

**Ornapaper Berhad**  
**(573695-W)**  
**(Incorporated in Malaysia)**

**Directors' Report and**  
**Audited Financial Statements**  
**31 December 2011**

**573695-W**

**Ornapaper Berhad  
(Incorporated in Malaysia)**

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**Ornapaper Berhad  
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**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 2011.

**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.

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

**Results**

	<b>Group RM'000</b>	<b>Company RM'000</b>
Profit, net of tax, attributable to:		
Owners of the parent	5,801	1,059
Non-controlling interest	60	-
	<u>5,861</u>	<u>1,059</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**

No dividend has been paid or declared by the Company since the end of the previous financial year. The directors do not recommend the payment of any dividend for the current financial year.

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**Ornapaper Berhad  
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**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:

Sai Chin Hock  
See Wan Seng  
Ang Kwee Teng  
Siow Kee Yen  
Tuan Haji Azhar bin Nayan  
Adillah binti Ahmad Nordin

**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 10 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 30 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:

	<b>Number of ordinary shares of RM1 each</b>			
	<b>1.1.2011</b>	<b>Acquired</b>	<b>Sold</b>	<b>31.12.2011</b>
<b>Direct interest</b>				
Sai Chin Hock	846,400	-	-	846,400
Ang Kwee Teng	10,000	-	-	10,000
Siow Kee Yen	230,500	-	-	230,500
Tuan Haji Azhar bin Nayan	25,000	-	-	25,000
Adillah binti Ahmad Nordin	14,000	20,000	-	34,000

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**Directors' interests (continued)**

	Number of ordinary shares of RM1 each			
	1.1.2011	Acquired	Sold	31.12.2011
<b>Indirect interest</b>				
Sai Chin Hock	22,305,798	-	-	22,305,798
Ang Kwee Teng	18,634,888	-	-	18,634,888
See Wan Seng	18,634,888	-	-	18,634,888

Sai Chin Hock, 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 statements of comprehensive income and the statements of financial position 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 render:
- (i) the amount written off as bad debts or the amount provided for as doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and
  - (ii) 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.

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**Other statutory information (continued)**

(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.

**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 23 April 2012.

Sai Chin Hock

See Wan Seng

Melaka, Malaysia

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**Ornapaper Berhad  
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**Statement by directors  
Pursuant to Section 169 (15) of the Companies Act, 1965**

We, Sai Chin Hock and See Wan Seng, being two of the directors of Ornapaper Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 9 to 61 are drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 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 2011 and of their financial performance and cash flows for the year then ended.

The information set out in Note 37 on page 62 to the financial statements have been prepared in accordance with the Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

Signed on behalf of the Board in accordance with a resolution of the directors dated 23 April 2012.

Sai Chin Hock

See Wan Seng

Melaka, Malaysia

**Statutory declaration  
Pursuant to Section 169 (16) of the Companies Act, 1965**

I, See Wan Seng, being the director primarily responsible for the financial management of Ornapaper Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 9 to 61 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 See Wan Seng  
at Melaka in the State of Melaka  
on 23 April 2012

See Wan Seng

Before me,

ONG SAN KEE  
Commissioner for Oaths

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Independent auditors' report to the members of  
Ornapaper Berhad  
(Incorporated in Malaysia)

## Report on the financial statements

We have audited the financial statements of Ornapaper Berhad, which comprise the statements of financial position of the Group and of the Company as at 31 December 2011, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 9 to 61.

### *Directors' responsibility for the financial statements*

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia, and for such internal control as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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**Independent auditors' report to the members of  
Ornapaper Berhad (continued)**

*Opinion*

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 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 2011 and of their financial performance and cash flows for the year then ended.

**Report on other legal and regulatory requirements**

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- (a) In our opinion, 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.
- (b) We have considered the financial statements and the auditors' report of the subsidiaries of which we have not acted as auditors, which are indicated in Note 15 to the financial statements, being financial statements that have been included in the consolidated financial statements.
- (c) 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.
- (d) The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

**Other matters**

The supplementary information set out in Note 37 to the financial statements on page 62 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

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Independent auditors' report to the members of  
Ornapaper Berhad (continued)

Other matters (continued)

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young  
AF: 0039  
Chartered Accountants

Lee Ah Too  
2187/09/13(J)  
Chartered Accountant

Melaka, Malaysia  
Date: 23 April 2012

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**Ornapaper Berhad**  
**(Incorporated in Malaysia)**

**Statements of comprehensive income**  
**For the financial year ended 31 December 2011**

	Note	Group		Company	
		2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
<b>Continuing operations</b>					
<b>Revenue</b>	4	225,668	216,517	1,637	451
Cost of goods sold		(187,219)	(181,776)	-	-
<b>Gross profit</b>		38,449	34,741	1,637	451
<b>Other items of income</b>					
Interest income	5	65	11	1	-
Other income	6	1,164	1,028	-	-
<b>Other items of expense</b>					
Administrative expenses		(7,654)	(7,402)	(184)	(262)
Selling and marketing expenses		(15,144)	(12,507)	(4)	(4)
Finance costs	7	(3,365)	(3,136)	-	-
Other expenses		(6,498)	(5,876)	(91)	(89)
<b>Profit before tax</b>	8	7,017	6,859	1,359	96
Income tax expense	11	(1,156)	(2,201)	(300)	(7)
<b>Profit, net of tax, representing total comprehensive income for the year</b>		<u>5,861</u>	<u>4,658</u>	<u>1,059</u>	<u>89</u>
<b>Profit attributable to:</b>					
Owners of the parent		5,801	4,589	1,059	89
Non-controlling interest		60	69	-	-
		<u>5,861</u>	<u>4,658</u>	<u>1,059</u>	<u>89</u>
<b>Earnings per share attributable to owners of the parent (sen)</b>					
Basic	12	7.7	6.1		
Diluted	12	<u>7.7</u>	<u>6.1</u>		

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

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**Ornapaper Berhad**  
(Incorporated in Malaysia)

**Statements of financial position**  
**As at 31 December 2011**

	Note	Group		Company	
		2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	13	97,597	86,194	-	-
Land use rights	14	4,553	3,726	-	-
Investment in subsidiaries	15	-	-	77,185	75,585
Goodwill	16	1,633	1,633	-	-
Investment securities	17	-	244	-	-
		<u>103,783</u>	<u>91,797</u>	<u>77,185</u>	<u>75,585</u>
<b>Current assets</b>					
Inventories	18	22,027	23,655	-	-
Trade and other receivables	19	54,837	58,674	10,267	10,780
Cash and bank balances	20	6,495	12,545	180	215
Tax recoverable		655	597	149	142
Other current assets	21	5,323	3,725	10	10
		<u>89,337</u>	<u>99,196</u>	<u>10,606</u>	<u>11,147</u>
Assets held for sale	22	-	440	-	-
		<u>89,337</u>	<u>99,636</u>	<u>10,606</u>	<u>11,147</u>
<b>Total assets</b>		<u>193,120</u>	<u>191,433</u>	<u>87,791</u>	<u>86,732</u>
<b>Equity and liabilities</b>					
<b>Current liabilities</b>					
Borrowings	23	57,220	53,837	-	-
Trade and other payables	24	18,962	25,866	31	31
Current tax payable		110	313	-	-
		<u>76,292</u>	<u>80,016</u>	<u>31</u>	<u>31</u>
<i>Net current assets</i>		<u>13,045</u>	<u>19,620</u>	<u>10,575</u>	<u>11,116</u>
<b>Non-current liabilities</b>					
Borrowings	23	5,362	6,103	-	-
Deferred tax liabilities	25	3,305	2,946	-	-
Non-current liabilities		<u>8,667</u>	<u>9,049</u>	<u>-</u>	<u>-</u>
<b>Total liabilities</b>		<u>84,959</u>	<u>89,065</u>	<u>31</u>	<u>31</u>
<i>Net assets</i>		<u>108,161</u>	<u>102,368</u>	<u>87,760</u>	<u>86,701</u>

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**Ornapaper Berhad  
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**Statements of financial position  
As at 31 December 2011 (continued)**

