-	-
Rental receivable from operating leases	(236,400)	(175,100)	-	-
Gross dividend	(157)	(819)	-	-

**6. EMPLOYEE BENEFITS EXPENSE**

	<b>Group</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
<b>Executive directors (Note 7)</b>				
Directors of the Company	1,013,269	841,753	13,000	40,500
Other directors of subsidiaries	506,591	371,635	-	-
	<u>1,519,860</u>	<u>1,213,388</u>	<u>13,000</u>	<u>40,500</u>
<b>Other key management personnel</b>				
Salaries and wages	156,815	123,521	-	-
Defined contribution plans	17,110	14,860	-	-
	<u>173,925</u>	<u>138,381</u>	<u>-</u>	<u>-</u>
<b>Other staff costs</b>				
Salaries and wages	11,846,415	12,294,401	-	55,500
Defined contribution plans	948,492	1,044,172	-	11,520
Other related costs	3,445,255	4,049,510	428	410
	<u>16,240,162</u>	<u>17,388,083</u>	<u>428</u>	<u>67,430</u>
	<u>17,933,947</u>	<u>18,739,852</u>	<u>13,428</u>	<u>107,930</u>

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

**7. DIRECTORS' REMUNERATION**

	<b>Group</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
<b>Directors of the Company</b>				
Executive (Note 6):				
Fees	120,000	120,000	-	30,000
Salaries and other emoluments	798,150	650,131	13,000	10,500
Defined contribution plans	95,119	71,622	-	-
	<u>1,013,269</u>	<u>841,753</u>	<u>13,000</u>	<u>40,500</u>
Estimated money value of benefits-in-kind	31,748	63,140	-	-
	<u>1,045,017</u>	<u>904,893</u>	<u>13,000</u>	<u>40,500</u>
Non-Executive (Note 5):				
Fees	112,000	92,500	77,000	62,500
Other emoluments	16,000	9,000	12,500	9,000
Defined contribution plans	420	-	-	-
	<u>128,420</u>	<u>101,500</u>	<u>89,500</u>	<u>71,500</u>
<b>Other directors of subsidiaries</b>				
Executive (Note 6):				
Salaries and other emoluments	453,265	332,070	-	-
Defined contribution plans	53,326	39,565	-	-
	<u>506,591</u>	<u>371,635</u>	<u>-</u>	<u>-</u>
Estimated money value of benefits-in-kind	23,900	-	-	-
	<u>530,491</u>	<u>371,635</u>	<u>-</u>	<u>-</u>
Total directors' remuneration including benefits-in-kind	<u>1,703,928</u>	<u>1,378,028</u>	<u>102,500</u>	<u>112,000</u>

The number of directors of the Company whose total remuneration during the year received from the Group that fell within the following bands is analysed below:

	<b>2007</b>	<b>2006</b>
<b>Executive directors</b>		
RM50,001 to RM100,000	-	2
RM100,001 to RM150,000	1	-
RM200,001 to RM250,000	-	1
RM250,001 to RM300,000	1	-
RM500,001 to RM550,000	-	1
RM600,001 to RM650,000	1	-
<b>Non-executive directors</b>		
Below RM50,000	3	3

**ORNAPAPER BERHAD (Incorporated in Malaysia)****NOTES TO THE FINANCIAL STATEMENTS****8. TAX EXPENSE/(INCOME)**

	<b>Group</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Current tax:				
Malaysian income tax	633,377	77,622	613,629	-
Foreign tax	-	13,444	-	-
Underprovision in prior years	153	-	-	-
	<u>633,530</u>	<u>91,066</u>	<u>613,629</u>	<u>-</u>
Deferred tax (Note 18):				
Relating to origination and reversal of temporary differences	17,228	662,429	-	-
Relating to reduction in income tax rate	(341,336)	(751,742)	-	-
Overprovision in prior years	(21,219)	(221,140)	-	-
	<u>(345,327)</u>	<u>(310,453)</u>	<u>-</u>	<u>-</u>
	<u>288,203</u>	<u>(219,387)</u>	<u>613,629</u>	<u>-</u>

Income tax is calculated at the Malaysian statutory tax rate of 27% (2006 : 28%) of the estimated assessable profit for the year. The statutory tax rate will be reduced to 26% effective year of assessment 2008 and to 25% effective year of assessment 2009. The computation of deferred tax as at 31 December 2007 has reflected these changes.

A reconciliation of income tax expense applicable to profit/(loss) before tax at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Company is as follows :

	<b>Group</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Profit/(loss) before tax from:				
- Continuing operations	3,436,660	775,478	13,310,537	(12,039,428)
- Discontinued operation (Note 9)	(3,048,207)	(7,452,580)	-	-
	<u>388,453</u>	<u>(6,677,102)</u>	<u>13,310,537</u>	<u>(12,039,428)</u>
Taxation at 27% (2006 : 28%)	104,882	(1,869,589)	3,593,845	(3,371,040)
Effect of different tax rates in other countries	473,619	1,727,331	-	-
Effect of income subject to tax rate of 20% (2006 : 20%)	(32,152)	-	-	-
Effect of changes in tax rates on opening balance of deferred tax	(79,336)	(377,732)	(1,023)	-
Deferred tax recognised at different tax rates	(262,000)	(374,010)	-	-

