Ornapaper

ANNUAL REPORT 2017

Contents

Corporate Information

BOARD OF DIRECTORS	: Mr Ang Kwee Teng (Executive Chairman) Mr See Wan Seng (Chief Executive Director) Mr Sai Chin Hock (Executive Director) Mr Sai Han Siong (Executive Director) Mr Siow Kee Yen (Independent Non-Executive Director) Datuk Adillah binti Ahmad Nordin (Independent Non-Executive Director) Mr. Tan Chin Hwee (Independent Non-Executive Director) Mr. Sai Ah Sai (Non-Independent Non-Executive Director)
AUDIT COMMITTEE	Mr. Siow Kee Yen (Chairman) Datuk Adillah binti Ahmad Nordin Mr. Tan Chin Hwee
BOARD RISK MANAGEMENT COMMITTEE	Mr. Tan Chin Hwee (Chairman) Mr. Siow Kee Yen Datuk Adillah binti Ahmad Nordin
NOMINATION COMMITTEE	Mr. Siow Kee Yen (Chairman) Datuk Adillah binti Ahmad Nordin Mr. Tan Chin Hwee
REMUNERATION COMMITTEE	Datuk Adillah binti Ahmad Nordin (Chairperson) Mr. Siow Kee Yen Mr. Tan Chin Hwee
COMPANY SECRETARIES	Ms. Chua Siew Chuan (MAICSA 0777689) Ms. Tay Seok Yin (MAICSA 7063410)
REGISTERED OFFICE	No.60-1, Jalan Lagenda 5, Taman 1 Lagenda, 75400 Melaka. Tel: 606-2880210 Fax: 606-2880570
CORPORATE OFFICE	No. 8998, Kawasan Perindustrian Batu Berendam, Peringkat IV, 75350 Melaka, Malaysia. Tel: 606-3355888 Fax: 606-3355999 Website: www.ornapaper.com
SHARE REGISTRAR	Tricor Investor & Issuing House Services Sdn Bhd Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Wilayah Persekutuan, Malaysia. Tel: 603-2783 9299 Fax: 603-2783 9222 Email: is.enquiry@my.tricorglobal.com
AUDITORS	Ernst & Young (AF 0039) Chartered Accountants Level 16-1, Jaya 99, Tower B, 99 Jalan Tun Sri Lanang, 75100 Melaka. 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	: 68
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 – Nil
	: Indirect – 23,152,198 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	: 67
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	: 70
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	: 51
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	: 47
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	: 48
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	: 47
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

Mr Sai Ah Sai

Age	: 81
Nationality	: Malaysian
Gender	: Male
Designation / Position in the Company	: Director
Date of appointment	: 01 Jan 2018
Qualification	: -
Work experience	: Director of Perfect Food Manufacturing (M) Sdn Bhd (1995 to present); Director of Mega Quarry Products Sdn Bhd (2012 to present); Director of Julie's Manufacturing Sdn Bhd (2005 to present)
Directorship in other Public Companies & listed issuers	: None
Securities holding in the Company and its subsidiaries	: Direct – 120,000 shares : Indirect – 23,338,698 shares
Family relationship with any directors and / or major shareholders of the Company	: Brother 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	: 47
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) Sales Manager - Ornapaper Industry (Batu Pahat) Sdn Bhd (2001 - 2005) General Manager - Ornapaper Industry (Batu Pahat) Sdn Bhd (2005 - 2009) 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	: 58
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) Sales Executive - Eng Shuen Paper Industrial Co. (M) Sdn Bhd (1992 - 1994) Sales Manager - Eng Shuen Paper Industrial Co. (M) Sdn Bhd (1994 - 1998) Sales Manager - Ornapaper Industry (Perak) Sdn Bhd (1998 - 2007) Regional Manager - Ornapaper Industry (Perak) Sdn Bhd (2007 - 2009) 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

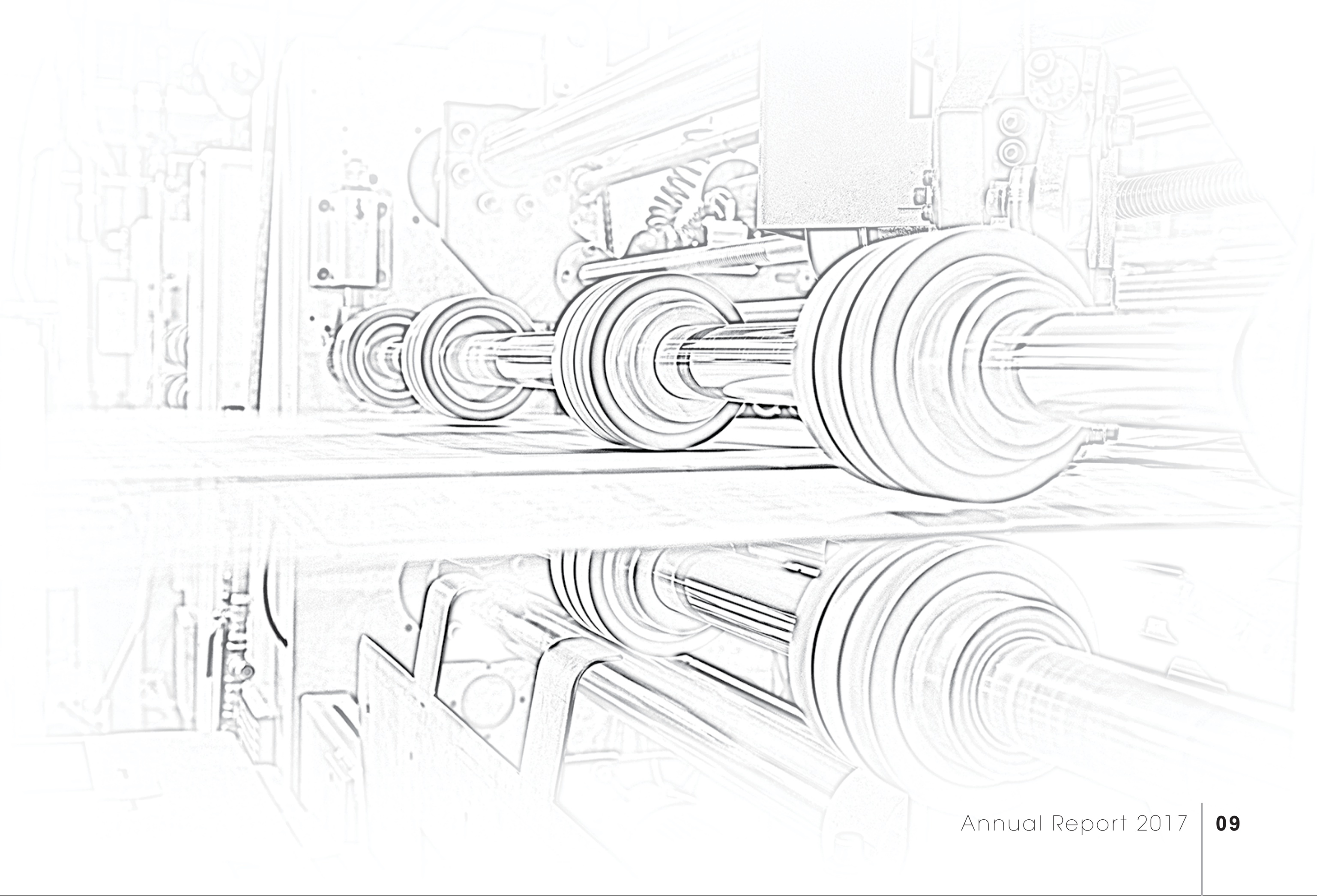
Profile of Key Management

Name	: Foo Chee Juin
Age	: 63
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) Associate Member of Institute of Bankers (London) (1975 - 1980)
Working Experience	: Company Secretary - PI Chua & Co. Sdn Bhd (1980 - 1989) Corporate General Manager - Polyplus Holding Berhad (1989 - 1995) Corporate General Manager - Century Bonds Sdn Bhd (1995 - 1997) Director - Genesis Packages Sdn Bhd (1997-1999) 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	: 45
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) Operating Officer - Hotel Carnival (1997 - 1998) Sales Executive - Fliplex Sdn Bhd (1998 - 2000) Production Planner - Chiga Light Industry (2000 - 2003) Sales Executive - Ornapaper Industry (BP) Sdn Bhd (2003 - 2005) Senior Sales Executive - Ornapaper Industry (BP) Sdn Bhd (2005 - 2010) Asst. Sales Manager - Ornapaper Industry (BP) Sdn Bhd (2010 - 2011) 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	: 51
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) Director - Toli Packaging (KL) Sdn Bhd (1992 - 1996) Director - Tripack Packaging (M) Sdn Bhd (1996 - 2006) Sales Manager - Tripack Packaging (M) Sdn Bhd (2006 - 2009) 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" or "the Group") was incorporated as a private limited company under the name of Ornapaper Industry (M) Sdn. Bhd. on 24 July 1990, with its humble beginning in rented premises for the commencement of business activity as a manufacturer of corrugated cartons. Riding on the economic boom in the early 90's and with a continuous investment programme, a new high-technology production and development facility was made available in October 1996. The Company then expanded its operation to become a corrugated board manufacturer and it was listed on the Main Market of Bursa Securities, the Kuala Lumpur stock exchange in 2002.

Ornapaper is involved in the manufacturing of paper based packaging and stationery products as well as provision of logistics services in Malaysia. Ornapaper is operating through its wholly-owned 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., Quantum Rhythm Sdn. Bhd. and Ornapaper Logistics Sdn. Bhd.

Ornapaper Logistics Sdn. Bhd. is a newly established logistics company and commenced its business operation in August 2017 in providing transportation service to the Group. Hence, the revenue contribution of the logistics company to the Group's revenue in 2017 was remained insignificant at approximately 0.07%. As for Quantum Rhythm Sdn. Bhd. which is primarily involved in the manufacturing of paper based stationery products, it has contributed revenue of less than 8% to the Group's total revenue consistently for the past few years from both local (approximately 83%) and export (approximately 17%) markets. Whereas, 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 and plastic, hardware and steel, chemical products, sports and agriculture industry as well as other stand-alone converters who do not own a corrugator plant.

A wide range of selection of corrugated box types are produced by the Company, 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 supplied measuring cardboard boxes and corrugated flutes comprising single face, single wall, double wall and triple wall corrugated fibreboard.

Ornapaper has become one of the top five (5) leaders in the corrugated boards and carton boxes manufacturing industry in Malaysia supplying corrugated boards and packaging products of superior quality through strict adherence to quality standards per ISO 9001:2015 certification. The Quality Assurance laboratory of Ornapaper is equipped with various precision test equipment and apparatus in facilitating the Quality Assurance team to ensure the quality standards are met at all stages of production to delivery to customers. Ornapaper has worked aggressively in exploiting all potential synergies to improve and maintain high product quality and service efficiency. Constant improvement to machinery and production technology has enhanced the Group's competitive edge over others in the industry.

Management Discussion and Analysis

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. 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 excellent customer service while achieving optimum cost and sales value equilibrium for long term sustainability. This could be achieved through production optimisation 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.