<b>Group</b>	<b>Note</b>	<b>Group</b>		<b>Company</b>	
		<b>2011 RM'000</b>	<b>2010 RM'000</b>	<b>2011 RM'000</b>	<b>2010 RM'000</b>
<b>Equity attributable to owners of the parent</b>					
Share capital	26	75,251	75,251	75,251	75,251
Share premium	27	11,156	11,156	11,156	11,156
Retained earnings	28	21,157	15,356	1,353	294
		<u>107,564</u>	<u>101,763</u>	<u>87,760</u>	<u>86,701</u>
Non-controlling interest		597	605	-	-
<b>Total equity</b>		<u>108,161</u>	<u>102,368</u>	<u>87,760</u>	<u>86,701</u>
<b>Total equity and liabilities</b>		<u>193,120</u>	<u>191,433</u>	<u>87,791</u>	<u>86,732</u>

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

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Ornapaper Berhad  
(Incorporated in Malaysia)

Statements of changes in equity  
For the financial year ended 31 December 2011

Group	Note	Share capital RM'000	Non-distributable Share premium RM'000	Distributable Retained earnings RM'000	Attributable to owners of the parent RM'000	Non- controlling interest RM'000	Total equity RM'000
<b>At 1 January 2010</b>		75,251	11,156	13,208	99,615	536	100,151
Effects of adopting FRS 139:							
- Fair value adjustment on investment securities	17	-	-	(10)	(10)	-	(10)
- Impairment loss on trade and other receivables	19	-	-	(3,241)	(3,241)	-	(3,241)
- Deferred tax effect	25	-	-	810	810	-	810
Total comprehensive income		75,251	11,156	10,767	97,174	536	97,710
<b>At 31 December 2010</b>		-	-	4,589	4,589	69	4,658
Total comprehensive income		75,251	11,156	15,356	101,763	605	102,368
- Dividends on ordinary shares	29	-	-	5,801	5,801	60	5,861
<b>At 31 December 2011</b>		-	-	-	-	(68)	(68)
		75,251	11,156	21,157	107,564	597	108,161

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Ornapaper Berhad  
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**Statements of changes in equity**  
**For the financial year ended 31 December 2011 (continued)**

<b>Company</b>	<b>Non-distributable</b>		<b>Distributable</b>	<b>Total equity</b>
	<b>Share capital</b>	<b>Share premium</b>	<b>Retained earnings</b>	
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>At 1 January 2010</b>	75,251	11,156	205	86,612
Total comprehensive income	-	-	89	89
<b>At 31 December 2010</b>	75,251	11,156	294	86,701
Total comprehensive income	-	-	1,059	1,059
<b>At 31 December 2011</b>	75,251	11,156	1,353	87,760

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

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**Ornapaper Berhad**  
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**Statements of cash flows**  
**For the financial year ended 31 December 2011**

	Note	Group		Company	
		2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
<b>Operating activities</b>					
Profit before tax		7,017	6,859	1,359	96
Adjustments for:					
Impairment loss on financial assets:					
- Trade receivables	19(a)	25	410	-	-
- Other receivables	19(b)	160	78	-	-
Bad debts written off		2,112	890	-	-
Depreciation and amortisation:					
- Property, plant and equipment	13	7,664	6,884	-	-
- Land use rights	14	112	111	-	-
Fair value (gain)/loss on held-for-trading investment securities		(10)	1	-	-
Loss on disposal of available-for-sale investment securities		8	-	-	-
Net loss/(gain) on disposal of property, plant and equipment		102	(99)	-	-
Property, plant and equipment written off		419	-	-	-
Reversal of allowance for impairment loss on trade receivables		(158)	(276)	-	-
Interest expense		3,365	3,136	-	-
Interest income		(65)	(11)	(1)	-
Total adjustments		13,734	11,124	(1)	-
<b>Operating cash flows before changes in working capital</b>		20,751	17,983	1,358	96
<b>Changes in working capital</b>					
Decrease/(increase) in inventories		1,434	(521)	-	-
(Increase)/decrease in receivables		(875)	(2,512)	515	(59)
(Decrease)/increase in payables		(5,727)	4,449	(2)	(18)
Total changes in working capital		(5,168)	1,416	513	(77)
<b>Cash generated from operations</b>		15,583	19,399	1,871	19
Interest paid		(3,365)	(3,136)	-	-
Interest received		65	11	1	-
Taxes paid		(1,065)	(1,626)	(307)	(63)
<b>Net cash flows from/(used in) operating activities</b>		11,218	14,648	1,565	(44)



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**Ornapaper Berhad**  
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**Statements of cash flows**

For the financial year ended 31 December 2011 (continued)

	Note	Group		Company	
		2011 RM	2010 RM	2011 RM	2010 RM
<b>Investing activities</b>					
Purchase of property, plant and equipment	13(c)	(22,115)	(6,806)	-	-
Acquisition of land use rights	14	(939)	-	-	-
Net cash outflow on acquisition of a subsidiary		-	-	-	(1)
Additional subscription in shares in subsidiaries		-	-	(1,600)	-
Proceeds from disposal of property, plant and equipment		3,231	165	-	-
Proceeds from disposal of available-for-sale investment securities		246	-	-	-
<b>Net cash flows used in investing activities</b>		<b>(19,577)</b>	<b>(6,641)</b>	<b>(1,600)</b>	<b>(1)</b>
<b>Financing activities</b>					
Drawdown of term loans		2,725	326	-	-
Dividend	29	(68)	-	-	-
Repayment of finance lease payables		(3,813)	(3,792)	-	-
Increase/(decrease) in short term borrowings		3,552	(3,432)	-	-
<b>Net cash flows from/(used in) financing activities</b>		<b>2,396</b>	<b>(6,898)</b>	<b>-</b>	<b>-</b>
<b>Net((decrease)/increase in cash and cash equivalents</b>		<b>(5,963)</b>	<b>1,109</b>	<b>(35)</b>	<b>(45)</b>
<b>Cash and cash equivalents at 1 January</b>		<b>9,459</b>	<b>8,350</b>	<b>215</b>	<b>260</b>
<b>Cash and cash equivalents at 31 December</b>	20	<b>3,496</b>	<b>9,459</b>	<b>180</b>	<b>215</b>

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

**Ornapaper Berhad**  
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**Notes to the financial statements**  
**For the financial year ended 31 December 2011**

**1. Corporate information**

Ornapaper Berhad is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Market 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. There have been no significant changes in the nature of the principal activities during the financial year.

**2. Significant accounting policies**

**2.1 Basis of preparation**

The financial statements of the Group and of the Company have been prepared in accordance with Financial Reporting Standards (FRS) and the Companies Act, 1965 in Malaysia.

The financial statements of the Group and 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) and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

**2.2 Significant accounting policies**

The accounting policies adopted are consistent with those of the previous financial year except that the Group and the Company adopted, where applicable, the following new and amended FRS and IC Interpretations mandatory for annual financial periods beginning on or after 1 January 2011:

<b>Description</b>	<b>Effective for annual periods beginning on or after</b>
• FRS 1 First-time Adoption of Financial Reporting Standards	1 July 2010
• Amendments to FRS 2 Share-based Payment	1 July 2010
• FRS 3 Business Combinations	1 July 2010
• Amendments to FRS 5 Non-current Assets Held for Sale and Discontinued Operations	1 July 2010

**Ornapaper Berhad  
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**2. Significant accounting policies (continued)**

**2.2 Significant accounting policies(continued)**

Description	Effective for annual periods beginning on or after
• FRS 127 Consolidated and Separate Financial Statements (Revised)	1 July 2010
• Amendments to FRS 138 Intangible Assets	1 July 2010
• Amendments to IC Interpretation 9 Reassessment of Embedded Derivatives	1 July 2010
• IC Interpretation 12 Service Concession Arrangements	1 July 2010
• IC Interpretation 16 Hedges of a Net Investment in a Foreign Operation	1 July 2010
• IC Interpretation 17 Distributions of Non-cash Assets to Owners	1 July 2010
• Amendments to FRS 132: Classification of Rights Issues	1 March 2010
• IC Interpretation 18 Transfer of Assets from Customers	1 January 2011
• Amendments to FRS 7: Improving Disclosures about Financial Instruments	1 January 2011
• Amendments to FRS 1: Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters	1 January 2011
• Amendments to FRS 1: Additional Exemptions for First-time Adopters	1 January 2011
• IC Interpretation 4 Determining Whether an Arrangement contains a Lease	1 January 2011
• TR i - 4: Shariah Compliant Sale Contracts	1 January 2011
• Improvements to FRS issued in 2010	1 January 2011

Adoption of the above standards and interpretations did not have any effect on the financial performance and position of the Group and of the Company.