**ORNAPAPER BERHAD (Incorporated in Malaysia)**

**NOTES TO THE FINANCIAL STATEMENTS**

	<b>Group</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Effect of expenses not deductible for tax purposes	635,298	523,124	88,952	3,371,040
Effect of income not subject to tax	-	-	(3,068,145)	-
Effect of utilisation of current year's reinvestment allowances	(512,648)	-	-	-
Deferred tax asset recognised on unabsorbed re-investment allowances	(367,791)	-	-	-
Deferred tax asset not recognised on unutilised losses	349,397	372,629	-	-
Underprovision of current tax in prior years	153	-	-	-
Overprovision of deferred tax in prior years	(21,219)	(221,140)	-	-
Income tax expense for the year	<u>288,203</u>	<u>(219,387)</u>	<u>613,629</u>	<u>-</u>

The amounts relating to continuing operations available for carried forward to offset against future taxable income are as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Unabsorbed tax losses	537,000	501,000	72,643	72,643
Unabsorbed capital allowances	373,000	-	-	-
Unabsorbed re-investment allowances	20,943,000	23,158,000	-	-
	<u>21,853,000</u>	<u>23,659,000</u>	<u>72,643</u>	<u>72,643</u>

**9. DISCONTINUED OPERATION AND DISPOSAL GROUP HELD FOR SALE**

On 20 November 2007, the Company entered into an agreement to dispose of its subsidiary, Yuen Foong Yu Paper Enterprise Dong Nai Company Limited ("YFYP") (formerly known as Ornapaper Vietnam Co. Ltd.) for USD2.64 million. The disposal was approved by the shareholders on 31 January 2008 and is expected to be completed by 30 April 2008. As at 31 December 2007, the assets and liabilities of YFYP have been presented on the consolidated balance sheet as a disposal group held for sale and the results from this subsidiary are presented separately on the consolidated income statement as a discontinued operation. The carrying amount of the investment in this subsidiary is presented as a non-current asset held for sale on the Company's balance sheet as at 31 December 2007.

Company No. : 573695 W

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

An analysis of the results of the discontinued operation are as follows:

	<b>Group</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
Revenue	50,848,465	36,097,957
Administration and general expenses	(52,277,373)	(41,895,236)
Interest income	34,778	19,210
Interest expense	(1,654,077)	(1,674,511)
Loss for the year from discontinued operation	<u>(3,048,207)</u>	<u>(7,452,580)</u>

The following amounts have been included in arriving at loss after tax of discontinued operation:

	<b>Group</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
Auditors' remuneration		
- Statutory audit	14,895	33,751
- Other services	-	25,972
Employee benefits expense	2,633,924	2,596,318
Foreign exchange losses	12,468	518,193
Depreciation of property, plant and equipment (Note 12)	2,803,816	2,871,918
Amortisation of prepaid land lease (Note 14)	9,280	9,280
Provision for doubtful debts	<u>863,548</u>	<u>215,034</u>

The cash flows attributable to the discontinued operation are as follows:

Operating cash flows	3,106,427	667,954
Investing cash flows	(748,928)	(339,842)
Financing cash flows	<u>(1,462,555)</u>	<u>(1,614,130)</u>
Total cash flows	<u>894,944</u>	<u>(1,286,018)</u>

The carrying amounts of the major classes of assets and liabilities of YFYP classified as held for sale on the balance sheets as at 31 December 2007 are as follows:

	<b>Group</b>	<b>Company</b>
	<b>RM</b>	<b>RM</b>
<b>Assets</b>		
Property, plant and equipments (Note 12)	39,328,188	-
Prepaid land lease payments (Note 14)	445,434	-
Investments	2,035	8,911,603
Inventories	7,014,980	-
Trade and other receivables	17,690,768	-
Cash and bank balances (Note 22)	2,082,071	-
Assets of disposal group classified as held for sale	<u>66,563,476</u>	<u>8,911,603</u>

Company No. : 573695 W

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

	<b>Group RM</b>	<b>Company RM</b>
<b>Liabilities</b>		
Short and long term borrowings	16,278,913	-
Trade payables	23,386,487	-
Other payables	4,997,115	-
Liabilities directly associated with assets classified as held for sale	<u>44,662,515</u>	<u>-</u>

**10. EARNINGS/(LOSS) PER SHARE**

Basic and diluted earnings/(loss) per share amounts are calculated by dividing the profit/(loss) for the year attributable to ordinary equity holders of the Company with the weighted average number of ordinary shares in issue during the financial year.

	<b>Group 2007 RM</b>	<b>2006 RM</b>
Attributable to ordinary equity holders of the Company:		
Profit from continuing operations	3,161,108	1,014,623
Loss from discontinuing operations	(1,676,514)	(4,098,919)
Profit /(loss) for the year	<u>1,484,594</u>	<u>(3,084,296)</u>
Weighted average number of ordinary share in issue	<u>75,250,601</u>	<u>75,250,601</u>
Basic and diluted earnings per share (sen):		
Profit from continuing operations	4.4	1.3
Loss from discontinuing operation	(2.2)	(5.4)
Profit/(loss) for the year	<u>2.2</u>	<u>(4.1)</u>

**11. DIVIDEND**

At the forthcoming Annual General Meeting, a first and final tax exempt dividend in respect of the current financial year of 1% on 72,250,601 ordinary shares, amounting to a total dividend payable of RM722,506 (one sen per share) will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2008.

