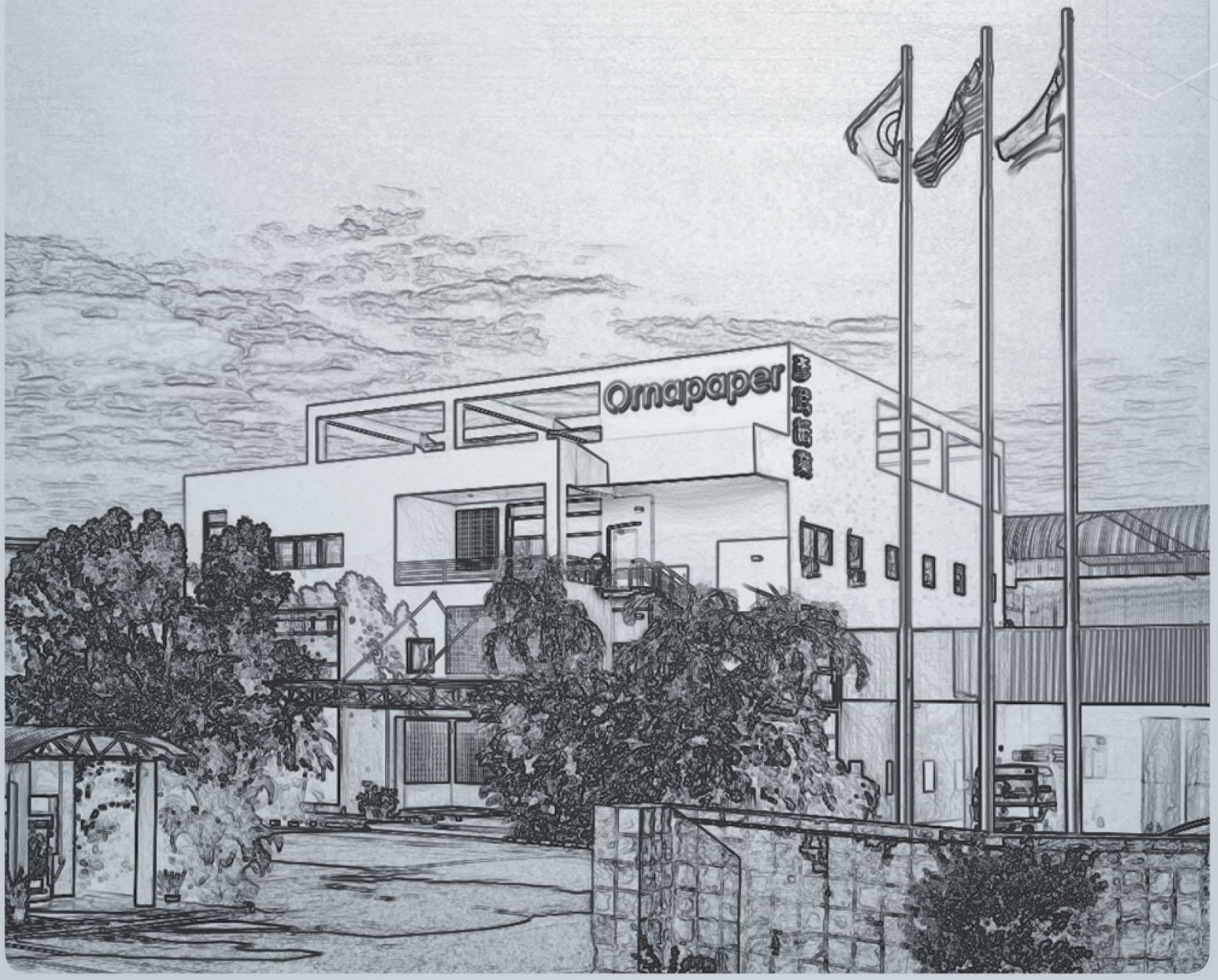
# Ornapaper

ANNUAL REPORT 2016



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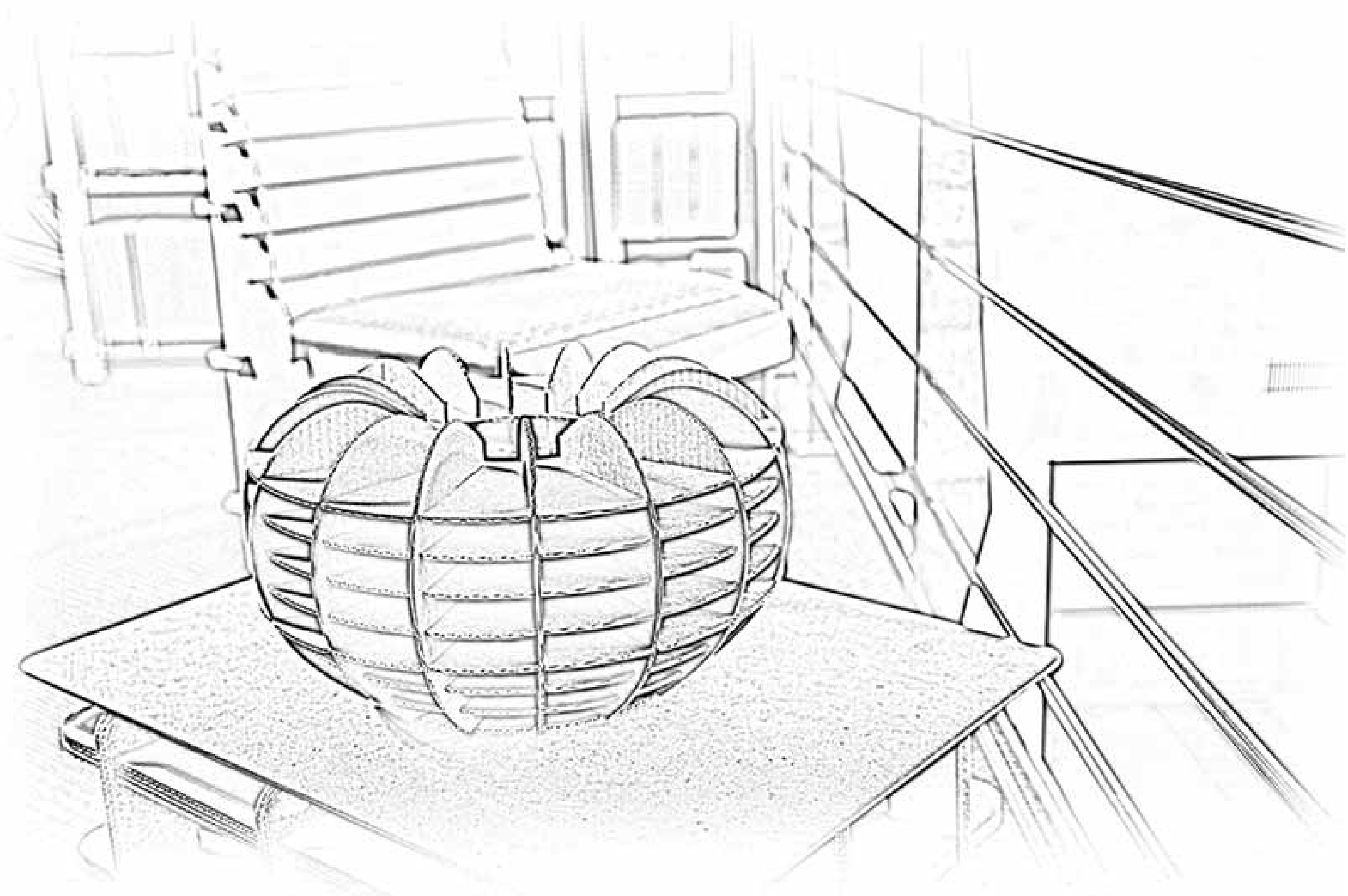


# Notice of the Fifteenth Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the Fifteenth Annual General Meeting ("15th AGM") of the Company will be held at the Ballroom, Level 1, Holiday Inn Melaka, Jalan Syed Abdul Aziz, 75000 Melaka on Wednesday, 24 May 2017 at 10:30 a.m. for the following purposes:-

**AGENDA**

1. To receive the Audited Financial Statements for the financial year ended 31 December 2016 together with the Reports of the Directors and the Auditors thereon. **(Please refer to Note 6)**

2. To approve the payment of Directors' fees amounting to RM172,000.00 in respect of the financial year ended 31 December 2016. (Resolution 1)

3. To approve the payment of Directors' fees and any benefits payable up to an amount of RM444,000.00, from 1 January 2017 until the next AGM of the Company. (Resolution 2)

4. To re-elect the following Directors who are due to retire in accordance with Article 92 of the Company's Articles of Association and being eligible, have offered themselves for re-election:-

   (a) Mr. Siow Kee Yen (Resolution 3)
   (b) Mr. Tan Chin Hwee (Resolution 4)

5. To re-elect Mr. Sai Han Siong who is due to retire in accordance with Article 98 of the Company's Articles of Association and being eligible, has offered himself for re-election. (Resolution 5)

6. To re-appoint Messrs. Ernst & Young as Auditors of the Company until the conclusion of the next AGM and to authorise the Directors to fix their remuneration. (Resolution 6)

**As Special Business**
To consider and if thought fit, with or without any modification, to pass the following Ordinary Resolutions:

7. **Ordinary Resolution I** (Resolution 7)
   - **Authority to Issue Shares Pursuant to Section 75 of the Companies Act 2016**

   THAT subject to Section 75 of the Companies Act 2016 and approvals of the relevant governmental/regulatory authorities, the Directors be and are hereby empowered to issue and allot shares in the Company, at any time to such persons and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit, provided that the aggregate number of shares to be issued does not exceed ten per centum (10%) of the total number of issued shares of the Company for the time being and the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on Bursa Malaysia Securities Berhad.

   AND THAT such authority shall commence immediately upon the passing of this Resolution and continue to be in force until the conclusion of the next Annual General Meeting of the Company.

# Notice of the Fifteenth Annual General Meeting

8. **Ordinary Resolution II** (Resolution 8)
**- Retention of Independent Non-Executive Director**

THAT approval be and is hereby given to Datuk Adillah binti Ahmad Nordin, who has served as an Independent Non-Executive Director for a cumulative term of more than nine (9) years, to continue to act as an Independent Non-Executive Director of the Company.

9. **Ordinary Resolution III** (Resolution 9)
**- Retention of Independent Non-Executive Director**

THAT approval be and is hereby given to Mr. Siow Kee Yen, who has served as an Independent Non-Executive Director for a cumulative term of more than nine (9) years, to continue to act as an Independent Non-Executive Director of the Company.

10. **Ordinary Resolution IV** (Resolution 10)
**- Proposed Renewal of Existing Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature**

THAT subject to the provisions of the Bursa Malaysia Securities Berhad Main Market Listing Requirements, approval be and is hereby given for the Proposed Renewal of Existing Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature for the Company and/or its subsidiaries to enter into and give effect to the category of the recurrent related party transactions of a revenue or trading nature from time to time with the Related Party as specified in Section 1.4 of the Circular/Statement to Shareholders dated 28 April 2017 provided that such transactions are:-

(i) recurrent transactions of a revenue or trading nature;
(ii) necessary for the Company's day-to-day operations;
(iii) carried out in the ordinary course of business on normal commercial terms which are not more favourable to the Related Parties than those generally available to the public; and
(iv) not to the detriment of minority shareholders

("**Proposed Shareholders' Mandate**").

THAT the authority for the Proposed Shareholders' Mandate shall continue to be in force until the earlier of:-

(i) the conclusion of the next Annual General Meeting ("**AGM**") of the Company at which time it will lapse unless the authority is renewed by a resolution passed at the next AGM;

(ii) the expiration of the period within which the next AGM is to be held pursuant to Section 340(2) of the Companies Act 2016 ("**the Act**") but must not extend to such extension as may be allowed pursuant to Section 340(4) of the Act; or

(iii) is revoked or varied by resolution passed by the shareholders in a general meeting before the next AGM;

AND THAT the Directors of the Company be authorised to complete and do such acts and things (including executing all such documents as may be required), as they may consider expedient or necessary to give effect to the Proposed Shareholders' Mandate.

# Notice of the Fifteenth Annual General Meeting

11. **Ordinary Resolution V** (Resolution 11)
**- Proposed Renewal of Authority for Share Buy-Back**

THAT subject to the compliance with Section 127 of the Companies Act 2016 and all other applicable laws, rules and regulations, approval be and is hereby given to the Company, to purchase such amount of ordinary shares in the Company as may be determined by the Directors of the Company from time to time through Bursa Malaysia Securities Berhad ("**Bursa Securities**") as the Directors may deem fit and expedient in the interest of the Company provided that the aggregate number of shares to be purchased and held pursuant to this resolution does not exceed 10% of the existing total number of issued shares in the ordinary share capital of the Company including the shares previously purchased and retained as Treasury Shares (if any) and the maximum funds to be allocated by the Company for the purpose of purchasing its own shares shall not exceed the total retained profits of the Company, upon such terms and conditions as set out in the Circular/Statement to Shareholders dated 28 April 2017.

THAT such authority shall commence immediately upon the passing of this Ordinary Resolution and until the conclusion of the next Annual General Meeting ("**AGM**") of the Company or the expiry of the period within which the next AGM is required by law to be held unless revoked or varied by Ordinary Resolution in the general meeting of the Company but so as not to prejudice the completion of a purchase made before such expiry date, in any event in accordance with the provisions of Bursa Securities Main Market Listing Requirements and any other relevant authorities.

THAT authority be and is hereby given to the Directors of the Company to decide in their absolute discretion to retain the ordinary shares in the Company so purchased by the Company as Treasury Shares and/or to cancel them and/or to resell them and/or to distribute them as share dividends in such manner as may be permitted and prescribed by the provisions of the Bursa Securities Main Market Listing Requirements and any other relevant authorities.

AND THAT authority be and is hereby given to the Directors of the Company to take all such steps as are necessary to enter into any agreements, arrangements and guarantees with any party or parties to implement, finalise and give full effect to the aforesaid with full powers to assent to any conditions, modifications, revaluations, variations and/or amendments (if any) as may be imposed by the relevant authorities and to do all such acts and things as the Directors may deem fit and expedient in the interests of the Company.

12. To transact any other ordinary business of which due notice shall have been given.

By Order of the Board

**CHUA SIEW CHUAN (MAICSA 0777689)**
**SEAN NE TEO (LS 0008058)**
Company Secretaries
Melaka
Dated: 28 April 2017

# Notice of the Fifteenth Annual General Meeting

**Notes:**

1. In respect of deposited securities, only members whose names appear in the Record of Depositors on 15 May 2017 ("**General Meeting Record of Depositors**") shall be eligible to attend, speak and vote at the Meeting.

2. A member entitled to attend and vote at the Meeting is entitled to appoint more than one (1) proxy to attend and vote in his stead. A proxy may but does not need to be a member of the Company. Where a member appoints more than one (1) proxy, the appointments shall be invalid unless he specifies the proportions of his shareholdings to be represented by each proxy. A proxy appointed to attend and vote at the Meeting shall have the same rights as the member to speak at the Meeting. Notwithstanding this, a member entitled to attend and vote at the Meeting is entitled to appoint any person as his proxy to attend and vote instead of the member at the Meeting. There shall be no restriction as to the qualifications of the proxy.

3. In the case of a corporate member, the instrument appointing a proxy must be either under its common seal or under the hand of its officer or attorney duly authorised.

4. Where a member of the Company is an exempt authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991 ("**SICDA**") which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("**omnibus account**"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. Where a shareholder is an authorised nominee as defined under SICDA, it may appoint at least one (1) proxy in respect of each Securities Account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.

5. The instrument appointing a proxy and the power of attorney or other authority (if any), under which it is signed or a duly notarised certified copy of that power or authority, shall be deposited at the Registered Office of the Company at No. 60-1, Jalan Lagenda 5, Taman 1 Lagenda, 75400 Melaka not less than forty-eight (48) hours before the time for holding the Meeting or at any adjournment thereof. All resolutions set out in the Notice of the Meeting are to be voted by poll.

6. This Agenda item is meant for discussion only, as the provision of Section 340(1)(a) of the Act does not require a formal approval of the shareholders for the Audited Financial Statements. Hence, this Agenda item is not put forward for voting.

7. The Resolution 2, if approved, will authorise the payment of the Directors' fees to the Directors of the Company of not exceeding RM444,000.00 from 1 January 2017 up to the next Annual General Meeting of the Company pursuant to Article 103 of the Company's Articles of Association.

8. Explanatory Notes to Special Business:-

   (i) **Authority to Issue Shares**
   The proposed Resolution 7 is intended to renew the authority granted to the Directors of the Company at the Fourteenth Annual General Meeting of the Company held on 27 May 2016 to issue and allot shares at any time to such persons in their absolute discretion without convening a general meeting provided that the aggregate number of the shares issued does not exceed 10% of the total number of issued shares of the Company for the time being (hereinafter referred to as the "**General Mandate**").

   The General Mandate granted by the shareholders at the Fourteenth Annual General Meeting of the Company had not been utilised and hence no proceed was raised therefrom.

   The new General Mandate will enable the Directors to take swift action for allotment of shares for any possible fund raising activities, including but not limited to further placing of shares, for the purpose of funding future investment project(s), working capital and/or acquisition(s) and to avoid delay and cost in convening general meetings to approve such issue of shares.

# Notice of the Fifteenth Annual General Meeting

(ii) **Retention as Independent Non-Executive Directors**
Resolutions 8 & 9 - Datuk Adillah binti Ahmad Nordin and Mr. Siow Kee Yen were appointed as Independent Non-Executive Directors of the Company on 2 December 2002, and have served on the Board of Directors ("**the Board**") for a cumulative term of more than nine (9) years. In accordance with the Malaysian Code on Corporate Governance 2012, the Board, after having assessed the independence of Datuk Adillah binti Ahmad Nordin and Mr. Siow Kee Yen, regarded them to be independent based amongst others, the following justifications and recommends that Datuk Adillah binti Ahmad Nordin and Mr. Siow Kee Yen be retained as Independent Non-Executive Directors of the Company:

a. They have met the independence guidelines as set out in Chapter 1 of Bursa Malaysia Securities Berhad Main Market Listing Requirements;

b. They do not have any conflict of interest with the Company and has not been entering/are not expected to enter into contract(s) especially material contract(s) with the Company and/or its subsidiary companies; and

c. The Board is of the opinion that Datuk Adillah binti Ahmad Nordin and Mr. Siow Kee Yen are important Independent Non-Executive Directors of the Board in view of their many years on the Board with incumbent knowledge of the Company and the Group's activities and corporate history and have provided invaluable contributions to the Board in their role as Independent Non-Executive Directors.

(iii) **Proposed Shareholders' Mandate**
The proposed Resolution 10 is intended to enable the Company and its affiliated companies to enter into recurrent related party transactions of a revenue or trading nature which are necessary for the Company's day-to-day operations to facilitate transactions in the normal course of business of the Company with the specified classes of related parties, provided that they are carried out on arms' length basis and on normal commercial terms and are not prejudicial to the shareholders on terms not more favorable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company.

Please refer to the Circular/Statement to Shareholders dated 28 April 2017 for further Information.

(iv) **Proposed Authority for the Company to Purchase Its Own Shares**
The proposed Resolution 11 is intended to allow the Company to purchase its own shares up to 10% of the total number of issued shares in the ordinary share capital of the Company at any time within the time period stipulated in the Bursa Malaysia Securities Berhad Main Market Listing Requirements.

Please refer to the Circular/Statement to Shareholders dated 28 April 2017 for further information.

# Corporate Information

| | |
|---|---|
| **BOARD OF DIRECTORS** | : Mr Ang Kwee Teng (Executive Chairman)<br>Mr See Wan Seng (Chief Executive Director)<br>Mr Sai Chin Hock (Executive Director)<br>Mr Sai Han Siong (Executive Director)<br>Mr Siow Kee Yen (Independent Non-Executive Director)<br>Datuk Adillah binti Ahmad Nordin (Independent Non-Executive Director)<br>Mr. Tan Chin Hwee (Independent Non-Executive Directors) |
| **AUDIT COMMITTEE** | Mr. Siow Kee Yen (Chairman)<br>Datuk Adillah binti Ahmad Nordin<br>Mr. Tan Chin Hwee |
| **NOMINATION COMMITTEE** | Mr. Siow Kee Yen (Chairman)<br>Datuk Adillah binti Ahmad Nordin<br>Mr. Tan Chin Hwee |
| **REMUNERATION COMMITTEE** | Datuk Adillah binti Ahmad Nordin (Chairperson)<br>Mr. Siow Kee Yen<br>Mr. Tan Chin Hwee |
| **COMPANY SECRETARIES** | Ms. Chua Siew Chuan (MAICSA 0777689)<br>Ms. Sean Ne Teo (LS 0008058) |
| **REGISTERED OFFICE** | No.60-1, Jalan Lagenda 5, Taman 1 Lagenda,<br>75400 Melaka.<br>Tel: 606-2880210 Fax: 606-2880570 |
| **CORPORATE OFFICE** | No. 8998, Kawasan Perindustrian Batu Berendam,<br>Peringkat IV, 75350 Melaka, Malaysia.<br>Tel: 606-3355888 Fax: 606-3355999<br>Website: www.ornapaper.com |
| **SHARE REGISTRAR** | Tricor Investor & Issuing House Services Sdn Bhd<br>Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3,<br>Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur,<br>Wilayah Persekutuan, Malaysia.<br>Tel: 603-2783 9299 Fax: 603-2783 9222<br>Email: is.enquiry@my.tricorglobal.com |
| **AUDITORS** | Ernst & Young (AF 0039)<br>Chartered Accountants<br>Level 16-1, Jaya 99, Tower B, 99 Jalan Tun Sri Lanang,<br>75100 Melaka.<br>Tel: 606-2882399 Fax: 606-2832899 |
| **PRINCIPAL BANKER** | RHB Islamic Bank Berhad |
| **STOCK EXCHANGE LISTING** | Main Market of Bursa Malaysia Securities Berhad |

# Profile of Directors

## Mr Sai Chin Hock

| | |
|---|---|
| Age | : 67 |
| Nationality | : Malaysian |
| Gender | : Male |
| Designation/ Position in the Company | : Executive Director |
| Date of appointment | : 26 January 2010 |
| Qualification | : Bachelor of Commerce Degree from Nanyang University Singapore |
| Work experience | : Managing in various industries |
| Directorship in other Public Companies & listed issuers | : None |
| Securities holding in the Company and its subsidiaries | : Direct – 4,057,986 shares<br>: Indirect – 19,094,212 shares |
| Family relationship with any directors and/ or major shareholders of the Company | : Uncle of Sai Han Siong |
| Conflict of interest with the Company | : None |
| List of conviction for offences within the past 5 years | : None |

## Mr Ang Kwee Teng

| | |
|---|---|
| Age | : 66 |
| Nationality | : Malaysian |
| Gender | : Male |
| Designation / Position in the Company | : Executive Chairman |
| Date of appointment | : 2 December 2002 |
| Qualification | : - |
| Work experience | : Director of Ornapaper Industry (M) Sdn Bhd (since1995) |
| Directorship in other Public Companies & listed issuers | : None |
| Securities holding in the Company and its subsidiaries | : 10,000 shares |
| Family relationship with any directors and / or major shareholders of the Company | : None |
| Conflict of interest with the Company | : None |
| List of conviction for offences within the past 5 years | : None |

# Profile of Directors

### Mr See Wan Seng

| | |
|---|---|
| Age | : 69 |
| Nationality | : Malaysian |
| Gender | : Male |
| Designation / Position in the Company | : Chief Executive Director |
| Date of appointment | : 2 December 2002 |
| Qualification | : Bachelor of Commerce Degree from Nanyang University Singapore |
| Work experience | : Director & General Manager of Carton Box Industrial (M) Sdn Bhd (1990 to 1996); Director of Ornapaper Industry (M) Sdn Bhd (1995 to 2008, rejoined from 2010 to present); Director of Tripack Packaging (M) Sdn Bhd (2004 to 2008, rejoined since 2010) |
| Directorship on other Public Companies & listed issuers | : None |
| Securities holding in the Company and its subsidiaries | : Nil |
| Family relationship with any director and / or major shareholders of the Company | : None |
| Conflict of interest with the Company | : None |
| List of Conviction for offences within the past 5 years | : None |

### Mr Tan Chin Hwee

| | |
|---|---|
| Age | : 50 |
| Nationality | : Malaysian |
| Gender | : Male |
| Designation / Position in the Company | : Independent Non-Executive Director; Members of Audit Committee, Nomination Committee and Remuneration Committee |
| Date of appointment | : 22 January 2014 |
| Qualification | : Member of Malaysian Institute of Accountants; Bachelor of Accounting from University of Malaya |
| Work experience | : Audit Senior in Coopers & Lybrand (1991 to 1995); Manager in Ample Consult Sdn Bhd (1996 to 2000); Director of Ornapaper Industry (Batu Pahat) Sdn Bhd (1999 to 2008); Group financial controller of Ornapaper Berhad (2005 to 2007); Manager in KC Chia & Noor (2008 to 2013); Director of PI Secretary Sdn Bhd (2015 - present) |
| Directorship in other Public Companies & listed issuers | : None |
| Securities holding in the Company and its subsidiaries | : Nil |
| Family relationship with any directors and / or major shareholders of the Company | : None |
| Conflict of interest with the Company | : None |
| List of conviction for offences within the past 5 years | : None |

# Profile of Directors

### Mr Siow Kee Yen

| | |
|---|---|
| Age | : 46 |
| Nationality | : Malaysian |
| Gender | : Male |
| Designation / Position in the Company | : Independent Non-Executive Director; Chairman of Audit Committee and Nomination Committee; and member of Remuneration Committee |
| Date of appointment | : 2 December 2002 |
| Qualification | : Member of Malaysian Institute of Accountants; Honours Degree in Bachelor of Accountancy |
| Work experience | : Audit Senior in Arthur Andersen & Co. (1996-1999); Audit Manager with Chin & Co. (2000-2001); Partner of KY Siow & Co. (since 2001) |
| Directorship in other Public Companies & listed issuers | : None |
| Securities holding in the Company and its subsidiaries | : 30,500 shares |
| Family relationship with any directors and / or major shareholders of the Company | : None |
| Conflict of interest with the Company | : None |
| List of conviction for offences within the past 5 years | : None |

### Datuk Adillah binti Ahmad Nordin

| | |
|---|---|
| Age | : 47 |
| Nationality | : Malaysian |
| Gender | : Female |
| Designation/ Position in the Company | : Independent Non-Executive Director; Chairperson of Remuneration Committee; members of Audit Committee and Remuneration Committee |
| Date of appointment | : 2 December 2002 |
| Qualification | : LL.B (Honours) |
| Work experience | : English Bar & Malaysian Bar (1993 &1994); Advocate & Solicitor with Adillah A. Nordin (present) |
| Directorship in other Public Companies & listed issuers | : None |
| Securities holding in the Company and its subsidiaries | : 34,000 shares |
| Family relationship with any directors and/ or major shareholders of the Company | : None |
| Conflict of interest with the Company | : None |
| List of conviction for offences within the past 5 years | : None |

# Profile of Directors

## Mr Sai Han Siong

| | |
|---|---|
| Age | : 46 |
| Nationality | : Malaysian |
| Gender | : Male |
| Designation / Position in the Company | : Executive Director |
| Date of appointment | : 27 May 2016 |
| Qualification | : Singapore-Cambridge Certificate - GCE 0 Level Federal Institute of Technology - Civil Engineering Diploma; City and Guilds of London Institute - Certificate in Concrete practice |
| Work experience | : Supervisor in Sungai Way Construction Sdn Bhd (1995); Manager in Mega Quarry Products Sdn Bhd (1996-1999); Director of Mega Quarry Products Sdn Bhd (2000-present) |
| Directorship in other Public Companies & listed issuers | : None |
| Securities holding in the Company and its subsidiaries | : Direct – 15,000 shares |
| | : Indirect – 19,217,212 shares |
| Family relationship with any directors and / or major shareholders of the Company | : Nephew of Sai Chin Hock |
| Conflict of interest with the Company | : None |
| List of conviction for offences within the past 5 years | : None |