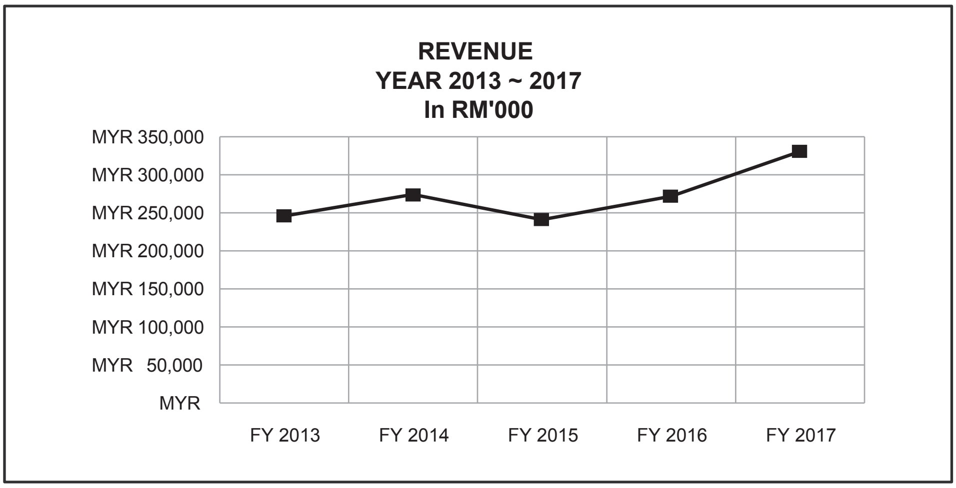
Armed with the application of latest technologies and innovation in manufacturing automation, Ornapaper is capable of producing high quality corrugated boards and packaging products that meet customers' needs and satisfaction, meanwhile, lifting the packaging standards within the industry in Malaysia. Its existing facilities throughout Malaysia enable the Group to produce approximately 113,064 metric tonnes of corrugated boards and cartons per annum. Ornapaper also intended to co-exist with the society as a guardian of our environment in promoting the recycling program and practicing proper waste control management, which further support the sustainability of the Group's business operation.

FINANCIAL REVIEW OPERATION REVIEW

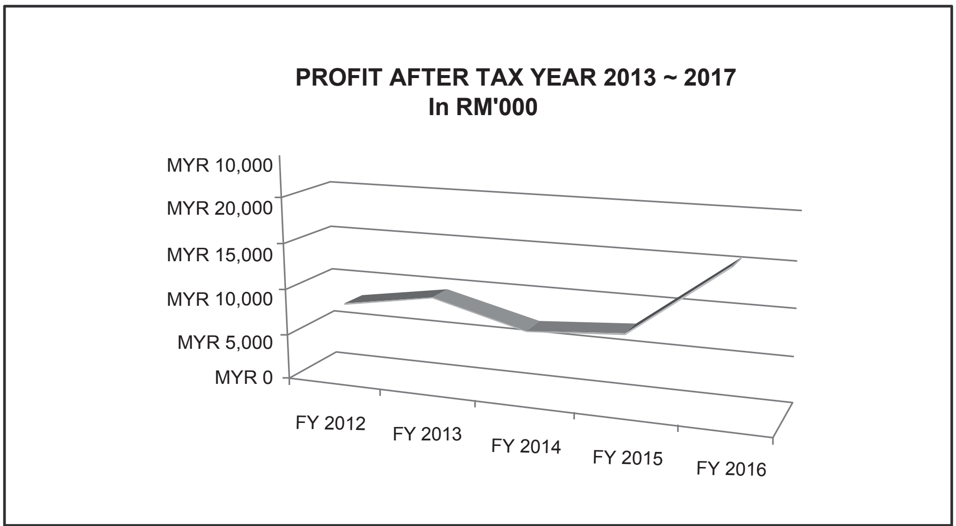
Financial Year Ended 31 December 2017 ("2017") compared with Financial Year Ended 31 December 2016 ("2016")

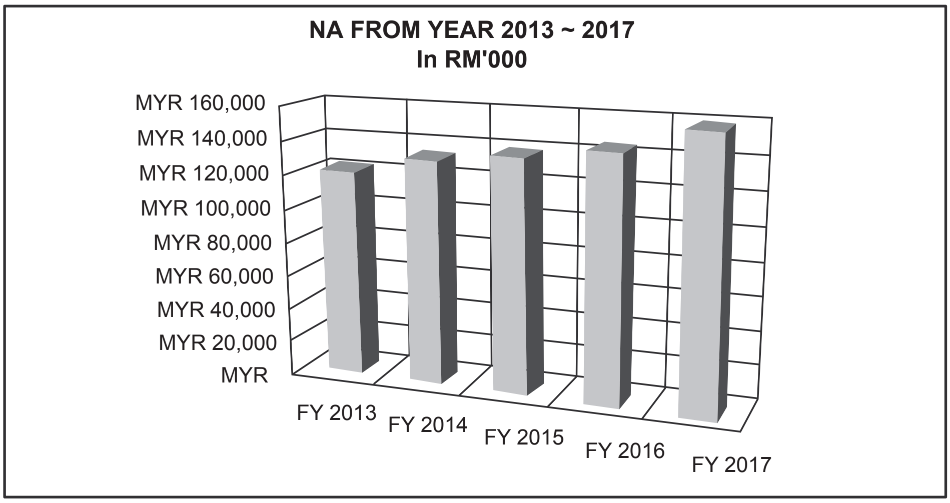
In RM'000 (unless otherwise stated)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
REVENUE	245,625	273,696	241,287	272,052	330,699
GROSS PROFIT	45,251	51,325	43,048	47,930	60,636
PROFIT AFTER TAX *	8,032	9,643	7,040	7,770	15,536
NA	123,238	132,949	138,215	143,773	157,642
NA per share (RM) **	1.64	1.77	1.84	1.91	2.09
EPS Basic (sen)	10.80	13.00	9.50	10.50	21.00

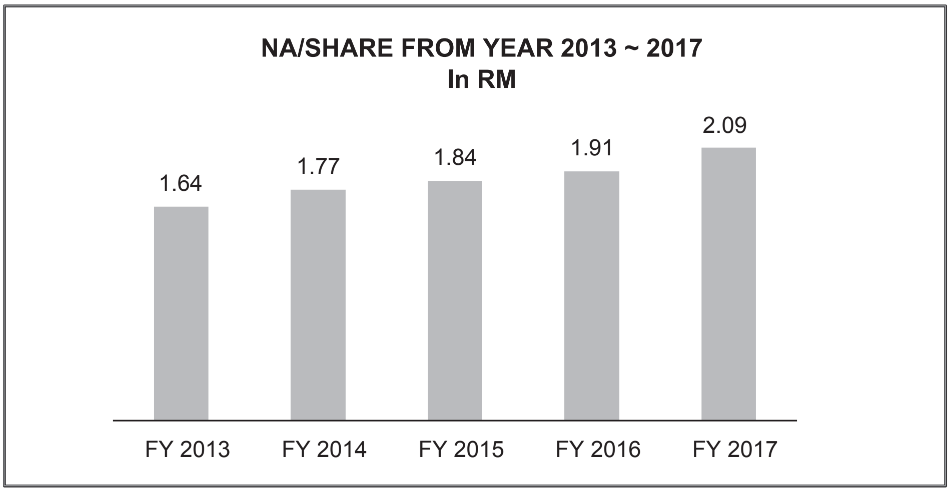
* Attributable to Owners of Parent.
** Exclude Treasury Shares



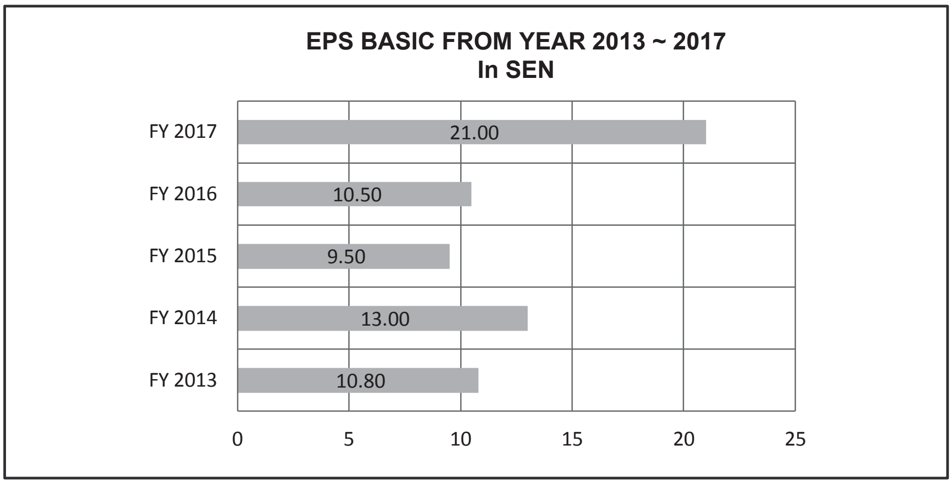
Management Discussion and Analysis







Management Discussion and Analysis



Revenue

Despite the challenging business environment with slower economic momentum, the Group's revenue for 2017 was reported at RM 330.699 million, an increase of approximately RM 58.647 million or 22% over the preceding year's revenue of RM 272.052 million. The key contributor to the improved revenue remained to be Ornapaper Industry (M) Sdn. Bhd., contributed to majority of the total revenue generated by the Group. The other major contributors were Ornapaper Industry (Perak) Sdn. Bhd., Ornapaper Industry (Batu Pahat) Sdn. Bhd. and Ornapaper Industry (Johor) Sdn. Bhd.

The paper packaging division continued to form the mainstay of the Group's business, demonstrated by its sales contribution of more than 90% of the Group's total revenue in 2017. Electronic and electrical ("E&E") industry, food and beverage ("F&B") industry as well as furniture industry remained as the top three (3) sectors for the revenue generation of the Group, amounted to 43% of the Group's sales in 2017.

The revenue growth was mainly driven by the increase in average selling price of corrugated boards and cartons boxes both by approximately 18% and 11% respectively from 2016 to 2017, as a result of the continuous cost pass-through efforts by the Group's Sales and Marketing division in dealing with the increasing raw materials costs which was affected by both the limited supply of paper rolls and increasing demand of paper packaging and paper based stationery products, as well as the weak Ringgit Malaysia ("RM") in terms of imports. Nonetheless, the improved product mix structure by improving the premium cartons' contribution to the overall sales composition also contributed to the increase in average selling price.

Besides, the improved revenue in the current financial year was also partly contributed by the increased sales volume in 2017 secured from the new and existing customers albeit the weak business climate, 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. The increase in net sales volume from 2016 to 2017 by approximately 7.55% was observed mostly from the paper packaging division, from approximately 87,345 MT in 2016 to 93,940 MT in 2017.

Management Discussion and Analysis

Cost of Goods Sold and Gross Profit Margin

Cost of goods sold recorded an increase by approximately RM 45.941 million or 20% from RM224.122 million for 2016 to RM 270.063 million for 2017, mainly contributed by the upsurge in paper costs in consequence of the paper shortage with increasing demand, as well as higher consumption of raw materials, labours and direct overheads expenses incurred in 2017 to accommodate the increase in sales volume during the year. Paper roll is accounted to be the highest cost component of both the paper packaging and paper based stationery products. The average purchase price of paper roll (per metric tonne ("MT")) and the quantity of paper rolls consumed in 2017 increased by approximately 19% and 8% respectively compared to the previous financial year.

Despite the increase in cost of goods sold driven by the price hike and tight supply of raw materials, the gross profit margin of the Group remained relatively stable at 18% in 2017 compared to 2016, principally due to the 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 11% respectively in 2017.

Costs and Expenses

(a) Administrative expenses increased by approximately RM1.315 million or 11%, from RM 11.525 million for 2016 to RM 12.840 million for 2017. The increase in administrative expenses was mainly due to the higher payroll related expenses incurred in 2017 in meeting customers' delivery deadlines as a result of higher production and sales volume in 2017 compared to 2016.

(b) Selling and marketing expenses increased by approximately RM 1.559 million or 8%, from RM 19.045 million for 2016 to RM 20.604 million for 2017, mainly due to higher carriage outwards expenses incurred in 2017 as a result of higher sales volume and deliveries to customers.