Company No. : 573695 W

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

**12. PROPERTY, PLANT AND EQUIPMENT**

	<b>Buildings RM</b>	<b>Plant and machinery RM</b>	<b>Other assets RM</b>	<b>Total RM</b>
<b>Group - 2007</b>				
<b>Cost</b>				
At 1 January 2007	47,345,080	118,674,703	11,135,455	177,155,238
Additions	3,007,173	3,761,385	1,152,614	7,921,172
Disposals	-	(2,048,137)	(1,478,162)	(3,526,299)
Reclassified as held for sale (Note 9)	(14,048,499)	(30,814,254)	(2,006,648)	(46,869,401)
Exchange differences	(578,408)	(1,184,825)	(71,165)	(1,834,398)
At 31 December 2007	35,725,346	88,388,872	8,732,094	132,846,312
<b>Accumulated depreciation</b>				
At 1 January 2007	6,514,566	44,981,059	7,847,620	59,343,245
Charge for the year				
- Continuing operations (Note 5)	816,648	4,506,987	628,897	5,952,532
- Discontinued operation (Note 9)	328,815	2,134,555	340,446	2,803,816
	1,145,463	6,641,542	969,343	8,756,348
Disposals	-	(689,487)	(1,133,337)	(1,822,824)
Reclassified as held for sale (Note 9)	(779,613)	(5,923,343)	(838,257)	(7,541,213)
Exchange differences	(26,592)	(203,273)	(29,431)	(259,296)
At 31 December 2007	6,853,824	44,806,498	6,815,938	58,476,260
<b>Net carrying amount</b>	28,871,522	43,582,374	1,916,156	74,370,052
<b>Group - 2006</b>				
<b>Cost</b>				
At 1 January 2006	48,850,246	121,887,822	12,036,970	182,775,038
Additions	381,524	927,252	276,704	1,585,480
Disposals	-	(314,724)	(962,337)	(1,277,061)
Exchange differences	(1,886,690)	(3,825,647)	(215,882)	(5,928,219)
At 31 December 2006	47,345,080	118,674,703	11,135,455	177,155,238

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

	<b>Buildings RM</b>	<b>Plant and machinery RM</b>	<b>Other assets RM</b>	<b>Total RM</b>
<b>Accumulated depreciation</b>				
At 1 January 2006	5,400,863	38,683,703	6,840,636	50,925,202
Charge for the year				
-Continuing operation (Note 5)	788,529	4,741,053	930,462	6,460,044
-Discontinued operation (Note 9)	360,388	2,189,133	322,397	2,871,918
	1,148,917	6,930,186	1,252,859	9,331,962
Disposals	-	(288,928)	(201,902)	(490,830)
Exchange differences	(35,214)	(343,902)	(43,973)	(423,089)
At 31 December 2006	6,514,566	44,981,059	7,847,620	59,343,245
<b>Net carrying amount</b>	<b>40,830,514</b>	<b>73,693,644</b>	<b>3,287,835</b>	<b>117,811,993</b>

- (a) Other assets comprise motor vehicles, office equipment, furniture, fittings and office renovation and capital work in progress. The cost of work in progress at the end of the financial year was RM102,603 (2006 : RM102,706).
- (b) The net carrying amount of property, plant and equipment pledged to secure bank borrowings as referred to in Note 27 are as follow:

	<b>Group</b>	
	<b>2007 RM</b>	<b>2006 RM</b>
Factory buildings	28,871,522	40,830,514
Plant and machinery	41,003,528	72,917,925
Others	1,916,156	3,287,835
	<u>71,791,206</u>	<u>117,036,274</u>

- (c) Property, plant and equipment purchased during the financial year were by means of :

	<b>Group</b>	
	<b>2007 RM</b>	<b>2006 RM</b>
Cash	5,800,292	1,585,480
Lease financing	2,120,880	-
	<u>7,921,172</u>	<u>1,585,480</u>

- (d) The net carrying amount of property, plant and equipment being acquired under instalment payment plans amounts to RM15,637,723 (2006: RM16,021,396).



Company No. : 573695 W

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

**13. INVESTMENT PROPERTY**

	<b>Group</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
<b>Cost</b>		
At 1 January/31 December	461,742	461,742
<b>Accumulated depreciation</b>		
At 1 January	43,265	34,030
Charge for the year	9,235	9,235
At 31 December	52,500	43,265
<b>Net carrying amount</b>	409,242	418,477
Fair value	420,000	420,000

The investment property is pledged to secure bank borrowings as referred to in Note 27.

Fair value is arrived at by reference to market evidence of transaction prices for similar properties and is performed by registered independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of the properties being valued.