# Profile of Key Management

| | |
|---|---|
| Name | : Lim Joo Song |
| Age | : 46 |
| Nationality | : Malaysian |
| Gender | : Male |
| Designation /Position in the Company | : General Manager |
| Date of appointment | : 31 Mar 2010 |
| Qualification | : Degree Holder of Political Science In National Taiwan University |
| Working experience | : Sales Executive - Ornapaper Industry (Batu Pahat) Sdn Bhd (1998 - 2001)<br>Sales Manager - Ornapaper Industry (Batu Pahat) Sdn Bhd (2001 - 2005)<br>General Manager - Ornapaper Industry (Batu Pahat) Sdn Bhd (2005 - 2009)<br>General Manager - Ornapaper Industry (M) Sdn Bhd (2010 - present) |
| Directorship in other Public Companies & listed issuers | : Nil |
| Family relationship with any directors and / or major shareholders of the Company | : Nil |
| Conflict of interest with the Company | : Nil |
| List of conviction for offences within the past 5 years | : Nil |

| | |
|---|---|
| Name | : Bung Choon Kong |
| Age | : 57 |
| Nationality | : Malaysian |
| Gender | : Male |
| Designation /Position in the Company | : Senior Regional Manager |
| Date of appointment | : 1 Aug 2009 |
| Qualification | : MCE |
| Working experience | : Sales Supervisor - Eng Shuen Paper Industrial Co. (M) Sdn Bhd (1991 - 1992)<br>Sales Executive - Eng Shuen Paper Industrial Co. (M) Sdn Bhd (1992 - 1994)<br>Sales Manager - Eng Shuen Paper Industrial Co. (M) Sdn Bhd (1994 - 1998)<br>Sales Manager - Ornapaper Industry (Perak) Sdn Bhd (1998 - 2007)<br>Regional Manager - Ornapaper Industry (Perak) Sdn Bhd (2007 - 2009)<br>Senior Regional Manager - Ornapaper Industry (Perak) Sdn Bhd (1 Aug 2009 - present) |
| Directorship in other Public Companies & listed issuers | : Nil |
| Family relationship with any directors and / or major shareholders of the Company | : Nil |
| Conflict of interest with the Company | : Nil |
| List of conviction for offences within the past 5 years | : Nil |

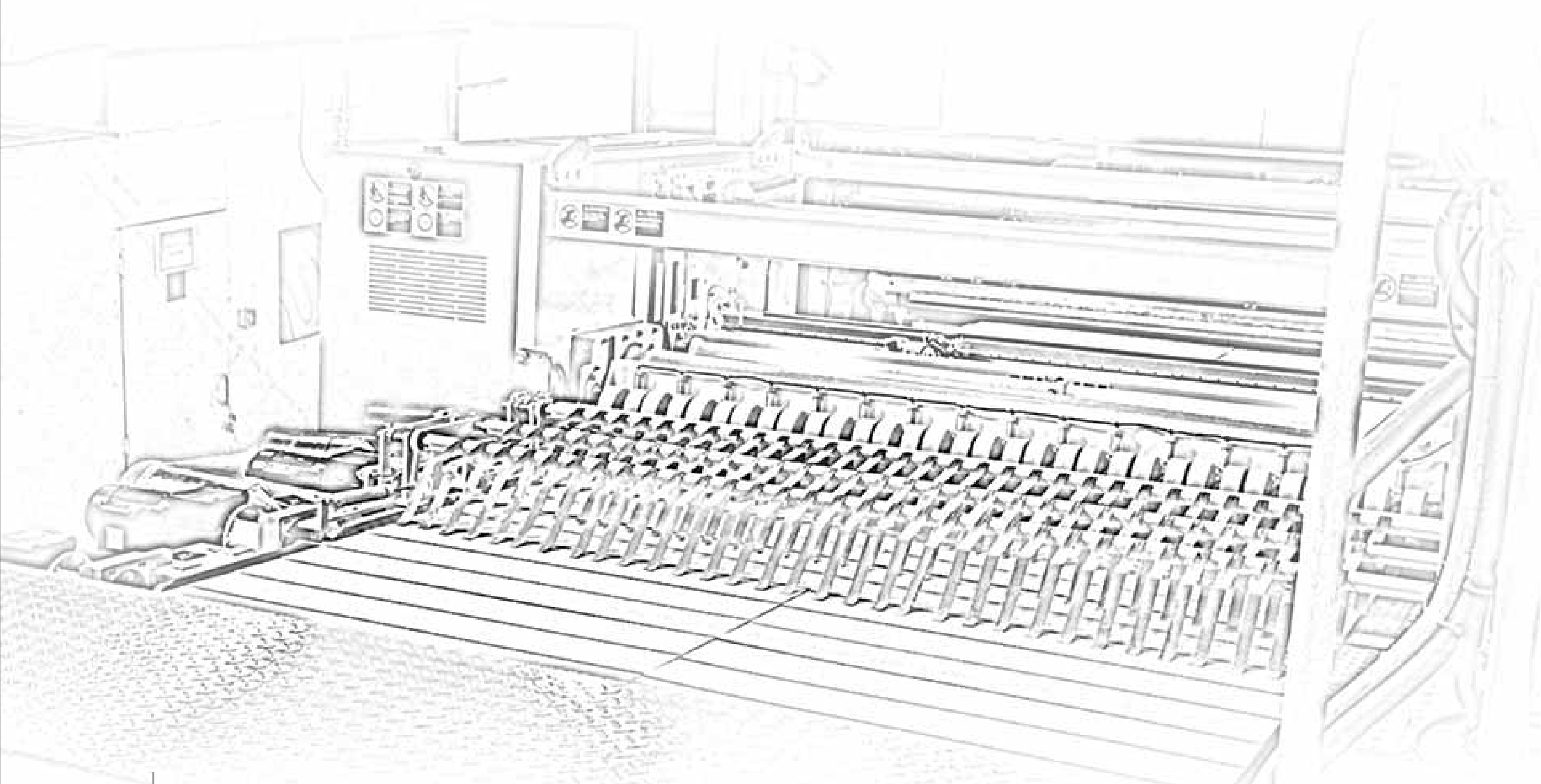
# Profile of Key Management

| | |
|---|---|
| Name | : Foo Chee Juin |
| Age | : 62 |
| Nationality | : Malaysian |
| Gender | : Male |
| Designation /Position in the Company | : Director/General Manager |
| Date of appointment | : 1 Aug 1999 |
| Qualification | : Higher School Certificate 1975 English College Johor Bahru (1968 - 1974)<br>Associate Member of Institute of Bankers (London) (1975 - 1980) |
| Working Experience | : Company Secretary - PI Chua & Co. Sdn Bhd (1980 - 1989)<br>Corporate General Manager - Polyplus Holding Berhad (1989 - 1995)<br>Corporate General Manager - Century Bonds Sdn Bhd (1995 - 1997)<br>Director - Genesis Packages Sdn Bhd (1997-1999)<br>Director/General Manager - Ornapaper Industry (Johor) Sdn Bhd (1 Aug 1999 - present) |
| Directorship in other Public Companies & listed issuers | : Nil |
| Family relationship with any directors and / or major shareholders of the Company | : Nil |
| Conflict of interest with the Company | : Nil |
| List of conviction for offences within the past 5 years | : Nil |

| | |
|---|---|
| Name | : Alan Kang Chee Hwee |
| Age | : 44 |
| Nationality | : Malaysian |
| Gender | : Male |
| Designation /Position in the Company | : Assistant General Manager |
| Date of appointment | : 1 January 2012 |
| Qualification | : SPM |
| Working Experience | : Administration Officer - PCCS (1996 - 1997)<br>Operating Officer - Hotel Carnival (1997 - 1998)<br>Sales Executive - Fliplex Sdn Bhd (1998 - 2000)<br>Production Planner - Chiga Light Industry (2000 - 2003)<br>Sales Executive - Ornapaper Industry (BP) Sdn Bhd (2003 - 2005)<br>Senior Sales Executive - Ornapaper Industry (BP) Sdn Bhd (2005 - 2010)<br>Asst. Sales Manager - Ornapaper Industry (BP) Sdn Bhd (2010 - 2011)<br>Asst. General Manager - Ornapaper Industry (BP) Sdn Bhd (2012 - Present) |
| Directorship in other Public Companies & listed issuers | : Nil |
| Family relationship with any directors and / or major shareholders of the Company | : Nil |
| Conflict of interest with the Company | : Nil |
| List of conviction for offences within the past 5 years | : Nil |

# Profile of Key Management

| | |
|---|---|
| Name | : Teng Say Yeong |
| Age | : 50 |
| Nationality | : Malaysian |
| Gender | : Male |
| Designation /Position in the Company | : General Manager |
| Date of appointment | : 1 Jul 2009 |
| Qualification | : SPM |
| Working experience | : Material Analysis Officer - Thomsam Audio, Muar (1986 - 1990)<br>Director - Toli Packaging (KL) Sdn Bhd (1992 - 1996)<br>Director - Tripack Packaging (M) Sdn Bhd (1996 - 2006)<br>Sales Manager - Tripack Packaging (M) Sdn Bhd (2006 - 2009)<br>General Manager - Tripack Packaging (M) Sdn Bhd (1 Jul 2009 - present) |
| Directorship in other Public Companies & listed issuers | : Nil |
| Family relationship with any directors and / or major shareholders of the Company | : Nil |
| Conflict of interest with the Company | : Nil |
| List of conviction for offences within the past 5 years | : Nil |



# Management Discussion and Analysis

**Group's Business Overview**

Ornapaper Berhad ("Ornapaper") is engaged in investment holding and provision of management services. The Group is operating through its subsidiaries in Malaysia, namely, Ornapaper Industry (M) Sdn. Bhd., Ornapaper Industry (Batu Pahat) Sdn. Bhd., Ornapaper Industry (Perak) Sdn. Bhd., Ornapaper Industry (Johor) Sdn. Bhd., Tripack Packaging (M) Sdn. Bhd. and Quantum Rhythm Sdn. Bhd.

Ornapaper is participating in the paper based packaging and stationery products industry in Malaysia. Other than Quantum Rhythm Sdn. Bhd. which is primarily involved in the manufacturing of paper based stationery products with revenue of less than 10% generated to the Group's total income consistently for the past few years, the rest of the subsidiaries which contributed to more than 90% of the Group's revenue are principally engaged in the design, manufacturing and sales of corrugated boards and carton boxes, serving the packaging needs of various industries in Malaysia, namely, electronics and electrical ("E&E"), foods and beverages ("F&B"), furniture, textile and garments, rubber, plastic and agriculture industry as well as other stand-alone converters who do not own a corrugator plant. It offers wide selection of corrugated box types, such as, regular slotted cartons ("RSC"), top and bottom ("T&B"), five panel folder ("FPF"), half slotted carton ("HSC"), full overlap slotted carton ("FOL"), L shape, H shape, corrugated pads, and die-cut products. The company also supplies measuring cardboard boxes and corrugated flutes comprising single face, single wall, double wall and triple wall corrugated fibreboard. It has become one of the top five (5) leaders in the corrugated boards and carton boxes manufacturing industry in Malaysia supplying superior quality of corrugated boards and packaging products through strict adherence to quality standards stipulated in the ISO 9001 Quality Assurance certification.

Most of Ornapaper's products are manufactured according to customers' specifications. With one of the visions to be the best business partner for its customers, Ornapaper is offering the best quality products and customer service while achieving optimum cost and sales value equilibrium for long term sustainability. This could be achieved through production optimization coupled with the recruitment and training of a competent workforce as well as sourcing for high quality but reasonably priced raw materials from credible local vendors instead of overseas suppliers to produce value added products for its customers.

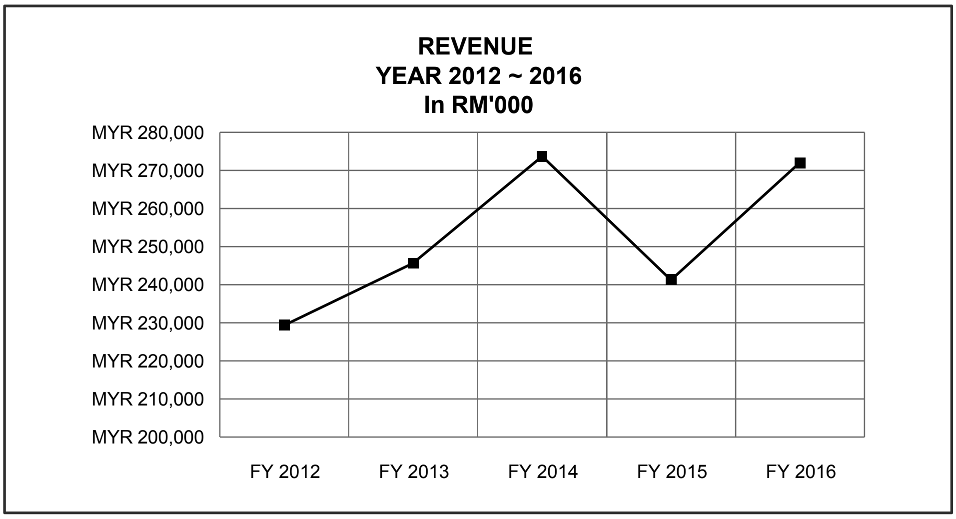
Ornapaper aims to be a leading provider of packaging and related solutions serving the packaging needs of the modern manufacturing sector, through improving and strengthening of Ornapaper's operational core competency. Its existing facilities throughout Malaysia enable the Group to produce 100,000 metric tonnes of corrugated boards and cartons per annum. Armed with the application of latest technologies and innovations, Ornapaper is capable of producing high quality corrugated boards and packaging products that meet customers' needs and satisfaction, meanwhile, lifting the packaging standards within the industry in Malaysia.

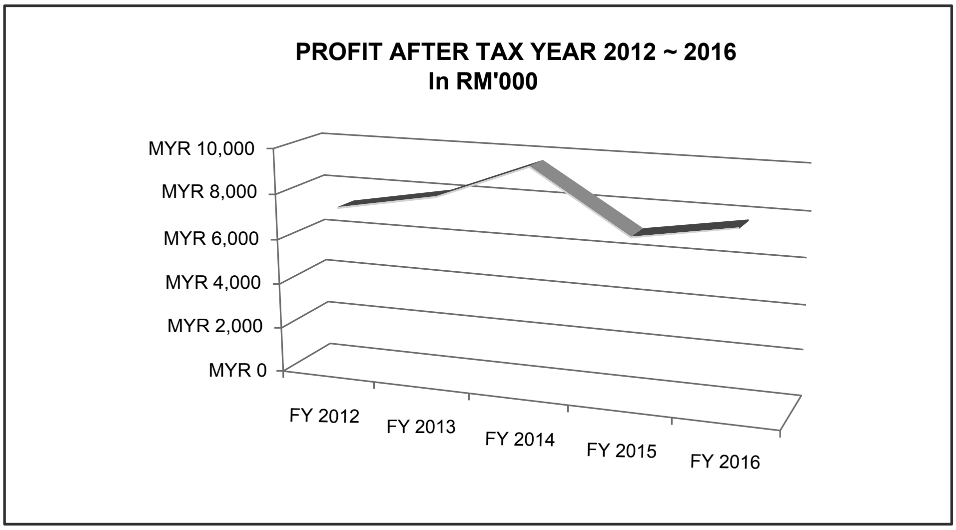
# Management Discussion and Analysis

**Financial Review (Financial Year Ended 31 December 2016 ("2016") compared with Financial Year Ended 31 December 2015 ("2015") and Operation Review**

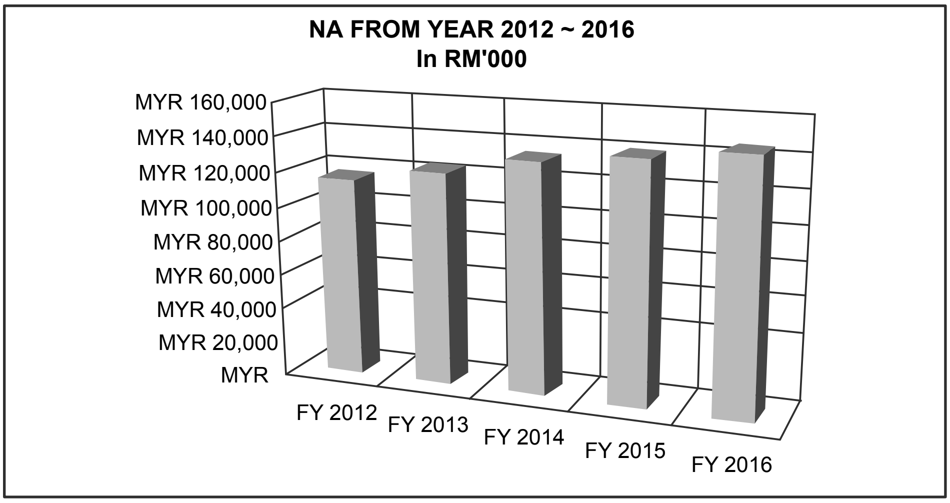
| In RM'000 (unless otherwise stated) | FY 2012 | FY 2013 | FY 2014 | FY 2015 | FY 2016 |
|---|---|---|---|---|---|
| REVENUE | 229,336 | 245,625 | 273,696 | 241,287 | 272,052 |
| GROSS PROFIT | 41,557 | 45,251 | 51,325 | 43,048 | 47,930 |
| PROFIT AFTER TAX * | 7,285 | 8,032 | 9,643 | 7,040 | 7,770 |
| NA | 115,117 | 123,238 | 132,949 | 138,215 | 143,773 |
| NA per share (RM) | 1.55 | 1.66 | 1.79 | 1.86 | 1.92 |
| EPS Basic (sen) | 9.80 | 10.80 | 13.00 | 9.50 | 10.50 |

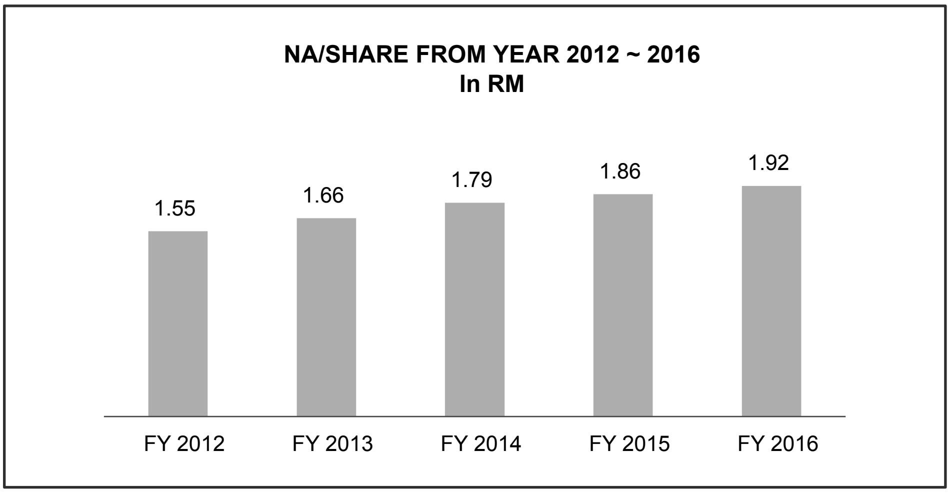
* Attributable to Owners of Parent.

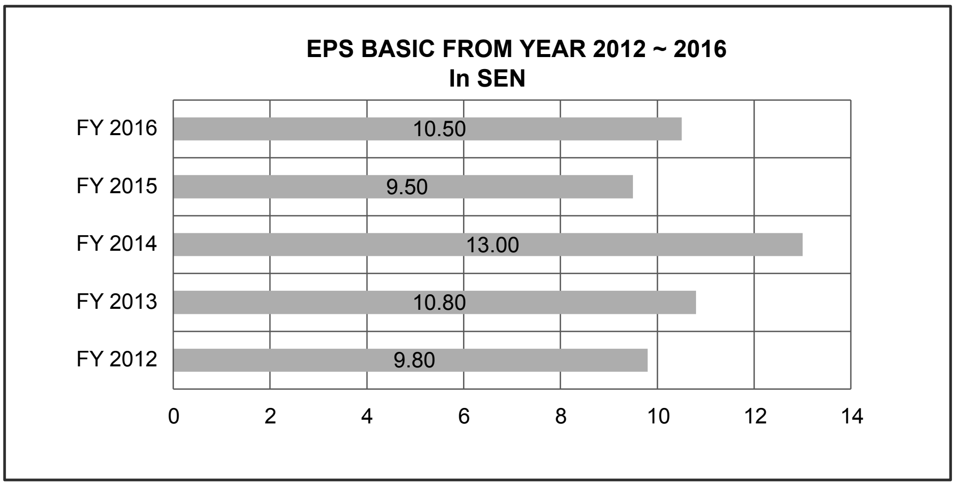


# Management Discussion and Analysis



# Management Discussion and Analysis

**Revenue**

The Group's revenue in 2016 of RM272.052 million recorded an increase of approximately RM30.765 million or 13% over the preceding year's revenue of RM241.287 million. Ornapaper Industry (M) Sdn. Bhd. has contributed majority of the Group's revenue. The sales of paper packaging division accounted for around 92% of the Group's revenue in 2016 with the rest attributed to the paper based stationery division. The sales to E&E, food processing and furniture industry accounted for about 40% of the Group's sales in 2016.

The improved revenue in the current financial year arose mainly from improved sales volume in 2016 secured from new and existing customers, despite the weak business climate in 2016, resulting from the Group's strategy not to overly dependent on one industry but diversifying its customer base to wide spectrum of industries to counter the seasonal and cyclical pattern of a particular industry. Besides, the increase of average selling price ("ASP") for corrugated boards and cartons boxes both by approximately 6% respectively from 2015 to 2016 is also one of the main factors that contributed to the increase of Group's revenue in 2016 consequent to the continuous cost pass-through efforts by the Group's Sales and Marketing division. Apart from that, one of the main reasons for the increase of ASP in 2016 from 2015 was due to improved product mix structure by improved the premium cartons' contribution to overall sales composition.

**Cost of Goods Sold and Gross Profit Margin**

Cost of goods sold increased by approximately RM25.883 million or 13%, from RM198.239 million for 2015 to RM224.122 million for 2016. The increase was contributed by higher paper costs ranged from 6% to 9% (the highest cost component of both the paper packaging and paper based stationery) as well as higher consumption of raw materials, labours and direct overheads expenses incurred in 2016 to cater for the increase in sales volume in 2016 as compared to 2015.

Despite the increase of cost of goods sold in absolute term, the gross profit margin of the Group remained relatively stable at 18% in 2016 as compared to 2015 due to improved plants' capacity utilisation and efficiency to drive down unit manufacturing cost as well as continuous cost pass-through exercises by the Sales and Marketing Department of respective operating subsidiaries. The gross profit margin of the paper packaging and paper based stationery division were approximately 16% and 10% respectively in 2016.

**Costs and Expenses**

(a) Administrative expenses increased by approximately RM0.558 million or 5%, from RM10.967 million for 2015 to RM11.525 million for 2016. The increase was mainly due to the higher payroll related expenses incurred in the 2016 in meeting customers' delivery deadlines as a result of higher sales volume in 2016 as compared to 2015.

# Management Discussion and Analysis

**Costs and Expenses (continued)**

(b) Increase of selling and marketing expenses by approximately RM2.394 million or 14%, from RM16.651 million for 2015 to RM19.045 million for 2016 was mainly due to increase in carriage outwards expenses incurred in 2016 as a result of higher sales volume and deliveries to customers.

(c) Other expenses increased by approximately RM1.058 million or 18%, from RM5.973 million for 2015 to RM7.031 million for 2016. The increase was mainly due to non-recurring loss on disposal of fixed assets incurred in 2016 amounting to RM 1.197 million as compared to preceding year's loss on disposal of fixed assets amounting to RM0.364 million.

**Other Income**

The decrease in other income of the Group to RM1.141 million in 2016 from RM1.999 million in 2015 was mainly due foreign exchange losses incurred in 2016 as a result of strengthening of US Dollar (“USD”) and Euro (“EURO”) against Malaysian Ringgit (“MYR”). The foreign exchange losses were mainly arose from payments made to suppliers for purchases of paper rolls and machineries in 2016.

**Profit Attributable to Owners of the Company**

The profit attributable to owners of the Company increased by approximately 10% from RM7.040 million in 2015 to RM7.770 million in 2016, mainly contributed by the improved sales and production capacity utilisation and efficiency in 2016.

**Property, Plant and Equipment**

Property, plant and equipment of the Group recorded a slight decrease of approximately RM0.383 million from RM97.502 million in 2015 to RM97.119 million in 2016, mainly contributed by the disposal of fixed assets incurred in 2016 mostly by Ornapaper Industry (M) Sdn. Bhd.

**Inventories**

The inventories of the Group increased from RM35.840 million in 2015 to RM37.256 million in 2016, an increase of approximately 4% in line with the increase of the cost of papers as compared to corresponding financial period.

Despite the increase of the inventories in absolute term, the inventory turnover days (average inventories divided by total costs of goods sold for the year) improved marginally from average 63.1 days in 2015 to average 59.5 days in 2016.

There was no write-down of inventories as the Group adopted First-In-First-Out approach for its inventory management and closed monitoring of its inventory levels.

# Management Discussion and Analysis

**Trade and Other Receivables**

Trade and other receivables of the Group recorded an increase of approximately 13% from RM60.196 million in 2015 to RM67.848 million in 2016, which is mainly resulted from the increase of trade receivables balances during the year.

Overall increase in trade receivables balances in 2016 is in line with the increase in sales generated during the year. The trade receivables turnover days (average trade receivables divided by total sales for the year) improved slightly from average 87.5 days in 2015 to average 84.6 days in 2016 despite the weak business condition as the Group balanced its sales growth with prudent and conservative credit measures in view of the market sentiment. On the other hand, the Group managed to reduce the impact of the weak market sentiment on the delinquency of the customers, evidenced from the fact that bad debts written-off in 2016 accounted for only 0.025% of the sales as compared to 0.026% in 2015.

**Other Current Assets**

The other current assets increased from RM0.965 million in 2015 to RM5.100 million in 2016 was mainly due to advanced payments mainly by Ornapaper Industry (M) Sdn. Bhd. made to the vendors for purchases of machineries for planned upgrade exercise and capacity expansion.

**Trade and Other Payables**

On overall, the trade and other payables recorded a slight increase of approximately RM0.017 million from RM27.244 million in 2015 to RM27.261 million in 2016. The slight increase is mainly resulted from the increase in other payables balances by RM0.838 million from RM7.439 million in 2015 to RM8.277 million in 2016 mainly due to accruals of bonus and commission in 2016. However, the increase is mitigated by the decrease in trade payables balances during the year.

The trade payables balances decreased from RM19.805 million in 2015 to RM18.984 million in 2016, mainly due to prompt payments made to suppliers during 2016 for the raw materials purchased with 30 days credit term utilising the trade financing provided by financial institutions to reduce costs of raw materials by capitalising the discounts/rebates offered by the suppliers. Consequently, the trade payables turnover days improved from average 34.2 days in 2015 to average 31.6 days in 2016.

**Liquidity, Capital Resources and Capital Expenditure**

The Group's capital expenditure and working capital requirements were financed by, firstly, cash generated from operations and secondly, long-term debt financing and working capital financing provided by financial institutions. It is the Group's policy that capital expenditure to be financed by long term debt financing corresponding to the gestation period of the capital investment project. Major capital expenditure incurred during the financial year was plant and machinery upgrade and capacity expansion mainly for Ornapaper Industry (M) Sdn. Bhd. to improve production efficiency and to cater for anticipated increase in sales volume, as well as extension of land use rights for Ornapaper Industry (Johor) Sdn. Bhd. for a period of 30 years. The capital expenditures incurred during the financial year were financed by internally generated fund and long term debt financing. The Group is to continuously undertake plant and machinery upgrade at respective operating subsidiaries to increase production capacity and to improve production efficiency in coming years.

# Management Discussion and Analysis

**Liquidity, Capital Resources and Capital Expenditure (continued)**

From working capital aspect, the Group was able to maintain its current ratio at 1.64 times in 2016 as compared to 1.70 times in 2015. On the other hand, the acid test ratio of the Group improved from 1.13 times in 2015 to 1.14 times in 2016.

Cash and cash equivalents increased from RM2.850 million as at 31 December 2015 to RM6.407 million as at 31 December 2016. This was mainly due to higher net cash flows generated from financing activities which recorded a net cash inflow of RM10.502 million in 2016 as compared to the net cash outflow of RM14.103 million in 2015, as a result of lesser repayments of hire purchase due to early settlements in 2015 and increase in short term borrowings to finance the working requirements of the Group. There is an increase in cash inflow from short term borrowings amounting to RM19.144 million, from decrease of RM5.481 million in 2015 to increase of RM13.663 million in 2016 as a result of higher trade financing utilised for purchases of raw materials to capitalise the discount/rebate offered by the suppliers.

The Group generated a net cash inflow from operating activities at RM10.767 million in 2016 as compared to RM18.258 million in the preceding year. This was mainly due to the increase in trade and other receivables and other current assets as a result of higher sales in 2016 as compared to 2015 and advanced payments to vendors for machineries used for capacity expansion in 2016.

Apart from that, net cash flows used in investing activities arose from RM5.552 million in 2015 to RM17.691 million in 2016, mainly due to increase in purchases of property, plant and equipment in relation to production capacity expansion, deposits placed with banks and payments for extension of land use right for 30 years in relation to a piece of land at Johor Bahru in 2016.

**Debt-to-Equity Ratio**

The debt-to-equity ratio (net debt divided by total capital plus net debt) of the Group as at 31 December 2016 remained healthy at 32% notwithstanding the increase from 30% as at 31 December 2015. Higher debt-to-equity ratio of the Group during the financial year of 2016 was mainly due to the increase of short term borrowings in 2016 in the form of trade financing for purchases of raw materials.