**Malaysian Financial Reporting Standards (MFRS)**

On 19 November 2011, the Malaysian Accounting Standards Board (MASB) issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards (MFRS Framework).

The Group and the Company will be required to prepare financial statements using the MFRS Framework in its first MFRS financial statements for the year ending 31 December 2012. In presenting its first MFRS financial statements, the Group will be required to restate the comparative financial statements to amounts reflecting the application of MFRS Framework. The majority of the adjustments required on transition will be made, retrospectively, against opening retained earnings.

The directors are of the opinion that the financial performance and financial position as disclosed in these financial statements for the period ended 31 December 2011 would not be significantly different if prepared under the MFRS Framework.

**Ornapaper Berhad  
(Incorporated in Malaysia)**

**2. Significant accounting policies (continued)**

**2.3 Subsidiaries and basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the reporting date. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Acquisitions of subsidiaries are accounted for by applying the purchase method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Adjustments to those fair values relating to previously held interests are treated as a revaluation and recognised in other comprehensive income.

The cost of a business combination 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 business combination. Any excess of the cost of business combination over the Group's share in the net fair value of the acquired subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill on the statement of financial position. The accounting policy for goodwill is set out in Note 2.7. Any excess of the Group's share in the net fair value of the acquired subsidiary's identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognised as income in profit or loss on the date of acquisition. When the Group acquires a business, embedded derivatives separated from the host contract by the acquiree are reassessed on acquisition unless the business combination results in a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

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.

**Ornapaper Berhad  
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**2. Significant accounting policies (continued)**

**2.4 Transactions with non-controlling interest**

Non-controlling interest represents the portion of profit or loss and net assets in subsidiaries not held by the Group and is presented separately in profit or loss of the Group and within equity in the consolidated statements of financial position, separately from parent shareholders' equity. Transactions with non-controlling interest are accounted for using the entity concept method whereby such transactions are accounted for as transactions with owners. On acquisition of non-controlling interest, the difference between the consideration and book value of the share of the net assets acquired is recognised directly in equity. Gain or loss on disposal to non-controlling interest is recognised directly in equity.

**2.5 Foreign currency**

**(a) Functional and presentation currency**

The individual financial statements of each entity in the Group are measured in Ringgit Malaysia which is the currency of the primary economic environment in which the entities operate ("functional currency"). The consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the Company's functional currency.

**(b) Foreign currency transactions**

Transactions in foreign currencies are measured in Ringgit Malaysia and are recorded on initial recognition at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss.

**2.6 Property, plant and equipment and depreciation**

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, 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.

**Ornapaper Berhad**  
**(Incorporated in Malaysia)**

**2. Significant accounting policies (continued)**

**2.6 Property, plant and equipment and depreciation (continued)**

Subsequent to recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Leasehold land	99 years
Factory buildings	50 years
Plant and machinery, factory equipment and electrical installation	5 to 20 years
Other assets	5 to 10 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in the profit or loss in the year the asset is derecognised.

**2.7 Goodwill**

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired is allocated, from the acquisition date, to each of the Group's cash-generating units ("CGU") that are expected to benefit from the synergies of the combination.

The CGU to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the CGU may be impaired, by comparing the carrying amount of the CGU, including the allocated goodwill, with the recoverable amount of the CGU. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognised in the profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods.

**Ornapaper Berhad  
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**2. Significant accounting policies (continued)**

**2.7 Goodwill (continued)**

Where goodwill forms part of a CGU and part of the operation within that CGU is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the CGU.

**2.8 Land use rights**

Land use rights are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation and accumulated impairment losses. The land use rights are amortised over their lease terms.

**2.9 Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("CGU").

In assessing value in use, the estimated future cash flows expected to be generated by the asset 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 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.

Impairment losses are recognised in profit or loss except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

**Ornapaper Berhad  
(Incorporated in Malaysia)**

**2. Significant accounting policies (continued)**

**2.9 Impairment of non-financial assets (continued)**

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed 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. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss. Impairment loss on goodwill is not reversed in a subsequent period.

**2.10 Subsidiaries**

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses.

**2.11 Financial assets**

Financial assets are recognised in the statements of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Group and the Company determine the classification of their financial assets at initial recognition, and the categories include financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets.

The Group and the Company did not have any held-to-maturity investments throughout the reporting period.



**Ornapaper Berhad  
(Incorporated in Malaysia)**

**2. Significant accounting policies (continued)**

**2.11 Financial assets (continued)**

**(a) Financial assets at fair value through profit or loss**

Financial assets are classified as financial assets at fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. Financial assets held for trading are derivatives (including separated embedded derivatives) or financial assets acquired principally for the purpose of selling in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss do not include exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at fair value through profit or loss are recognised separately in profit or loss as part of other losses or other income.

Financial assets at fair value through profit or loss could be presented as current or non-current. Financial assets that is held primarily for trading purposes are presented as current whereas financial assets that is not held primarily for trading purposes are presented as current or non-current based on the settlement date.

**(b) Loans and receivables**

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Loans and receivables are classified as current assets, except for those having maturity dates later than 12 months after the reporting date which are classified as non-current.

**(c) Available-for-sale financial assets**

Available-for-sale financial assets are those that are designated as available for sale or are not classified in any of the preceding categories.

**Ornapaper Berhad  
(Incorporated in Malaysia)**

**2. Significant accounting policies (continued)**

**2.11 Financial assets (continued)**

**(c) Available-for-sale financial assets (continued)**

After initial recognition, available-for-sale financial assets are measured at fair value. Any gains or losses from changes in fair value of the financial asset are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised. Interest income calculated using the effective interest method is recognised in profit or loss. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the Group's and the Company's right to receive payment is established.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

Available-for-sale financial assets are classified as non-current assets unless they are expected to be realised within 12 months after the reporting date.

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date, the date that the Group and the Company commit to purchase or sell the asset.

**2.12 Impairment of financial assets**

The Group and the Company assess at each reporting date whether there is any objective evidence that a financial asset is impaired.

**Ornapaper Berhad  
(Incorporated in Malaysia)**

**2. Significant accounting policies (continued)**

**2.12 Impairment of financial assets (continued)**

**(a) Trade and other receivables and other financial assets carried at amortised cost**

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group and the Company consider factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. For certain categories of financial assets, such as trade receivables, receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics. Objective evidence of impairment for a portfolio of receivables could include the Group's and the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable becomes uncollectible, it is written off against the allowance account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

**(b) Unquoted equity securities carried at cost**

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

**Ornapaper Berhad  
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**2. Significant accounting policies (continued)**

**2.13 Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group's cash management.

**2.14 Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and condition are accounted for as follows:

- Raw materials: purchase costs on a weighted average basis.
- Finished goods and work-in-progress: costs of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. These costs are assigned on a weighted average basis.

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

**2.15 Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

**2.16 Financial liabilities**

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, within the scope of FRS 139, are recognised in the statements of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

The Group and the Company did not have any financial liabilities at fair value through profit or loss throughout the reporting period.

**Ornapaper Berhad  
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**2. Significant accounting policies (continued)**

**2.16 Financial liabilities (continued)**

**(a) Other financial liabilities**

The Group's and the Company's other financial liabilities include trade payables, other payables and loans and borrowings.

Trade and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

For other financial liabilities, gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

**2.17 Financial guarantee contracts**

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

Financial guarantee contracts are recognised initially as a liability at fair value, net of transaction costs. Subsequent to initial recognition, financial guarantee contracts are recognised as income in profit or loss over the period of the guarantee. If the debtor fails to make payment relating to financial guarantee contract when it is due and the Group, as the issuer, is required to reimburse the holder for the associated loss, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount initially recognised less cumulative amortisation.

**Ornapaper Berhad  
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**2. Significant accounting policies (continued)**

**2.17 Financial guarantee contracts (continued)**

No values are placed on corporate guarantees provided by the Company to secure bank loans and other banking facilities granted to its subsidiaries where such loans and banking facilities are fully collateralised by fixed and floating charges over the property, plant and equipment and other assets of the subsidiaries and where the directors regard the value of the credit enhancement provided by the corporate guarantees as minimal.

**2.18 Borrowing costs**

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period they are incurred. Borrowing costs consist of interest and other costs that the Group and the Company incurred in connection with the borrowing of funds.