**14. PREPAID LAND LEASE PAYMENTS**

	<b>Group</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
At 1 January	14,779,560	14,999,672
Additions	581,708	-
Recognised in income statement		
- Continuing operations (Note 5)	(243,148)	(210,832)
- Discontinued operation (Note 9)	(9,280)	(9,280)
	(252,428)	(220,112)
Reclassified as held for sale (Note 9)	(445,434)	-
At 31 December	14,663,406	14,779,560
Relating to:		
Long term leasehold land	11,187,907	10,771,172
Short term leasehold land	3,475,499	4,008,388
	14,663,406	14,779,560

The above properties are pledged to secure bank borrowings as referred to in Note 27.

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

**15. GOODWILL**

<b>Group</b>	<b>Negative goodwill RM</b>	<b>Goodwill RM</b>	<b>Total RM</b>
At 1 January 2006	(4,815,190)	1,633,024	(3,182,166)
Effect of adopting FRS 3:			
Transferred to opening retained earnings	4,815,190	-	4,815,190
At 31 December 2006/2007	<u>-</u>	<u>1,633,024</u>	<u>1,633,024</u>

**Impairment tests for goodwill**

Goodwill has been allocated to the Group's CGUs identified according to the subsidiaries, as follows:

	<b>Group</b>	
	<b>2007 RM</b>	<b>2006 RM</b>
Ornapaper Industry (Perak) Sdn. Bhd.	1,573,698	1,573,698
Ornapaper Industry (Johor) Sdn. Bhd.	<u>59,326</u>	<u>59,326</u>
	<u>1,633,024</u>	<u>1,633,024</u>

**Key assumptions used in value-in-use calculations**

The recoverable amount of a CGU is determined based on value-in-use calculations using cash flow projections based on financial budgets approved by management covering a five-year period. The key assumptions used for value-in-use calculations are as follows:

	<b>Ornapaper Industry (Perak) Sdn. Bhd.</b>		<b>Ornapaper Industry (Johor) Sdn. Bhd.</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Gross margin	19%	18%	15%	14%
Growth rate	4%	4%	2%	2%
Discount rate	8%	8%	8%	8%

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill :

(i) Budgeted gross margin

The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budgeted year increased for expected efficiency improvements.

Company No. : 573695 W

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

(ii) Growth rate

The weighted average growth rates used are consistent with past experience.

(iii) Discount rate

The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

(iv) Bond rate

The bond rates used are the yield on a 5-year Malaysian government bond rate at the beginning of the budgeted year.

The Group believes that any reasonably possible change in the above key assumptions applied are not likely to materially cause recoverable amount to be lower than its carrying amount.

**16. INVESTMENT IN SUBSIDIARIES**

	<b>Company</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
Unquoted shares at cost	75,585,432	96,497,035
Accumulated impairment losses	-	(12,000,000)
	<u>75,585,432</u>	<u>84,497,035</u>

Details of the subsidiaries are as follows :

Name of Subsidiaries	Country of Incorporation	Proportion of Ownership Interest (%)		Principal Activities
		2007	2006	
Subsidiaries of the Company				
Ornapaper Industry (M) Sdn. Bhd.	Malaysia	100	100	Manufacturing of corrugated boards and carton boxes
Ornapaper Industry (Batu Pahat) Sdn. Bhd.	Malaysia	100	100	Manufacturing of carton boxes
Ornapaper Industry (Perak) Sdn. Bhd.	Malaysia	100	100	Manufacturing of corrugated boards and carton boxes
Ornapaper Industry (Johor) Sdn. Bhd. *	Malaysia	80	80	Manufacturing of carton boxes

Company No. : 573695 W

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

Name of Subsidiaries	Country of Incorporation	Proportion of Ownership Interest (%)		Principal Activities
		2007	2006	
Tripack Packaging (M) Sdn. Bhd. *	Malaysia	100	100	Manufacturing of cartons boxes
Yuen Foong Yu Paper Enterprise Dong Nai Company Limited (formerly known as Ornapaper Vietnam Co. Ltd.) * ("YFYP")	Vietnam	55	55	Manufacturing of corrugated boards and carton boxes
<b>Subsidiary of Ornapaper Industry (M) Sdn. Bhd.</b>				
Hello Paper Co Ltd. *	Republic of China	52	52	Trading of wrapping paper materials

\* Not audited by Ernst & Young

- (a) The auditors' reports on the financial statements of YFYP emphasised that the continuance of the subsidiary as going concern depends on the investor continuing to provide financial assistance as is necessary to enable the entity to meet its liabilities as and when they fall due and to maintain the entity in existence as a going concern for the foreseeable future.
- (b) The investment cost of YFYP is disclosed under Note 9.