**Review of Operating Activities**

| In RM'000 (unless otherwise stated) | FY 2012 | FY 2013 | FY 2014 | FY 2015 | FY 2016 |
|---|---|---|---|---|---|
| GROSS PROFIT MARGIN (%) | 18% | 18% | 19% | 18% | 18% |
| EBITA MARGIN (%) | 9% | 10% | 10% | 10% | 9% |
| REVENUE PER EMPLOYEE | 282 | 284 | 303 | 288 | 335 |
| EBITA PER EMPLOYEE | 25 | 28 | 31 | 28 | 29 |
| NUMBER OF EMPLOYEE | 813 | 864 | 904 | 837 | 812 |

# Management Discussion and Analysis

**Review of Operating Activities (continued)**

The gross profit margin as well as earnings before interest, taxes, and amortization ("EBITA") margin of Ornapaper remained relatively stable throughout the five (5) financial years from 2012 to 2016, at a range of 18% to 19% for gross profit margin and 9% to 10% for EBITA margin, as a result of improved plants' capacity utilisation and efficiency to drive down unit manufacturing cost as well as continuous cost pass-through exercises by the Sales and Marketing Department of respective operating subsidiaries. Consequently, the average revenue generated per employee of the Group presented a positive growth especially in 2014 and 2016, amounting to approximately RM0.303 million and RM0.335 million respectively. Ornapaper is developing its business and generating growth through organic growth, which includes building its revenue and bottom line by increasing its customer base, reinvesting profits made and improving efficiency by enhancing the plants' capacity utilitization with skilful workforce in reducing its unit manufacturing cost possible. Nevertheless, Ornapaper will seize the opportunity to embark on mergers or acquisitions should the target company offers good income accretive potential, value added proposition and complement the existing products produced by the company.

**Risk Factors Exposure**

There are several risks that the Group is exposed to in operating its paper packaging businesses, as follows:-

**(i) Foreign Currency Risk**

The Group is exposed to foreign currency risk in relation to purchases of raw materials and machineries as well as sales of finished goods that are transacted in USD, EURO and SGD, as a result of strengthening of USD, EURO and SGD against MYR. The Group does not practice any active hedging of foreign currency due to unpredictable fluctuation of foreign currency. The management of foreign currency risk is through closed monitoring of foreign currency movement with limited hedging through forward contracts and active cash flow planning by the Management. In order to reduce the impact of foreign currency on the cost of paper packaging produced, the Group reduces its dependency of import of paper rolls from overseas by substituting the consumption requirements through local sources.

**(ii) Material Price Fluctuation**

The Group is affected by the price fluctuation of paper rolls. As the Group is engaged in the manufacturing of corrugating boards, carton boxes as well as paper based stationery products, the main raw materials used are the paper rolls, which have contributed more than 60% of the total cost of production. Price of paper rolls is subjected to price fluctuation based on the commodity price of wood pulp. Therefore, such price fluctuation may significantly affect the selling price of corrugated boards, carton boxes and paper based stationery products produced.

In order to reduce the increment of cost involved without impairing the profit margin and quality of products produced, the Group has taken initiatives to strictly monitor the costs of paper rolls, increase the production efficiency with production optimization and reduce wastage. Apart from that, continuous cost pass-through through revised selling price is conducted by the Sales and Marketing Department of respective subsidiaries.

# Management Discussion and Analysis

**Risk Factors Exposure (continued)**

**(iii) Competitive Risk**

At present, bigger paper and packaging suppliers will predominate the weaker or smaller suppliers with the ability to maintain their position steadily in this rapidly changing marketplace. The small-scale paper and packaging suppliers will be finding it hard to gain profit margin in the paper and packaging market due to insufficient capital in sourcing for better technologies and lower bargaining power in procuring cheaper raw materials, which is then lead to a higher production cost. In addition to this, the price of raw materials also increased in recent years. The small players with little to no profit margin will then be consolidated through mergers and acquisitions by the bigger players in expanding their market shares.

Therefore, it is important for the Group to be competitive enough in securing and maintaining its position in the market. The Group have a diverse customer base in different industry group with different product mix structure to counter the intense competition in local scene. Furthermore, by maintaining a competent workforce, the Group is able to ensure optimal productivity with little wastage and excellent quality's products and services. With the investments in the automation machines and plant expansion, machines capacity could be maximized and leads to cost efficiency to counter cost-down measure by the customers. This is evidenced by the increase in sales while maintained the gross profit margin in 2016.

**(iv) Credit risk**

The credit risk of customers increased in response to the weak market sentiment in recent years.

The Group adopts a sales and marketing approach balance with prudent credit management and sustainable sales growth. The Group had put in place credit management policy and processes in that respect.

**Overall Condition and Trend of Economies and Industries**

The paper packaging and paper based stationery industry hinge heavily on the performance of the economic and relevant industries the Group is supplying to, not only in Malaysia but also regionally.

The global economy is expected to continue growing at a moderate pace, amid modest economic recovery in the major advanced economies and slowed growth in the emerging markets. Global economic activity continued to expand in the fourth quarter of 2016. The advanced economies experienced divergent growth trends, in part, driven by differences in the strength of private consumption amid cyclical and structural weaknesses. In Asia, economic activity was supported mainly by domestic demand. The economic environment for Malaysia is expected to continue to be affected by the uncertainties surrounding both the global and domestic fronts, especially the economic sustainability of United States which appeared to be the largest importer in the world. Uncertainties in the global economy, the policy environment and geopolitical developments may result in volatility in financial and foreign exchange markets. Financial market volatility increased over the policy and political uncertainties following the outcome of the presidential election in United States and "BREXIT" which is United Kingdom's prospective withdrawal from the European Union. However, on overall, global monetary conditions remained very accommodative against a backdrop of continued growth concerns with rising inflation.

# Management Discussion and Analysis

**Overall Condition and Trend of Economies and Industries (continued)**

Against backdrop of the external environment, however, it is believed that Malaysia economy will still record slightly stronger growth in 2017. The Malaysian economy grew by 4.5% in the fourth quarter of 2016 (3Q 2016: 4.3%), underpinned by continued expansion in private sector expenditure. On the supply side, growth continues to be driven by the manufacturing and services sector.

Overall, domestic demand expanded at a more moderate pace, as the improvement in private consumption and investment activity was more than offset by the decline in public expenditure. In the fourth quarter of 2016, private consumption grew by 6.2% (3Q 2016: 6.4%), supported by continued wage and employment growth.

On the supply side, growth in the manufacturing, mining and agriculture sectors improved. The manufacturing sector expanded at a faster pace at 4.8% in the fourth quarter of 2016 owing to higher growth in both domestic and export-oriented industries.

While the external environment may continue to remain challenging, the Malaysian economy will experience sustained growth with the primary driver being domestic demand. Private consumption is anticipated to remain supported by wage and employment growth, with additional impetus coming from announced Government measures to support disposable income of households. Investment activity will continue to be anchored by the on-going implementation of infrastructure projects and capital spending in the manufacturing and services sectors . The same goes to the paper and packaging industries operated by the Group, with the business and operations to be influenced by the surrounded uncertainties.

It is expected that the electrical and electronic sector to continue registering encouraging growth in coming years due to continue proliferation of consumer electronics and advancement in technology and it is for the food processing industry to register stable growth rate due to resilient nature of the business sector. Same goes to the furniture industry.

The sales value of the overall Manufacturing sector in December 2016 recorded RM61.5 billion, an increase of 10.6% (RM5.9 billion) as compared to RM55.6 billion reported in 2015.

Exports rose by 1.1% to RM785.93 billion in 2016 and imports increased by 1.9% to RM698.66 billion in 2016, resulting in a trade surplus of RM87.27 billion, the 19th consecutive year of trade surplus since 1998. Exports of E&E products rose by 3.5% or RM9.8 billion to RM287.72 billion, accounting for 36.6% of total exports. Approximately 96% of the E&E products were exported in 2015.

# Management Discussion and Analysis

**Overall Condition and Trend of Economies and Industries (continued)**

Total Free-On-Board output value of selected food processing, namely, process fish and fish products, canned pineapples, condensed, powdered and evaporated milk, biscuits/cookies, bread, chocolate products and sugar confectionery and sauces and flavourings, amounted to USD3.06 billion in 2015, registered 3.2% five-year compounded annual growth rate.

For furniture industry, Malaysia is ranked as the 10th largest exporter of furniture in the world, with exports around 80% of its production. With large markets in US, Japan and Australia, Malaysia has a strong position in the global furniture industry. With tremendous growth in exports to UAE, Saudi Arabia, the Philippines and Russia, Malaysia is now eyeing countries like Algeria, Greece, Puerto Rico and Libya. Malaysia has always been known for its wood based furniture, owing to its natural resources. The government has set an annual growth target of 6.5% for wood based furniture, estimated to reach up to RM53 billion by year 2020.

The global corrugated market was worth over USD140 billion in 2013, amounting to almost 90 million tonnes of finished products. Demand for corrugated packaging is expected to grow by an average of more than 4% annually and will amount to almost 115 million tonnes of converted material worth an estimated USD176 billion by 2019. The largest producing country of corrugated board is China, which accounted for approximately 27% of the total container board market volume produced in 2013. China also leads in corrugated conversion, making up over 28% of the global converted output in 2013.

Almost 30% of the projected volume in 2019 will be used in the packaging of processed foods, with fresh produce adding another 10% to the total. By 2019, food packaging is expected to consume 47% of the total volume, with processed foods making up 30% of the total. Meanwhile, the packaging of electrical goods (including mobile devices) is expected to show the most attractive growth prospects. The consumption of corrugated materials for this sector will increase 5.6% annually to 2019. Electrical goods will be the single largest non-food packaging application, followed by paper products and personal and household care items.

One of the factors driving demand for corrugated packaging materials is the increased investments undertaken by producers in environmental protection and energy optimization programmes, as well as other activities aimed at reducing water consumption and improving logistics. Consumers and regulatory bodies nowadays have become more environmental conscious with more concerns raised towards the environment and sustainability. These efforts are producing the desired effect as the corrugated industry has reduced its carbon footprint by a further 4.8% between 2009 and 2011, following a decrease of around 12% between 2006 and 2008.

# Management Discussion and Analysis

**Overall Condition and Trend of Economies and Industries (continued)**

In addition, the growth of internet shopping, stimulated by the use of smartphones as well as the increasing proportion of tech-savvy consumers, contributed tremendously to corrugated demand. In traditional retailing, one corrugated box will be used to transport several items, whereas now, each item has its own corrugated packaging and is shipped directly to consumers. Retail-ready packaging is also on the rise, driven by the influence of supermarkets over the retail landscape and supported by their growing share of the retail market, as they attempt to improve distribution efficiencies. These trends, along with the growth in food and electrical goods packaging, will continue to sustain demand for corrugated packaging materials.

On domestic front, industry consolidation started few years ago with the notable acquisition of Oji Group of Malaysian based paper and packaging manufacturers increases the need of the players to achieve economies of scale in order to sustain the increase in competition stance in the industry. The unpredictable fluctuation in the paper prices and strengthening of USD and EURO against MYR posed a challenge to the local corrugators and converters as uncertainty of costing and immediate cost pass-through is not possible. Not to mention the reduce in rebate of electrical tariff in 2016, gradual increase in natural gas tariff in coming years and mandatory imposition of foreign workers' levy payment on employers in 2018.

While the key economic and industry trends suggested stable and consistent growth in the key industries that the Group serves going forward, the Group, nevertheless, is adopting a balanced of prudent and careful expansion approach in the conduct of its business in preparation for any unforeseen black-swan event. The Group will continue its strategy of not overly dependent on one industry group and continue to diversify its customer and industry group base in coming years. As one of the leading players in paper packaging and paper based stationery, the Group is to position itself as the green partner and to provide value-added services to its customer, rather than just pure packaging material supplier.

With the above expected developments in the economies and industries as well as further rooting of environmental friendly mentality, the Group continues to operate under intense competition market environment. The Management foresees a reasonable performance for year 2017 as compared to year 2016 with the business strategies implemented. Under intense competition market environment.

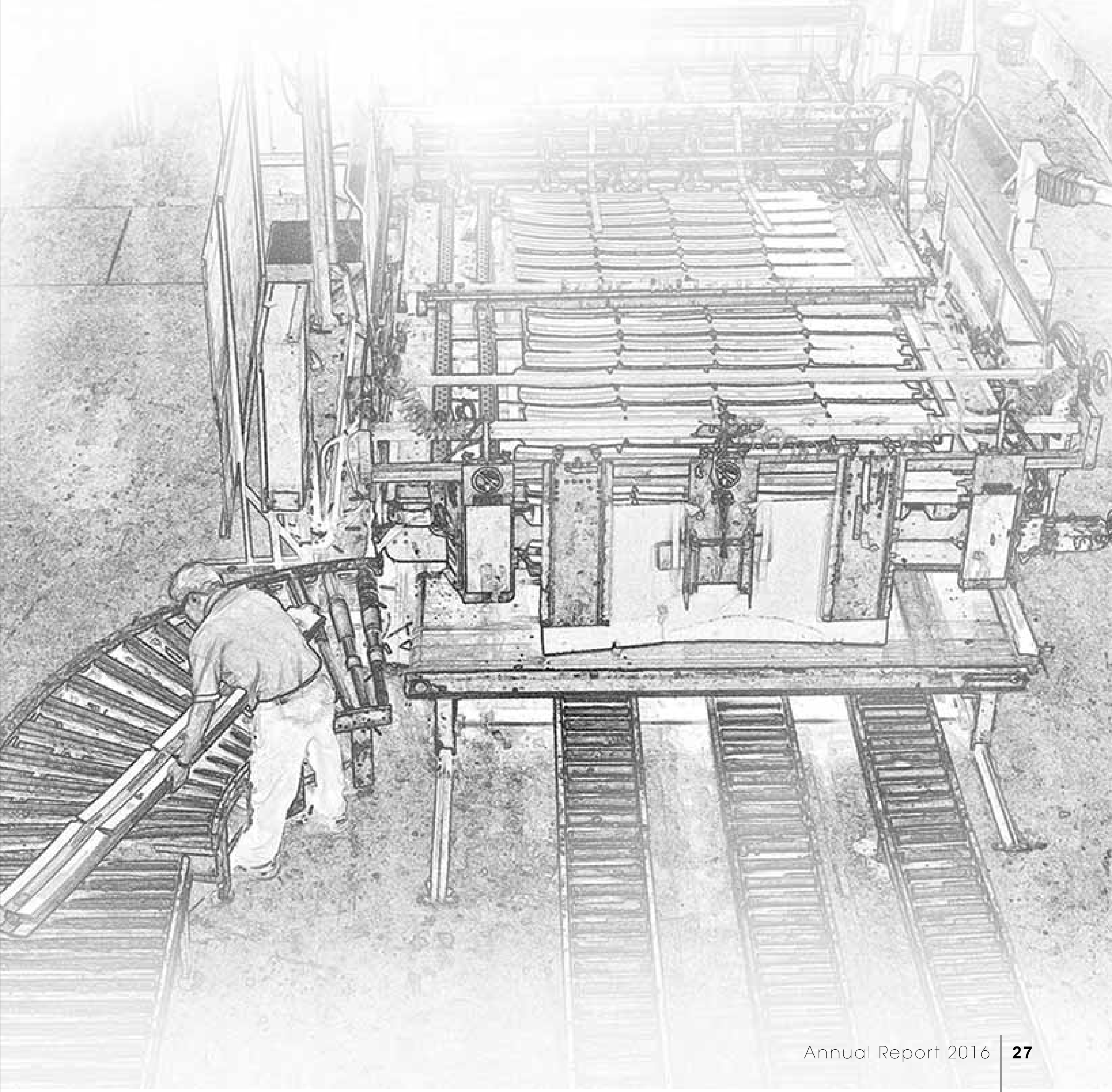
**Dividend**

An interim single tier dividend of 3% per ordinary share (net of treasury shares) was declared and distributed to the shareholders from the Group's retained earnings on 13 October 2016 in respect of the financial year ended 31 December 2016, amounting to approximately RM2.225 million.

# Management Discussion and Analysis

**Dividend (continued)**

The Group adopts prudent and conservative approach toward its capital expenditure and working capital requirements and as such, such financing requirements are sourced by internally generated funds, supplemented by suitable debt financings. As such, at present, the Group does not adopt a fixed dividend policy but to consider distribute excess profits generated after taking into consideration of the planned capital expenditure and working capital requirements in current and coming years.



# Corporate Governance Statement

The Board of Directors ("the Board") of Ornapaper Berhad ("Ornapaper" or "the Company") recognizes and subscribes to the importance of the principles and recommendations set out in the Malaysian Code on Corporate Governance 2012 ("MCCG 2012" or "the Code"). The Board is firmly committed that accountability and transparency at every level of the organization is essential in safeguarding assets, enhancing shareholders' value and maintaining strong financial performance.

The Board is pleased to provide the following disclosure statement which outlines the main corporate governance that has been in place throughout the financial year ended 31 December 2016.

## A. THE BOARD

- **Board Charter**

  The Board Charter set out the roles and responsibilities of Directors, the Board, as well as the duties of the Board Committees.

  The objectives of this Board Charter are to ensure that all Board members acting on behalf of the Company are aware of their fiduciary duties and responsibilities as members of the Board and the various legislations and regulations affecting their conduct and that the highest standards of Corporate Governance are applied in all their dealings in respect, and on behalf of the Company.

  The Board Charter is available for reference at the company website www.ornapaper.com. The Board Charter was last reviewed in 17 May 2013.

- **Clear Functions Reserved to the Board and Delegation to Management**

  The Board is responsible for the overall corporate governance of the Group, including its strategic plan, overall management and business performance, management of principal risk and controls, standard of conduct and critical business issues and decisions. Key matters reserved for the Board's consideration and approval include the following:

  - Approval of financial results
  - Dividend policy
  - Issuance of new securities
  - Annual business plan
  - Annual financial budget
  - Acquisition or disposal of material fixed assets
  - Acquisition or disposal of group companies

  The key matters reserved for the board are clearly stated in the Board Charter.

  To ensure the effective discharge of its functions and responsibilities, the Board delegates some of the Board's authorities and discretion to the Executive Directors, representing the Management, as well as to formally constituted Board Committees. The details of the roles and responsibilities of the Board, Chairman and Chief Executive Director ("CED") can be found in the Board Charter and the authorization requirements can be found in the "Policies, Procedures and Authorisation Requirements" of the Statement of the Risk Management and Internal Control. The Board Members, in carrying out their duties and responsibilities, are firmly committed to ensuring that the highest standards of corporate governance and corporate conduct are adhered to, in order that the Company achieves strong financial performance for each financial year, and more importantly delivers long-term and sustainable value to stakeholders.

# Corporate Governance Statement

The Board Committees (Audit Committee, Nomination Committee and Remuneration Committee) are entrusted with specific responsibilities to oversee the Company's affairs, in accordance with their respective Terms of References approved by the Board. At each Board meeting, minutes of the Board Committee meetings are presented to the Board. The respective Chairman/Chairperson of the Board Committees will also report to the Board on key issues deliberated by the Board Committees.

In turn, the Board, and Executive Directors provide guidance and oversight to the Management Committee ("MC") that comprises of heads of department, who is responsible for day-to-day operation efficiency and effectiveness and compliance with relevant laws and regulations in accordance to the procedures and authorities granted in the Group's operating procedures approved by the Executive Directors.

- **Clear Roles and Responsibilities**

The Board is responsible in leading the Group towards achieving its Vision and Mission, which is made possible by the Board in assuming among others, the following broad categories of roles and responsibilities:

**1. Reviewing and adopting a strategic plan for the company**

The Board, through Audit Committee, reviews the financial performance and financial/non-financial information updates provided by the Head of Accounts Department of the Company on quarterly basis. The financial performance of the group and subsidiaries are compared to the corresponding quarter of preceding year to provide an indication of the state and performance of the company. Reason for the decline and increase in various financial indicators are analysed and deliberated during the meeting for any possible strategic decision required to address the shortcomings. Changes in government policy and related incentives offered are highlighted during the Board meeting for decision on the possible utilization of incentives in the expansion or upgrading of machineries and plants.

**2. Overseeing the conduct of the Group's business**

The Executive Directors are tasked with the responsibility of overseeing the day-to-day management of the business and operations of the Group, with key performance indicators set for key divisions that are monitored and discussed monthly during monthly management review meeting in the presence of the Executive Directors. In addition, the Executive Directors attend weekly meeting with the management team to discuss and monitor on the progress of issues encountered in production, operational, sales and human resource. Thereafter, the management performance, under the leadership of Executive Directors is assessed by the Board through the financial performance and financial/non-financial information presented by the Management on quarterly basis.

**3. Identifying principal risks and ensuring the implementation of appropriate internal controls and mitigation measures**

The Audit Committee, through the audit report and guidance from external auditors and internal auditor, advises the Board on areas with high risk encountered by the Group and the adequacy and effectiveness of governance, risk and control structures and processes throughout the Group. The Audit Committee monitors the status of implementation of appropriate internal controls and mitigation measures through the Internal Auditor's management action progress report and update from the management and makes relevant recommendations to the Board to manage risks.

Further explanation on such process are disclosed in the Statement of Risk Management and Internal Control on page 50 to 54.

**4. Succession planning**

The Nomination and Remuneration Committees are tasked by the Board with the duty of succession planning for the Board, which includes the appointment, training requirement, determination and assessing the performance of the Board, Board committees and individual directors.

The Board, together with the Executive Directors and the Management, put in place an informal structure and practice for succession planning by way of on-going identification and training of competent and caliber second-in-line for key positions in the Group. To aid the process of succession planning and in ensuring the continuity of business and operations, key processes of the company are guided by standard operating procedures and job description of the key positions.

**5. Overseeing the development and implementation of a shareholder communications policy for the company**

The Board ensures the shareholders and stakeholders are kept informed of material events through the announcements made through Bursa Malaysia Securities Berhad ("Bursa Securities"). Announcements made through Bursa Securities are reviewed by the Executive Director prior to its release to confirm its factual correctness and subsequently confirmed by the Board during the Board meetings. The Board is committed in ensuring equitable access to information, communication that are timely, factual, accurate and complete.

To enhance the corporate disclosure process further, the Board is in the midst of developing and implementing a formal Corporate Disclosure Policy.

**6. Reviewing the adequacy and the integrity of the management information and internal controls system of the Group**

The Audit Committee reviews the system of internal control of the Group through the Internal Audit function of the Group. The outsource professional internal auditor reviews the control systems of the Group based on the internal audit plan approved and outcomes of the review are reported to the Audit Committee. Further information on the Internal Audit Function of the Group is disclosed in the Statement of Risk Management and Internal Control on page 50 to 54.

- **Composition of the Board**

The Group is headed by an effective Board with right mixture of knowledge, expertise and diverse academic background to effectively discharge its stewardship responsibilities in spearheading the Group's growth and future direction.

The Board comprises six (7) members of which four (4) are Executive Directors and three (3) are Independent Non-Executive Directors. With the present composition of the Board, the Company complies with the Bursa Securities Main Market Listing Requirements ("MMLR") with regard to the constitution of the Board and the required ratio of Independent Directors.

The Board composition is appropriate in terms of its membership and size. The Board is of the view that the current mix of skills, experience and knowledge are well reflect the requirement in the paper packaging industry, and also professionals with diverse knowledge in the areas of accounting, legal and general management.

# Corporate Governance Statement

The Independent Non-Executive Directors provide objective and independent judgement to facilitate balance leadership of the Group as well as to safeguard interest of the minority shareholders and other stakeholders by ensuring the highest standard of conduct and integrity are maintained by the Group; contributes significantly in areas such as policy and strategy, performance monitoring as well as improving governance and controls.

Profile of individual Directors are set out in pages 08 to 11 of this Annual Report.

- **Board Meetings**

To carry out its function and responsibilities, the Board meets quarterly to review its quarterly performances and discuss new strategies. Additional meeting will be called when necessary. During the financial year ended 31 December 2016, five (5) meetings have been held and attendance each of the Directors are as follows: -

| Names of Directors | Number of Meetings Attended |
|---|---|
| Ang Kwee Teng | 5/5 |
| Sai Chin Hock | 5/5 |
| See Wan Seng (Appointed on 27 May 2016) | 5/5 |
| Sai Han Siong | 2/2 |
| Tan Chin Hwee | 5/5 |
| Siow Kee Yen | 5/5 |
| Datuk Adillah binti Ahmad Nordin | 5/5 |

All meetings of the Board are duly recorded in the Board minutes by the Company Secretaries who attended all the Board meetings of the Company. The Company Secretaries ensures that all Board meetings are properly convened and proper records of the deliberations, proceedings and resolutions passed are recorded and maintained. In the interval between Board meetings, for exceptional matters requiring urgent Board's decision, Board's approval is sought via circular resolutions, which are attached with sufficient and relevant information required for an informed decision to be made.

- **Company Secretaries**

The Company Secretaries are responsible for ensuring the Board procedures are followed, that the applicable rules and regulations for the conduct of the affairs of the Board are complied with and for all matters associated with the maintenance of the Board or otherwise required for its efficient operation. The Company Secretaries advise the Board on issues relating to corporate governance, compliance with laws, rules, procedures and regulatory requirements.

The Company Secretaries attend and ensure that all Board and Board Committees meetings are properly convened and that accurate and proper records of the proceedings and resolutions passed are taken and maintained in the statutory register of the Company, with minutes of the previous meeting distributed for perusal and confirmation of the Directors prior to the Board meetings. Additionally, the Company Secretaries also ensures that there is a good information flow within the Board and between the Board Committees and Senior Management.

# Corporate Governance Statement

The Code of Ethics for Company Secretaries is adopted and the Board ensures that the Company Secretaries appointed are licensed and professional qualified secretaries who have the relevant experiences and skills. The Company Secretaries who are appointed by the Board are professionally qualified and competent (Licensed Company Secretaries and Member of Malaysian Institute of Chartered Secretaries and Administrators).

- **Supply of Information**

  All the Directors are notified of the Board meetings within stipulated time prior to the meetings date. Board papers together with the agenda are circulated to all the Directors no later than five (5) working days before the scheduled Board Meetings. This is to ensure that the Directors are given sufficient time to obtain a comprehensive understanding of the issues to be deliberated upon at the meeting in order to arrive at an informed decision as well as to discharge their duties and responsibilities.

  All the Directors have direct access to the Senior Management. During the Board meetings, Senior Management are invited to present and discuss on the quarterly financial report/non-financial information and market/industry development.

  In addition, the Directors may seek independent professional advice at their own discretion made available at the Company's expense on specific issues to render their independent and professional views and advice to the Board.

  The Directors also have access to the services of the Company Secretary for advice who is responsible for ensuring that the Board's procedures are followed.

- **Code of Conduct and Whistleblowing Policy**

  In ensuring the business sustainability, the Board is fully committed to the highest standard of integrity, transparency and accountability in the conduct of the Group's business and operations. The Board is in the process of setting up a formal Code of Conduct for the Group to govern the standards of ethics and good conduct expected of the Directors, Management and employees of the Group.

  Presently, the Group put in place a formalized policy on The Prevention and Eradication of Sexual Harassment at Workplace with complaint procedures stated in the policy. This is to ensure that the Group are able to provide a work environment which is conducive, safe and free from sexual harassment. Furthermore, the employees are made aware of proper conduct through the list of "Misconduct in The Company" listed in the Employment Policy.

  Additionally, to foster an environment where integrity and ethical behavior are maintained and any illegal or improper action and/or wrong doing in the Group, the Board is in the process of setting up a whistleblowing policy. The Code of Conduct and Whistleblowing policy once approved and adopted will be published in the Company's website.

- **Environment, Social and Governance**

  In order to promote sustainability of the Group's businesses, one of the business strategies adopted by the Board is to ensure the environmental, social and governance aspects of the businesses undertaken are well taken care. The Group upheld the principle to maintain effective Corporate Social Responsibility practice continuously in order to contribute positively to the socio-economic development of the communities, to promote environmental friendly business practices and to uphold good governance practice.

# Corporate Governance Statement

For long term business sustainability, one of the Group's mission is to "co-exist with the society as a guardian of our environment in our recycling program and waste control". As an environmental conscious Group of Companies, a formal Environmental Policy is established to promote environmental friendly business practices.

The Environmental Policy adopted by the Company is available in the Company's website at www.ornapaper.com/Ornapa/EnviPolicy.asp

## Strengthen Composition

**Board Committee**

As part of its efforts to ensure the effective discharge of its duties, the Board delegates certain functions to certain Committees, namely Audit Committee, Nomination Committee and Remuneration Committee with each operating within its clearly define terms of reference. The Chairman of the various Committees reports to the Board the outcome of the Committee meetings.

- **Audit Committee**

  The composition and terms of reference of Audit Committee, the number of meetings held, attendance, and activities carried out during the financial year are available in the Audit Committee Report on page 46 to 49 of this Annual Report.