(c) Other expenses decreased from RM 7.031 million for 2016 to RM 5.864 million for 2017, representing a drop of approximately RM 1.167 million or 17%. The decrease was mainly attributable to the gain on disposal of fixed assets in 2017 amounted to approximately RM 0.206 million as compared to preceding year's loss on disposal of fixed assets amounting to RM 1.197 million.

(d) Finance costs increased from RM 2.325 million for 2016 to RM 3.067 million for 2017 by approximately RM 0.742 million or 32%, mainly due to the increase of bankers acceptance ("BA") drawn during the year by the subsidiaries of Ornapaper Industry (M) Sdn. Bhd., Ornapaper Industry (Batu Pahat) Sdn. Bhd., Ornapaper Industry (Johor) Sdn. Bhd. and Ornapaper Industry (Perak) Sdn. Bhd. to finance the purchases of paper rolls in accommodating the increased production and sales volume in 2017.

Profit Attributable to Owners of the Company

The profit attributable to owners of the Company increased significantly by approximately RM 7.766 million or 100% from RM 7.770 million for 2016 to RM 15.536 million for 2017. The substantial growth was mainly contributed by the increased average selling price of corrugated boards and carton boxes subsequent to the continuous cost pass-through efforts performed in view of the increased costs of raw materials and production costs, along with the improved sales volume and production capacity utilisation and efficiency in 2017.

Management Discussion and Analysis

Property, Plant and Equipment

Property, plant and equipment of the Group recorded an increase of approximately RM 3.642 million or 4% from RM 97.119 million in 2016 to RM 100.761 million in 2017, primarily due to investment in additional fixed assets, i.e. machineries and other production equipment in 2017.

Land Use Rights

The land use rights of the Group for 2017 was recorded at RM 6.686 million compared to RM 5.437 million in 2016, representing an increase of approximately RM 1.249 million or 23%. The growth was attributable to the extension of land use rights during the year by Ornapaper Industry (Perak) Sdn. Bhd. for a period of 99 years.

Inventories

Inventories of the Group recorded an increase of approximately RM 16.140 million or 43% from RM 37.256 million in 2016 to RM 53.396 million in 2017. The significant increase was primarily the result of upsurge in costs of raw materials, i.e. paper rolls as compared to the corresponding financial period, in consequence of the global shortage of paper along with the rising demand for paper packaging products that outstripped the paper supply. Hence, in accommodating the increased sales and production volume during the year, more paper rolls were purchased in bulks by Ornapaper in 2017, in driving down the cost of raw materials and lessen the cost pass-through effect. As such, the inventory turnover days (average inventories divided by total costs of goods sold for the year) were relatively comparable with a marginal increase from averagely 60 days in 2016 to averagely 61 days in 2017.

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.

Trade and Other Receivables

Trade and other receivables of the Group recorded an increase of approximately RM 19.495 million or 29% from RM 67.848 million in 2016 to RM 87.343 million in 2017, mainly resulted from the increase in trade receivables balances during the year by approximately 29% or RM 19.563 million from RM 66.689 million in 2016 to RM 86.252 million in 2017. The increase was mitigated by a slight decrease in other receivables from RM 1.159 million in 2016 to RM 1.091 million in 2017 by approximately RM 0.068 million or 6%.

The overall increase in trade receivables balances in 2017 was 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) in both financial years of 2016 and 2017 were relatively comparable with very minimal improvement from averagely 84.6 days in 2016 to averagely 84.4 days in 2017 despite the weak business condition as the Group balanced its growth in sales 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 2017 was accounted for only 0.004% of the sales compared to 0.025% in 2016.

Management Discussion and Analysis

Other Current Assets

Other current assets of the Group decreased from RM 5.100 million in 2016 to RM 1.033 million in 2017, representing a decrease of approximately RM 4.067 million or 80%. The decline was mainly contributed by Ornapaper Industry (M) Sdn. Bhd., for deposits made by the Company to vendors in 2016 amounted to RM 3.258 million for purchases of machineries for planned upgrade exercise and capacity expansion.

Held-To-Maturity Investment

The held-to-maturity investment balances recorded a decrease by approximately RM 0.393 million from RM 4.347 million in 2016 to RM 3.954 million in 2017. It was mainly contributed by Quantum Rhythm Sdn. Bhd. as a result of the withdrawal of fixed deposits from Bangkok Bank in 2017 amounted to approximately RM 0.5 million.

Trade and Other Payables

On overall, the trade and other payables recorded an increase of approximately RM 7.624 million from RM 27.261 million in 2016 to RM 34.885 million in 2017. The increase was primarily resulted from the increase in trade payables balances by approximately RM 5.286 million from RM 18.984 million in 2016 to RM 24.270 million in 2017, mainly due to the increased purchases of raw materials, i.e. paper rolls, with higher average purchase price (per MT) incurred in accommodating the increased sales and production volume during the year. Notwithstanding the increased purchases of raw materials that resulted to the increase in trade payables, the Group still maintained its prompt payment practice to suppliers in the effort of reducing the costs of raw materials by capitalising the discounts/rebates for early payments offered by suppliers. Therefore, the trade payables turnover days improved from averagely 31.6 days in 2016 to averagely 29.2 days in 2017.

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 the 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 expenditures incurred during the financial year were plant and machinery upgrades and capacity expansion mainly for Ornapaper Industry (M) Sdn. Bhd., Ornapaper Industry (Perak) Sdn. Bhd. and Ornapaper Industry (Batu Pahat) Sdn. Bhd. to improve production efficiency and to cater for the increased sales volume, as well as extension of land use rights for Ornapaper Industry (Perak) Sdn. Bhd. for a period of 99 years. The capital expenditures incurred during the financial year were financed by internally generated funds 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.

From working capital aspect, the Group was able to maintain its current ratio at 1.59 times in 2017 as compared to 1.64 times in the preceding financial year. Whereas, the acid test ratio of the Group was comparably with minimal decrease from 1.14 times in 2016 to 1.06 times in 2017.

Management Discussion and Analysis

Cash and cash equivalents increased from RM 6.407 million as at 31 December 2016 to RM 15.093 million as at 31 December 2017. The increase in cash and cash equivalents was mainly attributable to the upsurge in net cash flows generated from financing activities, which recorded a net cash inflow of RM 19.101 million in 2017 compared to RM 10.502 million in 2016, as a result of drawdown of term loans and hire purchases as well as increase in short term borrowings during the year to finance the working capital requirements of the Group. The cash inflow from short term borrowings increased by approximately RM 5.942 million, from RM 13.663 million in 2016 to RM 19.605 million in 2017, as a result of higher trade financing utilised for purchases of raw materials to capitalise the discounts or rebates offered by suppliers. Meanwhile, drawdowns of term loans amounted to approximately RM 1.500 million in 2017 for purchases of machineries by Ornapaper Industry (Johor) Sdn. Bhd. Whereas, there were also drawdowns of hire purchases during the year by RM 0.800 million for purchases of machineries by Quantum Rhythm Sdn. Bhd. and Ornapaper Industry (Batu Pahat) Sdn. Bhd.

On the other hand, a lower net cash inflow from operating activities was generated by the Group at RM 2.797 million in 2017 compared to RM 10.767 million in the preceding financial year. This was mainly attributable to the increase in inventories due to higher purchases of raw materials, i.e. paper rolls, at higher average purchase price (per MT), as well as the increase in trade receivables as a result of the higher sales volume and average selling price in 2017 as compared to 2016.

Apart from that, the net cash flows used in investing activities slightly reduced from RM 17.691 million in 2016 to RM 13.178 million in 2017. The decreased net cash outflow was primarily due to lesser fixed assets purchased by the Group during the year as well as decrease in deposits placed with banks in 2017 compared to the previous financial year.

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 2017 remained healthy at 36% notwithstanding the increase from 32% as at 31 December 2016. Higher debt-to-equity ratio of the Group during the financial year of 2017 was mainly attributable to the increase in short term borrowings in 2017 in the form of trade financing for purchases of raw materials.

REVIEW OF OPERATING ACTIVITIES

In RM'000 (unless otherwise stated)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
GROSS PROFIT MARGIN (%)	18%	19%	18%	18%	18%
EBITA MARGIN (%)	10%	10%	10%	9%	11%
REVENUE PER AVERAGE EMPLOYEE	293	310	277	330	382
EBITA PER AVERAGE EMPLOYEE	28	31	27	29	41
NUMBER OF AVERAGE EMPLOYEE	839	884	871	825	865

There are two (2) core operating segments that Ornapaper is involved in, i.e. paper packaging business and paper based stationery products. 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 2013 to 2017, at a range of 18% to 19% for gross profit margin and 9% to 11% for EBITA margin, as a result of improved plants' capacity utilisation in accommodating the increased sales volume which was sold at a higher average selling price in consequence of the hike of demand over the limited supply of paper rolls which was the main raw materials.

Management Discussion and Analysis

Albeit the surge of average purchase price of paper roll throughout the year, effort was putting in to improve the production efficiency in driving down the unit manufacturing cost along with the continuous cost pass-through exercises by the Sales and Marketing Department of respective operating subsidiaries. Consequently, the average revenue generated per average employee of the Group presented a positive growth throughout the five (5) financial years especially in 2014, 2016 and 2017, amounted to approximately RM 0.310 million, RM 0.330 million and RM 0.382 million respectively, notwithstanding the increase of numbers of average employees throughout the years with 865 employees employed in 2017.

Ornapaper is developing its business and generating growth through the organic growth strategy, which includes building its revenue and bottom line by increasing its customer base, reinvesting profits made and improving efficiency by enhancing the plants' capacity utilisation with dedicated and skilful workforce in reducing the unit manufacturing cost possible. Nevertheless, Ornapaper will continue to look for and 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 Group.

(i) Paper Packaging

The paper packaging segment of Ornapaper is operated through its five (5) subsidiaries, namely, Ornapaper Industry (M) Sdn. Bhd., Ornapaper Industry (Batu Pahat) Sdn. Bhd., Ornapaper Industry (Perak) Sdn. Bhd., Ornapaper Industry (Johor) Sdn. Bhd. and Tripack Packaging (M) Sdn. Bhd.

The gross profit of the Group's paper packaging segment remained relatively stable between the ranges of 16% to 17% throughout the five (5) financial years from 2013 to 2017, in consequence of the consistent growth in revenue with increase in costs of sales in tandem with the revenue growth throughout the financial years.

Nonetheless, throughout the five (5) financial years, the revenue (before intercompany sales elimination) generated from the paper packaging segment in 2017 was appeared to be rather remarkable with significant growth of approximately 22% from RM 286.643 million in 2016 to RM 349.539 million in 2017. The growth in revenue was generally resulted from the improving sales volume secured from new and existing customers with higher average selling price offered to the customers in recompensing the aftermath of increase in costs of raw materials and other direct and indirect costs incurred.

Likewise, the costs of goods sold (before intercompany purchases elimination) in 2017 was also reported to undergo a parallel growth in response to the higher volume of raw materials required to fulfil the increased sales and production orders in addition to the upsurge of average purchase price of paper rolls as one of the core raw materials for the production of corrugated boards. The negative impact of the strengthening of foreign currencies of USD, SGD and EURO against RM for imported purchases also played a crucial part in contributing to the increased costs of goods sold. Hence, the costs of goods sold in 2017 increased by approximately 21% from RM 241.516 million in 2016 to RM 291.886 million in 2017.

Management Discussion and Analysis

On the other hand, the overall operating expenses which consisted of the administrative expenses, selling and marketing expenses and other operating expenses recorded an overall increase of approximately 5% from RM 34.951 million in 2016 to RM 36.623 million in 2017. It is mainly contributed by the increase in selling and marketing expenses by approximately 10% from RM 17.032 million in 2016 to RM 18.664 million in 2017 as a result of the increase in carriage outwards expenses incurred in 2017 in consequence of the higher sales volume and deliveries to customers. However, the increase in overall operating expenses was slightly mitigated by the other operating expenses by approximately 17% from RM 6.859 million in 2016 to RM 5.676 million in 2017, primarily due to gain on disposal of fixed assets mainly by Ornapaper Industry (M) Sdn. Bhd. in 2017 as compared to the non-recurring loss on disposal of fixed assets incurred in 2016.