**2.19 Employee benefits - defined contribution plans**

The Group makes contributions to the Employees Provident Fund in Malaysia, a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

**2.20 Leases**

**(a) As lessee**

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

**Ornapaper Berhad  
(Incorporated in Malaysia)**

**2. Significant accounting policies (continued)**

**2.20 Leases (continued)**

**(a) As lessee (continued)**

Leased assets are depreciated over the estimated useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life and the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. 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.

**(b) As lessor**

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. The accounting policy for rental income is set out in Note 2.21(e).

**2.21 Revenue**

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. Revenue is measured at the fair value of consideration received or receivable.

**(a) Sale of goods**

Revenue from sale of goods is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer. 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.

**(b) Interest income**

Interest income is recognised using the effective interest method.

**(c) Management fees**

Management fees are recognised when services are rendered.

**Ornapaper Berhad  
(Incorporated in Malaysia)**

**2. Significant accounting policies (continued)**

**2.21 Revenue (continued)**

**(d) Dividend income**

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

**(e) Rental income**

Rental income is accounted for on a straight-line basis over the lease terms. The aggregate costs of incentives provided to lessees are recognised as a reduction of rental income over the lease term on a straight-line basis.

**2.22 Income taxes**

**(a) Current tax**

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

**(b) Deferred tax**

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.



**Ornapaper Berhad  
(Incorporated in Malaysia)**

**2. Significant accounting policies (continued)**

**2.22 Income taxes (continued)**

**(b) Deferred tax(continued)**

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**Ornapaper Berhad  
(Incorporated in Malaysia)**

**2. Significant accounting policies (continued)**

**2.22 Income taxes (continued) (continued)**

**(c) Sales tax**

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statements of financial position.

**2.23 Share capital and share issuance expenses**

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Company after deducting all of its liabilities. Ordinary shares are equity instruments.

Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

**2.24 Contingencies**

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) not wholly within the control of the Group.

Contingent liabilities and assets are not recognised in the statements of financial position of the Group.

**2.25 Segment reporting**

Segment information is not disclosed as the Group operates solely in Malaysia and is principally engaged in the manufacturing and sale of one product line, that is, corrugated boards and carton boxes.

**Ornapaper Berhad  
(Incorporated in Malaysia)**

**3. Significant accounting judgments and estimates**

The preparation of the Group's and the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

**3.1 Judgments made in applying accounting policies**

In the process of applying the Group's accounting policies, management has not made any critical judgments, apart from those involving estimations, which could have a significant effect on the amounts recognised in the financial statements.

**3.2 Key sources of estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting 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.

**(a) Useful lives of plant and machinery**

The cost of plant and equipment for the manufacture of corrugated boards and carton boxes is depreciated on a straight-line basis over the assets' estimated economic useful lives. Management estimates the useful lives of these plant and equipment to be within 5 to 20 years. These are common life expectancies applied in the corrugated boards and carton boxes 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. The carrying amount of the Group's plant and equipment at the reporting date is disclosed in Note 13. A 5% difference in the expected useful lives of these assets from management's estimates would result in approximately 1% (2010: 1%) variance in the Group's profit, net of tax.

**(b) Impairment of goodwill**

Goodwill is tested annually for impairment and at other times when such indicators exist. This requires an estimation of the value in use of the CGU's to which goodwill is allocated.

When value in use calculation is undertaken, management must estimate the suitable discount rate in order to calculate the present values of those cashflows. Further details of the carrying value, the key assumptions applied in the impairment assessment of goodwill and sensitivity analysis to changes in the assumptions are disclosed in Note 16.

**Ornapaper Berhad**  
**(Incorporated in Malaysia)**

**3. Significant accounting judgments and estimates (continued)**

**3.2 Key sources of estimation uncertainty (continued)**

**(c) Impairment of loans and receivables**

The Group and the Company assess at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group and the Company consider factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amount of the Group's and of the Company's loans and receivable at the reporting date is disclosed in Note 19. If the present value of estimated future cash flows increases/decreases by 10% from management's estimates, the Group's allowance for impairment will decrease/increase by RM427,336.

**4. Revenue**

	<b>Group</b>		<b>Company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Sales of goods	225,668	216,517	-	-
Dividend income from subsidiaries	-	-	1,408	227
Management fees from subsidiaries	-	-	229	224
	<u>225,668</u>	<u>216,517</u>	<u>1,637</u>	<u>451</u>

**5. Interest income**

	<b>Group</b>		<b>Company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Interest income from:				
Loans and receivables	<u>65</u>	<u>11</u>	<u>1</u>	<u>-</u>

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**6. Other income**

	Group	
	2011 RM'000	2010 RM'000
Commission received	149	82
Fair value gain on held-for-trading investment securities	10	-
Foreign exchange gains	109	76
Net gain on disposal of property, plant and equipment	-	99
Rental from operating leases	204	195
Reversal of allowance for impairment loss on trade receivables	158	276
Others	534	300
	<u>1,164</u>	<u>1,028</u>

**7. Finance costs**

	Group	
	2011 RM'000	2010 RM'000
Interest expense on:		
- Bank loans and overdrafts	3,028	2,795
- Obligations under finance leases	337	341
	<u>3,365</u>	<u>3,136</u>

**8. Profit before tax**

The following amounts have been charged/(credited) in arriving at profit before tax:

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Auditors' remuneration				
- Statutory audit (current year)	133	123	31	31
- Other services provided by auditor of the Company	24	24	-	-
Bad debts written off	2,112	890	-	-
Carriage inwards and outwards	10,326	10,511	-	-
Depreciation and amortisation:				
- Property, plant and equipment (Note 13)	7,664	6,884	-	-
- Land use right (Note 14)	112	111	-	-
Employee benefits expense (Note 9)	19,318	17,509	8	86

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**8. Profit before tax (continued)**

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Fair value loss on held-for-trading investment securities	-	1	-	-
Impairment loss on financial assets				
- Trade receivables [Note 19(a)]	25	410	-	-
- Other receivables [Note 19(b)]	160	78	-	-
Non-executive directors' remuneration (Note 10)	154	154	106	106
Operating lease:				
- Minimum lease payments on land and buildings	674	758	-	-
Loss on disposal of available-for-sales investment securities	8	-	-	-
Net loss on disposal of property, plant and equipment	102	-	-	-
Property, plant and equipment written off	419	-	-	-

**9. Employee benefits expense**

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Wages and salaries	16,807	15,128	8	84
Contributions to defined contribution plans	1,374	1,162	-	2
Social security contributions	153	145	-	-
Other benefits	984	1,074	-	-
	<u>19,318</u>	<u>17,509</u>	<u>8</u>	<u>86</u>

Included in employee benefits expense of the Group and of the Company are executive directors' remuneration amounting to RM1,457,000 and RM8,000 (2010: RM1,601,000 and RM86,000) respectively.

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**10. Directors' remuneration**

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
<b>Executive directors</b>				
Directors of the Company:				
- Fees	152	120	-	48
- Salaries and other emoluments	8	407	8	36
- Defined contribution plans	-	42	-	2
	<u>160</u>	<u>569</u>	<u>8</u>	<u>86</u>
Other directors of subsidiaries:				
- Salaries and other emoluments	1,231	970	-	-
- Defined contribution plans	66	62	-	-
	<u>1,297</u>	<u>1,032</u>	<u>-</u>	<u>-</u>
Total executive directors' remuneration (excluding benefits-in-kind)	1,457	1,601	8	86
Estimated money value of benefits-in-kind	10	20	-	-
Total executive directors' remuneration (including benefits-in-kind)	<u>1,467</u>	<u>1,621</u>	<u>8</u>	<u>86</u>
<b>Non-executive directors</b>				
Directors of the Company:				
- Fees	144	144	96	96
- Other emoluments	10	10	10	10
	<u>154</u>	<u>154</u>	<u>106</u>	<u>106</u>
Total directors' remuneration	<u>1,621</u>	<u>1,775</u>	<u>114</u>	<u>192</u>

The number of directors of the Company who held office during the financial year, whose total annual remuneration received from the Group that fell within the following bands is analysed below:

	2011	2010
<b>Executive directors</b>		
RM150,001 to RM200,000	1	2
RM250,001 to RM300,000	-	1
RM300,001 to RM350,000	-	1
RM350,001 to RM400,000	1	-
RM450,001 to RM500,000	1	-
<b>Non-executive directors</b>		
RM50,001 to RM100,000	3	3