- **Nomination Committee**

  The Nomination Committee comprises of three (3) Independent Non-Executive Directors which in compliance with MMLR as follows:

| Name | Position |
|---|---|
| Siow Kee Yen | (Chairman) |
| Datuk Adillah Binti Ahmad Nordin | (Member) |
| Tan Chin Hwee | (Member) |

  The terms of office and performance of the Nomination Committee shall be for a period of three (3) years and may be re-nominated and appointed by the Board from time to time. The Nomination Committee is guided by written terms of reference duly approved by the Board which states the authority, duties and responsibilities. A copy of the terms of reference of the Nomination Committee is available on the Company's website at http://www.ornapaper.com/Ornapa/Bursa_Term.asp

  During the financial year ended 31 December 2016, the Nomination Committee met twice and the attendance of individual committee members are as follow:

| Name | Number of Meetings Attended |
|---|---|
| Siow Kee Yen | 2/2 |
| Datuk Adillah binti Ahmad Nordin | 2/2 |
| Tan Chin Hwee | 2/2 |

  The Nomination Committee meetings were held to review and assess the appointment of new Executive Director, the performance of the board, the board committees, individual director and independence assessment of independent directors. The result of the review and assessment were reported to the Board for review and deliberation.

# Corporate Governance Statement

- **Appointment to the Board and Re-election of Directors**

  Appointment of Directors to the Board and Board Committees is through recommendation of candidates for all directorship to the Nomination Committee for consideration, nomination and assessment prior to recommending the candidate(s) to the Board for approval. In making its recommendations, it is the duty and responsibility of the Nomination Committee as stated in the Terms of Reference to assess the candidates for the followings:
  - Skills, knowledge, expertise and experience;
  - Professionalism;
  - Integrity; and
  - In the case of the candidates for the position of Independent Non-Executive Directors, the Nomination Committee would evaluate the candidates' ability to discharge such responsibilities/functions as expected from Independent Non-Executive Directors.

  During the financial year, the appointment of Mr. Sai Han Siong as Executive Director was reviewed and assessed by the Nomination Committee based on criteria stated above through the review of his background and profile. In recommending the nomination of Mr. Sai for the Board's approval, the Nomination Committee believed that Mr. Sai has the caliber, credibility, wide range of experience and expertise in the business that could add value to the Board as a whole. Additionally, the Nomination Committee considers that the appointment of Mr. Sai would also strengthen the profile of the Company and help to develop new business/projects. The assessment results and recommendation from Nominating Committee were reported to the Board for final deliberation and approval prior to his appointment.

  In accordance with the Listing Requirements and the Company's Articles of Association, at least one-third (1/3) of the Directors or the number nearest to one-third (1/3), shall retire by rotation at each Annual General Meeting and at least once every three (3) years. The Directors retiring from office shall be eligible for re-election by the shareholders.

  The Directors who are standing for re-election at the forthcoming 15th Annual General Meeting of the Company to be held on 24 May 2017 are stated in the Notice of the 15th Annual General Meeting.

- **Board and Individual Directors Assessment**

  The Nomination Committee annually reviews the required mix of skills and experience and other qualities, including core competencies which the Directors should bring to the Board. The Nomination Committee undertakes an annual assessment of the Independent Directors' independence and consider if they can continue to bring independent and objective judgment to board deliberations. The Board had implemented a process carried out by the Nomination Committee annually for the assessment and feedback to the Board the effectiveness of the Board as a whole and the contribution of each individual Directors for discussion and acceptance and for further improvement.

  During the financial year, the Board, through Nomination Committee, conducted the Board Performance Evaluation and Self Performance Evaluation for individual Directors. While the assessment on the effectiveness of Audit Committee for the financial year 2016 was performed in the Nomination Committee Meeting held on 24 February 2017.

# Corporate Governance Statement

The Board performance evaluation evaluates the Board based on the following areas:

a) Board Composition – Board size and proportion; mix of expertise and skills
b) Board Information – Concise & timeliness in receiving; Communication on Information needs; presentation of information; information availability for decision making; education and training provided
c) Board Process – time allocation; communications; risk awareness and focus on high risk areas; access to management; orientation programme for new director on Board process; deliberation process
d) Board Accountability – Stakeholder consideration; Company's business process understanding; business sustainability; communication with Board, Board members, Management and shareholders; compliance law and regulations; social and environment responsibility; Board Committees function
e) CEO/Top Management – Communications; performance evaluations; succession planning.
f) Standard of Conduct

The self-assessment for individual directors assessed the individual Board member's roles, responsibilities and functions based on the criteria established by the Nomination Committee which includes the understanding and support for the Company's mission and goals; participation in Board meeting; understanding of the role and fiduciary responsibilities as Board member; knowledge on listing requirements and the Code; conflict of interest; participation on the Board; training requirements.

Based on the Board Performance Evaluation and Self-Assessment for individual Directors conducted during the financial year 31 December 2016, the Board and Nomination Committee were satisfied with the composition and competency of the present Board and Directors to serve the Company. The summary result of the assessment was presented by the Nomination Committee to the Board for review, acceptance and deliberation.

- **Gender Diversity**

The Board is supportive of gender diversity in the boardroom as recommended by MCCG 2012. Presently, there is one (1) female Director on the Board of the Company and the Company continues to promote the representation of women in the composition of the Board.

The Board is in the midst to incorporate the gender diversity policy in the Board Charter.

- **Remuneration Committee**

The Remuneration Committee comprises three (3) Independent Non-Executive Directors as follow:-

| Name | Position |
|---|---|
| Datuk Adillah binti Ahmad Nordin | (Chairperson) |
| Siow Kee Yen | (Member) |
| Tan Chin Hwee | (Member) |

The terms of office and performance of the Remuneration Committee shall be for a period of three (3) years and may be re-nominated and appointed by the Board from time to time. The Remuneration Committee is guided by formal terms of reference approved by the Board which states the composition requirement, authority roles and responsibility of the committee. The terms of reference for the Remuneration Committee is available on the Company's website at http://www.ornapaper.com/Ornapa/Bursa_Term.asp

# Corporate Governance Statement

The Remuneration Committee is responsible for reviewing annually and recommending to the Board, the remuneration packages of the Executive Directors and Directors' fees of the Non-Executive Directors. In making its recommendation, the Remuneration Committee adheres to the principle of remunerating based on the Group's performance as well as individual performance. The Remuneration Committee does not possess the authority to make decisions on behalf of the Board. Its role is merely that of making recommendations for the Board's approval.

During the financial year ended 31 December 2016, the Remuneration Committee met a total of three (3) times and the attendance of individual committee members are as follow:

| Name | Number of Meetings Attended |
|---|---|
| Datuk Adillah binti Ahmad Nordin | 3/3 |
| Siow Kee Yen | 3/3 |
| Tan Chin Hwee | 3/3 |

The meetings was held to review the remuneration package of Executive Directors, key management and directors' fee for Non-Executive Directors and to review and recommend the remuneration package for the newly appointed Executive Director to the Board for approval.

The range of remuneration received by the Directors for the financial year ended 31 December 2016 is set out in the Notes to the Financial Statements.

All Directors are paid meeting allowances for their attendance at Board and Board Committee meetings.

- **Director's Remuneration**

  The Company shall ensure the level and make-up of remuneration is sufficient to attract and retain the Directors needed to run the Company successfully. Currently, the Remuneration Committee assesses the Executive Directors' remuneration packages so as to recommend the Executive Directors' remuneration packages to the Board for approval. The Executive Directors shall abstain from participating in the discussion with respect to their remuneration packages. Details of the Directors' remuneration for the financial year ended 31 December 2016 are disclosed in page 99 of this Annual Report.

  The Executive Directors' remuneration comprises basic salary, directors' fees and allowances. Other customary benefits to the Group are made available as appropriate. Any salary reviews will take into account market rates and the performance of the individual Directors and the Group.

  Non-Executive Directors' remuneration comprises fixed fees and allowances. Determination of such remuneration is balanced with their expected roles and responsibilities. The Board maintains the current remuneration for each category of Directors commensurate with that adopted by companies of similar standing, and is sufficient to attract and retain Directors of high caliber.

  The Board has considered the disclosure of details of the remuneration of each Director and is of the view that the transparency and accountability aspects of Corporate Governance as applicable to Director's Remuneration are appropriately served by the "band disclosure" as required by the Listing Requirements in view of the security of the Directors concerned.

# Corporate Governance Statement

## Reinforce Independence

The Board composition whereby three (3) out of a total seven (7) members of the Board are Independent Non-Executive Directors complies with paragraph 15.02 of the MMLR.

In order to ensure independent and objective judgment are brought to the Board's deliberation by genuine independency of the independent directors and to ensure conflict of interest or undue influence from interested parties is well taken care, the Board is committed to ensure the independence of the independent directors whom will be assessed by Nomination Committee prior to their appointment based on formal nomination and selection process with the results of the review are reported to the Board for consideration and decision.

- **Annual Assessment of Independence**

  In ensuring that the Independent Non-Executive Director is independent of management and free from any business or other relationship which could interfere with the exercise of independent judgement or ability to act in the best interest of the Company, the Board, through the Nomination Committee, assessed the independence of the Independent Non-Executive Directors on annual basis. The annual assessment of the Independence of the Independent Non-Executive Directors includes the use of "Assessment of Independence" self-assessment form with prescribed criteria adapted from the "Independent Directors' Self-Assessment Checklist" recommended by the Corporate Governance Guide issued by Bursa Malaysia Berhad. In addition, written independence declaration consistent with the definition of Independent director defined in Practice Note 13 and MMLR for the individual independent directors were obtained annually.

  For the financial year under review the Board is satisfied with the level of independence demonstrated by all the Independent Non-Executive Director, and their ability to bring independent and objective judgement to board deliberations.

- **Tenure of Independent Directors**

  In accordance to terms of reference of the Audit Committee in compliance with recommendation 3 of MCCG 2012, the tenure of an independent director should not exceed a cumulative of nine (9) years with intervals, and upon the completion of the nine (9) years, an Independent Director may continue to serve the Board subject to such Director's re-designation as a Non-Independent Director.

  Amongst the independent directors of the Company, Mr. Siow Kee Yen and Datuk Adillah binti Ahmad Nordin have served on the Board for more than fourteen (14) years. Pursuant to Recommendation 3.3 of MCCG 2012, and notwithstanding their long tenure in office, the Nomination Committee and the Board, based on the review and assessment, are unanimous in its opinion that their independence have not been compromised or impaired in any way and have met the definition of independence based on the independence guidelines as set out in Chapter 1 of the Listing Requirements. The length of their service on the Board did not interfere with their independent judgement and remains objective and independent in participating in the deliberations and decision making of the Board and respective Board Committees. The Board, therefore, recommends to the shareholders that they should be retained as Independent Non-Executive Directors at the forthcoming 15th Annual General Meeting.

  The Board is in the midst to incorporate the requirement of Recommendation 3.3 of MCCG 2012 in relation to re-election of independent directors who have serve cumulative term of more than nine (9) years in the Board Charter.

# Corporate Governance Statement

- **Separation of Chairman and Chief Executive Director ("CED")**

  During the financial year ended 31 December 2016, there are no Directors that are designated as Chairman and CED. Notwithstanding the fact, during each scheduled board meetings and annual general meeting, the Chairman of the Board meeting and general meeting, being a senior board member who was not involved in the day-to-day operations (except acting as authorized signatory for the bank accounts of the Group) and was able to command respect from the fellow board members as well as to ensure the meetings carried out impartially without any board member dominates the discussion, was elected among the Board members.

  On the other hand, the business operations of the Group were overseen by an Executive Director (who is not the Chairman elected during the Board meeting) who is primarily responsible for the Group's business operations.

  The Board is aware of the recommendation by MCCG 2012 to have a separate Chairman and Chief Executive and had re-designated Mr. Ang Kwee Teng, a senior board member chaired the Board meetings and general meetings, as Executive Chairman and Mr. See Wan Seng, who is primarily responsible for the Group's business operations, as CED, being the Chief Executive of the Group on 16 March 2017. Additionally, the Board is in the midst to update and incorporate the role and responsibility of Chairman and CED in the Board Charter and will be published on the Company's website once approved.

## Foster Commitment

- **Time Commitment**

  In order for the Board to operate effectively and efficiently, each Board members are expected to devote sufficient time and effort to discharge their individual responsibilities with reasonable due care, skills and diligence. To ensure the time commitment from individual Directors and to facilitate planning, the meeting dates for the Board and Board Committee meetings are scheduled during the Board Meeting held at the end of the financial year, with the date and any subsequent changes to the scheduled meeting date for the following Board or Board Committee Meetings confirmed during the Board Meeting.

  The Directors observe the recommendation of the MCCG 2012 that they are required to notify the Board before accepting any new directorship and to indicate the time expected to be spent on the new appointment. Furthermore, to ensure that the Directors have the time to focus and fulfil their roles and responsibilities effectively, Directors are required to provide written confirmation on the total number of directorship on annual basis, and none of the Directors holds directorship of more than five (5) public listed companies as required under paragraph 15.06 of MMLR.

  The Board is in the midst to incorporate the policy on time commitment in the Board Charter.

- **Directors' Training**

  All the Directors have completed the Mandatory Accreditation Programme prescribed by Bursa Securities. The Directors are mindful that they should receive continuous training in order to broaden their perspectives and equip them with the necessary skills to carry out their roles effectively as Directors in discharging their responsibilities towards corporate governance, operational and regulatory issues. During the Board Performance Assessment and Self Performance Assessment carried out by the Nomination Committee, Board Members are asked to provide their opinion on the education and training provided by the Company and for their suggestion on the type of training that they should be attending.

# Corporate Governance Statement

During the financial year ended 31 December 2016, all members of the Board have attended training(s) that were organized by regulatory bodies or professional organizations. The following are training programs, seminars and conferences attended by Directors of the Company during the financial year ended 31 December 2016:

| No. | Director | Date | Topics | Organiser |
|---|---|---|---|---|
| 1) | Sai Chin Hock | 27.10.2016 | Sustainability Reporting, Amendments to MMLR March 2016 & Proposed MCCG 2016 | NeedsBridge Advisory Sdn Bhd |
| 2) | Ang Kwee Teng | 27.10.2016 | Sustainability Reporting, Amendments to MMLR March 2016 & Proposed MCCG 2016 | NeedsBridge Advisory Sdn Bhd |
| 3) | See Wan Seng | 25.10.2016 | Half Day Seminar 'Related Party Transactions – Their Implications To The Board of Directors, Audit Committee & Management' | Malaysia Institute of Corporate Governance |
| | | 27.10.2016 | Sustainability Reporting, Amendments to MMLR March 2016 & Proposed MCCG 2016 | NeedsBridge Advisory Sdn Bhd |
| 4) | Sai Han Siong | 13 to 14.07.2016 | Mandatory Accreditation Programme for Directors of Public Listed Companies | Bursatra Sdn Bhd |
| | | 27.10.2016 | Sustainability Reporting, Amendments to MMLR March 2016 & Proposed MCCG 2016 | NeedsBridge Advisory Sdn Bhd |
| 5) | Siow Kee Yen | 26.04.2016 | GST Seminar for Property Developers & Contractors in Melaka | REHDA Melaka Branch |
| | | 10.05.2016 | Reinvestment Allowance – Understanding Schedule 7A ITA 1967 | Chartered Tax Institute of Malaysia |
| | | 05.08.2016 | Companies Bill 2015: A Snapshot of Changes | Malaysian Institute of Accountants |
| | | 02.09.2016 | Transfer Pricing Documentation | Chartered Tax Institute of Malaysia |
| | | 14.09.2016 | AXP Seminar – The Effects of MPERS on Audit Considerations | AXP Solutions Sdn Bhd |
| | | 10.10.2016 | Tax Planning and Issues for Property Developers and Property Investors | Chartered Tax Institute of Malaysia |
| | | 27.10.2016 | Sustainability Reporting, Amendments to MMLR March 2016 & Proposed MCCG 2016 | NeedsBridge Advisory Sdn Bhd |
| | | 08.11.2016 | Seminar Percukaian Kebangsaan 2016 | Lembaga Hasil Dalam Negeri Malaysia |
| | | 15.12.2016 | Half-Day Talk: Updates on GST | Chartered Tax Institute of Malaysia |
| 6) | Datuk Adillah binti Ahmad Nordin | 28.03.2016 | Independent Directors Programme: "The Essence of Independence" | Bursa Malaysia Berhad |
| | | 27.10.2016 | Sustainability Reporting, Amendments to MMLR March 2016 & Proposed MCCG 2016 | NeedsBridge Advisory Sdn Bhd |
| 7) | Tan Chin Hwee | 14.09.2016 | AXP Seminar – The Effects of MPERS on Audit Considerations | AXP Solutions Sdn Bhd |
| | | 10.10.2016 | Tax Planning and Issues for Property Developers and Property Investors | Chartered Tax Institute of Malaysia |
| | | 25.10.2016 | Half Day Seminar 'Related Party Transactions – Their Implications To The Board of Directors, Audit Committee & Management' | Malaysia Institute of Corporate Governance |
| | | 26.10.2016 | Transition to the MPERS – Constructing the Opening Balance Sheet Position | Malaysian Institute of Accountants |
| | | 27.10.2016 | Sustainability Reporting, Amendments to MMLR March 2016 & Proposed MCCG 2016 | NeedsBridge Advisory Sdn Bhd |
| | | 24.11.2016 | The 2017 Budget Seminar | Malaysian Institute of Accountants |

In addition to the attendance of training provided by external party, during the financial year, all Directors received regular briefing and update on new regulations and statutory requirements.

# Corporate Governance Statement

## B. Uphold Integrity in Financial Reporting

- **Compliance with Applicable Financial Reporting Standards**

  The Board takes responsibility to present a balanced, clear and meaningful report on the Group's financial positions and business prospects to its shareholders, investors and the regulatory authorities via timely release of quarterly reports, annual reports and regular announcements on material business matters.

  The quarterly results and annual financial statements are reviewed by the Audit Committee and recommended to the Board for approval before releasing to the public, via Bursa LINK. The Audit Committee also reviews the appropriateness of the Company's and Group's accounting policies and the changes to these policies as well as ensures the financial statements are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable accounting standards.

  A summary of functions and duties of Audit Committee in the oversight of financial reporting for the financial year are available in the Audit Committee report on page 50 to 54 of this Annual Report.

- **Oversight and Assessment of Auditors and Independence Assessment of External Auditors**

  The Group maintains a close and transparent relationship with the group's external and internal auditors in seeking professional advice and ensuring compliance with applicable accounting standard, relevant rules and regulations and company's policies and procedures.

  The External Auditors are governed by the engagement letter which was reviewed by the Audit Committee and recommended to the Board. The engagement letter states, among others, the scope of audit, the responsibilities, confidentiality, independence and the proposed fees.

  Prior to the commencement of the external audit engagement, Audit Plan with audit approach, areas of audit emphasis, scope of audit, involvement of Internal Audit, terms and conditions for audit engagements, significant events, communication with management, engagement team, reporting requirement, audit timeline and deliverables was presented by the External Auditor to the Audit Committee for review. Upon completion of the audit engagement, the external auditors present its report on significant audit findings, internal control deficiencies and status of audit to the Audit Committee.

  It is the policy of the Audit Committee to meet with the external auditors to discuss their audit plan, audit findings and the Company's financial statements. Private meetings with external auditor is held without the presence of the Executive Directors and the Management whenever Audit Committee deem necessary. In addition, the external auditors are invited to attend the Annual General Meeting of the Company and are available to answer shareholders' questions on the conduct of the statutory audit and the preparation and contents of their audit report.

  During the financial year, the Audit Committee undertook an annual assessment of the suitability and independence of the external auditors. Additionally, through the Audit Plan and Audit Result submitted by the external auditors and written confirmation provided during the Audit Committee meetings, the external auditors of the Company confirmed in writing on their independence and objectivity for the audit engagement for the financial year ended 31 December 2016 in accordance with the By-laws of the Malaysian Institute of Accountants.

# Corporate Governance Statement

For the year under review, the Board is of the opinion that the external auditors is suitable and able to deliver the assurance engagement professionally and diligently with sufficient level of independence and objectivity under the relevant laws and regulations based on the assessment outcome on the performance, suitability and independence of the external auditors by the Audit Committee and recommended to the Board for reappointment subject to shareholders' approval sought during the Annual General Meeting, having considered the external auditors had performed audit services to the Company satisfactorily in term of quality and timeliness since it was appointed and had put in place an internal quality control processes to mitigate quality as well as independence and objectivity risks.

To further enhance the assessment of the independence of external auditor, the Audit Committee is in the process of formalising a policy and procedures on independence assessment of external auditors.

The summary of Audit Committees' activities and oversights of external and internal auditors during the financial year under review is available in Audit Committee report located from page 46 to 49.

## C. Recognise and Manage Risk

- **Internal Control**

  The Board acknowledges its overall responsibility for maintaining a sound system of internal control to safeguard shareholders' investment and the Group's assets. This includes ensuring the review of the adequacy and integrity of the system of internal control in managing the principal risks of the Group.

- **Internal Audit Function**

  The Group has outsourced its Internal Audit to assist the Audit Committee in the discharge of its duties and responsibilities. The Internal Audit function includes evaluation of the processes by which significant risks are identified, assessed and managed. Such audits are carried out to ensure instituted controls are appropriate, effectively applied and within acceptable risk exposures consistent with the Group's risk management policy.

The Statement on Risk Management and Internal Control pursuant to Chapter 15.26(b) of the MMLR is set out in pages 50 to 54 of this Annual Report. The statements provide a further in depth in the Group's policies and activities undertaken to ensure the adequacy and effectiveness of governance, risk and control structures and processes.

## D. Corporate Disclosure

The Company recognises the value of transparent, consistent and coherent communications with investment community consistent with commercial confidentiality and regulatory considerations. The Company aims to build long-term relationships with shareholders and potential investors through appropriate channels for the management and disclosure of information.

The core communication channel with the stakeholders employed by the Company is the announcements made through Bursa Securities and it is the Company's internal procedure that all announcements to be made through Bursa Securities are to be approved by the Executive Director, prior to its release. The Board is observing all disclosure requirements as laid down by MMLR and Capital Markets and Services Act 2007 in order to have all material event and information to be disseminated publicly and transparently on timely basis to ensure fair and equitable access by all stakeholders without selective disclosure of such information to specific individuals or groups.

# Corporate Governance Statement

These investors are provided with sufficient business, operations and financial information on the Group to enable them to make informed investment decisions.

The Company's website has a "Contact Us" section where shareholders and potential investors may direct their enquiries on the Company. The Head of Accounts Department in-charge of investor relations will endeavour to reply to these queries in the shortest possible time.

To enhance the corporate disclosure process further, the Board is in the midst of developing and implementing a formal Corporate Disclosure Policy.

- **Leverage on Information Technology for Effective Dissemination of Information**

  The Company's website provides all relevant information on the Company and is accessible by the public. The Investor Relations section enhances the Investor Relations function by including analyst reports, all announcements made by the Company, annual reports as well as the corporate and governance structure of the Company.

  The announcement of the quarterly financial results is also made via Bursa LINK immediately after the Board's approval. This is important in ensuring equal and fair access to information by the investing public.

  The Board acknowledges that such initiatives can be further reinforced by incorporating additional information, such as shareholders right, in "Investor Relations" section of the corporate website.

## E. Strengthen Shareholders Relationship

- **Encourage Shareholder Participation at General Meetings**

  The Company provides information to the shareholders with regard to, amongst others, the Annual Report, details of the Annual General Meeting, their entitlement to attend the Annual General Meeting, the right to appoint proxy and also the qualifications of proxy.

  To further promote participation of members through proxy(ies), the Company had amended its Articles of Association to include explicitly the right of proxies to speak at general meetings, to allow a member who is an exempt authorized nominee to appoint multiple proxies for each omnibus account it holds and expressly disallow any restriction on proxy's qualification.

- **Poll Voting**

  There were no substantive resolutions put forth for shareholders' approval through poll voting during the 14th Annual General Meeting held on 27 May 2016. All resolutions put forth for shareholders' approval at the 14th Annual General Meeting were voted by a show of hands.

  In compliance with the MMLR, all resolutions put forth for shareholders' approval at the 15th Annual General Meeting to be held on 24 May 2017 are to be voted by way of poll.

- **Effective Communication And Proactive Engagement**

In maintaining the commitment to effective communication with shareholders, the Group adopts the practice of comprehensive, timely and continuing disclosures of information to its shareholders as well as to the general investing public. The practice of disclosure of information is not just established to comply with the requirements of the Listing Requirements pertaining to continuing disclosures, it also adopts the best practices as recommended in the MCCG 2012 with regard to strengthening engagement and communication with shareholders. Where possible and applicable, the Group also provides additional disclosure of information on a voluntary basis. The Group believes that consistently maintaining a high level of disclosure and extensive communication with its shareholders is vital to shareholders and investors to make informed investment decisions.

The Annual Report is the main channel of communication between the Company and its stakeholders. The Annual Report communicates comprehensive information of the financial results and activities undertaken by the Group. As a listed issuer, the contents and disclosure requirements of the annual report are also governed by the Listing Requirements.

Another key avenue of communication with its shareholders is the Company's Annual General Meeting, which provides a useful forum for shareholders to engage directly with the Company's Directors. During the general meeting, shareholders are at liberty to raise questions or seek clarification on the agenda items of the general meeting from the Company's Directors.

## F. Directors' Responsibility Statement

The Directors are required under the provisions of the Companies Act, 1965 to prepare financial statements as at the end of each financial year in accordance with applicable approved accounting standards and which gives a true and fair view of the state of affairs of the Group and the Company and their results and cash flows for each financial year.

The Directors are of the view that the Group and the Company have adopted suitable accounting policies and applied them consistently; made judgements and estimates that are reasonable and prudent; as well as ensured that all applicable accounting standards have been followed; and confirm that the financial statements have been prepared on a going concern basis.

The Directors are responsible for ensuring that the Company maintains proper accounting records that disclose with reasonable accuracy the financial position of the Group and of the Company, and which enable them to ensure that the financial statements comply with the Companies Act, 1965. The Directors are also responsible for taking necessary steps to safeguard the assets of the Group, and o prevent and detect fraud as well as other irregularities.

## G. Additional Compliance Information

- **Utilisation of Proceeds**
  The Company did not implement any fund raising exercise during the financial year ended 31 December 2016.

- **Options, Warrants or Convertible Securities**
  The Company did not issue any options, warrants or convertible securities during the financial year ended 31 December 2016.

- **Audit and Non-audit Fees**
  The audit and non-audit fees incurred for services rendered by the external auditor and their affiliated firms and companies to the Company and its subsidiaries for the financial year ended 31 December 2016 are as follows:

| | Company | Group | Details on Non-Audit Fees |
|---|---|---|---|
| Audit Fees (RM) | 49,000 | 182,000 | - |
| Non-Audit Fees (RM) | 3,000 | 27,000 | Submission of Income Tax |
| | 11,000 | 11,000 | Review of Consolidated Financial Statements and Statement of Risk Management and Internal Control |

- **Material Contracts**
  During the financial year, except for the recurrent related party transaction, there were no other material contracts and loans entered into by the Company or its subsidiaries involving Directors, Chief Executive who is not a director and major shareholders.

- **Recurrent Related Party Transactions of a Revenue or Trading Nature (RRPT)**
  The breakdown of the aggregate value of the RRPT of a revenue or trading nature during the financial year ended 31 December 2016 are as follows:

# Corporate Governance Statement

| Name of Related Parties | | Nature of RRPT | Aggregate Value of Transactions RM'000 |
|---|---|---|---|
| Perfect Food Manufacturing (M) Sdn Bhd* | - | Sales of corrugated carton boxes by OISB | 8,080 |
| | - | Sales of stationery products by Quantum | 13 |
| | - | Factory Rental | 60 |
| Greatbrand Food Industries Sdn Bhd* | - | Sales of corrugated carton boxes by OISB | 2,582 |
| STH Wire Industry (M) Sdn Bhd @ | - | Sales of corrugated carton boxes by OISB | 58 |
| | - | Sales of stationery products by Quantum | 2 |
| | - | Purchase of raw material by the Group | 442 |

Notes:

* Companies in which Sai Chin Hock, a director and substantial shareholder, has interest

@ Company in which Sai Chin Hock and his son, Sai Seak Chyuan, are directors.

# Audit Committee Report

## COMPOSITION OF AUDIT COMMITTEE

The members of Audit Committee are as follow:-

| Name | Designation | Position |
| --- | --- | --- |
| Siow Kee Yen | Independent Non-Executive Director | Chairman |
| Datuk Adillah binti Ahmad Nordin | Independent Non-Executive Director | Member |
| Tan Chin Hwee | Independent Non-Executive Director | Member |

The composition of Audit Committee is in compliance with the paragraph 15.09 (1), where the Audit Committee consist of three (3) Independent Non-Executive Directors, with the Audit Committee Chairman, Mr.Siow Kee Yen fulfilling the requirements under paragraph 15.09(c)(i) and paragraph 7.1 of Practice Note 13 of Main Market Listing Requirements ("MMLR")

No alternate director has been appointed as a member of the Audit Committee.

The profile of the members can be found on page 8 to 11 of this Annual Report.