On overall, throughout the five (5) financial years from 2013 to 2017, the profits before tax generated from the paper packaging segment were appeared to be rather stable except for 2014 and the recent 2017, whereby both financial years were recorded with substantially higher profits before tax due to the substantial increase in sales volume in 2014 and 2017 along with the increase of average selling price offered to customers. The upsurge of profit before tax by approximately 105% from RM 9.712 million in 2016 to RM 19.922 million in 2017 was primarily resulted from the higher average selling price of corrugated boards and carton boxes both by approximately 18% and 11% respectively from 2016 to 2017, and secondarily contributed by the higher sales volume attained from new and existing customers during the year, especially from the E&E, F&B and furniture industries.

The three (3) industries mentioned have contributed a revenue of approximately 43% to the Group in 2017, whereby approximately 15.6% of the revenue was generated from the E&E industry, 15.5% of the revenue was generated from the F&B industry and 11.5% of the revenue was generated from the furniture industry. The revenue contribution from these three (3) industries for 2017 were relatively comparable to the sales performance in 2016. The revenue to be generated from these industries in the upcoming years are expected to maintain or with minimal fluctuations as a result of shortage of paper supply that affected the overall paper related industry.

(ii) Paper Based Stationery

The revenue generated from the paper based stationery segment operated under the subsidiary named Quantum Rhythm Sdn. Bhd. ("Quantum") had reported a steady growth throughout the five (5) financial years from 2013 to 2017, with the revenue generated for 2017 appeared to be rather outstanding, at a revenue growth of approximately 11% from RM 25.640 million in 2016 to RM 28.534 million in 2017. Quantum's revenue were generated from the sales of manufacturing products which consisted of the office products and stationery paper products as well as the sales of trading items which included the corrugated boards, with the revenue contributions of 8%, 59% and 33% respectively to the total revenue of Quantum in 2017.

The increase in revenue from 2016 to 2017 was generally contributed by the overall increase in sales volume by approximately 18% from 2016 to 2017, mainly generated from the sales of stationery paper products as a result of higher demand from both new and existing customers. Besides, the increase in average selling price offered to customers due to the continuous cost pass-through exercises by the Sales and Marketing Department to subdue the impact of higher cost of raw materials had also contributed to the revenue growth in 2017.

Management Discussion and Analysis

Correspondingly, the costs of goods sold increased by approximately 10% from RM 23.087 million in 2016 to RM 25.509 million in 2017, which was mainly attributable to the increase in volume of raw materials purchased to fulfill the increase in customers' orders in addition to the increase in price of raw materials, i.e. wood free papers as well as the negative impact of strengthening of the foreign currencies of USD, SGD and EURO against RM. Nevertheless, the increase in production headcount from 2016 to 2017 was also one of the elements that contributed to the increase in the costs of goods sold during the year.

On the other hand, the overall operating expenses which included the administrative expenses, selling and marketing expenses and other operating expenses recorded an overall increase of approximately 6% from RM 2.678 million in 2016 to RM 2.851 million in 2017. The major contribution to such increment was due to the higher carriage outwards expenses incurred in 2017 in fulfilling the increased customers' orders and deliveries.

Besides, the overall finance costs also increased from RM 0.360 million in 2016 to RM 0.377 million in 2017 as a result of increase of trade finance utilisation for purchases made with raw materials suppliers. During the financial year ended 31 December 2017, the profit before tax of paper-based stationary segment was reported positively at RM 0.377 million compared to the loss before tax of RM 0.102 million made in the preceding financial year. This was predominantly attributable to the increase in customers' demand with higher sales volume attained during the year, along with the increased average selling price to customers in order to mitigate the impact of higher costs of raw materials incurred subsequent to the paper shortage concern that impinged the overall paper related industry worldwide.

RISK FACTORS EXPOSURE

There are several risks that the Group is exposed to in operating its core businesses of manufacturing and trading of paper packaging and paper based stationery products, as follows:-

(i) Foreign Currency Risk

The Group is exposed to foreign currency risk primarily through sales and purchases of raw materials, i.e. paper rolls and machineries that were transacted in USD, SGD and EURO, as a result of strengthening of USD, SGD and EURO against RM. 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 performed 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 and paper based stationery products produced, the Group reduced its dependency on import of paper rolls from overseas by substituting the consumption requirements through local sources. However, it will still be depending on the availability of paper supply in Malaysia and overseas as a result of the global paper shortage encountered.

(ii) Raw Material Supply and Price Fluctuation

As the Group is engaged mainly in the manufacturing of corrugating boards, carton boxes as well as paper based stationery products, the main raw materials used were the paper rolls (industrial papers and wood free papers), which accounted for more than 60% of the total cost of productions.

The Group is exposed to the risk of fluctuation of paper roll price and the paper roll supply consistency. Price of paper rolls is subjected to price fluctuation based on the commodity price of wood pulp. It is especially critical presently in consequent of the global shortage of paper which is not being able to keep up with the growing demand for paper packaging and paper based stationery products. Hence, the demand for paper that began outstripping its supply had driven the fluctuation and increment in paper roll prices significantly, along with the increasing production costs, logistics costs and currency pressures resulted in the increase in selling price to customers.

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 raw materials, increase the production efficiency with production optimization and reduce wastage. Apart from that, continuous cost pass-through through revised selling price was practiced by the Sales and Marketing Department of respective subsidiaries in order to remain sustainable.

(iii) Competitive Risk

At present, bigger and established paper and packaging players shall 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 players will be finding it hard to improve profit margin in the paper and packaging market due to insufficient capital in sourcing for better technologies and lower bargaining power in procuring raw materials especially in encountering the scarcity of supply of paper rolls at this juncture, as well as to cope with the significant upsurge of paper rolls prices, which are then lead to a higher production cost to be incurred and hence the increasing selling price to customers in order to sustain further. 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 challenging market. The Group had 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 was 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 expanded which lead to cost efficiency and economy of scale in offering a more competitive pricing structure to customers.

This was evidenced by the increase in sales while being able to maintain the gross profit margin in 2017 despite the costs of raw materials and other production costs incurred were increased correspondingly during the year.

Management Discussion and Analysis

(iv) Credit Risk

The credit risk of customers increased in response to the weak market sentiment in recent years. The Group adopted a feasible sales and marketing approach balanced with prudent credit management and sustainable sales growth. The Group had put in place comprehensive credit management policy and processes in that respect.

FUTURE OUTLOOK

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. Nonetheless, at this juncture with the scarcity of paper supply encountered worldwide along with the hike in price of paper rolls, the production of paper packaging and paper based stationery products are still relying heavily on the raw material availability.

The global price of wood pulp used for the production of paper rolls is expected to increase at an annualised rate of 1%, and the price of paper is predicted to increase at an annualised rate of 2.1%. The increase in wood pulp prices has increased production costs for manufacturers that rely on the materials as an input, especially paper-based packaging manufacturers. As such, the paper rolls supplied to the subsequent paper packaging and paper based stationery manufacturers are certainly traded at a higher price too.

The global economy is experiencing a cyclical recovery, reflecting a rebound in investment, manufacturing activity and trade. It 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. 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. However, on overall, global monetary conditions remained very accommodative against a backdrop of continued growth concerns with rising inflation. The global growth is projected by the World Bank to improve to 3.1% in 2018 as the cyclical momentum continues, and then slightly moderate to an average of 3% in 2019 to 2020.

However, it is believed that Malaysia economy will still record slightly stronger growth in 2018, evidenced by the increasing forecasted gross domestic product (GDP) growth rate at 5.4% year-on-year in 2018, mainly driven by domestic demand, which is projected to increase 5.2% year-on-year. On overall, the economic growth momentum is expected to persist into the following years, leading GDP to grow between 4.8% and 5.3% in 2019. The external demand is expected to remain strong although the growth rate for both exports and imports are projected lower due to the vast effect of a high growth realised in 2017. Whereas, on the supply side, most economic sectors recorded a moderate expansion.

Management Discussion and Analysis

While the overall business 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. The stable employment growth and higher consumer spending will propel growth in demands for various discretionary and non-discretionary goods, which are often shipped using paper-based packaging, resulting in an increasing demand of paper packaging products.

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. Nevertheless, 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 while the food processing industry and furniture industry may register stable growth rate due to resilient nature of the business sector.

One of the cornerstones of the paper packaging industry, and a reason for its continued stability, is the fact that most paper-based packaging is used for consumer staples. As such, the demand for corrugated packaging material is expected to increase by an average of more than 4% annually over the next five years, and will amount to almost 115 million tonnes of converted material worth an estimated amount of USD 176 billion by 2019. 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 volume of corrugated materials for this sector will increase by averagely 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.

With the convenience and growing trend of internet shopping, stimulated by the use of smartphones with accessibility to internet connection as well as the increasing proportion of tech-savvy consumers, it had further boost the e-commerce sales with the ease of making e-commerce purchases from almost anywhere by the consumers. Hence, it had contributed tremendously to corrugated demand, whereby the corrugated boxes are used for the packaging of various online purchased items for shipments to consumers. In traditional retailing, one corrugated box will be used to transport several items, whereas now, each item has its own corrugated packaging with direct distribution 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. Demand for retail-ready corrugated boxes, which allow the shipping containers to also serve as the retail packaging, is projected to increase 5.6 percent per year to USD 3.3 billion in 2020, according to an industry research firm. These trends, along with the growth in food and electrical goods packaging, will continue to sustain demand for corrugated packaging materials.

Management Discussion and Analysis

The global green packaging market is primarily driven by a paradigm shift among consumers who now demand increased environmental awareness from packaging producers. Consumers and regulatory bodies nowadays have become more environmental conscious with more concerns raised towards the environment and sustainability. In the perspective of sustainability, paper packaging options such as corrugated boards and carton boxes are beginning to be seen as the most environmentally friendly packaging option as compared to the consumption of plastics with devastating effects brought about to the environment. As such, increased investments in environmental protection and energy optimization programmes, as well as other activities aimed at reducing water consumption and improving logistics were undertaken by manufacturers.

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.

As for the newly established logistics operating business ventured by the Group in August 2017, going forward, Ornapaper intends to expand this operations with the additions of lorries to cater for the increase in the deliveries expected from the anticipated growing demand for the paper packaging business of the Group. As such, this should allow the Group to broaden its revenue base and result in improved revenue growth upon completion of the business expansion.

Albeit the business environment remains challenging, Ornapaper still manage to elevate the sales volume notwithstanding the weak business climate. With the above expected developments in the economies and industries as well as further rooting of environmental friendly mentality, the Group will continue to strive further and is expecting to maintain reasonable performance for year 2018 with the business strategies implemented under intense competition market environment.

DIVIDEND

An interim single tier dividend of 2.5 sen per ordinary share (net of treasury shares) was distributed to the shareholders from the Group's retained earnings on 15 December 2017 in respect of the financial year ended 31 December 2017, amounting to approximately RM 1.854 million.

The Group adopts prudent and conservative approach toward its capital expenditure and working capital requirements and as 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 expenditures and working capital requirements in current and coming years.

Corporate Governance Overview Statement

The Board of Directors ("the Board") of Ornapaper Berhad ("Ornapaper" or "the Company") recognises and subscribes to the importance of the principles and practices (including intended outcomes) set out in the Malaysian Code on Corporate Governance issued on 26 April 2017 ("MCCG"). The Board is firmly committed that accountability and transparency at every level of the organisation is essential in safeguarding assets, enhancing shareholders' value and maintaining strong financial performance.