**17. OTHER INVESTMENTS**

	Group	
	2007 RM	2006 RM
At cost:		
Quoted shares	19,400	19,400
Unquoted shares	225,000	225,000
Club membership	-	25,000
Others	5,093	7,528
	<u>249,493</u>	<u>276,928</u>
Market value of quoted shares	15,510	35,170

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

**18. DEFERRED TAX ASSETS/LIABILITIES**

	<b>Group</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
At 1 January	3,579,711	3,890,164	(20,340)	(20,340)
Recognised in income statement (Note 8)	(345,327)	(310,453)	-	-
At 31 December	<u>3,234,384</u>	<u>3,579,711</u>	<u>(20,340)</u>	<u>(20,340)</u>
Presented after appropriate offsetting as follows:				
Deferred tax assets	(445,684)	(91,036)	(20,340)	(20,340)
Deferred tax liabilities	<u>3,680,068</u>	<u>3,670,747</u>	<u>-</u>	<u>-</u>
	<u>3,234,384</u>	<u>3,579,711</u>	<u>(20,340)</u>	<u>(20,340)</u>

The components and movements of deferred tax liabilities/(assets) prior to offsetting are as follows:

	<b>As at 1 January</b>	<b>Recognised in income statement</b>	<b>As at 31 December</b>
<b>Group - 2007</b>			
Property, plant and equipment	9,544,048	(687,319)	8,856,729
Unutilised tax losses	(122,633)	(31,755)	(154,388)
Unabsorbed capital allowances	-	(93,773)	(93,773)
Unabsorbed re-investment allowances	(5,841,704)	475,324	(5,366,380)
Others	-	(7,804)	(7,804)
	<u>3,579,711</u>	<u>(345,327)</u>	<u>3,234,384</u>
<b>Group - 2006</b>			
Property, plant and equipment	9,991,225	(447,177)	9,544,048
Unutilised tax losses	(167,518)	44,885	(122,633)
Unabsorbed capital allowances	(26,326)	26,326	-
Unabsorbed re-investment allowances	(5,907,217)	65,513	(5,841,704)
	<u>3,890,164</u>	<u>(310,453)</u>	<u>3,579,711</u>
<b>Company - 2007</b>			
Unutilised tax losses	<u>(20,340)</u>	<u>-</u>	<u>(20,340)</u>
<b>Company - 2006</b>			
Unutilised tax losses	<u>(20,340)</u>	<u>-</u>	<u>(20,340)</u>

Company No. : 573695 W

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

Deferred tax assets have not been recognised in respect of the following items:

	<b>Group</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
Discontinued operation:		
Unutilised tax losses	20,837,790	17,789,583

**19. INVENTORIES**

	<b>Group</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
At cost :		
Raw materials and consumables	24,111,305	21,976,774
Work-in-progress	94,083	217,954
Finished goods	2,043,008	1,763,350
	<u>26,248,396</u>	<u>23,958,078</u>

**20. TRADE RECEIVABLES**

	<b>Group</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
Trade receivables	69,905,389	76,421,892
Provision for doubtful debts	<u>(3,500,539)</u>	<u>(1,744,857)</u>
	66,404,850	74,677,035
Related parties	1,931,661	1,866,779
	<u>68,336,511</u>	<u>76,543,814</u>

Related parties are those companies in which a director of a subsidiary has substantial financial interest.

The Group's normal credit term ranges from 30 to 120 (2006 : 30 to 120) days. Other credit terms are assessed and approved on a case-by-case basis. Overdue interest of 0.50% to 1.50% (2006 : 0.50% to 1.50%) per month is charged on the amount due from certain debtors exceeding credit terms.

The Group has significant concentration of credit risk that may arise from exposure to two debtors which amounted to RM15,164,919 (2006 : RM15,039,317) which represents 23% (2006 : 20%) of the total gross debts. The said debtors have strategic alliances with the Group. The directors are confident that based on steps taken, dealings with those debtors and the committed payment scheme by one of these debtors that the amounts, net of provisions made, will be recovered in full and as such, the provision for doubtful debts made in financial statements is adequate.

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

**21. OTHER RECEIVABLES**

	<b>Group</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Deposits and prepayments	1,483,930	1,713,190	14,124	17,181
Other receivables	2,501,141	1,127,135	-	-
Import tax receivables	-	693,610	-	-
Due from subsidiaries	-	-	4,691,220	30,833
	<u>3,985,071</u>	<u>3,533,935</u>	<u>4,705,344</u>	<u>48,014</u>
Provision for doubtful debts	(31,977)	-	-	-
	<u>3,953,094</u>	<u>3,533,935</u>	<u>4,705,344</u>	<u>48,014</u>

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

The Group has no significant concentration of credit risk that may arise from exposure to a single debtor or groups of debtors. The Company has significant concentration of credit risk that may arise from exposure to the amount due from subsidiaries, the debts of which collectively account for 99% (2006 : 64%) of the total gross amount receivables.

**22. CASH AND CASH EQUIVALENTS**

	<b>Group</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Cash on hand and at banks	3,799,129	6,305,361	70,612	102,098
Deposit with a licensed bank	47,943	47,230	-	-
Cash and bank balances	<u>3,847,072</u>	<u>6,352,591</u>	<u>70,612</u>	<u>102,098</u>

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

Company No. : 573695 W

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

The weighted average effective interest rate at the balance sheet date and the average maturity of deposit as at the end of the financial year were as follows :

	<b>Weighted Average Interest Rate</b>		<b>Average Maturity Days</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Deposit with a licensed bank	3.8%	3.7%	365	365

For the purpose of the cash flow statement, cash and cash equivalents comprise the following as at the balance sheet date:

	<b>Group</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Cash and bank balances	3,847,072	6,352,591	70,612	102,098
Less: Bank overdrafts (Note 27)	(9,958,792)	(12,407,498)	-	-
	(6,111,720)	(6,054,907)	70,612	102,098
Cash and bank balance classified as held for sale (Note 9)	2,082,071	-	-	-
Total cash and cash equivalents	(4,029,649)	(6,054,907)	70,612	102,098

**23. SHARE CAPITAL**

	<b>Number of Ordinary Shares of RM1 Each</b>		<b>Amount</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
			<b>RM</b>	<b>RM</b>
<b>Authorised</b>				
At 1 January/31 December	100,000,000	100,000,000	100,000,000	100,000,000
<b>Issued and fully paid</b>				
At 1 January/31 December	75,250,601	75,250,601	75,250,601	75,250,601

**24. SHARE PREMIUM**

This non-distributable capital reserve arose from the issue of shares at a premium in previous years.