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**11. Income tax expense**

**Major components of income tax expense**

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Statements of comprehensive income:				
Current income tax:				
- Malaysian income tax	751	1,552	300	-
- Underprovision in prior years	46	6	-	7
	<u>797</u>	<u>1,558</u>	<u>300</u>	<u>7</u>
Deferred income tax (Note 25):				
- Origination and reversal of temporary differences	(1,037)	290	-	-
- Underprovision in prior years	1,396	353	-	-
	<u>359</u>	<u>643</u>	<u>-</u>	<u>-</u>
Income tax expense recognised in profit or loss	<u>1,156</u>	<u>2,201</u>	<u>300</u>	<u>7</u>

**Reconciliation between tax expense and accounting profit**

The reconciliation between tax expense and the product of accounting profit multiplied by the applicable corporate tax rate for the years ended 31 December 2010 and 2011 is as follows:

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Profit before tax	<u>7,017</u>	<u>6,859</u>	<u>1,359</u>	<u>96</u>
Taxation at 25% (2010: 25%)	1,754	1,715	340	24
Adjustments on tax effect of:				
- Non-deductible expenses	760	277	28	5
- Non-taxable income	-	(57)	(68)	(57)
Utilisation of re-investment allowances	(941)	(466)	-	-
Deferred tax asset not recognised on unabsorbed capital allowances	-	373	-	28
Deferred tax asset recognised on unabsorbed capital allowances previously not recognised	(81)	-	-	-
Deferred tax asset recognised on unabsorbed reinvestment allowances	(1,778)	-	-	-
Underprovision of current tax in prior years	46	6	-	7
Underprovision of deferred tax in prior years	1,396	353	-	-
Tax expense for the year	<u>1,156</u>	<u>2,201</u>	<u>300</u>	<u>7</u>



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**11. Income tax expense (continued)**

**Reconciliation between tax expense and accounting profit (continued)**

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

	<b>Group</b>	
	<b>2011</b>	<b>2010</b>
	<b>RM'000</b>	<b>RM'000</b>
Unutilised tax losses	2,830	2,677
Unabsorbed capital allowances	2,869	2,665
Unabsorbed reinvestment allowances	26,807	20,219
	<u>32,506</u>	<u>25,561</u>

**12. Earnings per share**

Basic earnings per share amounts are calculated by dividing the profit, net of tax, attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share are the same as the basic earnings per share as there are no dilutive potential ordinary shares outstanding during the financial year.

	<b>Group</b>	
	<b>2011</b>	<b>2010</b>
Profit, net of tax, attributable to owners of the parent (RM'000)	<u>5,801</u>	<u>4,589</u>
Weighted average number of ordinary share in issue ('000)	<u>75,251</u>	<u>75,251</u>
Basic and diluted earnings per share (sen)	<u>7.7</u>	<u>6.1</u>

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**13. Property, plant and equipment**

	Leasehold land RM'000	Factory buildings RM'000	Plant and machinery RM'000	Other assets RM'000	Total RM'000
<b>Group</b>					
<b>Cost</b>					
At 1 January 2010	11,768	36,206	96,377	8,998	153,349
Additions	-	1,961	7,023	740	9,724
Disposals	-	-	(942)	(856)	(1,798)
At 31 December 2010	11,768	38,167	102,458	8,882	161,275
Additions	-	4,090	17,654	635	22,379
Disposals	-	-	(10,227)	(1,704)	(11,931)
At 31 December 2011	11,768	42,257	109,885	7,813	171,723
<b>Accumulated depreciation</b>					
At 1 January 2010	1,395	8,883	52,468	7,183	69,929
Charge for the year (Note 8)	133	1,004	5,123	624	6,884
Disposals	-	-	(919)	(813)	(1,732)
At 31 December 2010	1,528	9,887	56,672	6,994	75,081
Charge for the year (Note 8)	134	1,019	5,755	756	7,664
Disposals	-	-	(7,089)	(1,530)	(8,619)
At 31 December 2011	1,662	10,906	55,338	6,220	74,126
<b>Carrying amount</b>					
At 31 December 2010	10,240	28,280	45,786	1,888	86,194
At 31 December 2011	10,106	31,351	54,547	1,593	97,597

- (a) Other assets comprise motor vehicles, office equipment, furniture, fittings and office renovation.
- (b) The leasehold land and factory buildings and certain plant and equipment are pledged to secure bank borrowings as disclosed in Note 23.

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**13. Property, plant and equipment (continued)**

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

	<b>2011</b>	<b>2010</b>
	<b>RM'000</b>	<b>RM'000</b>
Cash	22,115	6,806
Lease financing	264	2,918
	<u>22,379</u>	<u>9,724</u>

(d) The carrying amount of property, plant and equipment acquired under instalment payment plans amounts to RM6,952,000 (2010: RM11,018,000).

**14. Land use rights**

	<b>Group</b>	
	<b>2011</b>	<b>2010</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Cost</b>		
At 1 January	4,596	4,596
Addition	939	-
At 31 December	<u>5,535</u>	<u>4,596</u>
<b>Accumulated amortisation</b>		
At 1 January	870	759
Amortised during the year	112	111
At 31 December	<u>982</u>	<u>870</u>
<b>Carrying amount</b>	<u>4,553</u>	<u>3,726</u>
<b>Amount to be amortised:</b>	111	111
- Not later than one year	449	442
- Later than one year but not later than 5 years	3,993	3,173
- Later than 5 years	<u>4,553</u>	<u>3,726</u>

The above properties are pledged to secure bank borrowings as referred to in Note 23.

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**15. Investment in subsidiaries**

	<b>Company</b>	
	<b>2011</b>	<b>2010</b>
	<b>RM'000</b>	<b>RM'000</b>
Unquoted shares at cost	77,185	75,585

Details of the subsidiaries, which are all incorporated in Malaysia, are as follows:

<b>Name of subsidiaries</b>	<b>Principal activities</b>	<b>Proportion of ownership interest</b>	
		<b>2011</b>	<b>2010</b>
Ornapaper Industry (M) Sdn. Bhd.	Manufacturing and sale of corrugated boards and carton boxes	100%	100%
Ornapaper Industry (Batu Pahat) Sdn. Bhd.	Manufacturing and sale of carton boxes	100%	100%
Ornapaper Industry (Perak) Sdn. Bhd.	Manufacturing and sale of corrugated boards and carton boxes	100%	100%
Quantum Rhythm Sdn. Bhd. #	Manufacturing and sale of carton boxes	100%	100%
Tripack Packaging (M) Sdn. Bhd. #	Manufacturing and sale of carton boxes	100%	100%
Ornapaper Industry (Johor) Sdn. Bhd. #	Manufacturing and sale of carton boxes	80%	80%

# Not audited by Ernst & Young

**(a) Subscription of additional shares in subsidiaries**

During the financial year, the Company further subscribed for an additional 1,500,000 and 99,998 new ordinary shares of RM1.00 each in Ornapaper Industry (Batu Pahat) Sdn. Bhd. and Quantum Rhythm Sdn. Bhd. for a cash consideration of RM1,500,000 and RM99,998 respectively. The proportion of ownership interests of Ornapaper Industry (Batu Pahat) Sdn. Bhd. and Quantum Rhythm Sdn. Bhd. held by the Company remain unchanged.

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**16. Goodwill**

**Impairment tests for goodwill**

Goodwill arising from business combinations has been allocated to two individual CGU identified according to the subsidiaries for impairment testing, the carrying amount of which are as follows:

	<b>Group</b>	
	<b>2011</b>	<b>2010</b>
	<b>RM'000</b>	<b>RM'000</b>
Ornapaper Industry (Perak) Sdn. Bhd. ("OIP")	1,574	1,574
Ornapaper Industry (Johor) Sdn. Bhd. ("OIJ")	59	59
	<u>1,633</u>	<u>1,633</u>

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 pre-tax discount rate applied to the cash flow projections and the forecast growth rates used to extrapolate cash flows beyond the five-year period are as follows:

	<b>OIP</b>		<b>OIJ</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Growth rate	6%	1%	2%	1%
Pre-tax discount rate	9%	9%	9%	9%

The calculations of value in use for the CGUs are most sensitive to the following assumptions:

*Budgeted gross margins* - Gross margins are based on average values achieved in the three years preceding the start of the budget period. These are increased over the budget period for anticipated efficiency improvements.

*Growth rates* - The forecast growth rates are based on published industry research and do not exceed the long-term average growth rate for the industries relevant to the CGUs.