The Board is pleased to provide the following overview statement, which sets out the manner in which the Company has applied the 3 principles set out in the MCCG and the extent of compliance with principles of the MCCG advocated therein in accordance with paragraph 15.25 and Practice Note 9 of the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Securities") that has been in place throughout the financial year ended 31 December 2017, unless specified otherwise.

The application of each practice set out in the MCCG during the financial year are disclosed in the Corporate Governance Report ("CG Report") prescribed by Bursa Securities and submitted together with this Annual Report in accordance with paragraph 15.25 and Practice Note 9 of the MMLR. The CG Report is available for download from the Company's website at http://ornapaper.com/ornapa/Bursa_Governance/CG-Report-2017-Final.pdf

The CG Overview Statement should be read in tandem with the CG Report to provide comprehensive disclosures of the application of each Principle and Practice to achieve the intended outcome set out in the MCCG.

<u>Principle A – Board Leadership and Effectiveness</u>

- **Board Roles and Responsibilities**

  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, decisions and leading the Group towards achieving its Vision and Mission. The Board comprises directors who are entrepreneurs and experienced professionals in the fields of business management, legal, accountancy and taxation which is guided by the Board's approved Board Charter. The roles and responsibilities of the Board is set out in the Board Charter, which is published on the Company's website at <www.ornapaper.com>.

  In a nutshell, the Board is assuming the following, amongst other roles and responsibilities:-

  - Reviewing and adopting a strategic plan
  - Overseeing the conduct of the business
  - Identifying principal risks and ensuring the implementation of appropriate internal controls and mitigation measures
  - Succession planning
  - Overseeing the development and implementation of a shareholder communications policy
  - Reviewing the adequacy and the integrity of the management information and internal controls system

  Aside from the six core responsibilities listed above, significant matters requiring deliberation and approval from the Board is clearly defined by the Board in the Board Charter as matters reserved for the Board for consideration and approval.

Corporate Governance Overview Statement

The Board is led by the Executive Chairman, a senior board member who was not involved in the day-to-day operations (except acting as authorised signatory for the bank accounts of the Group) and was able to command respect from the fellow board members to ensure effectiveness of the Board. A summary of the responsibilities of the Chairman is disclosed in Practice 1.2 of the CG Report.

On the other hand, the business operations of the Group were overseen by Chief Executive Director ("CED") whose responsibilities are disclosed in Practice 1.3 of the CG Report.

To ensure that there is a balance of power and authority within the Board, the position of the Executive Chairman and the CED is separated and there is a clear division of responsibility between the Executive Chairman and the CED. The Executive Chairman is responsible for the governance, orderly conduct and effectiveness of the Board while the CED is responsible for managing the Group's business operations and implementation of policies and strategies approved by the Board. A summary of the separation of the roles of Executive Chairman and CED is disclosed in Practice 1.3 of CG Report.

The Independent Non-Executive Directors play an important role in ensuring that the strategies proposed by the management are fully deliberated and examined, to ensure that the interest of all shareholders and the general public are given due considerations in the decision-making process.

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 for the Company to achieve strong financial performance for each financial year, and more importantly to deliver long-term and sustainable value to stakeholders.

To ensure the effective discharge of its functions and responsibilities, the Board delegates a reasonable level of the Board's authorities and discretion to the Executive Directors, representing the Management, as well as to formally constituted Board Committees.

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 relevant 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 heads of department, who is responsible for day-to-day operational efficiency and effectiveness, compliance with relevant laws and regulations and in accordance to the procedures and authorities granted in the Group's operating procedures approved by the Executive Directors. The authorisation procedures for key processes are stated in the Group's policies and procedures.

The Board is assisted by professional chartered secretaries in discharging duties efficiently and effectively. The details of the company secretaries are disclosed in Practice 1.4 of CG Report.

Corporate Governance Overview Statement

- **Board Charter**

  In carrying out its duties, the Board is guided by a formal Board Charter approved by the Board. The Board Charter sets out the Board Structure (which includes Board Composition, appointment and re-election process, time commitments, tenure and independence of Independent Director), roles and responsibilities (Board, Board Committees, Chairman, CED, company secretaries and matters reserved for the Board), and Board activities and processes (Board meetings, directors' training, directors' remuneration, Board and member assessment, access to independent professional advice, supply of information).

  The Board Charter also specifies the relationship of the Board with the management, shareholders and investors and Code of Conduct.

  Further disclosure on the details of Board Charter is disclosed in Practice 2.1 of the CG Report.

  The Board Charter is available for reference at "Corporate Info" section of the Company's website www.ornapaper.com. The Board Charter was last reviewed and updated on 03 April 2017.

- **Code of Conduct and Whistle Blowing 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 Code of Conduct was formally approved by the Board on 3 April 2017 to govern the standards of ethics and good conduct expected for the Directors, Management and employees of the Group.

  Additionally, the Group has in placed 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 is able to provide a working 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.

  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 established a whistleblowing policy to enable the employees and other interested party to confidentially reports any concerns related to matters covered by the Group's Code of Conduct, legal issues and accounting or audit matters.

  Further disclosure pertaining to the Group's Code of Conduct and Whistle Blowing Policy are disclosed in Practice 3.1 & 3.2 of CG Report.

  The Code of Conduct and Whistleblowing policy once approved and adopted is available for download from the Company's website at www.ornapaper.com

Corporate Governance Overview Statement

- **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 2017, five (5) meetings have been held and attendance of 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	4/5
Sai Han Siong	5/5
Tan Chin Hwee	5/5
Siow Kee Yen	5/5
Datuk Adillah binti Ahmad Nordin	5/5

* Mr Sai Ah Sai was appointed as Non-Independent and Non-Executive Director on 01 January 2018.

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.

- **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 secretaries for advice who is responsible for ensuring that the Board's procedures are followed.

Please refer to Practice 1.5 of CG Report for details of the Board's proceedings on meeting materials and supply of information.

Corporate Governance Overview Statement

- **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.

  At present, the Board comprises of eight (8) members of which four (4) are Executive Directors, one (1) Non-Independent and Non-Executive Director and three (3) are Independent Non-Executive Directors. With the present composition of the Board, the Company complies with the MMLR with regard to the constitution of the Board and the required ratio of Independent Directors.

  The present composition is a departure from Practice 4.1 of MCCG which requires that at least half of the Directors of the Board should be the Independent Directors. However, the Board is in the opinion that, through formal assessments conducted to the Board and Audit Committees and the independence of the Independent Directors, the Independent Directors are professionals with diverse range of skills, knowledge and experiences in relevant fields and independent directors had demonstrated their independence and objectivity during the Board and Board committees' proceedings. Therefore, adequate degree of independence is maintained notwithstanding the fact that only 37.5% of the Board is Independent Directors. Therefore, there is no disproportionate imbalance of power and authority on the Board between the Non-Independent and Independent Directors. The Board will continue to monitor and review the adequacy and effectiveness of the independent and objectivity element within the Board from time to time to ensure that its adequacy and effectiveness . Further explanation on the departure are provided in Practice 4.1 of the CG Report.

  Profile of individual Directors are set out in pages 3 to 6 of this Annual Report.

- **Board Diversity**

  The Board recognises the importance of diversity in the boardroom and senior level management and the requirement on boardroom diversity was evident in the Board Charter and "Policy and Procedure on Nomination and Selection of Director". The boardroom diversity (including gender diversity) is part of the criteria in proposing of the appointment of new director. 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 and senior level of management. Practice 4.4 and Practice 4.5 of the CG Report detailed the disclosure on Boardroom Deversity and gender diversity respectively.

- **Independence of Independent Director**

  In order for the independent Directors to present the independent and objective judgement to the Board's for deliberation and to ensure that conflict of interest or undue influence from interested parties is well taken care of, the Board is committed to ensure that 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.

Corporate Governance Overview Statement

On annual basis, all Independent Non-Executive Directors are subject to independence assessment by the Nomination Committee's and to be recommended to the Board to form an opinion on the independency of the Independent Non-Executive Directors. Based on the above assessment performed in 2017, the Board is satisfied with the level of independence demonstrated by all the Independent Non-Executive Directors, and their ability to bring independent and objective judgement to board deliberations.

The tenure of an Independent Director, as stated in the MCCG and Board Charter, shall not exceed a cumulative term of 9 years. In the event such Director is to remain as Independent Director, the Board shall first justify and obtain annual shareholders' approval. If the Board continues to retain the Independent Director after the 12th years, the Board should seek annual shareholders' approval through a 2-tiers voting process.

Please refer to Practice 4.2 of CG Report for further details.

- **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 that the time commitment from each 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 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 suffficient 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 directorships for more than five (5) public listed companies as required under paragraph 15.06(1) of the MMLR. The requirement on time commitment had been included in the latest revision of Board Charter.

- **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 on the outcome of the Committee meetings.

  - **Audit Committee**
    The composition and terms of reference 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 50 of this Annual Report.

Corporate Governance Overview Statement

- **Nomination Committee**

The Nomination Committee comprises of three (3) Independent Non-Executive Directors which is in compliance with the MMLR and chaired by Independent Non-Executive Director. During the financial year ended 31 December 2017 under review, the Nomination Committee met three times and the members of the committee and attendance are as follow:

Name	Position	Number of Meetings Attended
Siow Kee Yen	(Chairman)	3/3
Datuk Adillah Binti Ahmad Nordin	(Member)	3/3
Tan Chin Hwee	(Member)	3/3

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 at “Investor Relation” section of the Company’s website at www.ornapaper.com.

The Nomination Committee meetings were held to review and assess, the performance of the Board, the Board Committees, individual Directors, independence assessment of Independent Directors and proposed nomination of new Non-Executive Director. The results of the review and assessment were reported to the Board for review and deliberation.

During the year under review, the Nomination Committee had carried out the following:

- **Nominate the Appointment of Chairman and Chief Executive Director**

During the financial year under review, the Nomination Committee has reviewed the re-designation of Mr. Ang Kwee Teng, a senior board member as Executive Chairman and Mr. See Wan Seng, who is primarily responsible for Group’s business operations as CED of the Group and recommended to the Board for consideration and approval.

- **Appointment of Directors and Senior Management**

The appointment of new Directors to the Board and Board Committees is through recommendation of candidates for all directorships to the Nomination Committee for consideration, nomination and assessment prior to recommending the candidate(s) to the Board for approval. The process of nomination and appointment are guided by the “Policy and Procedure on Nomination and Selection of Director”.

The procedure for nomination and selection of director as defined in the policy and procedure established are as follow:

1. Recommendation received through completed "Director Recommendation Form" or obtain information as required under Director Recommendation Form and "Declaration of Interest" Form (for Independent Director);
2. To evaluate and shortlist potential candidate(s) based on "Criteria for Nomination and Selection";
3. To conduct an interview and background check; and
4. To recommend the potential candidate(s) to the Board for consideration and decision

The "Criteria for Nomination and Selection" as defined in the policy and procedure are as follow:

1. Leadership experience (which define the minimum relevant experience requirements)
2. Skilled and diverse background
3. Boardroom diversity (to ensure there are sufficient boardroom diversity in terms of knowledge, skills and experience as well as race and gender diversity)
4. Integrity and professionalism
5. Independence of Independent Director (for Independent Director)

During the financial year ended 31 December 2017, the Nomination Committee has reviewed and assessed the candidate of Non-Independent Non-Executive Directors based on the recommendation received from shareholder. The candidate was assessed based on the prescribed criteria and through the review of his background and profile. In recommending the nomination of Non-Independent Non-Executive Director for Board's consideration, the Nomination Committee was of the opinion that the candidate has the credibility and possessed wide range of experience and expertise in the business that add on value to the Board as a whole. For Mr. Sai Ah Sai's appointment, the assessment results and recommendation from Nomination Committee were reported to the Board for final deliberation and approval prior to his appointment on 1 January 2018. There was no appointment of senior management personnel during the financial year ended 31 December 2017.