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

**25. FOREIGN EXCHANGE RESERVE**

This non-distributable reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries.

**26. RETAINED EARNINGS**

In the past, Malaysian companies adopt the full imputation system. In accordance with the Finance Act 2007 which was gazetted on 28 December 2007, companies shall not be entitled to deduct tax on dividend paid, credited or distributed to its shareholders, and such dividends will be exempted from tax in the hands of the shareholders ("single tier system"). However, there is a transitional period of six years, expiring on 31 December 2013, to allow companies to pay franked dividends to their shareholders under limited circumstances. Companies also have an irrevocable option to disregard the Section 108 balance and opt to pay dividends under the single tier system. The change in the tax legislation also provides for the Section 108 balance to be locked-in as at 31 December 2007 in accordance with Section 39 of the Finance Act 2007.

The Company did not elect for the irrevocable option to disregard the Section 108 balance. Accordingly, during the transitional period, the Company may utilise the credit in the Section 108 balance as at 31 December 2007 to distribute cash dividend payments to ordinary shareholdings as defined under the Finance Act 2007.

As at balance sheet date, the Company has sufficient credit in the Section 108 balance and sufficient tax exempt profits to pay distribute dividends out of its entire retained profits without incurring any additional tax liability.

**27. BORROWINGS (SECURED)**

	<b>Group</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
<b>Short Term Borrowings</b>				
Bank overdrafts (Note 22)	9,958,792	12,407,498	-	-
Bankers' acceptances	59,663,833	41,995,881	-	-
Trust receipts	5,886,259	4,334,926	-	-
Term loans	2,359,095	15,483,295	463,610	246,568
Finance lease payables (Note 28)	3,437,275	3,405,864	-	-
	<u>81,305,254</u>	<u>77,627,464</u>	<u>463,610</u>	<u>246,568</u>

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

	<b>Group</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
<b>Long Term Borrowings</b>				
Term loans	8,233,189	17,526,171	1,387,564	1,972,526
Finance lease payables (Note 28)	5,129,188	6,598,022	-	-
	<u>13,362,377</u>	<u>24,124,193</u>	<u>1,387,564</u>	<u>1,972,526</u>
<b>Total Borrowings</b>				
Bank overdrafts	9,958,792	12,407,498	-	-
Bankers' acceptances	59,663,833	41,995,881	-	-
Trust receipts	5,886,259	4,334,926	-	-
Term loans	10,592,284	33,009,466	1,851,174	2,219,094
Finance lease payables	8,566,463	10,003,886	-	-
	<u>94,667,631</u>	<u>101,751,657</u>	<u>1,851,174</u>	<u>2,219,094</u>
<b>Maturity of borrowings (excluding finance lease payables):</b>				
Within one year	77,867,979	74,221,600	463,610	246,568
More than one year and not later than 2 years	2,237,456	6,613,096	463,610	493,136
More than 2 years and not later than 5 years	4,695,638	10,913,075	923,954	1,479,390
Later than 5 years	1,300,095	-	-	-
	<u>86,101,168</u>	<u>91,747,771</u>	<u>1,851,174</u>	<u>2,219,094</u>

The weighted average interest effective rates at the balance sheet date for borrowings, excluding finance lease payables, were as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Bank overdrafts	8.30	8.16	-	-
Bankers' acceptances	4.22	4.26	-	-
Trust receipts	8.10	7.80	-	-
Short term loans	7.09	8.47	-	-
Term loans	<u>6.83</u>	<u>7.31</u>	<u>7.43</u>	<u>7.85</u>

The borrowings are secured by certain assets of the Group and a debenture covering fixed and floating charges over all the assets and properties as disclosed in Notes 12, 13 and 14 and additionally guaranteed by a director of a subsidiary and certain directors of the Company. The borrowing of the Company is additionally guaranteed by a subsidiary.

Company No. : 573695 W

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

**28. FINANCE LEASE PAYABLES**

	<b>Group</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
<b>Minimum finance lease payments :</b>		
Within one year	3,879,935	3,982,444
Later than one year and not later than 2 years	2,879,852	3,410,891
Later than 2 years and not later than 5 years	2,619,532	3,678,814
	<u>9,379,319</u>	<u>11,072,149</u>
Less : Future finance charges	(812,856)	(1,068,263)
	<u>8,566,463</u>	<u>10,003,886</u>
<b>Present value of finance lease payables :</b>		
Within one year	3,437,275	3,405,864
Later than one year and not later than 2 years	2,651,928	3,088,310
Later than 2 years and not later than 5 years	2,477,260	3,509,712
	<u>8,566,463</u>	<u>10,003,886</u>
Due within 12 months (Note 27)	(3,437,275)	(3,405,864)
Due after 12 months (Note 27)	<u>5,129,188</u>	<u>6,598,022</u>

The finance lease payables bore interest at the balance sheet date of between 2.71% to 6.80% (2006 : 2.50% to 5.50%) per annum.