## Terms of Reference

The detail terms of reference are available on the Company's website located at:

http://www.ornapaper.com/Ornapa/Bursa_Term.asp

**Meeting**

For the financial year ended 31 December 2016, there were a total of five (5) meetings held by the Audit Committee and details of their attendance are as follows:-

| Name | Number of Audit Committee Meetings Attended |
| --- | --- |
| Siow Kee Yen | 5/5 |
| Datuk Adillah binti Ahmad Nordin | 5/5 |
| Tan Chin Hwee | 5/5 |

The meetings conducted with the quorum where majority of the members present were Independent Directors as required by the Terms of Reference.

Notice with Agenda of the Audit Committee meetings was given to the Committee members together with the minutes of previous meeting and relevant board papers at least five (5) days before the meetings. As such, the Committee Members has sufficient time to review to enable them to discharge their duties and responsibility diligently and effectively.

The Head of Accounts Department and representatives from the Company's external and internal auditors were also invited to attend and brief the committee on specific issues during the meetings.

The Company Secretary is the Secretary of the Audit Committee and is responsible, together with the Chairman of Audit Committee to draft the agenda and circulating prior to meeting.

# Audit Committee Report

**ACTIVITIES OF THE AUDIT COMMITTEE DURING THE YEAR**

The following are summary of the works performed by Audit Committee during the financial year ended 31 December 2016:-

a) Reviewed quarterly financial reports

During the scheduled quarterly meetings, the Head of Accounts Department presented the draft unaudited quarterly financial results including the notes to the account for Audit Committee's review. The review focuses on the key financial results with comparative figure of preceding year corresponding quarter, with the reason for the variance provided and discussed with the Management. Additionally, future prospect of the Group provided by the Management with regards to the Group's performance for the coming quarter and year were presented to the Audit Committee for discussion.

The results of the quarterly financial reviewed by the Audit Committee were then recommended to the Board for approval prior to announcement to the regulatory authorities.

b) Reviewed the external auditors' scope of work and audit plans for the year

During the financial year, the external auditors presented their audit strategy and plan to Audit Committee for review prior to the commencement of audit engagement to ensure the scope of audit is adequate and reasonable time was allowed for the audit to be carried out effectively. The Audit Plan presented by the external auditors states the audit objectives, independence declaration, responsibilities of each parties, audit approach, areas of audit emphasis, involvement of Internal Audit and others, audit timeline and deliverables, revised engagement letter, proposed audit fees and update on the financial reporting developments, changes in regulatory environment, and revised auditor reporting standards.

c) Reviewed of Audited Financial Statements and Audit Results with external auditors

During the financial year, Audit Results for the audit conducted on the financial statements of the Group were presented by the external auditors to the Audit Committee. During the same meeting, expected opinion on the financial statements was sought from the external auditors. The report on the Audit Results provide the status of the audit, significant accounting and auditing issues, corrected misstatements and summary of audit differences. Through the Audited Financial Statements, the Audit Committee noted that the variance of the audited financial statements on profit attributable to equity holders of the Group was less than 10% as compared to the announced final quarter financial results.

The audited financial statements of the Company and Group were recommended for the Board's approval and adoption once the Audit Committee, through the review with external auditors and the Management, was satisfied that the financial statements comply with applicable accounting standards and statutory requirements.

# Audit Committee Report

d) Reviewed the adequacy of the scope, functions and resources, internal audit plan and internal audit report with the Group's Internal Auditor

During the financial year, the outsourced internal auditor presented the internal audit reports containing the findings, recommendations and agreed management action plans for the internal audit performed based on the previously approved internal audit plan. Aside from reporting on the audit findings, the status of agreed management action plans for previous internal audit report, the resources, experience, competency and continuous professional development of the outsourced internal audit function was also reported to the Audit Committee for their review and assessed on the adequacy and effectiveness of the outsource internal audit function.

During the same meetings, the progress of the approved internal audit plan was presented to the Audit Committee for their review and revision, if deem necessary by the Audit Committee. Additionally, the internal audit plan for the subsequent year that were prepared taking into consideration of risks and input from the Senior Management was presented to the Audit Committee for review and approval.

The oversights role of Audit Committee on outsourced internal audit function is available in the Statement of Risk Management and Internal Control located on page 50 to 54 of this annual report.

e) Reviewed the related party transactions

At scheduled quarterly meetings, updates on the value of transactions (from date of shareholders' mandate to the end of financial period) of recurrent related party transactions ("RRPT") as compared to the estimated mandate amount approved by shareholders were provided by the Head of Accounts Department to the Audit Committee for review to enable the Audit Committee to take prompt actions in the event the RRPT amount exceeds or about to exceeds the estimated mandate amount.

Aside from the updates on RRPT, the Audit Committee was also informed on the related party transaction that was not required to be announced in accordance to Chapter 10.09(1) of MMLR.

During the meeting, the Audit Committee noted that the RRPTs and related party transactions were on terms and not more favourable than those generally available to the public.

f) Reviewed latest changes and development in regulatory, statutory and accounting standard

During the Audit Committee meetings, the Audit Committee was kept informed of new and revision of the accounting standards through disclosure of revision of the financial reporting standards in the quarterly announcement and through briefing provided by the external auditors. In addition, trainings were provided to the Audit Committee members and the Board members by professionals on update and changes in MMLR, proposed changes in Malaysian Code on Corporate Governance and sustainability reporting.

g) The proceeding of the Audit Committee meetings, significant issues and concerns discussed and where appropriate, recommendations were provided to the Board by the Audit Committee Chairman, with the minutes of the Audit Committee made available to all board members for review and seek clarification and confirmation from Audit Committee Chairman, if required.

# Audit Committee Report

h) Reviewed draft circular to shareholders on the Proposed Renewal of the Existing Shareholders' Mandate for RRPTs of a Revenue or Trading Nature and Share Buy-Back Statement in relation to the Proposed Renewal of Authority for the Company to Purchase its Own Shares.

Based on the review of the draft circular and relevant procedures set out in the draft circular in relation to the proposed renewal of shareholders' mandate for RRPTs, the Audit Committee was of the opinion that the procedures were sufficient to ensure the RRPT is entered into at arm's length and in accordance with the Company's normal commercial terms and on terms which are not more favourable to the Related Parties than those generally available to the public, and not to the detriment of the minority shareholders of the Company.

On the other hand, the focus of the review by the Audit Committee on the draft share buy-back statement was complied with the relevant laws and regulations.

i) Reviewed and Approved Audit Committee Report for inclusion into the Company's annual report.

j) The Audit Committee reviewed the effectiveness of external auditors and was satisfied with the performance of the external auditors of the Company and recommended to the Board for the re-appointment as the External Auditors of the Company for the current financial year.

**SUMMARY OF INTERNAL AUDIT FUNCTION AND ACTIVITIES**

The Group's internal audit function is outsourced to a professional firm. The outsourced internal audit function reports directly to the Audit Committee and assists the Board and the Audit Committee in providing independent assessment of the adequacy, efficiency and effectiveness of the Group's internal control system. The scope of review by the outsourced internal audit function is determined through the internal audit plan approved by the Audit Committee with feedback from top management.

During the financial year ended 31 December 2016, the outsourced internal audit function conducted internal audit reviews in accordance to the internal audit plan approved by the Audit Committee. Internal control deficiency and areas of improvement identified together with the recommendation and management action plan was presented during the corresponding Audit Committee meetings. During the same meeting, the status of the management action plan through the follow up review conducted by outsourced internal audit function was also reported to the Audit Committee.

In assisting the Audit Committee in discharging its oversight role for the internal audit function, the Audit Committee through the report tabled by the outsource internal audit function was able to assess and review the outsourced internal audit function in terms of the qualification, experience, exposure and continuous professional development of the engagement team.

Further details on outsourced internal audit function and activities are disclosed in the Statement of Risk Management and Internal Control located on page 50 to 54 of this annual report.

# Statement of Risk Management and Internal Control

**INTRODUCTION**

Pursuant to paragraph 15.26(b) and Practice Note 9 of the Bursa Malaysia Securities Berhad Main Market Listing Requirements in relation to requirement to prepare statement about the state of internal control of the listed issuer as a group, and as guided by the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers ("the Guidelines"), the Board of Directors ("the Board") of Ornapaper Berhad ("the Company") (collectively with its subsidiaries, "the Group") is pleased to present the statement on the state of the internal controls of the Group for the financial year ended 31 December 2016.

**BOARD RESPONSIBILITY**

The Board affirms its overall responsibility for maintaining a sound risk management and internal control system and for reviewing their adequacy and effectiveness so as to safeguard all its stakeholders' interests and protecting the Group's assets. The Board has delegated these aforementioned responsibilities to the Audit Committee whereby the Audit Committee is assigned with the duty, through its terms of reference approved by the Board, to provide assurance to the Board on the adequacy and effectiveness of risk management and internal control systems of the Group. Through the Audit Committee, the Board is kept informed on all significant control issues brought to the attention of the Audit Committee by the Management, the internal audit function and the external auditors.

The system of internal controls covers inter-alia, risk assessment as well as financial, operational, environmental and compliance controls. However, in view of the limitations that are inherent in any system of internal controls, the system of internal controls is designed to manage, rather than to eliminate, the risk of failure to achieve the Group's business objectives. Accordingly, the system of internal controls can only provide reasonable and not absolute assurance against material misstatement of losses and fraud.

**RISK MANAGEMENT**

The Board maintains an on-going commitment for identifying, evaluating and managing significant risks faced by the Group during the financial year under review. The Board had put in place risk management and internal control system in order to manage key business risks faced by the Group adequately and effectively. The duties for the identification, evaluation and management of the key business risk are delegated to the Executive Directors and Senior Management.

The Group's Risk Management is embedded into key processes at all level of organisation structure whereby respective head of departments, as risk owners, are delegated with the responsibility to continuously identify, evaluate and manage the existing and emerging risks, resulting from changes to internal and external environment, faced by the Group under their scope of responsibility by formulating and implementing adequate and effective internal control to minimise the risk exposure identified as first line-of-defence. At operational level, respective heads of departments/divisions (i.e. risk owners) are responsible for managing the operational risks under their responsibilities by way of maintaining effective internal controls and measures in managing such operational risks on a day-to-day basis. Emergence and changes of key operational and business risks identified are highlighted to the Executive Director during the weekly Executive Committee ("EXCO") meeting and monthly management review for discussion and formulation of effective internal control measures to manage such new and changes in the key operational and business risks. The Executive Director and senior management are kept up to date on the implementation and effectiveness of such controls and measures formulated during subsequent weekly EXCO meeting and monthly management review meetings. Critical or material risks highlighted by the risk owner are reported to the Audit Committee and the Board by the Executive Director for deliberation and final decisions on the formulation and implementation of effective internal controls in managing such risks.

# Statement of Risk Management and Internal Control

During meetings of the Board, the Executive Directors and Senior Management bring up to the attention of the Board of changes to existing key business risks and emerging key business risks and their relevant mitigation action plans for the Board to assess the adequacy and effectiveness of such action plans, in line with the group's risk appetite and strategic objectives.

At strategic level, business strategies with risks consideration are formulated by the Executive Directors and/or Senior Management and presented to the Board for review and deliberation to ensure proposed plans and strategies are in line with the Group's risk appetite. In addition, specific strategic and key operational risks are highlighted and deliberated by the Audit Committee and/or the Board during the review of the financial performance of the Group in the scheduled meetings.

As part of key risks monitoring and management, key risks profile was compiled by the Executive Directors and the Senior Management, with relevant key risks identified rated based on the agreed upon risk rating based on the Board's risk appetite. Risk assessment, at gross and residual level, are guided by the likelihood rating and impact rating established by the Board. The key risks profile is used for the identification of high residual risks which is above the risk appetite of the Group that require the Management and the Board's immediate attention and risk treatment as well as for future risk monitoring.

In addition, in line with the Group's migration of the quality management system from ISO 9001:2008 to ISO 9001:2015, the Management is in the midst of implementation of risk-based quality management system to manage organizational risks and opportunities in a structured manner.

The monitoring of the risk management by the Group is enhanced by the internal audits carried out by the internal audit function with specific audit objectives and business risks identified for each internal audit cycles based on the internal plan approved by the Audit Committee.

The above process has been practiced by the Group for the financial year under review and up to the date of approval of this statement.

Please refer to the "Risk Factors Exposure" of the Management Discussion and Analysis for the significant risks faced by the Group and the mitigation plans implemented.

**INTERNAL CONTROL SYSTEM**

The key features of the Group's internal control system are described below:

- **Board of Directors & Board Committees**
  Board Committees (i.e. Audit Committee, Remuneration Committee and Nomination Committee) being established to carry out duties and responsibilities delegated by the Board, governed by written terms of reference.

  Meetings of the Board and respective Board Committees are carried out on scheduled basis to review the performance of the Group, from financial and operational perspective, and to carry out its fiduciary duties and responsibilities. Potential business strategies proposed by the Executive Directors for the Board's review and approval, after taking into risk consideration and responses.

- **Organisation Structure**
  Clearly defined and structured lines of reporting and responsibility for key business units/departments within the Group to ensure operational efficiency and effectiveness.

# Statement of Risk Management and Internal Control

- **Human Resource Management**
  Jobs descriptions are established and annual performance appraisal are performed for key positions within the Group in order to ensure employees are equipped with relevant knowledge and skills required to perform their duties and responsibilities diligently and effectively.

- **Integrity and Ethical Value**
  Integrity and ethical value expected from the employees are incorporated in the Employees Handbook whereby the ethical behaviours expected with the customers, suppliers, employees, society and environment are stated. Codes of conduct expected from employees to carry out their duties and responsibilities assigned are also established and formalised in Employees Handbook.

- **Policies, Procedures and Authorisation Requirements**
  Policies and standard operating procedures for the Group are established to regulate key processes in compliance with International Organisation for Standardisation (“ISO”) certifications. Authorisation requirement for key processes are clearly defined in the respective policies and procedures.

- **Information and Communication**
  At operational level, clear reporting lines established across the Group and operation reports are prepared for dissemination to relevant personnel for effective communication of critical information throughout the Group for timely decision making and execution in pursuit of the business objectives. Matters that require the Board and the Senior Management’s attention are highlighted for review, deliberation and decision on a timely basis.

  The Group puts in place effective and efficient information and communication infrastructures and channels, i.e. computerized enterprise resource planning system, secured intranet, electronic mail system and modern telecommunication, so that operation data and management information can be communicated timely and securely to dedicated personnel within the Group for decision making and for communication with relevant external stakeholders for execution and information collection.

- **Monitoring and Review**
  At Operational level, key performance indicators are formulated on a yearly basis to monitor the performance of key division and departments. During the monthly management review meeting, comprehensive operation reports prepared by respective departments, to assess the Group’s performance against the performance indicator established and to discuss on current or new operational risks for formulation and implementation of mitigating controls.

  Aside from the monthly management review meetings, the Executive Directors are closely and directly involved in operations, with weekly EXCO meeting held with the EXCO team which consists of the Senior Management for reviews of operational information, including, production, marketing and financial information.

  Apart from the Weekly EXCO meeting and monthly management review meeting, annual management review meeting for Environmental (ISO 14001:2004) & Quality Management System (ISO 9001:2008) to review and discuss on the Group’s performance in relation to the quality and environmental standard established and to identify areas for improvement in order to achieve the Group’s quality and environmental objectives.

  In addition to the internal audit function, significant control issues highlighted by the external auditors as part of their statutory audits and the monitoring of compliance with ISO certification carried out by internal ISO auditors and independent certification body as well as surveillance audit by independent consultants engaged by the Group and relevant regulatory bodies serve as the fourth line of defence.

# Statement of Risk Management and Internal Control

**INTERNAL AUDIT FUNCTION**

The Group relies on internal audit mechanisms to provide the management with the required level of assurance that its business is operating adequately and effectively in order to provide reasonable assurance that the business objectives of the Group are achievable.

The Group's internal audit function is outsourced to an independent professional firm who reports directly to Audit Committee and provide the committee with the assurance it requires regarding the adequacy and integrity of the Group's system of internal control. The engagement director of the outsource internal audit function is a Certified Internal Auditor accredited by the Institute of Internal Auditors Global and a professional member of the Institute of Internal Auditors Malaysia. The internal audits are carried out, in material aspects, in accordance with the International Professional Practices Framework established by the Institute of Internal Auditors Global.

Internal audit plan in respect of financial year ended 31 December 2016 was drafted, after taking into consideration existing and emergent key business risks identified by the Executive Directors and/or the Senior Management and previous internal audits performed, and was reviewed and approved by the Audit Committee prior to execution. Each internal audit cycles within the internal audit plan are specific with regard to audit objective, key risks to be assessed and scopes of the internal control review.

As third line-of-defence, the internal controls review procedures performed by the internal audit function are designed to understand, document and evaluate risks and related controls to determine the adequacy and effectiveness of governance, risk and control structures and processes and to formulate recommendations for improvement thereon. The internal audit procedures applied principally consisted of process evaluations through interviews with relevant personnel involved in the process under review, review of the Standard Operating Procedures and/or process flows provided and observations of the functioning of processes in compliance with results of interviews and/or documented Standard Operating Procedures and/or process flows. Thereafter, testing of controls through the review of the samples selected based on sample sizes for the respective audit areas calculated in accordance with our predetermined formulation, subject to the nature of testing and verification of the samples.

During financial year ended 31 December 2016, in accordance to the internal audit plan approved by the Audit Committee, the internal audit function conducted review for Production Management (including quality assurance and control and compliance with relevant laws and regulations) and Inventory Management (including distribution to customers) for two (2) major operating subsidiaries in Malaysia.

Upon the completion of the internal audit field work during the financial year, the internal audit reports were presented to the Audit Committee during its scheduled meetings. During the presentation, the internal audit findings and recommendations as well as management response and action plans were presented and deliberated with the Audit Committee. Apart from the internal audit reports, updates on the implementation progress of action plans formulated per previous internal audit reports were presented to the Audit Committee during the financial year for review and deliberation.

In addition to the above, for the purpose of compliance with ISO 9001:2008 and ISO 14001:2004 Quality Management Systems, Internal quality audits are carried out by in-house independent personnel and surveillance audit is conducted by an independent certification body to provide assurance of compliance with established ISO procedures.

The cost incurred in maintaining the outsourced internal audit function for the financial year ended 31 December 2016 amounted to RM28,226.

# Statement of Risk Management and Internal Control

**ASSURANCE PROVIDED BY CHIEF EXECUTIVE DIRECTOR AND PERSON PRIMARILY RESPONSIBLE FOR THE MANAGEMENT OF THE FINANCIAL AFFAIRS**

During the meeting of the Board, the performance of the Group were reviewed and deliberated, including, but not limited to, the adequacy and effectiveness of risk management and internal control system in relation to the strategic objectives of the Group.

in addition, the Chief Executive Director, being highest ranking executive in the Company and the person primarily responsible for the management of the financial affairs of the Company, had provided the Board with the written assurance of adequacy and effectiveness of system of internal controls, in material aspects, to manage risk exposures deliberated during such meetings. The written assurance provided by the Chief Executive Director to the Board is supported by written assurances provided by highest ranking executive and person primarily responsible for the management of the financial affairs of the key operating subsidiaries.

**OPINION AND CONCLUSION**

Based on the review of the risk management process and internal control system by the Board and the monitoring and review mechanism stipulated above coupled with the written assurance provided by the Chief Executive Director, the Board is of the opinion that the risk management and internal control systems are satisfactory, based on the existing nature of business and scale of operations of the Group, to safeguard the interest of the stakeholders and the Group's assets, and have not resulted in any material losses, contingencies or uncertainties that would require disclosure in the Group's Annual Report.

The Board recognises the need for the risk management and internal control system to be subjected to continuous review in line with the growth of the Group and the Board is committed towards striving for continuous improvements to further enhance the Group's risk management and internal control system.

**ASSURANCE PROVIDED BY EXTERNAL AUDITORS**

Pursuant to paragraph 15.23 of the Listing Requirements, the External Auditors have reviewed this Risk Management and Internal Control Statement. Their review was performed in accordance with Recommended Practice Guide (RPG) 5 (revised): Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control included in the Annual Report, issued by the Malaysia Institute of Accountants. Based on their review, nothing has come to their attention that causes them to believe this Statement is not prepared, in all material aspects, in accordance with the disclosures required by paragraph 41 and 42 of the Statement on Risk Management and Internal Control: Guidelines for Directors of Public Listed Companies to be set out, nor is factually incorrect.

# Financial Statements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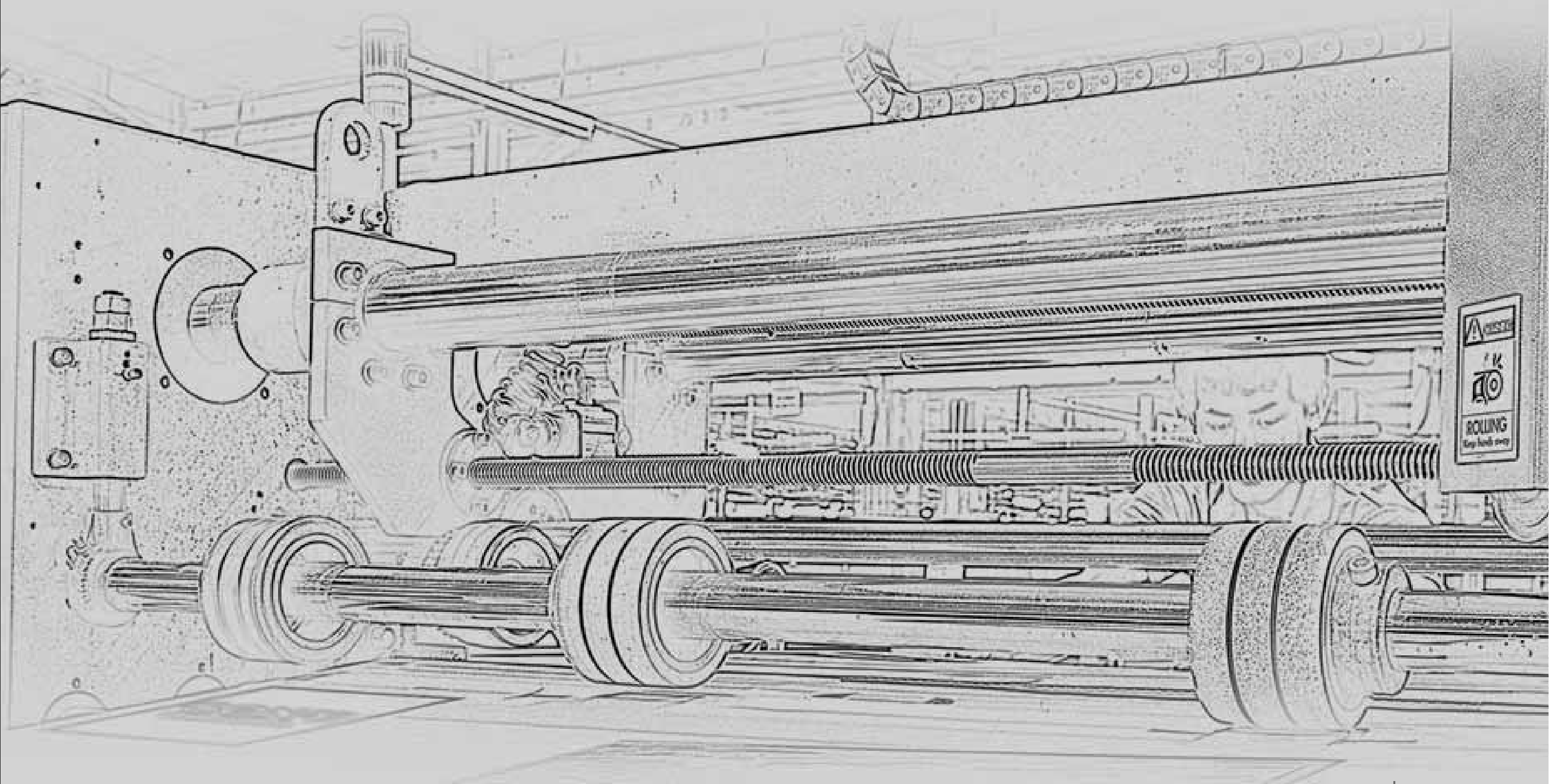


# Directors' Report

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 2016.

**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.

Other information relating to the subsidiaries are disclosed in Note 19 to the financial statements.

**Results**

| | Group RM'000 | Company RM'000 |
|---|---|---|
| Profit, net of tax, attributable to: | | |
| Owners of the Company | 7,770 | 5,614 |
| Non-controlling interests | 81 | - |
| | 7,851 | 5,614 |

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**

The amount of dividend paid by the Company since 31 December 2015 was as follows:

| | RM'000 |
|---|---|
| In respect of the financial year ended 31 December 2016: | |
| Interim single tier dividend of 3%, declared on 24 August 2016 and paid on 13 October 2016 | 2,225 |

The directors do not recommend any final dividend to be paid in respect of the current financial year.

**Directors**

The names of the directors of the Company in office since the beginning of the financial year to the date of this report are:

Sai Chin Hock
See Wan Seng
Ang Kwee Teng
Siow Kee Yen
Datuk Adillah binti Ahmad Nordin
Tan Chin Hwee
Sai Han Siong (appointed on 27 May 2016)

# Directors' Report

**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 14 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 for those transactions mentioned in Note 35 to the financial statements.

**Directors' interests**

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

| | Number of ordinary shares of RM1 each | | | |
|---|---|---|---|---|
| | **1.1.2016/ Date of appointment** | **Acquired** | **Sold** | **31.12.2016** |
| **Direct interest** | | | | |
| Sai Chin Hock | 4,057,986 | - | - | 4,057,986 |
| Sai Han Siong | 15,000 | - | - | 15,000 |
| Ang Kwee Teng | 10,000 | - | - | 10,000 |
| Siow Kee Yen | 30,500 | - | - | 30,500 |
| Datuk Adillah binti Ahmad Nordin | 34,000 | - | - | 34,000 |
| **Indirect interest** | | | | |
| Sai Chin Hock | 19,094,212 | - | - | 19,094,212 |
| Sai Han Siong | 19,217,212 | - | - | 19,217,212 |
| Ang Kwee Teng | 18,634,888 | - | (18,634,888) | - |
| See Wan Seng | 18,634,888 | - | (18,634,888) | - |

Sai Chin Hock and Sai Han Siong, 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 than as disclosed above, none of the other director in office at the end of the financial year had any interest in shares in the Company and its related corporations during the financial year.

**Other statutory information**

(a) Before the statements of comprehensive income and 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.

# Directors' Report

**Other statutory information (continued)**

(b) At the date of this report, the directors are not aware of any circumstances which would render:

(i) the amount written off for bad debts or the amount of the provision for 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.

(e) 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 their obligations when they fall due; and

(ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial 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.

**Event occuring after the reporting date**

Details of subsequent event is disclosed in Note 41 to the financial statements.

**Auditors and auditors' remuneration**

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

Auditors' remunerations are disclosed in Note 12 to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the directors dated 3 April 2017.

Sai Chin Hock

See Wan Seng

# Statement by Directors

**Pursuant to Section 251(2) of the Companies Act 2016**

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 64 to 126 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of 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 2016 and of their financial performance and cash flows for the year then ended.

The information set out in Note 43 to the financial statements on page 126 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 3 April 2017.

Sai Chin Hock

See Wan Seng

**Statutory declaration**
**Pursuant to Section 251(1)(b) of the Companies Act 2016**

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 64 to 126 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 3 April 2017

See Wan Seng

Before me,

ZALINA BINTI ZAINUDDIN, BKT (NO. M070)
Commissioner for Oaths

# Independent Auditors' Report

**Report on the audit of the financial statements**

*Opinion*

We have audited the financial statements of Ornapaper Berhad, which comprise the statements of financial position as at 31 December 2016 of the Group and of the Company, and statements of profit or loss and other 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 notes to the financial statements, including a summary of significant accounting policies, as set out on pages 64 to 126.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 1965 in Malaysia.

*Basis for opinion*

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Independence and other ethical responsibilities*

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

*Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditors' responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis of our audit opinion on the accompanying financial statements.

Impairment of trade receivables

(Refer to Note 22 to the financial statements)

Risk area and rationale

As of 31 December 2016, the trade receivables amounted to RM66 million which represents about 29% of total assets of the Group.

# Independent Auditors' Report

Impairment of trade receivables (continued)
Risk area and rationale (continued)

The management performed individual impairment assessment on trade receivables that are past due.

The impairment assessment on trade receivables is being identified as a key audit matter due to the significance of the trade receivable's balance and the involvement of significant management judgement and estimate on the amount to be impaired.

Our response

For significant past due trade receivables, we evaluated management's assessment of impairment. In doing so, we considered the age of the trade debts, analysed the historical payment patterns and identified the existence of disputes and other available information concerning the recoverability of the trade receivables. We also tested subsequent collections from such receivables, if any.

We further evaluated the adequacy of the disclosures of the trade receivables as disclosed in Note 22 to the financial statements.