Please refer to Practice 4.4 and 4.6 of CG Report for the details on the nomination and election process of the Directors.

- **Recommended the re-election of retiring Directors**

  In accordance with the MMLR and the Company's Constitution, 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 16th Annual General Meeting of the Company to be held on 25 May 2018 are as stated in the Notice of the 16th Annual General Meeting.

Corporate Governance Overview Statement

- **Board, Board Committee and Individual Directors Assessment (CG Report – Practice 5.1)**

  The Nomination Committee reviews the required mix of skills and experience and other qualities on an annual basis, 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 under review, the Board, through Nomination Committee, conducted the Board Performance Evaluation and Self Performance Evaluation for individual Directors and the assessment on the effectiveness of Audit Committee and its composition.

  Based on the Board, Audit Committee and self-assessment for individual Directors conducted for the financial year 31 December 2017, the Nomination Committee and the Board were satisfied with the composition and competency of the present Board, Audit Committee and Directors. The summary result of the assessment was presented by the Nomination Committee to the Board for review, acceptance and deliberation.

  Please refer to Practice 5.1 CG Report for the details on the performance evaluation of the Board, the Audit Committee and self-assessment for individual Directors.

- **Assessment of Independence**

  On an annual basis, the Board, through the Nomination Committee, assessed the independence of the Independent Non-Executive Directors. 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". In addition, written independence declaration which is 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.

- **Reviewed and assessed the tenure of Independent Directors who had served the Board over tenure of 9 years**

  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. In the event that such Director is to remain as an Independent Director, the Board shall first justify and obtain annual shareholders' approval and if the Board continues to retain the Independent Director after twelfth (12) years the Board should seek shareholders approval through a 2-tier voting process.

  Further disclosure on the retention of Independent Directors who are subject to shareholders' approval to two-tier voting process and justification are provided in Practice 4.2 of the CG Report.

Corporate Governance Overview Statement

- **Remuneration Committee**

The Remuneration Committee was formed to assist the Board in determining, developing and recommending an appropriate remuneration policy and remuneration package for Directors so as to attract, retain and motivate the Directors. The Remuneration Committee is guided by formal terms of reference. Further disclosure on the Remuneration Committee (and its activities) and Remuneration Policies and Procedure is disclosed in Practice 6.1 and 6.2 of CG Report.

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 at "Investor Relation" section of the Company's website at www.ornapaper.com.

During the financial ended 31 December 2017, the Remuneration Committee met a total of two (2) times and the attendance of individual committee members are as follow:

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

The meetings were held to review on the remuneration package of Executive Directors, key management and directors' fees for Non-Executive Directors and to review and recommend the remuneration package for the proposed appointment of Non-Independent Non-Executive Director to the Board for approval. The explanation on each component of Director Remuneration are discussed further in Practice 6.1 of the CG Report.

The remuneration of all Directors of the Group for financial year ended 31 December 2017 are as follow:

Corporate Governance Overview Statement

The Group						
Name	**Salary ('000)**	**Director Fee's ('000)**	**Bonus ('000)**	**Allowances* ('000)**	**Employer's Contribution EPF & SOCSO ('000)**	**Benefit-in-Kind** ('000)**
Executive Director						
See Wan Seng	520.00	206.75	115.00	2.00	39.96	5.13
Sai Chin Hock	498.00	173.00	187.50	2.50	42.32	-
Ang Kwee Teng	108.00	66.00	15.00	20.50	10.35	6.26
Sai Han Siong	121.00	48.00	15.00	2.50	17.15	-
Non-Executive Director						
Datuk Adillah Binti Ahmad Nordin	-	48.00	-	2.50	-	-
Siow Kee Yen	-	48.00	-	2.50	-	-
Tan Chin Hwee	-	48.00	-	2.50	-	-
The Company						
Name	**Salary ('000)**	**Director Fee's ('000)**	**Bonus ('000)**	**Allowances* ('000)**	**Employer's Contribution EPF & SOCSO ('000)**	**Benefit-in-Kind** ('000)**
Executive Director						
See Wan Seng	-	-	-	2.00	-	-
Sai Chin Hock	-	-	-	2.50	-	-
Ang Kwee Teng	-	-	-	2.50	-	-
Sai Han Siong	56.00	28.00	-	2.50	7.20	-
Non-Executive Director						
Datuk Adillah Binti Ahmad Nordin	-	48.00	-	2.50	-	-
Siow Kee Yen	-	48.00	-	2.50	-	-
Tan Chin Hwee	-	48.00	-	2.50	-	-

* Allowances consist of meeting allowance and car allowance (if any)
** Benefit-in-Kind consist of petrol and mobile phone usage claim
*** Mr Sai Ah Sai was appointed as Non-Independent and Non-Executive Director on 01 January 2018.

Corporate Governance Overview Statement

The remuneration of top five senior management, including salary, bonus, allowance, commission (if any), Employer's contribution for EPF and SOCSO and benefit-in-kind in the bands of RM50,000 for financial year ended 31 December 2017 are as follow:

Name	150,001 to 200,000	200,001 to 250,000	300,001 to 350,000	350,001 to 400,000
Lim Joo Song				1
Kang Chee Hwee	1			
Bung Choon Kong			1	
Foo Chee Juin	1			
Teng Say Yeong		1		

- **Directors' Training**

All the Directors have completed the Mandatory Accreditation Programme prescribed by Bursa Securities. The Directors are mindful that they should continuously attend training in order to broaden their perspectives and to equip themselves with the necessary skills to carry out their roles effectively as Directors in discharging their responsibilities towards corporate governance, operational and regulatory issues. The training needs of the Directors, on the type of training to be attended, are identified during the Board, Board Committee Performance Assessment and Self Performance Assessment carried out by the Nomination Committee.

During the financial year ended 31 December 2017, 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 all Directors of the Company during the financial year ended 31 December 2017:

Corporate Governance Overview Statement

No.	Director	Date	Topics	Organiser
1)	Sai Chin Hock	15.10.2017	Overview of MCCG 2017	NeedsBridge Advisory Sdn Bhd
2)	Ang Kwee Teng	15.10.2017	Overview of MCCG 2017	NeedsBridge Advisory Sdn Bhd
3)	See Wan Seng	15.10.2017	Overview of MCCG 2017	NeedsBridge Advisory Sdn Bhd
4)	Sai Han Siong	15.10.2017	Overview of MCCG 2017	NeedsBridge Advisory Sdn Bhd
5)	Siow Kee Yen	17.05.2017 to 18.05.2017	Malaysian Private Entities Reporting Standards (MPERS)– A Comprehensive and Practical Approach	Malaysian Institute of Accountants
		30.05.2017	Transfer Pricing Documentation and Beps	Chartered Tax Institute of Malaysia
		14.06.2017	Tax Audits and Investigations	Chartered Tax Institute of Malaysia
		18.09.2017	Latest Updates on Practical Tax Issues	Malaysian Institute of Accountants
		15.10.2017	Overview of MCCG 2017	NeedsBridge Advisory Sdn Bhd
		15.11.2017	Seminar Percukaian Kebangsaan 2017	Lembaga Hasil Dalam Negeri Malaysia
6)	Datuk Adillah binti Ahmad Nordin	15.10.2017	Overview of MCCG 2017	NeedsBridge Advisory Sdn Bhd
		29.11.2017	Dealing with Tax Audit & GST	Malaysian Bar Council
7)	Tan Chin Hwee	23.01.2017	Companies Act 2016: Key Changes Affecting Accountants & Auditors	Malaysian Institute of Accountants
		11.09.2017	Practical Issues under the Companies Act 2016	Malaysian Institute of Accountants
		12.09.2017	GST– Practical Issues & Recent Developments	Chartered Tax Institute of Malaysia
		15.10.2017	Overview of MCCG 2017	NeedsBridge Advisory Sdn Bhd
		30.11.2017	The 2018 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.

- **Economic, Environment and Social**

  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 of. 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.

  Please refer to the Sustainability Statement for the governance structure and process employed as well as the identification, assessment, management and reporting of sustainability matters during the financial year under review and up to the date of this Annual Report.

Principle B – Effective Audit and Risk Management

The Audit Committee is also tasked to oversight the role on the effectiveness of Audit and Risk Management of the Group. The composition, activities carried out during the financial year under review, including the number of meetings held and attendance are disclosed in the Audit Committee Report on page 46 to 50 of this Annual Report and Practice 8.1 to 8.5 of CG Report.

- **Relationship with 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 the applicable accounting standard, relevant rules and regulations and- Company's policies and procedures.

  The external auditors is 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 auditors 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.

Corporate Governance Overview Statement

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 auditors 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 in accordance to the "Policies and Procedures to Assess the Suitability and Independence of and the Provision of Non-Audit Service by the External Auditor" that were formally adopted during the financial year. The criteria used for the annual assessment on the suitability of the external auditors for appointment and reappointment are disclosed in Practice 8.3 of CG Report. 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 2017 in accordance with the By-laws of the Malaysian Institute of Accountants.

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 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.

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 presented from page 46 to 50.

Corporate Governance Overview Statement

- **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, 2016 and applicable accounting standards.

  A summary of the 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 46 to 50 of this Annual Report.

- **Risk Management**

  The Board affirm its overall responsibility for maintaining a sound risk management and internal control system in pursuing the Company's objective. Presently, the Board has put in placed an informal risk management system and is a departure from Practice 9.1 of MCCG, the explanation of the departure and present practice of the Company in managing key business risk are disclosed in Practice 9.1 of CG Report and Statement on Risk Management and Internal Control of this Annual Report.

  The Board aims to establish a formal framework and policy to ensure that all key business risks are managed in a structured manner within 1 year.

- **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 outsources its Internal Audit function to a qualified professional firm to assist the Audit Committee in the discharge of its duties and responsibilities. The outsourced 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 practices.

  The internal audit function of the Group is explained in greater detail in Practice 10.1 and 10.2 of CG Report and Statement on Risk Management and Internal Control of this Annual Report.