**29. TRADE PAYABLES**

The credit terms granted to the Group range from 30 to 120 (2006 : 30 to 120) days.

**30. OTHER PAYABLES**

	<b>Group</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Due to a subsidiary	-	-	-	7,717,888
Due to a director	-	1,021,853	-	-
Other payables and accruals	6,251,573	6,684,683	55,924	41,180
	<u>6,251,573</u>	<u>7,706,536</u>	<u>55,924</u>	<u>7,759,068</u>

The amounts due to a subsidiary and to a director were unsecured, interest-free and repayable on demand.

Company No. : 573695 W

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

**31. CAPITAL COMMITMENTS**

	<b>Group</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
Capital expenditure approved and contracted for:		
Property, plant and equipment	-	874,271

**32. CONTINGENT LIABILITIES**

	<b>Company</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
Unsecured corporate guarantees given to bank for credit facilities granted to subsidiaries	95,232,000	79,791,000

**33. SIGNIFICANT RELATED PARTY TRANSACTIONS**

- (a) The transactions below have been entered into in the normal course of business and have been established on negotiated and mutually agreed basis:

	<b>Group</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
Sales to companies in which Tay Kim Huat, a director of a fellow subsidiary, has indirect interest :		
- Poh Huat Furniture Industries Vietnam Limited	2,906,693	3,057,525
- Poh Huat Furniture Industries (M) Sdn. Bhd.	3,740,158	2,931,597
- Poh Huat Woodwork (M) Sdn. Bhd.	1,995	41,817

	<b>Company</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
Management fee charged to subsidiaries:		
- Ornapaper Industry (M) Sdn. Bhd.	140,000	140,000
- Ornapaper Industry (BP) Sdn. Bhd.	10,000	10,000

- (b) Remuneration of key management personnel

The remuneration of key management personnel, including directors, is disclosed in Note 7.

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

**34. OPERATING LEASE ARRANGEMENTS**

The Group has entered into non-cancellable operating lease agreements for the use of land and buildings. The leases have an average life of between 2 to 48 years with renewal options in the contracts. Such contracts include fixed monthly rentals. The future aggregate minimum lease payments under such leases as at the balance sheet date but not included as liabilities are due as follows:

	<b>Group</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
Not later than 1 year	91,176	16,138
Later than 1 year but not later than 5 years	143,746	64,554
Later than 5 years	658,171	641,502
	<b>893,093</b>	<b>722,194</b>

**35. 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 and the Group's policy is not to 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 2007.

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 regionally and is exposed to various currencies, mainly United States Dollars. Foreign currency denominated liabilities together with expected cash flows to highly probable purchases give rise to foreign exchange exposures.

Company No. : 573695 W

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

The unhedged financial assets/(liabilities) of the Group that are denominated in United States Dollars, are as follows:

	<b>Financial Assets/(Liabilities)</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM</b>	<b>RM</b>
Trade receivables	155,725	96,075
Trade payables	(15,199,825)	(13,126,391)
Other payables	(313,499)	(1,197,197)
Term loan	(24,488,167)	(29,249,588)
	<u>(39,845,766)</u>	<u>(43,477,101)</u>

**(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 risk, 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 Group'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 except as disclosed in Notes 20 and 21.

**(f) Fair Values**

It is not practical to ascertain the fair values of the investments in subsidiaries and other unquoted investments because of the absence of market quoted prices and the inability to ascertain fair values without incurring excessive costs.

The carrying amounts of long term borrowings approximate fair values as the interest rates charged on these borrowings are close to market interest rates for loans of similar risk profile as at balance sheet date. The carrying amounts of other financial assets and other financial liabilities approximate fair values in view of their relatively short maturity periods.

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

**36. SIGNIFICANT EVENT**

On 20 November 2007, the Company entered into an agreement to dispose its entire 55% equity in YFYP for a total cash consideration of USD2.64 million. The disposal was approved by the shareholders on 31 January 2008 and is expected to be completed by 30 April 2008.

**37. COMPARATIVES**

The following amounts in the Group's income statement have been reclassified as follows:

	As previously stated RM	Reclassified due to Discontinued operation RM	Effect of FRS 112 RM	As restated RM
<b>Continuing operations</b>				
Revenue	204,278,611	(36,097,957)	-	168,180,654
Cost of sales	(181,107,495)	38,679,830	-	(142,427,665)
Gross profit	23,171,116	2,581,873	-	25,752,989
Other income	3,995,850	(2,335,076)	-	1,660,774
Administrative expenses	(9,118,196)	2,460,744	-	(6,657,452)
Selling and marketing expenses	(11,950,408)	2,394,374	-	(9,556,034)
Other expenses	(6,026,476)	676,154	-	(5,350,322)
Operating profit	71,886	5,778,069	-	5,849,955
Interest expense	(6,748,988)	1,674,511	-	(5,074,477)
(Loss)/profit before taxation	(6,677,102)	7,452,580	-	775,478
Tax income	284,900	-	(65,513)	219,387
(Loss)/profit from continuing operation (before tax)	(10,446,542)	11,506,920	(65,513)	994,865
Loss for the year from discontinued operation	-	(7,452,580)	-	(7,452,580)
Loss for the year	(6,392,202)	-	(65,513)	(6,457,715)
Loss for the year attributable to equity holders of the Company	(3,018,783)	-	(65,513)	(3,084,296)
<b>Earning/(loss) per share attributable to equity holders of the Company (sen)</b>				
Basic (continuing operations)	(4.0)	5.4	(0.1)	1.3
Basic (discontinued operation)	-	(5.4)	-	(5.4)
Basic (loss for the year)	(4.0)	-	(0.1)	(4.1)
Diluted (continuing operations)	(4.0)	5.4	(0.1)	1.3
Diluted (discontinued operation)	-	(5.4)	-	(5.4)
Diluted (loss for the year)	(4.0)	-	(0.1)	(4.1)

Company No. : 573695 W

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

**38. SEGMENT INFORMATION**

**(a) Primary reporting segment - Geographical segments**

The Group operates in two principal geographical areas in the Asia-Pacific region and is principally involved in manufacturing of corrugated board and carton boxes.

	← Continuing Operations →			Discontinuing Operation	Total
	Malaysia RM	Vietnam RM	Others RM	Vietnam RM	Operations RM
<b>31 December 2007</b>					
<b>Revenue</b>					
External sales	160,586,206	-	248,998	160,835,204	50,848,465
					211,683,669
<b>Results</b>					
Segment results	8,718,975	-	(54,722)	8,664,253	(1,493,422)
Interest expense	(5,227,593)	-	-	(5,227,593)	(1,554,785)
Profit/(loss) before tax	3,491,382	-	(54,722)	3,436,660	(3,048,207)
Tax expense	(288,203)	-	-	(288,203)	-
Net profit/(loss) for the year	3,203,179	-	(54,722)	3,148,457	(3,048,207)
					100,250
<b>Assets</b>					
Segment assets	193,378,278	-	332,012	193,710,290	66,563,476
Unallocated assets					260,273,766
Total assets					1,451,627
					261,725,393



Company No. : 573695 W

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

	← Continuing Operations →				Discontinuing Operation	Total
	Malaysia RM	Vietnam RM	Others RM	Total RM	Vietnam RM	Operations RM
<b>Liabilities</b>						
Segment liabilities	112,867,386	-	540	112,867,926	44,662,515	157,530,441
Unallocated liabilities						3,783,557
Total liabilities						<u>161,313,998</u>
<b>Other segment information</b>						
Capital expenditure	6,339,854	-	-	6,339,854	1,581,318	7,921,172
Depreciation of property, plant and equipment	5,952,514	-	18	5,952,532	2,803,816	8,756,348
Depreciation of investment property	9,235	-	-	9,235	-	9,235
Amortisation of prepaid land lease payments	243,148	-	-	243,148	9,280	252,428
Other significant non-cash income	1,092,357	-	-	1,092,357	12,468	1,104,825
<b>31 December 2006</b>						
<b>Revenue</b>						
External sales	167,406,483	-	774,171	168,180,654	36,097,957	204,278,611
<b>Results</b>						
Segment results	5,791,693	-	58,262	5,849,955	(5,778,069)	71,886
Interest expense	(5,074,477)	-	-	(5,074,477)	(1,674,511)	(6,748,988)
Profit/(loss) before tax	717,216	-	58,262	775,478	(7,452,580)	(6,677,102)
Tax expense	232,831	-	(13,444)	219,387	-	219,387
Net profit/(loss) for the year	950,047	-	44,818	994,865	(7,452,580)	(6,457,715)

Company No. : 573695 W

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

	← Continuing Operation →				Discontinuing Operation	Total
	Malaysia RM	Vietnam RM	Others RM	Total RM	Vietnam RM	Operation RM
<b>Assets</b>						
Segment assets	182,075,342	62,799,540	433,518	245,308,400	-	245,308,400
Unallocated assets						1,687,732
Total assets						<u>246,996,132</u>
<b>Liabilities</b>						
Segment liabilities	95,945,854	46,448,036	24,544	142,418,434	-	142,418,434
Unallocated liabilities						3,689,268
Total liabilities						<u>146,107,702</u>
<b>Other segment information</b>						
Capital expenditure	1,207,910	377,570	-	1,585,480	-	1,585,480
Depreciation of property, plant and equipment	6,449,214	-	10,825	6,460,039	2,871,918	9,331,957
Depreciation of investment property	9,235	-	-	9,235	-	9,235
Amortisation of prepaid land lease payments	210,832	-	-	210,832	9,280	220,112
Other significant non-cash income	(1,119,002)	-	-	(1,119,002)	807,063	(311,939)

**(b) Secondary reporting segment - Business segments**

The Group is principally involved in the manufacturing of corrugated board and carton boxes and trading of wrapping paper materials. As the trading segment is not of sufficient size to be reported separately, segment reporting by business segments is not prepared.