*Information other than the financial statements and auditors' report thereon*

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

*Responsibilities of the directors for the financial statements*

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

In preparing the financial statements of the Group and of the Company, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

# Independent Auditors' Report

*Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

# Independent Auditors' Report

*Auditors' responsibilities for the audit of the financial statements (continued)*

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Other reporting responsibilities**

The supplementary information set out in Note 43 on page 126 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. 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.

**Other matters**

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 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
2187/09/17(J)
Chartered Accountant

Melaka, Malaysia
Date: 3 April 2017

# Statements of Comprehensive Income

For the year ended 31 December 2016

| | Note | Group 2016 RM'000 | Group 2015 RM'000 | Company 2016 RM'000 | Company 2015 RM'000 |
|---|---|---|---|---|---|
| **Revenue** | 8 | 272,052 | 241,287 | 6,018 | 2,266 |
| Cost of goods sold | | (224,122) | (198,239) | - | - |
| **Gross profit** | | 47,930 | 43,048 | 6,018 | 2,266 |
| **Other items of income** | | | | | |
| Interest income | 9 | 156 | 202 | 71 | 79 |
| Other income | 10 | 1,141 | 1,999 | - | - |
| **Other items of expense** | | | | | |
| Administrative expenses | | (11,525) | (10,967) | (347) | (245) |
| Selling and marketing expenses | | (19,045) | (16,651) | (7) | (6) |
| Other expenses | | (7,031) | (5,973) | (81) | (169) |
| **Operating profit** | | 11,626 | 11,658 | 5,654 | 1,925 |
| Finance costs | 11 | (2,325) | (2,348) | - | - |
| **Profit before tax** | 12 | 9,301 | 9,310 | 5,654 | 1,925 |
| Income tax expense | 15 | (1,450) | (2,122) | (40) | (53) |
| **Profit, net of tax, representing total comprehensive income for the year** | | 7,851 | 7,188 | 5,614 | 1,872 |
| **Attributable to:** | | | | | |
| Owners of the Company | | 7,770 | 7,040 | 5,614 | 1,872 |
| Non-controlling interests | | 81 | 148 | - | - |
| | | 7,851 | 7,188 | 5,614 | 1,872 |
| **Earnings per share attributable to owners of the Company (sen)** | | | | | |
| Basic | 16 | 10.5 | 9.5 | | |
| Diluted | 16 | 10.5 | 9.5 | | |

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

# Statements of Financial Position

As at 31 December 2016

| | Note | Group 2016 RM'000 | Group 2015 RM'000 | Company 2016 RM'000 | Company 2015 RM'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 17 | 97,119 | 97,502 | - | - |
| Land use rights | 18 | 5,437 | 4,031 | - | - |
| Investment in subsidiaries | 19 | - | - | 97,658 | 94,158 |
| Goodwill | 20 | 1,633 | 1,633 | - | - |
| Deferred tax assets | 29 | 428 | 1,872 | - | - |
| | | 104,617 | 105,038 | 97,658 | 94,158 |
| **Current assets** | | | | | |
| Inventories | 21 | 37,256 | 35,840 | - | - |
| Trade and other receivables | 22 | 67,848 | 60,196 | 869 | 1,052 |
| Other current assets | 23 | 5,100 | 965 | 1 | 4 |
| Tax recoverable | | 735 | 640 | - | - |
| Derivatives | 24 | 6 | 7 | - | - |
| Held-to-maturity investment | 25 | 4,347 | 3,740 | 1,587 | 1,543 |
| Cash and bank balances | 26 | 8,620 | 5,835 | 58 | 65 |
| | | 123,912 | 107,223 | 2,515 | 2,664 |
| **Total assets** | | 228,529 | 212,261 | 100,173 | 96,822 |
| **Equity and liabilities** | | | | | |
| **Current liabilities** | | | | | |
| Loans and borrowings | 27 | 48,343 | 35,830 | - | - |
| Trade and other payables | 28 | 27,261 | 27,244 | 17 | 43 |
| Current tax payable | | 132 | 48 | 8 | 20 |
| | | 75,736 | 63,122 | 25 | 63 |
| **Non-current liabilities** | | | | | |
| Loans and borrowings | 27 | 368 | 858 | - | - |
| Deferred tax liabilities | 29 | 8,652 | 10,066 | - | - |
| Non-current liabilities | | 9,020 | 10,924 | - | - |
| **Total liabilities** | | 84,756 | 74,046 | 25 | 63 |

# Statements of Financial Position

As at 31 December 2016

**Statements of financial position**
**As at 31 December 2016 (continued)**

| | Note | Group 2016 RM'000 | Group 2015 RM'000 | Company 2016 RM'000 | Company 2015 RM'000 |
|---|---|---|---|---|---|
| **Equity attributable to owners of the parent** | | | | | |
| Share capital | 30 | 75,251 | 75,251 | 75,251 | 75,251 |
| Share premium | 31 | 11,156 | 11,156 | 11,156 | 11,156 |
| Treasury shares | 32 | (541) | (541) | (541) | (541) |
| Retained earnings | 33 | 56,848 | 51,303 | 14,282 | 10,893 |
| | | 142,714 | 137,169 | 100,148 | 96,759 |
| Non-controlling interests | | 1,059 | 1,046 | - | - |
| **Total equity** | | 143,773 | 138,215 | 100,148 | 96,759 |
| **Total equity and liabilities** | | 228,529 | 212,261 | 100,173 | 96,822 |
| **Net current assets** | | 48,176 | 44,101 | 2,490 | 2,601 |
| **Net assets** | | 143,773 | 138,215 | 100,148 | 96,759 |

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

# Statements of Changes in Equity

For the year ended 31 December 2016

| | Note | Share capital RM'000 | Non-distributable Share premium RM'000 | Treasury shares RM'000 | Distributable Retained earnings RM'000 | Total equity attributable to owners of the parent RM'000 | Non-controlling interests RM'000 | Total equity RM'000 |
|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | |
| **Opening balance at 1 January 2016** | | 75,251 | 11,156 | (541) | 51,303 | 137,169 | 1,046 | 138,215 |
| **Total comprehensive income** | | - | - | - | 7,770 | 7,770 | 81 | 7,851 |
| **Transactions with owners** | | | | | | | | |
| Dividend | 34 | - | - | - | (2,225) | (2,225) | - | (2,225) |
| Dividend paid to non-controlling interests | | - | - | - | - | - | (68) | (68) |
| | | - | - | - | (2,225) | (2,225) | (68) | (2,293) |
| **Closing balance at 31 December 2016** | | 75,251 | 11,156 | (541) | 56,848 | 142,714 | 1,059 | 143,773 |
| **Opening balance at 1 January 2015** | | 75,251 | 11,156 | (541) | 46,117 | 131,983 | 966 | 132,949 |
| **Total comprehensive income** | | - | - | - | 7,040 | 7,040 | 148 | 7,188 |
| **Transactions with owners** | | | | | | | | |
| Dividend | 34 | - | - | - | (1,854) | (1,854) | - | (1,854) |
| Dividend paid to non-controlling interests | | - | - | - | - | - | (68) | (68) |
| | | - | - | - | (1,854) | (1,854) | (68) | (1,922) |
| **Closing balance at 31 December 2015** | | 75,251 | 11,156 | (541) | 51,303 | 137,169 | 1,046 | 138,215 |

# Statements of Changes in Equity

For the year ended 31 December 2016

**Statements of changes in equity**
**For the year ended 31 December 2016 (continued)**

| | | Non-distributable | | | Distributable | |
|---|---|---|---|---|---|---|
| | Note | Share capital RM'000 | Share premium RM'000 | Treasury shares RM'000 | Retained earnings RM'000 | Total equity RM'000 |
| **Company** | | | | | | |
| **Opening balance at 1 January 2016** | | 75,251 | 11,156 | (541) | 10,893 | 96,759 |
| Total comprehensive income | | - | - | - | 5,614 | 5,614 |
| **Transaction with owners** | | | | | | |
| Dividend | 34 | - | - | - | (2,225) | (2,225) |
| **Closing balance at 31 December 2016** | | 75,251 | 11,156 | (541) | 14,282 | 100,148 |
| **Opening balance at 1 January 2015** | | 75,251 | 11,156 | (541) | 10,875 | 96,741 |
| Total comprehensive income | | - | - | - | 1,872 | 1,872 |
| **Transaction with owners** | | | | | | |
| Dividend | 34 | - | - | - | (1,854) | (1,854) |
| **Closing balance at 31 December 2015** | | 75,251 | 11,156 | (541) | 10,893 | 96,759 |

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

# Statements of Cash Flows

For the year ended 31 December 2016

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| **Operating activities** | | | | |
| Profit before tax | 9,301 | 9,310 | 5,654 | 1,925 |
| Adjustments for: | | | | |
| Adjustment for property, plant and equipment | 86 | - | - | - |
| Bad debts written off | 69 | 63 | - | - |
| Depreciation and amortisation: | | | | |
| - Property, plant and equipment | 12,034 | 11,861 | - | - |
| - Land use rights | 128 | 130 | - | - |
| Fair value loss/(gain) on derivatives | 1 | (19) | - | - |
| Impairment loss on trade receivables | 269 | 89 | - | - |
| Loss on disposal of property, plant and equipment | 1,197 | 364 | - | - |
| Property, plant and equipment written off | - | 6 | - | - |
| Reversal of allowance for impairment loss on trade receivables | (720) | (600) | - | - |
| Unrealised gain on foreign exchange | (80) | (7) | - | - |
| Interest expense | 2,325 | 2,348 | - | - |
| Interest income | (156) | (202) | (71) | (79) |
| Total adjustments | 15,153 | 14,033 | (71) | (79) |
| **Operating cash flows before changes in working capital** | 24,454 | 23,343 | 5,583 | 1,846 |
| Changes in working capital | | | | |
| Increase in inventories | (1,416) | (3,173) | - | - |
| (Increase)/decrease in receivables | (6,990) | 392 | - | 7 |
| (Increase)/decrease in other current assets | (1,309) | 383 | - | (3) |
| (Decrease)/increase in payables | (312) | 1,020 | (26) | 30 |
| Total changes in working capital | (10,027) | (1,378) | (26) | 34 |
| **Cash flows from operations** | 14,427 | 21,965 | 5,557 | 1,880 |
| Interest paid | (2,384) | (2,348) | - | - |
| Taxes paid | (1,765) | (1,399) | (52) | (33) |
| Taxes refunded | 334 | 40 | - | 7 |
| GST refunded | 155 | - | 4 | - |
| **Net cash generated from operating activities** | 10,767 | 18,258 | 5,509 | 1,854 |

# Statements of Cash Flows

For the year ended 31 December 2016

**Statements of cash flows**
**For the year ended 31 December 2016 (continued)**

| | Group | | Company | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Investing activities** | | | | |
| Purchase of property, plant and equipment | (17,060) | (7,403) | - | - |
| Purchase of prepaid land lease | (1,534) | - | - | - |
| Interest received | 151 | 202 | 66 | 79 |
| Investment in a subsidiary | - | - | (3,500) | - |
| Proceeds from disposal of property, plant and equipment | 1,359 | 1,236 | - | - |
| (Increase)/decrease in held-to-maturity investment | (607) | 413 | (44) | (43) |
| **Net cash (used in)/generated from investing activities** | (17,691) | (5,552) | (3,478) | 36 |
| **Financing activities** | | | | |
| Repayment of term loans | (445) | (603) | - | - |
| Repayment of finance lease payables | (423) | (6,097) | - | - |
| Increase/(decrease) in short-term borrowings | 13,663 | (5,481) | - | - |
| Decrease in amount due from subsidiaries | - | - | 187 | - |
| Dividend paid on ordinary shares | (2,225) | (1,854) | (2,225) | (1,854) |
| Dividend paid to non-controlling interests | (68) | (68) | - | - |
| **Net cash generated from/(used in) financing activities** | 10,502 | (14,103) | (2,038) | (1,854) |
| **Net increase/(decrease) in cash and cash equivalents** | 3,578 | (1,397) | (7) | 36 |
| Effect of exchange rate changes on cash and cash equivalents | (21) | 24 | - | - |
| **Cash and cash equivalents at 1 January** | 2,850 | 4,223 | 65 | 29 |
| **Cash and cash equivalents at 31 December (Note 26)** | 6,407 | 2,850 | 58 | 65 |

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

# Notes to the Financial Statements

For the year ended 31 December 2016

## 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 described in Note 19 to the financial statements. There have been no significant changes in the nature of these principal activities during the financial year.

## 2. Basis of preparation

The financial statements have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS") as issued by the Malaysian Accounting Standards Board ("MASB"), International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and the requirements of the Companies Act, 1965 in Malaysia.

The financial statements 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.

## 3. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and of its subsidiaries (collectively the "Group") as at reporting date. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

3. **Basis of consolidation (continued)**

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

4. **Summary of significant accounting policies**

**4.1 Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

4. **Summary of significant accounting policies (continued)**

**4.1 Business combinations and goodwill (continued)**

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of MFRS 139 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of MFRS 139, it is measured in accordance with the appropriate MFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

4. **Summary of significant accounting policies (continued)**

**4.2 Current versus non-current classification**

Assets and liabilities in statements of financial position are presented based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

**4.3 Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

4. **Summary of significant accounting policies (continued)**

**4.3 Fair value measurement (continued)**

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Valuation techniques that are appropriate in the circumstances and for which sufficient data are available, are used to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 - Valuation techniques for which the lowest Level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of significant assets and significant liabilities. Involvement of external valuers is decided by senior management. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The senior management decides, after discussions with the external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the senior management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed according to the accounting policies of the Group. For this analysis, the senior management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The senior management, in conjunction with the external valuers, also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, classes of assets and liabilities are determined based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

# Notes to the Financial Statements

For the year ended 31 December 2016

**4. Summary of significant accounting policies (continued)**

**4.4 Foreign currencies**

**(a) Functional and presentation currency**

The Group's financial statements are presented in Ringgit Malaysia which is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

**(b) Transactions and balances**

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at their respective functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

**4.5 Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitute and is also exposed to inventory and audit risks.

The specific recognition criteria described below must also be met before revenue is recognised.

**(a) Sale of goods**

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. 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.

**4. Summary of significant accounting policies (continued)**

**4.5 Revenue recognition (continued)**

**(b) Dividend income**

Dividend income is recognised when the Group’s right to receive payment is established, which is generally when shareholders approve the dividend.

**(c) Management fees**

Management fees are recognised when services are rendered.

**(d) Interest income**

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income is recorded using the effective interest rate ("EIR"), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of profit or loss.

**(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.

**4.6 Employee benefits**

**(i) Short term benefits**

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

**(ii) Defined contribution plans**

The Group makes contributions to the Employees Provident Fund ("EPF") 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.

**4. Summary of significant accounting policies (continued)**

**4.7 Taxes**

**(a) Current income tax**

Current income tax assets and liabilities for the current period 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, at the reporting date where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

**(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 at the reporting date.

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

- when the deferred tax liability arises from the initial recognition of goodwill or 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 when 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.

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, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when 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, 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 profits will allow the deferred tax asset to be recovered.

## 4. Summary of significant accounting policies (continued)

### 4.7 Taxes (continued)

#### (b) Deferred tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in 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.

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it is incurred during the measurement period or in profit or loss.

#### (c) Goods and Services Tax ("GST")

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

- Where the amount of GST incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the GST 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 GST included.

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

### 4.8 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

4. **Summary of significant accounting policies (continued)**

**4.9 Leases**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

(a) **Group as lessee**

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between 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 recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that ownership will be obtained by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

(b) **Group as lessor**

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of an 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 basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

**4.10 Property, plant and equipment**

Property, plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing component parts of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met.

When significant parts of property, plant and equipment are required to be replaced at intervals, the Group derecognises the replaced part, and recognises the new part with its own associated useful life and depreciation. 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. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

4. **Summary of significant accounting policies (continued)**

**4.10 Property, plant and equipment (continued)**

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

| | |
|---|---|
| Leasehold land | 92 to 99 years |
| Factory buildings | 18 to 60 years |
| Plant and machinery | 5 to 20 years |
| Other assets | 5 to 10 years |

Assets under construction included in plant and equipment are not depreciated as these assets are not yet available for use.

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 statement of profit or loss in the year the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

**4.11 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.

**4.12 Investment in subsidiaries**

A subsidiary is an entity which the Group has all the following:

(i) power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);

(ii) exposure, or rights, to variable returns from its investment with the investee; and

(iii) the ability to use its power over the investee to affect its returns.

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

4. **Summary of significant accounting policies (continued)**

### 4.13 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:

(a) Raw materials: purchase costs on a weighted average basis.

(b) Finished goods and work-in-progress: Cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs. 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.

### 4.14 Cash and short-term deposits

Cash and short-term deposits in the statements of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less and highly liquid investments that are readily convertible to known amount of cash and which are subject to insignificant risk of changes in value. For the purposes of the statements of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of any outstanding bank overdrafts.

### 4.15 Impairment of non-financial assets

At each reporting date, an assessment is made as to whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment calculation are based on detailed budgets and forecast calculations, which are prepared separately for each CGU to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

4. **Summary of significant accounting policies (continued)**

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

Goodwill is tested for impairment annually at reporting date and when circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

For assets other than goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the recoverable amount of the asset or CGU is estimated. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss.

**4.16 Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**(a) Financial assets**

**(i) Initial recognition and measurement**

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

**4. Summary of significant accounting policies (continued)**

**4.16 Financial instruments (continued)**

**(a) Financial assets (continued)**

**(ii) Subsequent measurement**

For purposes of subsequent measurement, financial assets are classified in four categories:

**Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by MFRS 139. There were no financial assets designated at fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Re-assessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate ("EIR") method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

4. **Summary of significant accounting policies (continued)**

4.16 **Financial instruments (continued)**

(a) **Financial assets (continued)**

(ii) **Subsequent measurement (continued)**

**Held-to-maturity investments**

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when there is a positive intention and an ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss as finance costs.

**Available-for-sale ("AFS") financial investments**

AFS financial investments include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS financial investments are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited in the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of profit or loss in finance costs. Interest earned whilst holding AFS financial investments is reported as interest income using the EIR method.

The ability and intention to sell its AFS financial assets in the near term are evaluated whether they are still appropriate. When, in rare circumstances, these financial assets cannot be traded due to inactive markets, these financial assets will be reclassified if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

4. **Summary of significant accounting policies (continued)**

**4.16 Financial instruments (continued)**

**(a) Financial assets (continued)**

**(iii) Derecognition**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the statements of financial position) when:

- The rights to receive cash flows from the asset have expired; or

- The rights to receive cash flows from the asset have been transferred or an obligation to pay the received cash flows in full without material delay to a third party has been assumed under a ‘pass-through’ arrangement; and either (a) substantially all the risks and rewards of the asset have been transferred or (b) substantially all the risks and rewards of the asset have neither been transferred nor retained but control of the asset has been transferred.

When the rights to receive cash flows from an asset have been transferred or when a pass-through arrangement has been entered into, the Group evaluates if, and the extent of, the risks and rewards of ownership that have been retained. When substantially all of the risks and rewards of the asset have not been transferred nor retained, the transferred asset continues to be recognised to the extent of the Group’s continuing involvement. In that case, an associated liability is also recognised. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

**(b) Impairment of financial assets**

At each reporting date, an assessment is made as to whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred ‘loss event’), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

**4. Summary of significant accounting policies (continued)**

**4.16 Financial instruments (continued)**

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

**Financial assets carried at amortised cost**

For financial assets carried at amortised cost, an assessment is made as to whether impairment exists individually (for financial assets that are individually significant) or collectively (for financial assets that are not individually significant). If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in statement of profit or loss. Interest income (recorded as finance income in the statement of profit or loss) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.

**Available-for-sale ("AFS") investments**

For AFS financial investments, an assessment is made at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss) is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in other comprehensive income.

**4. Summary of significant accounting policies (continued)**

**4.16 Financial instruments (continued)**

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

**Available-for-sale ("AFS") investments (continued)**

In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss, the impairment loss is reversed through the statement of profit or loss.

**(c) Financial liabilities**

**(i) Initial recognition and measurement**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings and payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, financial guarantee contracts and derivative financial instruments.

**(ii) Subsequent measurement**

The measurement of financial liabilities depends on their classification, as described below:

**Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by MFRS 139. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

**4. Summary of significant accounting policies (continued)**

**4.16 Financial instruments (continued)**

**(c) Financial liabilities (continued)**

**(ii) Subsequent measurement (continued)**

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in MFRS 139 are satisfied. No financial liability has been designated at fair value through profit or loss during the reporting period.

**Loans and borrowings**

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

**Financial guarantee contracts**

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, 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 recognised less cumulative amortisation.

**(iii) Derecognition**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

**4. Summary of significant accounting policies (continued)**

**4.16 Financial instruments (continued)**

**(d) Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

**4.17 Provisions**

Provisions are recognised when there is a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When it is expected that some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statements of profit or loss net of any reimbursement.

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. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

**4.18 Share capital and share issuance expenses**

An equity instrument is any contract that evidences a residual interest in the assets of the Group and of the Company after deducting all of its liabilities. Ordinary shares are equity instruments and are recorded at the proceeds received, net of directly attributable incremental transaction costs.

**4.19 Treasury shares**

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of such equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium.

**4.20 Cash dividend and non-cash distribution to equity holders of the parent**

The Company recognises a liability to make cash or non-cash distributions to equity holders of the parent when the distribution is authorised and the distribution is no longer at the discretion of the Company. A distribution is authorised when it is approved by the shareholders and a corresponding amount is recognised directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognised directly in equity.

Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the statement of profit or loss.

# Notes to the Financial Statements
For the year ended 31 December 2016

4. **Summary of significant accounting policies (continued)**

### 4.21 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.

### 4.22 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.

## 5. Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 January 2016, the Group and the Company adopted the following new and amended MFRSs mandatory for annual financial periods beginning on or after 1 January 2016.

**Effective for annual periods beginning on or after 1 January 2016**

Annual Improvements to MFRSs 2012–2014 Cycle
Amendments to MFRS 116 and MFRS 138 Clarification ofAcceptable Methods of Depreciation and Amortisation
Amendments to MFRS 116 and 141 Agriculture: Bearer Plants
Amendments to MFRS 11 Accounting for Acquisitions of Interests in Joint Operations
Amendments to MFRS 127 Equity Method in Separate Financial Statements
Amendments to MFRS 101: Disclosure Initiatives
Amendments to MFRS 10, MFRS 12 and MFRS 128: Entities: Applying the Consolidation Exception Investment
MFRS 14 Regulatory Deferral Accounts

**Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation**

The amendments clarify that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset forms part of the business) rather than the economic benefits that are consumed through the use of an asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

**5. Changes in accounting policies (continued)**

**Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation (continued)**

The amendments do not have any impact to the Group as the Group has not used a revenue-based method to depreciate its non-current assets.

**Amendments to MFRS 127: Equity Method in Separate Financial Statements**

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associate in their separate financial statements. Entities already applying MFRS and electing to change to the equity method in its separate financial statements will have to apply this change retrospectively. For first-time adopters of MFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to MFRS. These amendments do not have any impact on the Group's and the Company's financial statements.

**Amendments to MFRS 101: Disclosure Initiatives**

The amendments to MFRS 101 include narrow-focus improvements in the following five areas:
- Materiality
- Disaggregation and subtotals
- Notes structure
- Disclosure of accounting policies
- Presentation of items of other comprehensive income arising from equity accounted investments

The directors of the Group and the Company do not anticipate that the application of these amendments will have a material impact on the Group's and the Company's financial statements.

**Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities: Applying the Consolidation Exception**

The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. The amendments further clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. In addition, the amendments also provides that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries.

The amendments do not have any impact on the Group's financial statements as the Group does not apply the consolidation exception.

**Annual Improvements to MFRSs 2012–2014 Cycle**

The Annual Improvements to MFRSs 2012-2014 Cycle include a number of amendments to various MFRSs, which are summarised below. The directors of the Group and the Company do not anticipate that the application of these amendments will have a significant impact on the Group's and the Company's financial statements.

**5. Changes in accounting policies (continued)**

| Standards | Descriptions |
|---|---|
| **MFRS 7 Financial Instruments: Disclosures** | The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in MFRS 7 in order to assess whether the disclosures are required.<br><br>In addition, the amendment also clarifies that the disclosures in respect of offsetting of financial assets and financial liabilities are not required in the condensed interim financial report. This amendment is applied retrospectively. |
| **MFRS 134 Interim Financial Reporting** | MFRS 134 Interim Financial Reporting The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively. |

**6. Standards issued but not yet effective**

The standards and IC interpretation that are issued but not yet effective up to the date of issuance of the Group's and the Company's financial statements are disclosed below. The Group and the Company intend to adopt these standards, if applicable, when they become effective.

| **Description** | **Effective for annual periods beginning on or after** |
|---|---|
| MFRS 107 Disclosures Initiatives (Amendments to MFRS 107) | 1 January 2017 |
| MFRS 112 Recognition of Deferred Tax for Unrealised Losses (Amendments to MFRS 112) | 1 January 2017 |
| Annual Improvements to MFRSs 2014 - 2016 Cycle (Amendments to MFRS 12) | 1 January 2017 |
| MFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2) | 1 January 2018 |
| MFRS 15 Revenue from Contracts with Customers | 1 January 2018 |
| MFRS 9 Financial Instruments | 1 January 2018 |
| Annual Improvements to MFRSs 2014 - 2016 Cycle (Amendments to MFRS 1 and MFRS 128) | 1 January 2018 |
| Amendments to MFRS 4: Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts | 1 January 2018 |
| IC Interpretation 22 Foreign Currency Transactions and Advance Consideration | 1 January 2018 |
| MFRS 16 Leases | 1 January 2019 |
| Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | Deferred |

6. **Standards issued but not yet effective (continued)**

**MFRS 107 Disclosures Initiatives (Amendments to MFRS 107)**

The amendments to MFRS 107 Statement of Cash Flows requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of this amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosures to be provided by the Group and the Company.

**MFRS 112 Recognition of Deferred Tax for Unrealised Losses (Amendments to MFRS 112)**

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies this amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Group and the Company.

**MFRS 9 Financial Instruments**

In November 2014, MASB issued the final version of MFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces MFRS 139 Financial Instruments: Recognition and Measurement and all previous versions of MFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of MFRS 9 will have an effect on the classification and measurement of the Group and the Company’s financial assets, but no impact on the classification and measurement of the Group and the Company’s financial liabilities.

**6. Standards issued but not yet effective (continued)**

**MFRS 16 Leases**

MFRS 16 will replace MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Lease-Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to recognise interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases.

MFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group and the Company plans to assess the potential effect of MFRS 16 on its financial statements in year 2017.

**7. Significant accounting judgments, estimates and assumptions**

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 end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

**7.1 Judgments made in applying accounting policies**

In the process of applying the above accounting policies, management has not made any critical judgments, apart from those involving estimations, which significantly affect the amounts recognised in these financial statements.

**7.2 Estimates and assumptions**

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 described below. Assumptions and estimates are based on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

**7. Significant accounting judgments, estimates and assumptions (continued)**

**7.2 Estimates and assumptions (continued)**

**(a) Impairment of non-financial assets**

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 20.

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

The impairment loss on trade receivables of the Group is based on the evaluation of collectability and ageing analysis of the receivables and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current credit-worthiness and the past collection history on each receivables. If the financial conditions of the receivables of the Group were to deteriorate, additional provision may be required.

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 loans and receivables at the reporting date is disclosed in Note 22.

**(c) Taxes**

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group and its subsidiaries domicile. As the Group assesses the probability for litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognised.

7. **Significant accounting judgments, estimates and assumptions (continued)**

**7.2 Estimates and assumptions (continued)**

**(c) Taxes (continued)**

Deferred tax assets are recognised for all unutilised tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the losses and credits can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

The carrying amount of recognised tax losses and tax credits of the Group is disclosed in Note 29.