Corporate Governance Overview Statement

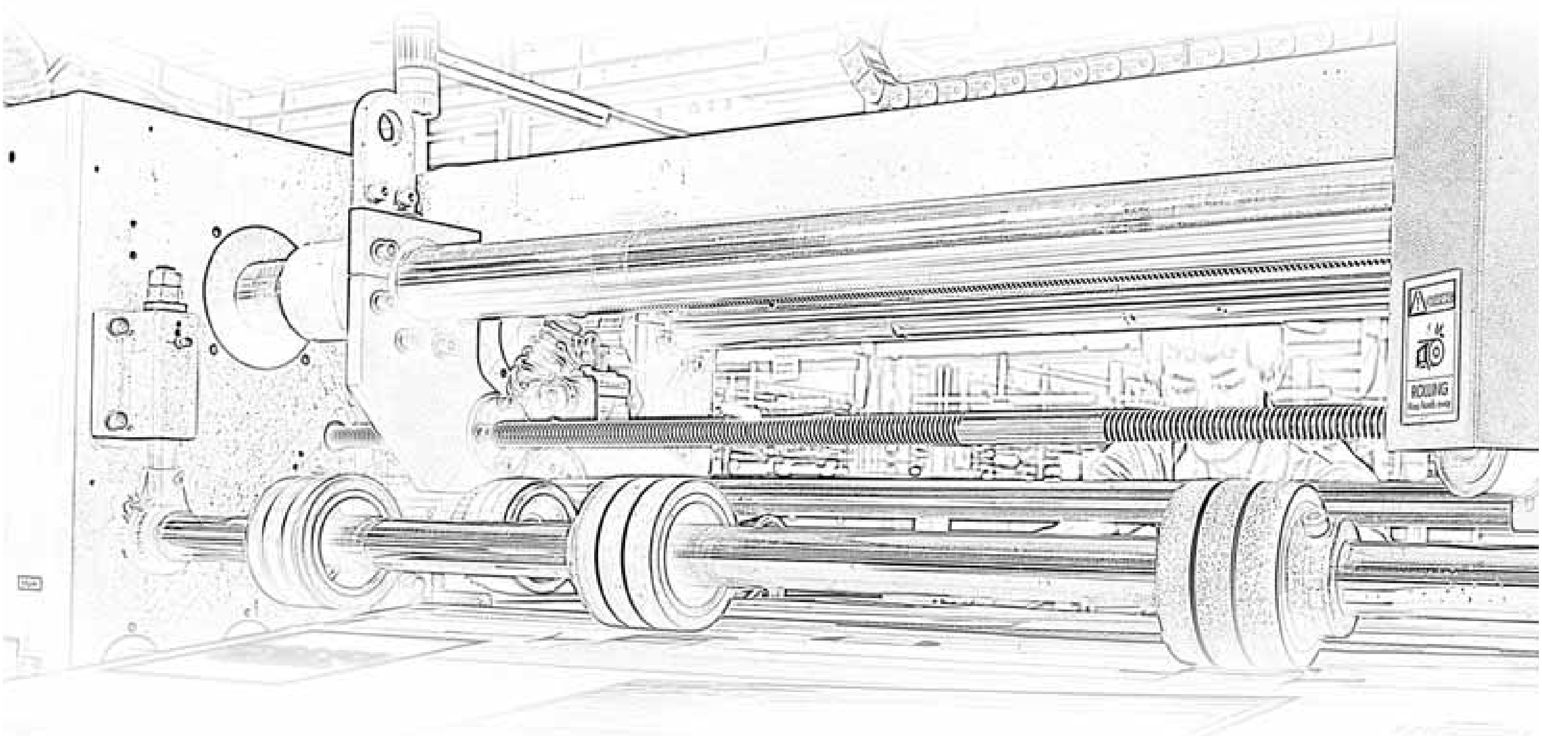
The Statement on Risk Management and Internal Control pursuant to Chapter 15.26(b) of the MMLR is set out in pages 51 to 56 of this Annual Report. The statements provide a further in depth in the Group's policies and activities undertaken to ensure the adequacy and effectiveness of governance, risk and control structures and processes.

Directors' Responsibility Statement

The Directors are required under the provisions of the Companies Act 2016 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 2016. The Directors are also responsible for taking necessary steps to safeguard the assets of the Group, and to prevent and detect fraud as well as other irregularities.



Corporate Governance Overview Statement

Principle C – Integrity in Corporate Reporting and Meaningful Relationship with Stakeholders

- **Corporate Disclosure and Stakeholders Communication**

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 a long-term relationships with shareholders and potential investors through appropriate channels for the management and disclosure of information. The corporate disclosure process and mechanism is guided by a formal Corporate Disclosure Policy that were adopted by the Board during the financial year.

The Board provides timely disclosure of all material information of the Group to shareholder through announcements made on Bursa Securities and with link on such announcement made available in the Company's website (www.ornapaper.com). The Board is observing all disclosure requirements as laid down in the MMLR and Capital Markets and Services Act 2007 in order to have all material events and information to be disseminated publicly and transparently on a timely basis to ensure a fair and equitable access by all stakeholders without selective disclosure of such information to specific individuals or groups.

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 MMLR.

Furthermore, the Company's website has a "Contact Us" section which list out the contact details including email and contact number of key personnel of department/division so that the stakeholders can direct their enquiries to.

The contain of the Corporate Disclosure Policy and channel of communications and processes used by the Company for Stakeholders communications are further discussed in Practice 11.1 of CG Report.

- **Encourage Shareholder Participation at General Meetings**

The Company's Annual General Meeting also serves as one of the key avenue of communication with its shareholders, 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. The agenda of the meeting and its proposed resolutions are provided at least 28 days prior to the meeting to ensure sufficient time and information are provided to the shareholders prior to attending the general meeting. Please refer to Practice 12.1 of CG Report on further disclosure on the distribution and content of the Notice.

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

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To further promote participation of members through proxy(ies), the Company had amended its Constitution 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.

In order to facilitate and provide more meaningful response to question raise by shareholders, all Directors will attend the 16th General Meeting.

The minutes of the General Meeting containing the key matters and results of resolution will be posted on the Company's website at "Investor Relation" section of the Company's website at www.ornapaper.com.

- **Poll Voting**

In compliance with the MMLR, all resolutions put forth for shareholders' approval at the 16th Annual General Meeting to be held on 25 May 2018 are to be voted by way of poll voting.

Key Focus Areas and Future Prioroties

One of the key focus areas of the Board on corporate governance practices during the financial year were to align the Group's corporate governance practices and disclosure requirement with the latest development in corporate governance and updates of the MMLR. During the financial year, the Board has also updated and enhanced relevant charter, policies and terms of reference, namely, the Board Charter, terms of reference of Audit Committee, Code of Conduct, Whistle-Blowing Policy, Board Remuneration Policy, Policy and Procedure on Nomination and Selection of Director, Policies and Procedures - The Suitability & Independence of External Auditor and Corporate Disclosure Policy. The Board also enhanced the corporate disclosure and transparency of the remunerations of the Directors and senior management personnel by disclosing their remuneration packages in accordance with MMLR and MCCG in this Annual Report and to implement two-tier voting system for Independent Director to be remained for cumulative term of more than twelve (12) years in coming Annual General Meeting.

The Board's immediate priorities in relation to the corporate governance going forward are to formalise the risk management practice into formal risk management framework based on an internationally recognised risk management framework and to update the key risk profile of the Group for structured risk monitoring. It is the intention of the Board to align the Group's corporate governance practices and relevant board charter, policies and terms of reference with the latest developments in MCCG and updates of MMLR and to publish such charter, terms of reference and policies in line with the MCCG and MMLR, i.e. independent sources to identify suitably qualified candidate for directorship, cooling-off period of at least two years for former key audit partner before appointed as Audit Committee member, two-tiers voting for Independent Director with tenure of more than twelve (12) years, to include senior management in the formal board remuneration policy and formal board nomination and selection policy, notice for Annual General Meeting at least 28 days prior to the meetings and requirement of all Directors to attend general meetings.

Corporate Governance Overview Statement

In the medium term, the Board is to consider to strengthen the independent elements within the Board by increase the number of Independent Directors so that the Independent Directors to make up at least half of the composition of the Board, to have women representation at the senior management (shall such vacancy available at the senior management level) and to leverage technology to facilitate voting in absentia and remote shareholders' participation at General Meetings.

Additional Disclosure Under MMLR

- **Utilisation of Proceeds**
  The Company did not implement any fund-raising exercise during the financial year ended 31 December 2017.

- **Employee Share Scheme**
  The Company did not establish any employee share scheme and there was no subsisting employee share scheme during the financial year ended 31 December 2017.

- **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 2017 are as follow:

	Company	Group	Details on Non-Audit Fees
Audit Fees (RM)	56,000	200,000	Nil
Non -Audit Fees (RM)	3,300	34,245	Submission of Income Tax
	6,000	6,000	MFRS 9 & MFRS 15 impact analysis review
	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 was no other material contracts and loans entered into by the Company or its subsidiaries involving interests of 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 2017 are as follow:

Corporate Governance Overview 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 Ornapaper Industry (M) Sdn Bhd	8,771
	-	Sales of stationery products by Quantum Rhythm Sdn Bhd	14
Julie's Manufacturing Sdn Bhd (Formerly known as Greatbrand Food Industries Sdn Bhd)*	-	Sales of corrugated carton boxes by Ornapaper Industry (M) Sdn Bhd	3,234
STH Wire Industry (M) Sdn Bhd @	-	Sales of corrugated carton boxes by Ornapaper Industry (M) Sdn Bhd	82
	-	Sales of stationery products by Quantum Rhythm Sdn Bhd	1
	-	Purchase of raw material by the Group	504

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.

This statement is made in accordance with approval by the Board dated 09 April 2018

Audit Committee Report

COMPOSITION OF THE AUDIT COMMITTEE

The members of the Audit Committee are as follows:-

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 the Audit Committee is in compliance with the paragraph 15.09 (1), where the Audit Committee consists 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 2 to 6 of this Annual Report.

MEETINGS OF THE AUDIT COMMITTEE

For the financial year ended 31 December 2017, there were a total of five (5) meetings held by the Audit Committee and details of the attendance of the Audit Committee members 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

Notice and Agenda of the Audit Committee meetings were given to the Audit Committee members together with the minutes of the previous meeting and relevant meeting papers at least five (5) days before the meetings. As such, the Audit Committee Members had sufficient time to review all papers to enable them to discharge their duties and responsibilities 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 Audit 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 it prior to each meeting.

Audit Committee Report

SUMMARY OF WORK OF THE AUDIT COMMITTEE DURING THE YEAR

The following is a summary of the works performed by the Audit Committee during the financial year ended 31 December 2017:-

a) **Reviewed the 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 quarterly report for the Audit Committee's review. The review focused on the key financial results with comparative figures of the preceding quarter and the preceding year's corresponding quarter, with the reasons for the variances provided and discussed with the Management. Additionally, future prospects of the Group provided by the Management with regards to the Group's performance for the coming quarter and year were also presented to the Audit Committee for discussion.

The results of the quarterly financial review by the Audit Committee were then recommended to the Board for approval prior to announcing the same to Bursa Malaysia Securities Berhad.

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 the Audit Committee for review prior to the commencement of the audit engagement to ensure the scope of audit is adequate and reasonable time is 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 updates on the financial reporting developments, changes in regulatory environment, and revised auditor reporting standards.

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

During the financial year, the 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 provides 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 profit variance between the audited financial statements and the announced final quarterly financial results was less than 10%.

The audited financial statements of the Company and Group were recommended for the Board's approval and adoption once the Audit Committee, through its review with the 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 assessment on the adequacy and effectiveness of the outsourced 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 was prepared taking into consideration risks and inputs from the Senior Management, was presented to the Audit Committee for review and approval.

The oversight role of the Audit Committee on the outsourced internal audit function is available in the Statement of Risk Management and Internal Control located on page 51 to 56 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 that the RRPT are about to exceed the mandated 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 the 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 standards**

During the Audit Committee meetings, the Audit Committee was kept informed of new and revised accounting standards through the disclosures in the quarterly report announcements and through briefings provided by the external auditors. In addition, trainings on the updates and changes to the MMLR, Malaysian Code of Corporate Governance and sustainability reporting requirements were provided to the Audit Committee members and the Board members by professionals.

Audit Committee Report

g) **Reviewed the draft circular to shareholders on the Proposed Renewal of 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 circulars 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 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 circular on the share buy-back statement was on the compliance with relevant laws and regulations.

h) **Others**

The Audit Commitee had reviewed and recommended the Audit Commitee Report to the Board for inclusion into the Company's annual report.

The Audit Committee had also reviewed the effectiveness of the external auditors. The Audit Committee was satisfied with the performance of the external auditors of the Company and recommended to the Board to recommend to the shareholders the re-appointment of the external auditors of the Comapny for the current financial year.

The proceedings of the Audit Committee meetings, significant issues and concerns discussed and where approriate, 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 to seek clarification and confirmation from Audit Committee Chairman if required.

Audit Committee Report

SUMMARY OF WORK OF THE INTERNAL AUDIT FUNCTION

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 an 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 feedbacks from top management.

During the financial year ended 31 December 2017, 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.