*Pre-tax discount rates* – Discount rates reflect the current market assessment of the risks specific to each CGU. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rates for each CGU, regard has been given to the yield on a ten-year government bond at the beginning of the budgeted year.

*Market share assumptions* – These assumptions are important because, as well as using industry data for growth rates (as noted above), management assesses how the CGU's position, relative to its competitors, might change over the budget period. Management expects the Group's share of the electronics and related market on which the Group's products are dependent upon, to be stable over the budget period.

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**17. Investment securities**

	Group 2011		Group 2010	
	Carrying amount RM'000	Market value RM'000	Carrying amount RM'000	Market value RM'000
Held-for-trading investments				
- Equity instruments (quoted in Malaysia)	-	-	9	9
Available-for-sale financial assets *				
- Equity instruments (unquoted)	-	-	235	-
Total investment securities	<u>-</u>		<u>244</u>	

\* These investments were carried at cost less any accumulated impairment losses.

Effect of adopting FRS 139

On 1 January 2010, the Group adopted FRS 139 Financial Instruments : Recognition and Measurement and remeasured its held-for-trading investments. The resulting adjustment of RM10,000 was adjusted against the opening balance of retained earnings as at 1 January 2010.

All investment securities were disposed off during the year.

**18. Inventories**

	Group	
	2011 RM'000	2010 RM'000
At cost:		
Raw materials and consumables	20,048	21,585
Work-in-progress	89	124
Finished goods	1,890	1,946
	<u>22,027</u>	<u>23,655</u>

**19. Trade and other receivables**

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
<b>Trade receivables</b>				
Third parties	55,603	59,576	-	-
Allowance for impairment	(3,346)	(5,557)	-	-
Trade receivables, net	<u>52,257</u>	<u>54,019</u>	<u>-</u>	<u>-</u>

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**19. Trade and other receivables (continued)**

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
<b>Other receivables</b>				
Third parties	3,017	4,863	-	-
Subsidiaries	-	-	10,265	10,778
Sundry deposits	181	250	2	2
	<u>3,198</u>	<u>5,113</u>	<u>10,267</u>	<u>10,780</u>
Allowance for impairment				
- Third parties	(618)	(458)	-	-
Other receivables, net	<u>2,580</u>	<u>4,655</u>	<u>10,267</u>	<u>10,780</u>
Total trade and other receivables	<u>54,837</u>	<u>58,674</u>	<u>10,267</u>	<u>10,780</u>
Total trade and other receivables	54,837	58,674	10,267	10,780
Add: Cash and bank balances (Note 20)	6,495	12,545	180	215
Total loans and receivables	<u>61,332</u>	<u>71,219</u>	<u>10,447</u>	<u>10,995</u>

**(a) Trade receivables**

Trade receivables are non-interest bearing and are generally on 30 to 120 (2010: 30 to 120) days terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition. Overdue interest of 0.50% to 1.50% (2010: 0.50% to 1.50%) per month is charged on certain amounts exceeding credit terms.

Ageing analysis of trade receivables

The ageing analysis of the Group's trade receivables is as follows:

	Group	
	2011 RM'000	2010 RM'000
Neither past due nor impaired	41,296	40,164
1 to 30 days past due not impaired	4,966	3,856
31 to 60 days past due not impaired	1,864	1,266
More than 61 days past due not impaired	1,785	2,800
	8,615	7,922
Impaired	5,692	11,490
	<u>55,603</u>	<u>59,576</u>

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**19. Trade and other receivables (continued)**

**(a) Trade receivables (continued)**

Receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group.

None of the Group's trade receivables that are neither past due nor impaired have been renegotiated during the financial year.

Receivables that are past due but not impaired

Trade receivables that are past due at the reporting date but not impaired are active accounts which the management considers to be recoverable. These receivables are not secured by any collateral or credit enhancements.

Receivables that are impaired

Trade receivables that are individually impaired at the reporting date and the movement of the allowance accounts used to record the impairment are as follows:

	<b>Group</b>	
	<b>2011</b>	<b>2010</b>
	<b>RM'000</b>	<b>RM'000</b>
Trade receivables - nominal amounts	5,692	11,490
Less: Allowance for impairment	(3,346)	(5,557)
	<u>2,346</u>	<u>5,933</u>
Movement in allowance accounts:	<b>Group</b>	
	<b>2011</b>	<b>2010</b>
	<b>RM'000</b>	<b>RM'000</b>
At 1 January	5,557	5,725
Effect of adopting FRS 139	-	2,860
Charge for the year (Note 8)	25	410
Reversal of impairment losses	(158)	(276)
Bad debts written off	(2,078)	(3,162)
At 31 December	<u>3,346</u>	<u>5,557</u>

Trade receivables that are determined to be individually impaired at the reporting date relate to those debtors that are in significant financial difficulties and/or have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.



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**19. Trade and other receivables (continued)**

**(b) Other receivables**

Subsidiaries

Amounts due from subsidiaries are unsecured and repayable on demand.

Other receivables that are impaired

The Group's other receivables that are individually impaired at the reporting date and the movement of the allowance accounts used to record the impairment are as follows:

	<b>Group</b>	
	<b>2011</b>	<b>2010</b>
	<b>RM'000</b>	<b>RM'000</b>
Other receivables - nominal amounts	2,545	1,373
Less: Allowance for impairment	(618)	(458)
	<u>1,927</u>	<u>915</u>

Movement in allowance accounts:

	<b>Group</b>	
	<b>2011</b>	<b>2010</b>
	<b>RM'000</b>	<b>RM'000</b>
At 1 January	458	5
Effect of adopting FRS 139	-	380
Charge for the year (Note 8)	160	78
Bad debts written off	-	(5)
At 31 December	<u>618</u>	<u>458</u>

Other receivables that are individually determined to be impaired at the reporting date relate to debtors that have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

Effect of adopting FRS 139

On 1 January 2010, the Group adopted FRS 139 Financial Instruments : Recognition and Measurement and remeasured the allowance for impairment loss on its receivables. The resulting adjustment of RM3,241,000 and the related tax effect of RM810,000 were adjusted against the opening balance of retained earnings as at 1 January 2010.

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**20. Cash and bank balances**

	<b>Group</b>		<b>Company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Cash on hand and at banks	5,697	12,279	180	215
Short term deposits with licensed banks	798	266	-	-
Cash and bank balances	<u>6,495</u>	<u>12,545</u>	<u>180</u>	<u>215</u>

Short term deposits are made for varying periods between 1 to 12 months depending on the immediate cash requirements of the Group and of the Company. The deposits earn interest at the respective short-term deposit rates. The weighted average effective interest rate at the reporting date for the Group was 3.2% (2010: 2.6%) per annum.

The deposits with licensed banks are pledged to secure bank guarantee facilities.

For the purposes of the statements of cash flows, cash and cash equivalents comprise the following at the reporting date:

	<b>Group</b>		<b>Company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Cash and bank balances	6,495	12,545	180	215
Bank overdrafts (Note 23)	(2,999)	(3,086)	-	-
Cash and cash equivalents	<u>3,496</u>	<u>9,459</u>	<u>180</u>	<u>215</u>

**21. Other current assets**

	<b>Group</b>		<b>Company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Deposits for purchase of:				
- Plant and equipment	3,073	1,185	-	-
- Raw materials	483	607	-	-
Prepayments	1,767	1,933	10	10
	<u>5,323</u>	<u>3,725</u>	<u>10</u>	<u>10</u>

The above amounts are unsecured, interest-free and repayable on demand.

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**22. Assets held for sale**

	<b>Group</b>	
	<b>2011</b>	<b>2010</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>At carrying amount</b>		
Plant and machinery	-	440
	<u>-</u>	<u>440</u>

The Group has presented the above asset as held for sale which was disposed of to third parties on 21 January 2011.