## 8. Revenue

| | Group | | Company | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Sales of goods | 272,052 | 241,287 | - | - |
| Dividend income from subsidiaries | - | - | 5,911 | 2,161 |
| Management fees from subsidiaries | - | - | 107 | 105 |
| | 272,052 | 241,287 | 6,018 | 2,266 |

## 9. Interest income

| | Group | | Company | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Interest income from: | | | | |
| Loans and receivables | 156 | 202 | 71 | 79 |

## 10. Other income

| | Group | |
|---|---|---|
| | **2016** | **2015** |
| | **RM'000** | **RM'000** |
| Bad debts recovered | 5 | 49 |
| Disposal of scrap materials | 243 | 173 |
| Fair value gain on derivatives | - | 19 |
| Insurance claims | 1 | 102 |
| Realised gain on foreign exchange | 12 | 946 |
| Unrealised gain on foreign exchange | 80 | 7 |
| Rental from operating leases | - | 52 |
| Reversal of allowance for impairment loss on trade receivables (Note 22(a)) | 720 | 600 |
| Miscellaneous | 80 | 51 |
| | 1,141 | 1,999 |

## 11. Finance costs

| | Group 2016 RM'000 | Group 2015 RM'000 |
|---|---|---|
| Interest expense on: | | |
| - Bank loans and overdrafts | 2,297 | 1,852 |
| - Obligations under finance leases | 28 | 496 |
| | 2,325 | 2,348 |

## 12. Profit before tax

The following amounts have been charged in arriving at profit before tax:

| | Group 2016 RM'000 | Group 2015 RM'000 | Company 2016 RM'000 | Company 2015 RM'000 |
|---|---|---|---|---|
| Auditors' remuneration: | | | | |
| - Statutory audit | | | | |
| Current year | 182 | 156 | 49 | 38 |
| Underprovision in prior year | 7 | - | 2 | - |
| - Other services | 38 | 16 | 14 | 11 |
| Bad debts written off | 69 | 63 | - | - |
| Carriage inwards and outwards | 14,119 | 11,989 | - | - |
| Depreciation and amortisation: | | | | |
| - Property, plant and equipment (Note 17) | 12,034 | 11,861 | - | - |
| - Land use rights (Note 18) | 128 | 130 | - | - |
| Employee benefits expense (Note 13) | 30,525 | 26,170 | 100 | 9 |
| Fair value loss on derivatives | 1 | - | - | - |
| Impairment loss on trade receivables (Note 22(a)) | 269 | 89 | - | - |
| Non-executive directors' remuneration (Note 14) | 152 | 153 | 152 | 153 |
| Operating lease: | | | | |
| - Minimum lease payments on land and buildings | 599 | 770 | - | - |
| Loss on disposal of property, plant and equipment | 1,197 | 364 | - | - |
| Property, plant and equipment written off | - | 6 | - | - |

## 13. Employee benefits expense

| | Group 2016 RM'000 | Group 2015 RM'000 | Company 2016 RM'000 | Company 2015 RM'000 |
|---|---|---|---|---|
| Wages and salaries | 26,521 | 22,755 | 93 | 9 |
| Contributions to defined contribution plans | 2,157 | 1,859 | 7 | - |
| Social security contributions | 220 | 199 | - | - |
| Other benefits | 1,627 | 1,357 | - | - |
| | 30,525 | 26,170 | 100 | 9 |

Included in employee benefits expense of the Group and of the Company are executive directors' remuneration amounting to RM2,552,000 and RM100,000 (2015: RM2,486,000 and RM9,000) respectively as further disclosed in Note 14.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 14. Directors' remuneration

| | Group 2016 RM'000 | Group 2015 RM'000 | Company 2016 RM'000 | Company 2015 RM'000 |
|---|---|---|---|---|
| **Executive directors** | | | | |
| Directors of the Company: | | | | |
| - Fees | 417 | 489 | 28 | - |
| - Salaries and other emoluments | 1,468 | 1,316 | 65 | 9 |
| - Defined contribution plans | 92 | 82 | 7 | - |
| | 1,977 | 1,887 | 100 | 9 |
| Other directors of subsidiaries: | | | | |
| - Salaries and other emoluments | 514 | 533 | - | - |
| - Defined contribution plans | 61 | 66 | - | - |
| | 575 | 599 | - | - |
| Total executive directors' remuneration (Note 13) | 2,552 | 2,486 | 100 | 9 |
| Estimated money value of benefits-in-kind | 11 | 10 | - | - |
| Total executive directors' remuneration (including benefits-in-kind) | 2,563 | 2,496 | 100 | 9 |
| **Non-executive directors (Note 12)** | | | | |
| Directors of the Company: | | | | |
| - Fees | 144 | 144 | 144 | 144 |
| - Other emoluments | 8 | 9 | 8 | 9 |
| | 152 | 153 | 152 | 153 |
| Total directors' remuneration | 2,715 | 2,649 | 252 | 162 |

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:

| | 2016 | 2015 |
|---|---|---|
| **Executive directors** | | |
| RM50,001 to RM100,000 | 1 | - |
| RM200,001 to RM250,000 | 1 | 1 |
| RM800,001 to RM850,000 | 2 | 2 |
| **Non-executive directors** | | |
| RM50,001 to RM100,000 | 3 | 3 |

## 15. Income tax expense

**Major components of income tax expense**

The major components of income tax expense for the years ended 31 December 2016 and 2015 are:

| | Group | |
|---|---|---|
| | **2016** | **2015** |
| | **RM'000** | **RM'000** |
| **Statements of comprehensive income:** | | |
| Current income tax: | | |
| - Malaysian income tax | 1,300 | 984 |
| - Under/(over) provision in prior years | 120 | (122) |
| | 1,420 | 862 |
| Deferred tax (Note 29): | | |
| - Origination and reversal of temporary differences | (16) | 1,641 |
| - Relating to reduction in Malaysian income tax rate | (23) | (387) |
| - Under provision in prior years | 69 | 6 |
| | 30 | 1,260 |
| Income tax expense recognised in profit or loss | 1,450 | 2,122 |

| | Company | |
|---|---|---|
| | **2016** | **2015** |
| | **RM'000** | **RM'000** |
| **Statements of comprehensive income:** | | |
| Current income tax: | | |
| - Malaysian income tax | 40 | 42 |
| - Under provision in prior years | - | 11 |
| Income tax expense recognised in profit or loss | 40 | 53 |

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

**Reconciliation between tax expenses 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 2016 and 2015 is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Profit before tax | 9,301 | 9,310 | 5,654 | 1,925 |
| Taxation at 24% (2015: 25%) | 2,232 | 2,328 | 1,357 | 481 |
| Reduction in Malaysian income tax rate on deferred tax | (23) | (387) | - | - |
| Tax effect of: | | | | |
| - Non-deductible expenses | 450 | 539 | 102 | 101 |
| - Non-taxable income | (218) | (160) | (1,419) | (540) |
| Utilisation of current year's reinvestment allowance | (945) | - | - | - |
| Claw back of capital allowances | (5) | (82) | - | - |
| Deferred tax asset recognised on unabsorbed reinvestment allowances | (230) | - | - | - |
| Under/(over) provision in prior years: | | | | |
| - Income tax | 120 | (122) | - | 11 |
| - Deferred tax | 69 | 6 | - | - |
| Income tax expense recognised in profit or loss | 1,450 | 2,122 | 40 | 53 |

Domestic current income tax is calculated at the statutory tax rate of 24% (2015: 25%) of the estimated assessable profit for the financial year.

The following amounts are available for offset against future taxable income:

| | Group | |
|---|---|---|
| | 2016 RM'000 | 2015 RM'000 |
| Unutilised tax losses | 1,625 | 2,144 |
| Unabsorbed capital allowances | 171 | - |
| Unabsorbed reinvestment allowances | 5,508 | 5,344 |
| | 7,304 | 7,488 |

## 16. 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, excluding treasury shares held by the Company.

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

| | Group | |
|---|---|---|
| | 2016 | 2015 |
| Profit, net of tax, attributable to owners of the parent (RM'000) | 7,770 | 7,040 |
| Weighted average number of ordinary shares in issue ('000)* | 74,153 | 74,153 |
| Basic earnings per share (sen) | 10.5 | 9.5 |
| Diluted earnings per share (sen) | 10.5 | 9.5 |

* The weighted arrange number of shares takes into account the weighted average effect of treasury shares.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

## 17. Property, plant and equipment

| | Long term leasehold land RM'000 | Factory buildings RM'000 | Plant and machinery RM'000 | Other assets RM'000 | Construction in progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| **Cost** | | | | | | |
| **At 1 January 2015** | 8,959 | 41,961 | 122,022 | 12,074 | - | 185,016 |
| Additions | - | 346 | 1,978 | 659 | 4,181 | 7,164 |
| Disposals | - | - | (2,329) | (340) | - | (2,669) |
| Written off | - | - | (330) | (93) | - | (423) |
| Reclassification | - | - | 2,738 | (2,738) | - | - |
| **At 31 December 2015 and 1 January 2016** | 8,959 | 42,307 | 124,079 | 9,562 | 4,181 | 189,088 |
| Additions | - | 365 | 8,517 | 979 | 4,432 | 14,293 |
| Disposals | - | - | (6,528) | (62) | - | (6,590) |
| Written off | - | - | (351) | (14) | - | (365) |
| Reclassification | - | 3,012 | 3,265 | - | (6,277) | - |
| Adjustment* | - | - | - | - | (86) | (86) |
| **At 31 December 2016** | 8,959 | 45,684 | 128,982 | 10,465 | 2,250 | 196,340 |

* Being asset expensed off to the statement of profit or loss.

# Notes to the Financial Statements

For the year ended 31 December 2016

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

| | Long term leasehold land RM'000 | Factory buildings RM'000 | Plant and machinery RM'000 | Other assets RM'000 | Construction in progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| **Group (continued)** | | | | | | |
| **Accumulated depreciation** | | | | | | |
| **At 1 January 2015** | 1,501 | 13,764 | 59,628 | 6,318 | - | 81,211 |
| Charge for the year (Note 12) | 94 | 1,150 | 9,632 | 985 | - | 11,861 |
| Disposals | - | - | (731) | (338) | - | (1,069) |
| Written off | - | - | (327) | (90) | - | (417) |
| Reclassification | - | - | 90 | (90) | - | - |
| **At 31 December 2015 and 1 January 2016** | 1,595 | 14,914 | 68,292 | 6,785 | - | 91,586 |
| Charge for the year (Note 12) | 94 | 1,189 | 9,719 | 1,032 | - | 12,034 |
| Disposals | - | - | (3,993) | (41) | - | (4,034) |
| Written off | - | - | (351) | (14) | - | (365) |
| **At 31 December 2016** | 1,689 | 16,103 | 73,667 | 7,762 | - | 99,221 |
| **Carrying amounts** | | | | | | |
| At 31 December 2015 | 7,364 | 27,393 | 55,787 | 2,777 | 4,181 | 97,502 |
| At 31 December 2016 | 7,270 | 29,581 | 55,315 | 2,703 | 2,250 | 97,119 |

# Notes to the Financial Statements

For the year ended 31 December 2016

## 17. Property, plant and equipment (continued)

(a) The leasehold land and factory buildings and certain plant and machinery are pledged as securities for bank borrowings as disclosed in Note 27.

(b) Other assets comprise motor vehicles, office equipment, furniture, fittings, electrical installations, fire fighting equipment, signboard, tools, utensils and office renovation.

(c) During the financial year, the Group acquired property, plant and equipment with an aggregate cost of RM14,293,000 (2015: RM7,164,000) by means of:

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| Total additions | 14,293 | 7,164 |
| Advance payment to suppliers | 2,767 | 239 |
| Cash outflow on acquisition of property, plant and equipment | 17,060 | 7,403 |

(d) The carrying amounts of motor vehicles, plant and machinery held under finance leases at the reporting date were RM2,519,000 (2015: RM3,135,000).

## 18. Land use rights

| | Group | |
|---|---|---|
| | 2016 RM'000 | 2015 RM'000 |
| **Cost** | | |
| At 1 January | 5,535 | 5,535 |
| Addition | 1,534 | - |
| At 31 December | 7,069 | 5,535 |
| **Accumulated amortisation** | | |
| At 1 January | 1,504 | 1,374 |
| Amortisation (Note 12) | 128 | 130 |
| At 31 December | 1,632 | 1,504 |
| **Carrying amount** | 5,437 | 4,031 |
| **Amount to be amortised:** | | |
| - Not later than one year | 128 | 130 |
| - Later than one year but not later than 5 years | 518 | 522 |
| - Later than 5 years | 4,791 | 3,379 |

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

## 19. Investment in subsidiaries

| | Company 2016 RM'000 | Company 2015 RM'000 |
|---|---|---|
| Unquoted shares, at cost | | |
| At 1 January | 94,158 | 94,158 |
| Addition | 3,500 | - |
| At 31 December | 97,658 | 94,158 |

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

| Name of subsidiaries | Principal activities | Proportion of ownership interest 2016 | Proportion of ownership interest 2015 |
|---|---|---|---|
| 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 corrugated boards and 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 of paper based stationery products and trading in corrugated 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

(b) On 5 October 2016, the Company increased the paid up capital of a wholly owned subsidiary, Quantum Rhythm Sdn. Bhd. from RM6,500,000 to RM10,000,000 for a total cash consideration of RM3,500,000.

(c) **Material partly-owned subsidiary**

Financial information of a subsidiary, Ornapaper Industry (Johor) Sdn. Bhd., which has material non-controlling interest is set out as follows. The summarised financial information presented below is the amount before inter-company elimination.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 19. Investment in subsidiaries (continued)

### (c) Material partly-owned subsidiary (continued)

#### (i) Summarised statement of financial position

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| **As at 31 December** | | |
| Non-current assets | 5,187 | 4,145 |
| Current assets | 10,698 | 9,517 |
| Total assets | 15,885 | 13,662 |
| Non-current liabilities | (296) | (527) |
| Current liabilities | (10,295) | (7,909) |
| Total liabilities | (10,591) | (8,436) |
| Net assets | 5,294 | 5,226 |
| Equity attributable to owners of the Company | 4,235 | 4,180 |
| Non-controlling interest | 1,059 | 1,046 |

#### (ii) Summarised statement of comprehensive income

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| Revenue | 29,215 | 28,666 |
| Profit for the year | 407 | 738 |
| Profit attributable to: | | |
| - Owners of the Company | 326 | 590 |
| - Non-controlling interest | 81 | 148 |

#### (iii) Summarised statement of cash flows

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| Cash inflows from operating activities | 2,184 | 468 |
| Cash outflows used in investing activities | (1,743) | (360) |
| Cash outflows used in financing activities | (748) | (788) |
| Net decrease in cash and cash equivalents | (307) | (680) |
| Cash and cash equivalents at the beginning of the year | 486 | 1,166 |
| Cash and cash equivalents at the end of the year | 179 | 486 |

## 20. Goodwill

**Impairment tests for goodwill**

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

| | Group | |
|---|---|---|
| | **2016** | **2015** |
| | **RM'000** | **RM'000** |
| Ornapaper Industry (Perak) Sdn. Bhd. ("OIP") | 1,574 | 1,574 |
| Ornapaper Industry (Johor) Sdn. Bhd. ("OIJ") | 59 | 59 |
| | 1,633 | 1,633 |

The recoverable amount of a CGU is determined based on value-in-use calculations using cash flow projections of financial budgets approved by management covering a 5 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:

| | OIP | | OIJ | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Budgeted gross margins | 21% | 20% | 16% | 16% |
| Growth rate | 2% | 2% | 5% | 5% |
| Pre-tax discount rate | 14% | 14% | 14% | 14% |

The calculation 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 3 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 the appropriate discount rates for each CGU, regard has been given to the yield on a 10 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.

## 20. Goodwill (continued)

### Impairment tests for goodwill (continued)

*Sensitivity to changes in assumptions* – With regard to the assessment of value-in-use of CGUs, the management believes that no reasonable change in any of the above key assumptions would cause the carrying value of the CGUs to materially exceed their recoverable amounts.

## 21. Inventories

| | Group | |
|---|---|---|
| | 2016 RM'000 | 2015 RM'000 |
| At cost: | | |
| Raw materials and consumables | 31,426 | 29,482 |
| Work-in-progress | 973 | 1,069 |
| Finished goods | 4,857 | 5,289 |
| | 37,256 | 35,840 |
| Cost of inventories recognised as an expense | 224,122 | 198,239 |

## 22. Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| **Trade receivables** | | | | |
| Third parties | 63,805 | 57,473 | - | - |
| Companies in which a director has interest | 3,245 | 2,818 | - | - |
| | 67,050 | 60,291 | - | - |
| Allowance for impairment | | | | |
| - Third parties | (361) | (879) | - | - |
| Trade receivables, net | 66,689 | 59,412 | - | - |
| **Other receivables** | | | | |
| Third parties | 1,405 | 1,261 | - | 5 |
| Subsidiaries | | | | |
| - interest bearing at 3% per annum | - | - | 858 | 1,045 |
| Sundry deposits | 303 | 248 | 2 | 2 |
| Interest receivable | 5 | - | 5 | - |
| GST receivable | 171 | - | 4 | - |
| | 1,884 | 1,509 | 869 | 1,052 |
| Allowance for impairment | | | | |
| - Third parties | (725) | (725) | - | - |
| Other receivables, net | 1,159 | 784 | 869 | 1,052 |
| Total trade and other receivables | 67,848 | 60,196 | 869 | 1,052 |

## 15. Income tax expense

**Major components of income tax expense**

The major components of income tax expense for the years ended 31 December 2016 and 2015 are:

| | Group | |
|---|---|---|
| | **2016** | **2015** |
| | **RM'000** | **RM'000** |
| **Statements of comprehensive income:** | | |
| Current income tax: | | |
| - Malaysian income tax | 1,300 | 984 |
| - Under/(over) provision in prior years | 120 | (122) |
| | 1,420 | 862 |
| Deferred tax (Note 29): | | |
| - Origination and reversal of temporary differences | (16) | 1,641 |
| - Relating to reduction in Malaysian income tax rate | (23) | (387) |
| - Under provision in prior years | 69 | 6 |
| | 30 | 1,260 |
| Income tax expense recognised in profit or loss | 1,450 | 2,122 |

| | Company | |
|---|---|---|
| | **2016** | **2015** |
| | **RM'000** | **RM'000** |
| **Statements of comprehensive income:** | | |
| Current income tax: | | |
| - Malaysian income tax | 40 | 42 |
| - Under provision in prior years | - | 11 |
| Income tax expense recognised in profit or loss | 40 | 53 |

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

**Reconciliation between tax expenses 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 2016 and 2015 is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Profit before tax | 9,301 | 9,310 | 5,654 | 1,925 |
| Taxation at 24% (2015: 25%) | 2,232 | 2,328 | 1,357 | 481 |
| Reduction in Malaysian income tax rate on deferred tax | (23) | (387) | - | - |
| Tax effect of: | | | | |
| - Non-deductible expenses | 450 | 539 | 102 | 101 |
| - Non-taxable income | (218) | (160) | (1,419) | (540) |
| Utilisation of current year's reinvestment allowance | (945) | - | - | - |
| Claw back of capital allowances | (5) | (82) | - | - |
| Deferred tax asset recognised on unabsorbed reinvestment allowances | (230) | - | - | - |
| Under/(over) provision in prior years: | | | | |
| - Income tax | 120 | (122) | - | 11 |
| - Deferred tax | 69 | 6 | - | - |
| Income tax expense recognised in profit or loss | 1,450 | 2,122 | 40 | 53 |

Domestic current income tax is calculated at the statutory tax rate of 24% (2015: 25%) of the estimated assessable profit for the financial year.

The following amounts are available for offset against future taxable income:

| | Group | |
|---|---|---|
| | **2016** | **2015** |
| | **RM'000** | **RM'000** |
| Unutilised tax losses | 1,625 | 2,144 |
| Unabsorbed capital allowances | 171 | - |
| Unabsorbed reinvestment allowances | 5,508 | 5,344 |
| | 7,304 | 7,488 |

## 22. Trade and other receivables (continued)

### (b) Other receivables (continued)

Other receivables that are impaired (continued)

Other receivables that are individually impaired and the movement of the allowance accounts used to record the impairment are as follows:

| | Group | |
|---|---|---|
| | 2016 | 2015 |
| | RM'000 | RM'000 |
| **Individually impaired** | | |
| Other receivables - nominal amounts | 725 | 725 |
| Less: Allowance for impairment | (725) | (725) |
| | - | - |

Movement in allowance accounts:

| | Group | |
|---|---|---|
| | 2016 | 2015 |
| | RM'000 | RM'000 |
| At 1 January/31 December | 725 | 725 |

Other information on financial risks of trade and other receivable are disclosed in Note 39.

## 23. Other current assets

| | Group | | Company | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Advance payments to suppliers of property, plant and equipment | 3,258 | 491 | - | - |
| Prepaid interest expenses | 59 | - | - | - |
| Prepaid operating expenses | 1,783 | 474 | 1 | 4 |
| | 5,100 | 965 | 1 | 4 |

## 24. Derivatives

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Notional Amount | Assets | Notional Amount | Assets |
| Group | RM'000 | RM'000 | RM'000 | RM'000 |
| **Non-hedging derivatives:** | | | | |
| Foreign currency forward contracts | 590 | 6 | 877 | 7 |

The Group uses foreign currency forward contracts to manage some of the transaction exposures. These contracts are not designated as cash flow hedge.

The Group determines the fair value of the foreign currency forward contracts by using the prices quoted by the counterparty bank, which is under Level 2 of the fair value hierarchy.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 25. Held-to-maturity investment

Held-to-maturity investment consists of deposits with licensed banks with maturity period of more than three months are as follows:

| | Group 2016 RM'000 | Group 2015 RM'000 | Company 2016 RM'000 | Company 2015 RM'000 |
|---|---|---|---|---|
| Deposits with licensed banks | 4,347 | 3,740 | 1,587 | 1,543 |

The weighted average effective interest rates of held-to-maturity investments at the reporting date are as follows:

| | Group and Company 2016 | Group and Company 2015 |
|---|---|---|
| Deposits with licensed banks | 2.80% | 2.90% |

The varying periods of held-to-maturity investments at the reporting date are as follows:

| | Group and Company 2016 months | Group and Company 2015 months |
|---|---|---|
| Deposits with licensed banks | 12 | 12 |

Deposits with licensed banks are pledged as securities for borrowings as referred to in Note 27.

## 26. Cash and bank balances

| | Group 2016 RM'000 | Group 2015 RM'000 | Company 2016 RM'000 | Company 2015 RM'000 |
|---|---|---|---|---|
| Cash on hand and at banks | 8,620 | 5,835 | 58 | 65 |

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

| | Group 2016 RM'000 | Group 2015 RM'000 | Company 2016 RM'000 | Company 2015 RM'000 |
|---|---|---|---|---|
| Cash on hand and at banks | 8,620 | 5,835 | 58 | 65 |
| Bank overdrafts (Note 27) | (2,213) | (2,985) | - | - |
| Cash and cash equivalents | 6,407 | 2,850 | 58 | 65 |

## 27. Loans and borrowings

| | Maturity | Group 2016 RM'000 | 2015 RM'000 |
|---|---|---|---|
| **Current** | | | |
| Secured: | | | |
| Bank overdrafts (Note 26) | On demand | 2,213 | 2,985 |
| Bankers' acceptances | 2017 | 44,743 | 31,904 |
| Trust receipts | 2017 | 824 | - |
| Term loans | 2017 | 362 | 469 |
| Finance lease payables (Note 36(b)) | 2017 | 201 | 472 |
| | | 48,343 | 35,830 |
| **Non-current** | | | |
| Secured: | | | |
| Term loans | 2018 to 2019 | 281 | 619 |
| Finance lease payables (Note 36(b)) | 2018 to 2019 | 87 | 239 |
| | | 368 | 858 |
| **Total loans and borrowings** | | 48,711 | 36,688 |

The remaining maturities of the borrowings as at 31 December 2016 and 2015 are as follows:

| | Group 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| On demand or within one year | 48,343 | 35,830 |
| Later than one year and not later than 2 years | 251 | 530 |
| Later than 2 years and not later than 5 years | 117 | 328 |
| | 48,711 | 36,688 |

**(a) Bank overdrafts**

Bank overdrafts are denominated in RM, bear interest on an average of 7.21% (2015: 7.79%) per annum.

**(b) Bankers' acceptances**

These are used to finance purchases of the Group denominated in RM and are short term in nature. The weighted average effective interest rate is 4.08% (2015: 4.17%) per annum.

**(c) Trust receipts**

These are used to finance purchases of the Group denominated in RM and are short term in nature. The weighted average effective interest rate is 7.85% (2015: nil) per annum.

**(d) Term loans**

The loans are repayable over a period of 5 years. The weighted average effective interest rate is 7.19% (2015: 7.03%) per annum.

**27. Loans and borrowings (continued)**

**(e) Obligations under finance leases**

These obligations are secured by a charge over leased assets (Note 17(d)). The average discount rate implicit in the leases is 4.15% (2015: 4.26%) 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 17, 18 and 25. The borrowings are additionally guaranteed by certain directors of the Company.

Other information on financial risk of borrowings are disclosed in Note 39.

**28. Trade and other payables**

| | Group | | Company | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Trade payables** | | | | |
| Third parties | 18,984 | 19,805 | - | - |
| **Other payables** | | | | |
| Accrued operating expenses | 4,854 | 4,710 | 17 | 38 |
| Sundry payables | 2,846 | 2,729 | - | 5 |
| GST payable | 326 | - | - | - |
| Provision | 251 | - | - | - |
| | 8,277 | 7,439 | 17 | 43 |
| Total trade and other payables | 27,261 | 27,244 | 17 | 43 |
| Total trade and other payables | 27,261 | 27,244 | 17 | 43 |
| Less: GST payable | (326) | - | - | - |
| Add: Borrowings (Note 27) | 48,711 | 36,688 | - | - |
| Total financial liabilities carried at amortised cost | 75,646 | 63,932 | 17 | 43 |

**(a) Trade payables**

Trade payables are non-interest bearing and are normally settled on 30 to 120 (2015: 30 to 120) days terms.

**(b) Other payables**

Other payables are non-interest bearing and normally settled on an average of 6 (2015: 6) months.

**29. Deferred tax assets/(liabilities)**

| | Group 2016 RM'000 | Group 2015 RM'000 |
|---|---|---|
| At 1 January | (8,194) | (6,934) |
| Recognised in profit or loss (Note 15) | (30) | (1,260) |
| At 31 December | (8,224) | (8,194) |
| Reflected in the statements of financial position as follows: | | |
| - Deferred tax assets | 428 | 1,872 |
| - Deferred tax liabilities | (8,652) | (10,066) |
| | (8,224) | (8,194) |

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

| Group | Property, plant and equipment RM'000 | Unutilised tax losses RM'000 | Unabsorbed capital allowances RM'000 | Unabsorbed reinvestment allowances RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **As at 1 January 2015** | (9,116) | 536 | 297 | 1,349 | (6,934) |
| Recognised in profit or loss | (1,337) | - | (297) | (13) | (1,647) |
| Reduction in tax rate | 387 | - | - | - | 387 |
| **At 31 December 2015 and 1 January 2016** | (10,066) | 536 | - | 1,336 | (8,194) |
| Recognised in profit or loss | 66 | (146) | 41 | (14) | (53) |
| Reduction in tax rate | 23 | - | - | - | 23 |
| **At 31 December 2016** | (9,977) | 390 | 41 | 1,322 | (8,224) |

**30. Share capital**

| | Group and Company: Number of shares 2016 '000 | Number of shares 2015 '000 | Amount 2016 RM'000 | Amount 2015 RM'000 |
|---|---|---|---|---|
| **Authorised** | | | | |
| Shares of RM1 each | 100,000 | 100,000 | 100,000 | 100,000 |
| **Issued and fully paid** | | | | |
| Ordinary shares of RM1 each | 75,251 | 75,251 | 75,251 | 75,251 |

The holders of ordinary shares (except treasury 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.

# Notes to the Financial Statements

For the year ended 31 December 2016

## 31. Share premium

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

## 32. Treasury shares

Treasury shares relate to ordinary shares in the Company that are held by the Company. The amount consists of the acquisition costs of treasury shares.

During the financial year ended 2013, the Company acquired 71,400 shares in the Company through purchases on the Bursa Malaysia Securities Berhad. The total amount paid to acquire the shares was RM52,291 and this was presented as a component within shareholders' equity. At the reporting date, the Company held 1,098,445(2015: 1,098,445) ordinary shares of RM1 each as treasury shares in accordance with Section 67A of the Companies Act, 1965.

The directors of the Company are committed to enhancing the value of the Company for its shareholders and believe that the repurchase plan can be applied in the best interests of the Company and its shareholders. The repurchase transactions were financed by internally generated funds. The shares repurchased are being held as treasury shares.

## 33. Retained earnings

The Company may distributes dividends out of its entire retained earnings as at 31 December 2016 under the single tier system.

## 34. Dividend

| | Net dividend per ordinary share | | Amount | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| | **Sen** | **Sen** | **RM'000** | **RM'000** |
| Interim single tier dividend for 2016: 3.0% (2015: 2.5%) | 3.0 | 2.5 | 2,225 | 1,854 |

The directors do not recommend any final dividend to be paid in respect of the current financial year.

**35. 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:

| | Company | |
|---|---|---|
| | **2016** | **2015** |
| | **RM'000** | **RM'000** |
| **With subsidiaries** | | |
| Management fee charged to: | | |
| - Ornapaper Industry (M) Sdn. Bhd. | 56 | 56 |
| - Ornapaper Industry (Perak) Sdn. Bhd. | 35 | 35 |
| - Ornapaper Industry (Batu Pahat) Sdn. Bhd. | 16 | 14 |
| Dividends received from: | | |
| - Ornapaper Industry (Johor) Sdn. Bhd. | 271 | 271 |
| - Tripack Packaging (M) Sdn. Bhd. | 262 | - |
| - Ornapaper Industry (M) Sdn. Bhd. | 4,128 | 1,290 |
| - Ornapaper Industry (Perak) Sdn. Bhd. | 1,250 | 600 |
| Interest received from: | | |
| - Quantum Rhythm Sdn. Bhd. | 27 | 30 |

| | Group | |
|---|---|---|
| | **2016** | **2015** |
| | **RM'000** | **RM'000** |
| **With other related parties** | | |
| Purchases from STH Wire Industry (M) Sdn. Bhd. | 442 | 366 |
| Sales to: | | |
| - Perfect Food Manufacturing (M) Sdn. Bhd. | 8,093 | 6,668 |
| - Greatbrand Food Industries Sdn. Bhd. | 2,582 | 2,145 |
| - STH Wire Industry (M) Sdn. Bhd. | 60 | 42 |
| Rental paid to Perfect Food Manufacturing (M) Sdn. Bhd. | 60 | 160 |

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

The directors are of the opinion that the transactions above have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from those obtainable in transaction with other parties.