**23. Borrowings**

		<b>Group</b>	
	<b>Maturity</b>	<b>2011</b>	<b>2010</b>
		<b>RM'000</b>	<b>RM'000</b>
<b>Current</b>			
Secured:			
Bank overdrafts (Note 20)	On demand	2,999	3,086
Bankers' acceptances	2012	49,654	43,252
Trust receipts	2012	2,105	4,910
Term loans	2012	1,290	679
Finance lease payables (Note 31(b))	2012	1,172	1,910
		<u>57,220</u>	<u>53,837</u>
<b>Non-current</b>			
Secured:			
Term loans	2013 to 2015	4,614	2,546
Finance lease payables (Note 31(b))	2013 to 2015	748	3,557
		<u>5,362</u>	<u>6,103</u>
<b>Total borrowings</b>		<u>62,582</u>	<u>59,940</u>

The remaining maturities of the borrowings as at 31 December 2011 are as follows:

	<b>Group</b>	
	<b>2011</b>	<b>2010</b>
	<b>RM'000</b>	<b>RM'000</b>
On demand or within one year	57,220	53,838
Later than one year and not later than 2 years	2,897	2,577
Later than 2 years and not later than 5 years	2,166	3,525
Later than 5 years	299	-
	<u>62,582</u>	<u>59,940</u>

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**23. Borrowings (continued)**

(a) Bank overdrafts

Bank overdrafts are denominated in RM, bear interest on an average of 8.34% (2010: 8.42%) per annum.

(b) Bankers' acceptance and trust receipts

These are used to finance purchases of the Company denominated in RM and are short term in nature. The weighted average effective interest rate is 3.50% to 4.12% (2010: 3.09% to 4.27%) per annum.

(c) Term loans

The loans are repayable over a period of 5 years. The weighted average effective interest rate is 7.10% to 7.85% (2010: 7.5% to 7.55%) per annum.

(d) Obligations under finance leases

These obligations are secured by a charge over the leased assets (Note 13). The average discount rate implicit in the leases is 3.52% (2010: 3.52%) per annum.

The borrowings are secured by the Group's leasehold land and factory buildings and certain other assets and a debenture covering fixed and floating charges over all the assets and properties as disclosed in Notes 13 and 14. The borrowings are additionally guaranteed by a director of a subsidiary and certain directors of the Company.

**24. Trade and other payables**

	<b>Group</b>		<b>Company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Trade payables</b>				
Third parties	12,876	17,932	-	-
<b>Other payables</b>				
Accrued operating expenses	1,846	3,317	31	8
Other payables	4,240	4,617	-	23
	<u>6,086</u>	<u>7,934</u>	<u>31</u>	<u>31</u>
Total trade and other payables	<u>18,962</u>	<u>25,866</u>	<u>31</u>	<u>31</u>
Total trade and other payables	18,962	25,866	31	31
Add: Borrowings (Note 23)	62,582	59,940	-	-
Total financial liabilities carried at amortised cost	<u>81,544</u>	<u>85,806</u>	<u>31</u>	<u>31</u>

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**24. Trade and other payables (continued)**

**(a) Trade payables**

Trade payables are non-interest bearing and are normally settled on 30 to 120 (2010: 30 to 120) days terms.

**(b) Other payables**

Other payables are non-interest bearing and normally settled on an average of 6 (2010: 6) months.

**25. Deferred tax liabilities**

	<b>Group</b>	
	<b>2011</b>	<b>2010</b>
	<b>RM'000</b>	<b>RM'000</b>
At 1 January	2,946	3,113
Effect of FRS 139 adoption adjusted to opening retained earnings (Note 19)	-	(810)
Recognised in income statement (Note 11)	359	643
At 31 December	<u>3,305</u>	<u>2,946</u>

Deferred income tax relates to the following:

<b>Group</b>	<b>At 1</b>	<b>Effect of</b>	<b>Recognised</b>	<b>At 31</b>
	<b>January</b>	<b>FRS 139</b>	<b>in profit</b>	<b>December</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>or loss</b>	<b>RM'000</b>
			<b>RM'000</b>	<b>RM'000</b>
<b>2011</b>				
<b>Deferred tax liabilities:</b>				
Property, plant and equipment	<u>8,677</u>	-	<u>(1,095)</u>	<u>7,582</u>
<b>Deferred tax assets:</b>				
Unabsorbed capital allowances	(332)	-	(148)	(480)
Unabsorbed re-investment allowances	(4,397)	-	336	(4,061)
Others	(1,002)	-	1,266	264
	<u>(5,731)</u>	-	<u>1,454</u>	<u>(4,277)</u>
	<u>2,946</u>	-	<u>359</u>	<u>3,305</u>

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**25. Deferred tax liabilities (continued)**

	At 1 January RM'000	Effect of FRS 139 RM'000	Recognised in profit or loss RM'000	At 31 December RM'000
<b>2010</b>				
<b>Deferred tax liabilities:</b>				
Property, plant and equipment	8,545	-	132	8,677
<b>Deferred tax assets:</b>				
Unabsorbed capital allowances	(216)	-	(116)	(332)
Unabsorbed reinvestment allowances	(5,217)	-	820	(4,397)
Others	1	(810)	(193)	(1,002)
	<u>(5,432)</u>	<u>(810)</u>	<u>511</u>	<u>(5,731)</u>
	<u>3,113</u>	<u>(810)</u>	<u>643</u>	<u>2,946</u>

The following items were not recognised for deferred tax assets as they are not expected to be utilised by taxable profits in the foreseeable future in view of additional tax incentives from future expansion projects to be undertaken by a subsidiary:

	Group	
	2011 RM'000	2010 RM'000
Unutilised tax losses	2,709	2,788
Unabsorbed capital allowances	924	1,336
Unabsorbed reinvestment allowances	3,450	2,621
	<u>7,083</u>	<u>6,745</u>

**26. Share capital**

	Group		Company	
	2011	2010	2011 RM'000	2010 RM'000
<b>Authorised</b>				
Shares of RM1 each	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
<b>Issued and fully paid</b>				
Ordinary shares of RM1 each	<u>75,251</u>	<u>75,251</u>	<u>75,251</u>	<u>75,251</u>

The holder of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions and rank equally with regard to the Company residual assets.

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**27. Share premium**

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

**28. Retained earnings**

With effect from year of assessment 2008, tax on a company's profit will be a final tax and dividends distributed to shareholders will be exempted from tax ("single tier system"). Section 108 tax credits are locked-in as at 31 December 2007 and companies with such tax credits are given a transitional period of 6 years until 31 December 2013 to either utilize their tax credits and frank dividends under limited circumstances or to disregard such tax credits and exercise the option to pay all dividends under the single tier system.

The Company has not elected for the single tier system and as at 31 December 2011, it has sufficient tax credits and tax exempt profits to frank dividends out of its entire retained earnings without incurring any additional tax liability.

**29. Dividend**

This represents dividend paid by a subsidiary to non-controlling interest in respect of financial year ended 31 December 2011.

**30. Related party disclosures**

**(a) Sale and purchase of goods and services**

In addition to the related party information disclosed elsewhere in the financial statements, the following significant transactions between the Group and related parties took place at terms agreed between the parties during the financial year:

	<b>Group</b>		<b>Company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>With subsidiaries</b>				
Management fee charged to:				
- Ornapaper Industry (M) Sdn. Bhd.	-	-	153	147
- Ornapaper Industry (Perak) Sdn. Bhd	-	-	50	50
- Ornapaper Industry (BP) Sdn. Bhd.	-	-	26	27

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**30. Related party disclosures (continued)**

**(a) Sale and purchase of goods and services (continued)**

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
<b>With subsidiaries (continued)</b>				
Net dividend received from:				
- Ornapaper Industry (M) Sdn. Bhd.	-	-	852	175
- Ornapaper Industry (Johor) Sdn. Bhd.	-	-	271	-
<b>With other related parties</b>				
Sales to:				
- Perfect Food Manufacturing (M) Sdn. Bhd.	3,766	2,400	-	-
- Greatbrand Food Industries Sdn. Bhd.	791	501	-	-

Other related parties are companies in which a director of the Company, Sai Chin Hock, has substantial financial interest.

**(b) Compensation of key management personnel**

In addition to the directors' remuneration as disclosed in Note 10, the salaries and other related amounts payable to key management personnel are as follows:

	Group		Company	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Salaries and wages	11	170	-	-
Defined contribution plans	1	20	-	-
	12	190	-	-

**31. Commitments**

**(a) Capital commitments**

	Group	
	2011 RM'000	2010 RM'000
Capital expenditure approved and contracted for:		
- Property, plant and equipment	2,507	1,772



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**31. Commitments (continued)**

**(b) Finance lease commitments**

The Company has finance leases for certain items of motor vehicles, office equipment and plant and machinery (Note 13). These leases do not have terms of renewal, but have purchase options at nominal values at the end of the lease term.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	<b>Group</b>	
	<b>2011</b>	<b>2010</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Minimum lease payments:</b>		
Not later than one year	1,249	2,200
Later than one year and not later than 2 years	507	2,238
Later than 2 years and not later than 5 years	288	1,589
	<u>2,044</u>	<u>6,027</u>
Less: Amounts representing future finance charges	(124)	(560)
	<u>1,920</u>	<u>5,467</u>
 <b>Present value of finance lease payables:</b>		
Not later than one year	1,172	1,910
Later than one year and not later than 2 years	479	1,885
Later than 2 years and not later than 5 years	269	1,672
	<u>1,920</u>	<u>5,467</u>
Less: Amount due within 12 months (Note 23)	(1,172)	(1,910)
Amount due after 12 months (Note 23)	<u>748</u>	<u>3,557</u>

**32. 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 reporting date but not included as liabilities are as follows:

	<b>Group</b>	
	<b>2011</b>	<b>2010</b>
	<b>RM'000</b>	<b>RM'000</b>
Not later than one year	36	73
Later than one year but not later than 2 years	5	28
	<u>41</u>	<u>101</u>

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**33. Fair value of financial instruments**

- a) **Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value**

	2011		2010	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
<b>Group</b>				
Investment securities				
- Unquoted equity instrument	-	-	235,000	*

\* Fair value information for these investments has not been disclosed as they represent ordinary shares that are not quoted on any active market.

- b) **Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value**

The following are classes of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value:

	Note	Group		Company	
		2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Trade and other receivables	19	54,837	58,674	10,267	10,780
Cash and bank balances	20	6,495	12,545	180	215
Borrowings	23	62,582	59,940	-	-
Trade and other payables	24	18,962	25,866	31	31

The carrying amounts of the trade and other receivables and payables are reasonable approximation of their fair values due to their relatively short maturity periods.

The carrying amounts of borrowings are reasonable approximation of their fair values as the interest charge on these borrowings are pegged to, or close to, market interest rates near or at reporting date.

**34. Financial risk management objectives and policies**

The Group is exposed to financial risks arising from their operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk and foreign currency risk.

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**34. Financial risk management objectives and policies (continued)**

The Board of Directors reviews and agrees policies and procedures for the management of these risks.

It is, and has been throughout the current and previous financial years, the Group's policy that no derivatives shall be undertaken except for the use as hedging instruments where appropriate and cost-efficient. The Group does not apply hedge accounting and there are no outstanding hedging instruments at reporting date.

The following sections provide details regarding the Group's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

**(a) Credit risk**

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including cash and bank balances), the Group minimise credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. For the relevant operating unit, the Group does not offer credit terms without the approval of the directors.

Exposure to credit risk

At the reporting date, the Group's and the Company's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statements of financial position, with positive fair values and a nominal amount of RM61,386,000 relating to a corporate guarantee provided by the Company to a bank on subsidiaries bank loans.

Information regarding credit risk management for trade and other receivables is disclosed in Note 19(a).

Credit risk concentration profile

At the reporting date, approximately 15% (2010 :24%) of the Group's gross trade receivables were due from 2 (2010: 2) customers totalling RM7,661,162 (2010: RM12,484,271).

Financial assets that are neither past due nor impaired

Information regarding trade and other receivables that are neither past due nor impaired is disclosed in Note 19(a).

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**34. Financial risk management objectives and policies (continued)**

**(a) Credit risk (continued)**

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 19(a).

**(b) Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

The Group manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that refinancing, repayment and funding needs are met. As part of its overall 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 at a reasonable level to its overall debt position. As far as possible, the Group raises committed funding from financial institutions and balances its portfolio with some short term funding so as to achieve overall cost effectiveness.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities and collection from customers.

Analysis of financial instruments by remaining contractual maturities

The maturity profile of the Group's and the Company's liabilities at the reporting date based on contractual undiscounted repayment obligations is as follows:

	2011		
	On demand or within one year RM'000	One to five years RM'000	Total RM'000
<b>Group</b>			
Trade and other payables	18,962	-	18,962
Borrowings	57,297	5,409	62,706
Total undiscounted financial liabilities	76,259	5,409	81,668
<b>Company</b>			
Trade and other payables *	31	-	31
Total undiscounted financial liabilities	31	-	31

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**34. Financial risk management objectives and policies (continued)**

**(b) Liquidity risk (continued)**

Group	2010		
	On demand or within one year RM'000	One to five years RM'000	Total RM'000
Trade and other payables	25,866	-	25,866
Borrowings	54,127	6,373	60,500
Total undiscounted financial liabilities	<u>79,993</u>	<u>6,373</u>	<u>86,366</u>
<b>Company</b>			
Trade and other payables *	<u>31</u>	<u>-</u>	<u>31</u>
Total undiscounted financial liabilities	<u>31</u>	<u>-</u>	<u>31</u>

\* At the reporting date, the counterparty to the financial guarantee does not have a right to demand cash repayment as the default has not occurred. Accordingly, financial guarantees under the scope of FRS 139 are not included in the above maturity profile analysis.

**(c) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates.

The Group's interest rate risk arises primarily from interest-bearing borrowings. The Group manages its interest rate exposure by maintaining a prudent mix of fixed and floating rate borrowings and actively review its debt portfolio taking into account the investment holding period and nature of its assets.

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

Sensitivity analysis for interest rate risk

Based on the utilisation of floating rate loans and borrowings throughout the reporting period, if interest rates had been 50 basis point lower (or higher), with all other variables held constant, the Group's profit before tax would have been RM303,000 higher (or lower), arising mainly as a result of lower (or higher) interest expense that would have been incurred. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

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**34. Financial risk management objectives and policies (continued)**

**(d) Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group is exposed to transactional currency risk primarily through sales and purchases that are denominated in a currency other than the respective functional currencies of the Group entities. The currencies giving rise to this risk are primarily United States Dollars ("USD") and Singapore Dollars ("SGD"). Such transactions are kept to an acceptable level.

The net unhedged financial assets and financial liabilities of the Group companies that are not denominated in their functional currencies are as follows:

	<b>Net financial assets/(liabilities) held in non-functional currency</b>		
	<b>SGD</b>	<b>USD</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>At 31 December 2011</b>			
Trade and other receivables	72	656	728
Trade and other payables	-	(655)	(655)
	<u>72</u>	<u>1</u>	<u>73</u>
<b>At 31 December 2010</b>			
Trade and other receivables	123	554	677
Trade and other payables	-	(362)	(362)
	<u>123</u>	<u>192</u>	<u>315</u>

Sensitivity analysis for foreign currency risk

The hypothetical sensitivity of the Group's profit, net of tax, to a 5% change in the USD and SGD exchange rates at the reporting date against RM, assuming all other variables remain unchanged, is insignificant.

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**35. Capital management**

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 31 December 2011.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio within acceptable levels. The Group includes within net debt, borrowings, trade and other payables, less cash and bank balances. Capital includes equity attributable to equity holders of the Group.

	<b>Group</b>		<b>Company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Borrowings	62,582	59,940	-	-
Trade and other payables	18,962	25,866	31	31
<i>Less: - Cash and bank balances</i>	<i>(6,495)</i>	<i>(12,545)</i>	<i>(180)</i>	<i>(215)</i>
<i>Net debt</i>	<u>75,049</u>	<u>73,261</u>	<u>(149)</u>	<u>(184)</u>
Equity attributable to owners of the parent	<u>107,564</u>	<u>101,763</u>	<u>87,760</u>	<u>86,701</u>
<b>Capital and net debt</b>	<u>182,613</u>	<u>175,024</u>	<u>87,611</u>	<u>86,517</u>
<b>Gearing ratio</b>	<u>41%</u>	<u>42%</u>	<u>-</u>	<u>-</u>

**36. Authorisation of financial statements for issue**

The financial statements for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the directors on 23 April 2012.

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**37. Supplementary information – Breakdown of realised and unrealised retained earnings**

The breakdown of the retained earnings of the Group and of the Company as at 31 December 2011 into realised and unrealised profits is presented in accordance with the directive issued by Bursa Malaysia Securities Berhad dated 25 March 2010 and prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

	<b>Group</b>		<b>Company</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Total retained earnings/(losses) of the Company and its subsidiaries				
- Realised profits	63,004	55,367	1,353	294
- Unrealised losses	(5,618)	(4,965)	-	-
	<u>57,386</u>	<u>50,402</u>	<u>1,353</u>	<u>294</u>
Less: Consolidation adjustments	(36,229)	(35,046)	-	-
Retained earnings as per financial statements	<u>21,157</u>	<u>15,356</u>	<u>1,353</u>	<u>294</u>