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

In addition to the directors' remuneration as disclosed in Note 14, the salaries and other related amounts payable to key management personnel are as follows:

| | Group | |
|---|---|---|
| | **2016** | **2015** |
| | **RM'000** | **RM'000** |
| Salaries and other emoluments | 965 | 75 |
| Defined contribution plans | 111 | 11 |
| | 1,076 | 86 |

# Notes to the Financial Statements

For the year ended 31 December 2016

## 36. Commitments

### (a) Capital commitments

| | Group 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| Capital expenditure approved and contracted for: | | |
| - Property, plant and equipment | 481 | 494 |

### (b) Finance lease commitments

The Company has finance leases for certain items of motor vehicles, plant and machinery (Note 17). 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:

| | Group 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| **Minimum lease payments:** | | |
| Not later than one year | 210 | 500 |
| Later than one year and not later than 2 years | 51 | 199 |
| Later than 2 years and not later than 5 years | 42 | 48 |
| Total minimum lease payments | 303 | 747 |
| Less: Amounts representing future finance charges | (15) | (36) |
| Present value of minimum lease payments | 288 | 711 |
| | | |
| **Present value of finance lease payables:** | | |
| Not later than one year | 201 | 472 |
| Later than one year and not later than 2 years | 48 | 193 |
| Later than 2 years and not later than 5 years | 39 | 46 |
| Present value of minimum lease payments | 288 | 711 |
| Less: Amount due within 12 months (Note 27) | (201) | (472) |
| Amount due after 12 months (Note 27) | 87 | 239 |

## 37. Material litigation

There was no material litigation against the Group, except for a trade dispute over the Collective Agreement between the Company and the Paper and Paper Products Manufacturing Employee's Union that was referred to the Industrial Court.

The Industrial Court has fixed this matter for mention on 24 April 2017. The Board of Directors believe that there will not have unfavorable outcome from the dispute. Hence, no provision is provided for as at the reporting date.

## 38. Fair value of financial instruments

### A. 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 |
|---|---|
| Trade and other receivables | 22 |
| Loans and borrowings | 27 |
| Trade and other payables | 28 |

The carrying amounts of the trade and other receivables and trade and other 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.

### B. Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: Inputs that are based on observable market data, either directly or indirectly

Level 3: Inputs that are not based on observable market data

| | Level 2 | | | |
|---|---|---|---|---|
| | Group | | Company | |
| | 2016 RM'000 | 2015 RM'000 | 2016 RM'000 | 2015 RM'000 |
| Held-to-maturity investment | 4,347 | 3,740 | 1,587 | 1,543 |
| Foreign currency forward contract | 6 | 7 | - | - |

There have been no transfers between Level 1, Level 2 and Level 3 fair value measurements during the financial years ended 31 December 2016 and 2015.

## 39. Financial risk management objectives and policies

Financial liabilities, comprise loans and borrowings, trade and other payables, and financial guarantee contracts. The main purpose of these financial liabilities is to finance the Group’s and the Company's operations and to provide guarantees to support its operations. Financial assets include trade and other receivables and cash and short-term deposits that derive directly from its operations.

The Group is exposed to interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group’s senior management oversees the management of these risks and ensures that the Group’s financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group’s policies and risk objectives. All derivative activities for risk management purposes are carried out by senior management who have the appropriate skills, experience and supervision. It is the Group’s policy that no trading in derivatives for speculative purposes may be undertaken. The Group does not apply hedge accounting. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

### (a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument 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 RM242,000 (2015: RM180,000) 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.

### (b) 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"), Singapore Dollars ("SGD") and EURO Dollars ("EURO"). Such transactions are kept to an acceptable level.

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

**(b) Foreign currency risk (continued)**

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

| | Net financial assets/(liabilities) held in non-functional currency | | | |
|---|---|---|---|---|
| | **EURO** | **SGD** | **USD** | **Total** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **At 31 December 2016** | | | | |
| Trade and other receivables | 41 | 204 | 1,921 | 2,166 |
| Trade and other payables | - | - | (269) | (269) |
| Cash and bank balances | - | 30 | 714 | 744 |
| | 41 | 234 | 2,366 | 2,641 |

| | Net financial assets/(liabilities) held in non-functional currency | | |
|---|---|---|---|
| | **SGD** | **USD** | **Total** |
| | **RM'000** | **RM'000** | **RM'000** |
| **At 31 December 2015** | | | |
| Trade and other receivables | 163 | 1,295 | 1,458 |
| Trade and other payables | - | (85) | (85) |
| Cash and bank balances | - | 547 | 547 |
| | 163 | 1,757 | 1,920 |

Sensitivity analysis for foreign currency risk

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

| | Profit net of tax | |
|---|---|---|
| | **2016** | **2015** |
| | **RM'000** | **RM'000** |
| USD strengthened by 5% (2015: 5%) | 145 | 88 |
| USD weakened by 5% (2015: 5%) | (145) | (88) |
| SGD strengthened by 5% (2015: 5%) | 12 | 8 |
| SGD weakened by 5% (2015: 5%) | (12) | (8) |
| Euro strengthened by 5% (2015: 5%) | 2 | - |
| Euro weakened by 5% (2015: 5%) | (2) | - |

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

(c) **Credit risk**

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. Exposure to credit risk relates to operating activities (primarily trade receivables) and from financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

(i) **Trade receivables**

Customer credit risk is managed according to established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed and approved by the directors who sets out the individual credit limits. Outstanding customer receivables are regularly monitored and financial standings of major customers are continuously reviewed.

At the reporting date, approximately 17% (2015: 19%) of the Group's gross trade receivables were due from 4 (2015: 6) major customers.

An impairment analysis is performed at each reporting date on an individual basis and in addition, minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data. The Group does not hold collateral as security.

<u>Exposure to credit risk</u>

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 value and a nominal amount of RM46,850,000 (2015: RM31,789,000) relating to corporate guarantees provided by the Company to financial institutions for credit facilities utilised by subsidiaries.

<u>Financial assets that are neither past due nor impaired</u>

Information regarding trade and other receivables that are neither past due nor impaired is disclosed in Note 22(a).

<u>Financial assets that are either past due or impaired</u>

Information regarding financial assets that are past due but not impaired is disclosed in Note 22(a).

(ii) **Cash and short-term deposits**

Cash are normally maintained at minimum levels and surplus cash are placed as short-term deposits with licensed banks and financial institutions. Such funds are reviewed by the directors on a monthly basis and amounts placed as short-term deposits may be revised throughout the year. This is to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty’s failure to make payments. Deposits with banks that are neither past due nor impaired are placed with or entered into with reputable financial institutions with no history of default.

## 39. Financial risk management objectives and policies (continued)

### (d) Liquidity risk

Liquidity risk is the risk that difficulty will be encountered in meeting financial obligations due to shortage of funds caused by mismatches of maturities of financial assets and liabilities. The objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, term loans, finance leases and collection from customers.

Debt maturity profile, operating cash flows and the availability of funding are managed so as to ensure that refinancing, repayment and funding needs are met. As part of its overall liquidity management, sufficient levels of cash or cash convertible investments are maintained to meet its working capital requirements. In addition, available banking facilities are maintained at a reasonable level to its overall debt position. As far as possible, committed funding are raised from financial institutions and balances its portfolio with some short term funding so as to achieve overall cost effectiveness.

Analysis of financial instruments by remaining contractual maturities

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

| **2016** | **On demand or within one year RM'000** | **One to five years RM'000** | **Total RM'000** |
|---|---|---|---|
| **Group** | | | |
| Trade and other payables | 27,261 | - | 27,261 |
| Loans and borrowings | 53,632 | 390 | 54,022 |
| Total undiscounted financial liabilities | 80,893 | 390 | 81,283 |
| **Company** | | | |
| Trade and other payables | 17 | - | 17 |
| Total undiscounted financial liabilities | 17 | - | 17 |
| **2015** | | | |
| **Group** | | | |
| Trade and other payables | 27,244 | - | 27,244 |
| Loans and borrowings | 35,920 | 914 | 36,834 |
| Total undiscounted financial liabilities | 63,164 | 914 | 64,078 |
| **Company** | | | |
| Trade and other payables | 43 | - | 43 |
| Total undiscounted financial liabilities | 43 | - | 43 |

## 40. 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 2016 and 2015.

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.

| | | Group | | Company | |
|---|---|---|---|---|---|
| | **Note** | **2016 RM'000** | **2015 RM'000** | **2016 RM'000** | **2015 RM'000** |
| Loans and borrowings | 27 | 48,711 | 36,688 | - | - |
| Trade and other payables | 28 | 27,261 | 27,244 | 17 | 43 |
| Less: Cash and bank balances | 26 | (8,620) | (5,835) | (58) | (65) |
| Net debt | | 67,352 | 58,097 | - | - |
| Equity attributable to owners of the parent | | 142,714 | 137,169 | 100,148 | 96,759 |
| **Capital and net debt** | | 210,066 | 195,266 | 100,148 | 96,759 |
| **Gearing ratio** | | 32% | 30% | - | - |

## 41. Event occuring after the reporting date

On 28 February 2017, the wholly owned subsidiary of the Company, Ornapaper Industry (M) Sdn. Bhd. acquired 2 ordinary shares, representing its entire issued and paid up capital of Ornapaper Logistic Sdn. Bhd. ("OLSB") for a total cash consideration of RM2.00. Upon completion of the acquisition, OLSB became a wholly owned subsidiary of the Company.

## 42. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the directors on 3 April 2017

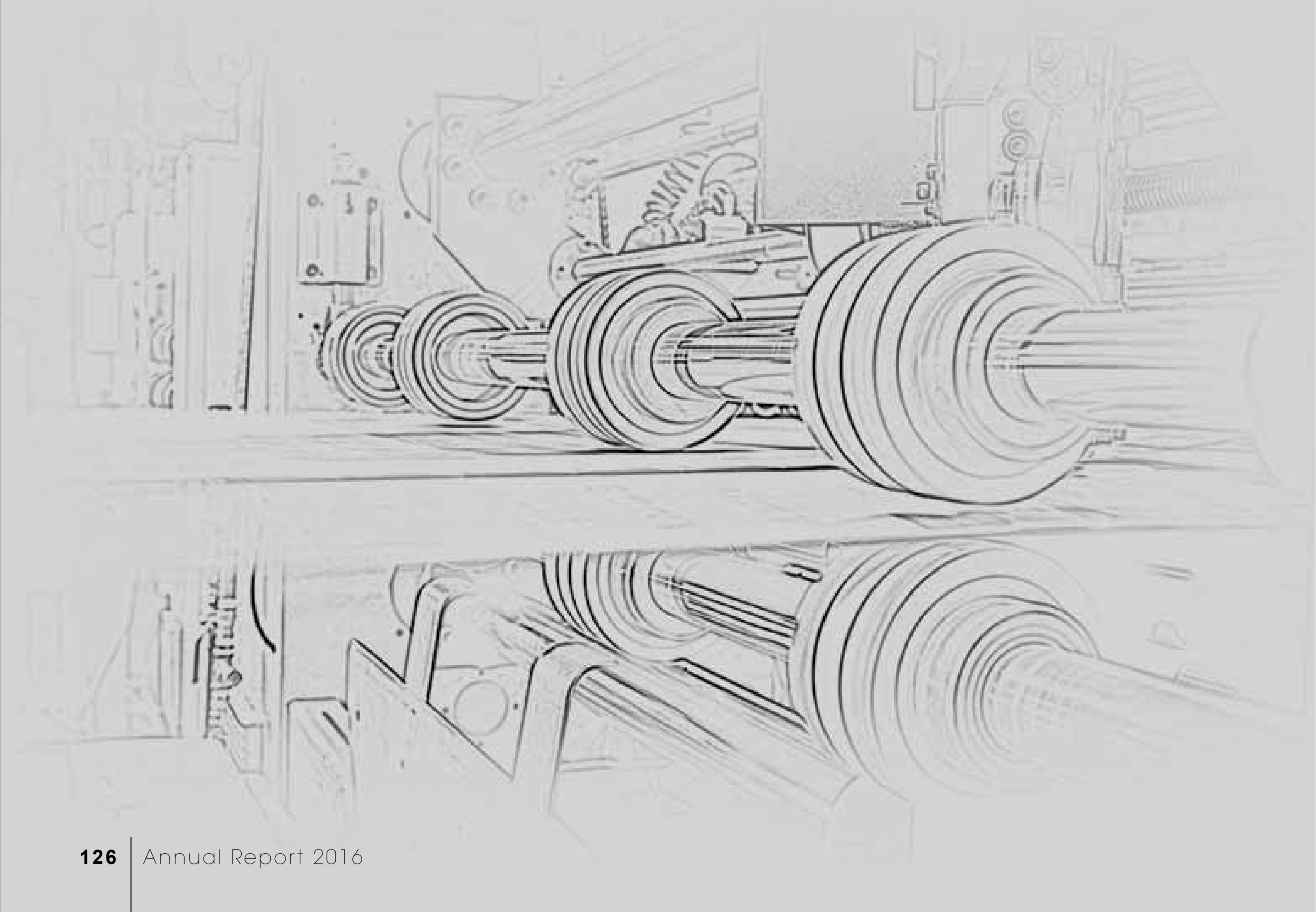
# Notes to the Financial Statements

For the year ended 31 December 2016

## 43. Supplementary information – Breakdown of retained earnings into realised and unrealised

The breakdown of the retained earnings of the Group and of the Company into realised 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.

| | Group | | Company | |
|---|---|---|---|---|
| | 2016<br>RM'000 | 2015<br>RM'000 | 2016<br>RM'000 | 2015<br>RM'000 |
| Total retained earnings of the Company and its subsidiaries | | | | |
| - Realised profits | 105,471 | 99,891 | 14,282 | 10,893 |
| - Unrealised losses | (8,145) | (8,175) | - | - |
| | 97,326 | 91,716 | 14,282 | 10,893 |
| Less: Consolidation adjustments | (40,478) | (40,413) | - | - |
| Retained earnings as per financial statements | 56,848 | 51,303 | 14,282 | 10,893 |



# List Of Properties

| Register Owner | Title / Location | Land Area (Square Metres) | Tenure From / To | Existing Use | Approximate Age of Building (Years) | Date of Acquisition or Revaluation | Net Book Value As at 31/12/2016 (RM'000) |
|---|---|---|---|---|---|---|---|
| OISB(M) | H. S. (M) 455 to H. S. (M) 470<br>Lot PT4944 to PT4959 Mukim of Bachang, District of Melaka Tengah, Melaka | 33,720 | Leasehold 99 Years Expiring On 24/09/2094 | Industrial | | 16-Jan-96 | |
| OISB(M) | H. S. (M) 471 to H. S. (M) 475<br>Lot PT4960 to PT4964 Mukim of Bachang, District of Melaka Tengah, Melaka | 17,505 | Leasehold 99 Years Expiring On 24/09/2094 | Industrial | 20 | 04-Mar-02 | 29,320 |
| PKNM* | Lot PT 6127, Kawasan Perindustrian Batu Berendam IV, Melaka Factory No.: 8998, Kawasan Perindustrian Batu Berendam (PhaseIV) (Taman Perindustrian Batu Berendam), Batu Berendam, Melaka. | 6,822 | Leasehold 99 Years Expiring On 20/04/2103 | Industrial (Former Service Road) | | 01-Aug-03 | |
| OISB(BP) | H. S. (D) 43098<br>Lot. No. PLO 271 (PTD39208), Mukim of Simpang Kanan, District of Batu Pahat, Johor Darul Takzim | 13,067 | Leasehold 60 Years Expiring On 10/07/2060 | Industrial | 19 | 27-Oct-97 | |
| | Factory No. PLO 271, Jalan Kawasan Perindustrian Sri Gading, 83009 Batu Pahat, Johor Darul Takzim | | | | | | 6,073 |
| OISB(BP) | H. S. (D) 38426<br>(PTD35123), Mukim of Simpang Kanan, District of Batu Pahat, Johor Darul Takzim | 4,047 | Leasehold 60 Years Expiring On 04/02/2058 | Industrial | 19 | 27-Dec-11 | |
| OISB(PERAK) | H. S. (D) 10127, H.S. (D) 101313 To H.S. (D)10135<br>Lot PT 80050, PT 80054 to PT 80058 Mukim of Hulu Kinta, District of Kinta, State of Perak | 42,808 | Leasehold 60 Years Expiring On 02/01/2051 | Industrial | 26 | 25-May-90 | 6,227 |
| | Factory No. Plot 9, Persiaran Perindustrian Kanthan 2, Industrial Estate, 31200 Chemor, Perak Darul Ridzuan | | | | | | |
| OISB(JOHOR) | H. S. (D) 248366<br>Lot PTD 46025 Mukim & District of Senai-Kulai, Johor Bahru | 6,070 | Leasehold 60 Years Expiring On 10/07/2056 | Industrial | 10 | 14-Mar-02 | 3,043 |
| | Factory No. PLO 114 Jalan Cyber 5, Kawasan Perindustrian Senai III, 81400 Senai Johor. | | Extended for another 30 years | | | | |

Notes:- OISB(M) - Ornapaper Industry (M) Sdn. Bhd.
OISB(BP) - Ornapaper Industry (Batu Pahat) Sdn. Bhd.
OISB(JOHOR) - Ornapaper Industry (Johor) Sdn. Bhd.
OISB(PERAK) - Ornapaper Industry (Perak) Sdn. Bhd.
PKNM - Perbadanan Kemajuan Negeri Melaka

* OISB (M) had purchased the land from PKNM as per the Sale and Purchase Agreement dated 01/08/2003

# Analysis of Shareholdings

As at 31 March 2017

**Issued and paid-up capital : RM75,250,601.00**
**Class of shares : Ordinary Shares**
**Voting rights : 1 Vote per Ordinary Share**

## DISTRIBUTION OF SHAREHOLDERS

| Range | No. of Shareholders | % | No. of Shares | % |
|---|---|---|---|---|
| 1 to 99 | 15 | 0.98 | 597 | 0.00 |
| 100 to 1,000 | 267 | 17.38 | 232,456 | 0.31 |
| 1,001 to 10,000 | 816 | 53.13 | 4,374,100 | 5.90 |
| 10,001 to 100,000 | 358 | 23.31 | 11,388,204 | 15.36 |
| 100,001 to 3,707,606 | 77 | 5.01 | 29,583,925 | 39.90 |
| 3,707,607 and above | 3 | 0.19 | 28,572,874 | 38.53 |
| | 1,536 | 100.00 | 74,152,156 | 100.00 |

### SUBSTANTIAL SHAREHOLDERS

| Name | Direct No. of Shares | % | Indirect No. of Share | % |
|---|---|---|---|---|
| Intisari Delima Sdn Bhd | 18,634,888 | 25.13 | - | - |
| HSBC Nominees (Asing) Sdn Bhd Exempt An For BSI SA (BSI BK SG-NR) | 5,880,000 | 7.93 | - | - |
| Sai Chin Hock | 4,057,986 | 5.47 | 19,094,212 # | 25.75 |

### DIRECTORS' SHAREHOLDINGS
### (Based on the Register of Directors' Shareholdings)

| Name | No. of Shares | % | No. of Shares | % |
|---|---|---|---|---|
| Ang Kwee Teng | 10,000 | 0.01 | - | - |
| Sai Chin Hock | 4,057,986 | 5.47 | 19,094,212 # | 25.75 |
| Datuk Adillah binti Ahmad Nordin | 34,000 | 0.05 | - | - |
| Siow Kee Yen | 30,500 | 0.04 | - | - |
| See Wan Seng | - | - | - | - |
| Tan Chin Hwee | - | - | - | - |
| Sai Han Siong | 15,000 | 0.02 | 19,217,212 ∆ | 25.92 |

Notes :-
\# Deemed interest by virtue of his substantial shareholdings in Intisari Delima Sdn Bhd (IDSB) and his son, Mr Sai Tzy Horng's substantial shareholdings in Pilihan Sistematik Sdn Bhd (PSSB).

∆ Deemed interest by virtue of his substantial shareholdings in IDSB and PSSB, and the interest held by his wife and father.

# Analysis of Shareholdings

As at 31 March 2017

**THIRTY (30) LARGEST SECURITIES ACCOUNT HOLDERS**

| | Name of Shareholders | No. of Shares Hold | % |
|---|---|---|---|
| 1. | INTISARI DELIMA SDN BHD | 18,634,888 | 25.13 |
| 2. | HSBC NOMINEES (ASING) SDN BHD<br>EXEMPT AN FOR BSI SA (BSI BK SG-NR) | 5,880,000 | 7.93 |
| 3. | SAI CHIN HOCK | 4,057,986 | 5.47 |
| 4. | SUPERIOR RAINBOW SDN BHD | 1,722,245 | 2.32 |
| 5. | LIM SIEW HUAI | 1,650,000 | 2.23 |
| 6. | TAN TIAN SOON | 1,435,900 | 1.94 |
| 7. | LIM CHIN TIAM | 1,401,800 | 1.89 |
| 8. | KUAH SAY CHONG | 1,339,000 | 1.81 |
| 9. | YEO SER KEN | 1,209,000 | 1.63 |
| 10. | LEKOK PAPER SDN BHD | 1,145,000 | 1.54 |
| 11. | UPTREND PERFORMER SDN BHD | 1,000,000 | 1.35 |
| 12. | GOH YU TIAN | 965,300 | 1.30 |
| 13. | GRANDEUR LAND SDN BHD | 900,000 | 1.21 |
| 14. | WONG MENG KIANG | 870,000 | 1.17 |
| 15. | LIM HONG LIANG | 745,000 | 1.00 |
| 16. | ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD<br>PLEDGED SECURITIES ACCOUNT FOR YAP CHING YOONG<br>(8021741) | 688,500 | 0.93 |
| 17. | SIANG TECK SIONG | 624,900 | 0.84 |
| 18. | ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD<br>PLEDGED SECURITIES ACCOUNT FOR NG SIAU MEN (8080599) | 560,700 | 0.76 |
| 19. | LIM ENG KONG | 474,300 | 0.64 |
| 20. | YAU YU KAM | 469,400 | 0.63 |
| 21. | PILIHAN SISTEMATIK SDN BHD | 459,324 | 0.62 |
| 22. | CHONG MEI | 430,000 | 0.58 |
| 23. | PUBLIC NOMINEES (TEMPATAN) SDN BHD<br>PLEDGED SECURITIES ACCOUNT FOR NG FAAI<br>@ NG YOKE PEI (SRB/PMS) | 401,000 | 0.54 |
| 24. | CIMSEC NOMINEES (TEMPATAN) SDN BHD<br>CIMB FOR LIM KA KIAN (PB) | 400,000 | 0.54 |
| 25. | RADIANCE PERFECT INTL. SDN BHD | 393,000 | 0.53 |
| 26. | MALACCA EQUITY NOMINEES (TEMPATAN) SDN BHD<br>EXEMPT AN FOR PHILLIP CAPITAL MANAGEMENT SDN BHD<br>(EPF) | 347,200 | 0.47 |
| 27. | MAYBANK SECURITIES NOMINEES (TEMPATAN) SDN BHD<br>PLEDGED SECURITIES ACCOUNT FOR LOW CHEE HIAN (STF) | 345,000 | 0.47 |
| 28. | TAN GEOK KIM | 320,000 | 0.43 |
| 29. | LIM HONG LIANG | 319,200 | 0.43 |
| 30. | JF APEX NOMINEES (TEMPATAN) SDN BHD<br>PLEDGED SECURITIES ACCOUNT FOR HON MENG HENG (MARGIN) | 309,100 | 0.42 |

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

# Proxy Form

| CDS ACCOUNT NO. |
|---|
| |
| NUMBER OF SHARES HELD |
| |

## FORM OF PROXY

*I/We ______________________________ NRIC No./Company No.___________________________

of (full address)_____________________________________________________________________

being a Member/Members of ORNAPAPER BERHAD, hereby appoint:-

**PROXY "A"**

| FULL NAME (IN BLOCK) | NRIC/PASSPORT NO. | PROPORTION OF SHAREHOLDINGS | |
|---|---|---|---|
| | | NO. OF SHARES | % |
| FULL ADDRESS | | | |

And/or failing *him/her,

**PROXY "B"**

| FULL NAME (IN BLOCK) | NRIC/PASSPORT NO. | PROPORTION OF SHAREHOLDINGS | |
|---|---|---|---|
| | | NO. OF SHARES | % |
| FULL ADDRESS | | | |

*#to put a separate sheet where there are more than two (2) proxies.*

or failing *him/her, the CHAIRMAN OF THE MEETING as *my/our proxy to vote for *me/us and on *my/our behalf at the 15th Annual General Meeting of the Company to be held at the Ballroom, Level 1, Holiday Inn Melaka, Jalan Syed Abdul Aziz, 75000 Melaka on Wednesday, 24 May 2017 at 10:30a.m. and at any adjournment thereof.

| No. | Resolutions |
|---|---|
| - | To receive the Audited Financial Statements for the financial year ended 31 December 2016 together with the Reports of the Directors and the Auditors thereon. |

| No. | Resolutions | For | Against |
|---|---|---|---|
| 1. | To approve the payment of Directors' fees in respect of the financial year ended 31 December 2016. | | |
| 2. | To approve the Directors' fees and any benefits for the financial year ending 31 December 2017 until the next AGM of the Company. | | |
| 3. | To re-elect Siow Kee Yen in accordance with Article 92 of the Company's Articles of Association. | | |
| 4. | To re-elect Tan Chin Hwee in accordance with Article 92 of the Company's Articles of Association. | | |
| 5. | To re-elect Sai Han Siong in accordance with Article 98 of the Company's Articles of Association. | | |
| 6. | To re-appoint Messrs. Ernst & Young as Auditors of the Company until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration. | | |
| 7. | **SPECIAL BUSINESS**<br>Ordinary Resolution - Authority to Issue Shares | | |
| 8. | Ordinary Resolution - Retention of Datuk Adillah binti Ahmad Nordin as an Independent Non-Executive Director of the Company | | |
| 9. | Ordinary Resolution - Retention of Siow Kee Yen as an Independent Non-Executive Director of the Company | | |
| 10. | Ordinary Resolution - Proposed Shareholders' Mandate | | |
| 11. | Ordinary Resolution - Proposed Renewal of Authority for Share Buy-Back | | |

* Strike out whichever not applicable.

Please indicate with an "X" in the space provided above how you wish your votes to be casted. If no specific direction as to voting is given, the proxy will vote or abstain from voting at his/her discretion.

As witness my/our hand(s) this _________ day of ___________________ 2017.

_______________________________
Signature of Member/Common Seal

Notes:

(i) 1. In respect of deposited securities, only members whose names appear in the Record of Depositors on 15 May 2017 ("**General Meeting Record of Depositors**") shall be eligible to attend, speak and vote at the Meeting.

(ii) A member entitled to attend and vote at the Meeting is entitled to appoint more than one (1) proxy to attend and vote in his stead. A proxy may but does not need to be a member of the Company. Where a member appoints more than one (1) proxy, the appointments shall be invalid unless he specifies the proportions of his shareholdings to be represented by each proxy. A proxy appointed to attend and vote at the Meeting shall have the same rights as the member to speak at the Meeting. Notwithstanding this, a member entitled to attend and vote at the Meeting is entitled to appoint any person as his proxy to attend and vote instead of the member at the Meeting. There shall be no restriction as to the qualifications of the proxy.

(iii) In the case of a corporate member, the instrument appointing a proxy must be either under its common seal or under the hand of its officer or attorney duly authorised.

(iv) Where a member of the Company is an exempt authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991 ("**SICDA**") which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("**omnibus account**"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds. Where a shareholder is an authorised nominee as defined under SICDA, it may appoint at least one (1) proxy in respect of each Securities Account it holds with ordinary shares of the Company standing to the credit of the said Securities Account.

(v) The instrument appointing a proxy and the power of attorney or other authority (if any), under which it is signed or a duly notarised certified copy of that power or authority, shall be deposited at the Registered Office of the Company at No. 60-1, Jalan Lagenda 5, Taman 1 Lagenda, 75400 Melaka not less than forty-eight (48) hours before the time for holding the Meeting or at any adjournment thereof. All resolutions set out in the Notice of the Meeting are to be voted by poll.

*fold here*

Affix
Stamp
Here

The Company Secretary
ORNAPAPER BERHAD (573695-W)
No. 60-1, Jalan Lagenda 5,
Taman 1 Lagenda,
75400 Melaka.
MALAYSIA

*fold here*

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