The areas covered by the internal audit during the financial year under review were as follows:-

- Production management
- Inventory management
- Sales and marketing
- Credit control management

In assisting the Audit Committee in discharging its oversight role for the internal audit function, the Audit Committee through the report tabled by the outsourced 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 51 to 56 of this annual report.

Statement on 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 under review and up to the date of approval of this statement. The scope of this Statement covers the Company and its subsidiaries.

BOARD RESPONSIBILITY

The Board affirms its overall responsibility for maintaining a sound risk management and internal control system which are an essential part of the process of pursuing the Group's corporate objectives, and for reviewing its adequacy and effectiveness so as to safeguard all its stakeholders' interests and protect 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 the 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 and the Board is provided with reasonable assurance that any impact arising from foreseeable future events or situations is properly managed and/or mitigated.

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 a 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 risks are delegated to the Executive Directors and Senior Management.

The Group's Risk Management is embedded into key processes at all levels of the 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 the internal and external environment faced by the Group by formulating and implementing adequate and effective internal controls 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 having measures to manage such operational risks on a day-to-day basis. Emergence and changes of key operational and business risks identified are highlighted to the Executive Directors during the weekly Executive Committee ("EXCO") meetings and monthly management review meetings for discussion and formulation of effective internal control measures to manage such new and changes to the key operational and business risks. The Executive Directors and

Statement on Risk Management and Internal Control

Senior Management are kept up to date on the implementation and effectiveness of such controls and measures formulated during subsequent weekly EXCO meetings 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 Directors for deliberation and final decisions on the formulation and implementation of effective internal controls in managing such risks.

During meetings of the Board, the Executive Directors and Senior Management bring up to the attention of the Board 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 the strategic level, business strategies with risk considerations 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.

Key risks profiles were compiled by the Executive Directors and the Senior Management previously, with relevant key risks identified rated based on the agreed upon risk ratings. Risk assessment, at gross and residual level, are guided by the likelihood rating and impact rating established by the Board. The Board is in the midst of restructuring and formalising the risk management governance structure and process to be in line with the internationally recognised framework (and to integrate with the ISO 9001:2015) and to review and update the key risk profiles prepared previously by the Executive Directors and the Senior Management during the financial year ended 31 December 2018.

In addition, in line with the Group's migration to ISO 9001:2015 and implementation of the ISO 14001:2015 certification, the Group has adopted the risk-based quality management system and environmental management system. The risk and opportunity management processes are overseen by Quality Management Representatives ("QMR"), with respective head of departments (i.e. the risk owners) responsible for managing risks and opportunities identified. The risk assessment process involves risk identification, risk analysis, risk evaluation, and risk treatment. The risk and opportunity identified are entered into the Risk and Opportunity Register maintained by QA personnel, and the probability and impact rating are assigned based on the predetermined criteria stated in the guideline established. The rating for both probability and impact are then consolidated to determine the priority rating for the risk and/or opportunity identified, and the action plans to address such risk and/or opportunity are recorded in the register for monitoring. Any changes and emerging risk or opportunity and status of risk treatment are highlighted by the QMR and/or risk owners during the management review meetings attended by Head of Departments/Divisions and Executive Directors. The risk management process in material aspect is in accordance to ISO 31000:2009.

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 audit plan approved by the Audit Committee.

The above process has been practised 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.

Statement on Risk Management and Internal Control

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 risk into consideration and responses thereto.

- **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.

- **Human Resource Management**
  Job descriptions are established and annual performance appraisals 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**
  The tone from the top on integrity and ethical value are enshrined in formalising the Code of Ethics and Conduct for Directors, which was established and approved by the Board on 3 April 2017. This formal code forms the foundation of integrity and ethical value for the Group.

  Integrity and ethical value expected from the employees are incorporated in the Employees Handbook whereby ethical behaviours expected with 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 the Employees Handbook.

  The codes of conduct and whistle-blowing policy to assist in the reporting of improper conduct and other offences are also made available for download from the "Corporate Governance" section under "Investor Relations" of the Company's website for ease of access.

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

Statement on Risk Management and Internal Control

The Group puts in place effective and efficient information and communication infrastructures and channels, i.e., computerised enterprise resource planning system, secured intranet, electronic mail system and modern telecommunication, so that operational data and management information can be communicated in a timely and secure manner 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 the operational level, key performance indicators are formulated on a yearly basis to monitor the performance of key divisions and departments. During the monthly management review meetings, comprehensive operational reports are prepared by respective departments, to assess the Group's performance against the performance indicators established and to discuss on current or new operational risks in order to formulate and implement mitigating controls.

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

  Apart from the Weekly EXCO meetings and monthly management review meetings, annual management review meetings for Environmental (ISO 14001) and Quality Management System (ISO 9001) are also held to review and discuss on the Group's performance in relation to the quality and environmental standards 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 audit responsibility 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 defense.

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, namely, NeedsBridge Advisory Sdn Bhd, which reports directly to the Audit Committee to provide the Audit Committee with the assurance required regarding the adequacy and integrity of the Group's system of internal control. The engagement director of the outsourced internal auditors, namely, Mr. Pang Nam Ming, 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 all material aspects, in accordance with the International Professional Practices Framework established by the Institute of Internal Auditors Global. The outsourced internal audit function is manned by one (1) engagement director, three (3) managers/assistant manager and five (5) senior consultants/consultants during the financial year under review.

Statement on Risk Management and Internal Control

Based on the review of the works performed and deliverables (including but not limited to, staff strength, qualification, experience and continuous professional education) by the outsourced internal audit function during the financial year, the Audit Committee and the Board are satisfied:

- that the outsourced internal audit function is free from any relationships or conflicts of interest which could impair their objectivity and independence;
- with the scope of the outsourced internal audit function;
- that the outsourced internal audit function possesses relevant experience, knowledge, competency andauthority to discharge its functions effectively, possesses sufficient resources and has unrestricted access to employees and information for the internal audit activities; and
- with the internal audit plan, processes, and results and investigation undertaken.

Risk-based internal audit plan in respect of the financial year ended 31 December 2017 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 cycle within the internal audit plan is specific with regard to audit objective, key risks to be assessed and scope of the internal control review.

As a third line- of -defence, the internal control 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 was in accordance with our predetermined formulation, subject to the nature of testing and verification of the samples.

During the financial year ended 31 December 2017, in accordance with the internal audit plan approved by the Audit Committee, the internal audit function conducted a review of the inventory, production, sales and marketing, and credit control management for two (2) major operating subsidiaries in Malaysia.

Upon the completion of the internal audit field works 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, during the Audit Committee meeting, the outsourced internal audit function reported its staff strength, qualification and experience as well as continuous professional education for the Audit Committee's review.

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

Statement on Risk Management and Internal Control

The cost incurred in maintaining the outsourced internal audit function for the financial year ended 31 December 2017 amounted to RM24,000.

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, in line with the Guidelines, the Chief Executive Director, being the highest ranking executive in the Company and the person primarily responsible for the management of the financial affairs of the Company, had provided assurance to the Board in writing stating that the Group's risk management and internal control systems have operated adequately and effectively, in all material aspects, to meet the Group's objectives during the financial year under review.

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 there had been no 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 Statement on Risk Management and Internal Control. 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 Malaysian Institute of Accountants. Based on their review, nothing has come to their attention that causes them to believe that this Statement is neither prepared, in all material aspects, in accordance with the disclosures required by paragraphs 41 and 42 of the Guidelines, nor factually incorrect.

Sustainability Statement

Introduction

We acknowledge that businesses play a vital role in driving effective sustainable change. Our inaugural Sustainability Statement (the "Statement") supports how we at Ornapaper Berhad ("the Company") embrace sustainability as part of our daily business. Information disclosed in this Statement encompasses our activities related to corrugating, converting and sale of corrugated boards and cartons, which together contribute to more than 90% of the Group's total revenue. Our reporting period is from 1 January 2017 to 31 December 2017, unless otherwise stated.

The Board of Directors of the Company ("the Board") acknowledges that businesses are not judged solely on its financial performance but also, on its conducts in respect of governance, economic, environment and social aspects in order to sustain in this challenging environment and to create value for its stakeholders on long term sustainable manner. It is, therefore, the Group's fundamental objective to achieve optimum equilibrium between short-term financial performance and its long-term business sustainability and value creation. The Board is committed to promote good sustainability practices and to continuously integrate such practices into its working environment, business processes and strategy making process. As such, the Group is committed to be accountable and transparent in its sustainability performance.

This Statement was prepared on a best effort basis and we would look into narrowing any gaps in our reporting for the coming years. This Statement has been prepared in accordance to paragraph 29 in Part A of Chapter 9 - Appendix 9C Main Market Listing Requirements ("MMLR") of Bursa Securities Malaysia Berhad's ("Bursa Securities") whereby the Company is required to prepare a narrative statement of the Company's management of material economic, environmental and social risks and opportunities ("Sustainability Matters").

The Company is to disclose the management of material sustainability matters in accordance with Part III of Practice Note 9 of MMLR on the content of the Sustainability Statement and Sustainability Reporting Guide issued by Bursa Securities ('the Guide").

Commitments by the Group

The Board had formalised the Sustainability Framework which supports our commitment to reaching an equilibrium between being at the forefront of our industry and meeting the commercial expectations of our stakeholders. As the highest governance body within the Group, the Board assumes the ultimate accountability for the integration of sustainability into the business operations of the Group, including sustainability-related strategy and performance. The sustainability principles instilled by the Board are:

- To observe and comply with all relevant legislation, regulations, recommended trade practice and code of practice applicable and relevant to the Group;
- To consider sustainability matters and integrate these considerations into the Group's business operations and when making and implementing business strategies;
- To manage sustainability matters in structured and systematic manner, whereby sustainability matters are embedded throughout the Group and to be documented, continuously assessed and managed with reporting to the Board on scheduled interval or as and when the materiality of the sustainability matters requires such reporting;

Sustainability Statement

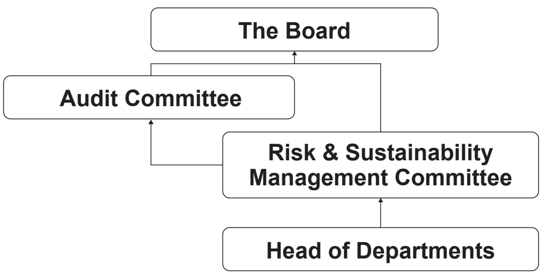
- To continuously promote, train and communicate with all employees, suppliers, business partners and other relevant stakeholders to ensure that they are aware of, and are committed to, implementing and measuring sustainability activities as part of the Group's or their strategy, taking into consideration economic, environment, social and governance aspects;
- To continuously engage and communicate with all relevant stakeholders for the identification, assessment and management of material sustainable issues; and
- To strive to improve the Group's sustainability performance over times.

The following Sustainability Policy was established by the Board based on the principles above:

- To continuously select potential supplier at significant location of operations to optimize cost and sales value
- To comply to high ethical standard of suppliers
- To diversify customer profile to ensure economic interest of all relevant stakeholders are preserved and to prevent loss of key customer
- To ensure the value of machinery investment are significant to daily business operation in meeting customers delivery and enhance product quality
- To voluntary contribute towards local authorities and create value added impact to the community
- To uphold business excellence and continuity
- To comply to Environmental and Occupational Safety and Health regulation
- To adopt "Green" principles in procurement and manufacturing practices
- To reduce material consumption through 3R principles
- To manage and disposal of wastes in a responsible manner
- Be integrity and honesty by possessing and steadfastly adhering to high moral principles with prohibiting breach exposal
- To commit and provide safe and healthy working environment
- To enhance employees' skill by continuous training and development

Sustainability Governance Structure

Our Risk and Sustainability Management Committee ("RSMC") was formed to enhance our existing governance structure in relation to sustainability.

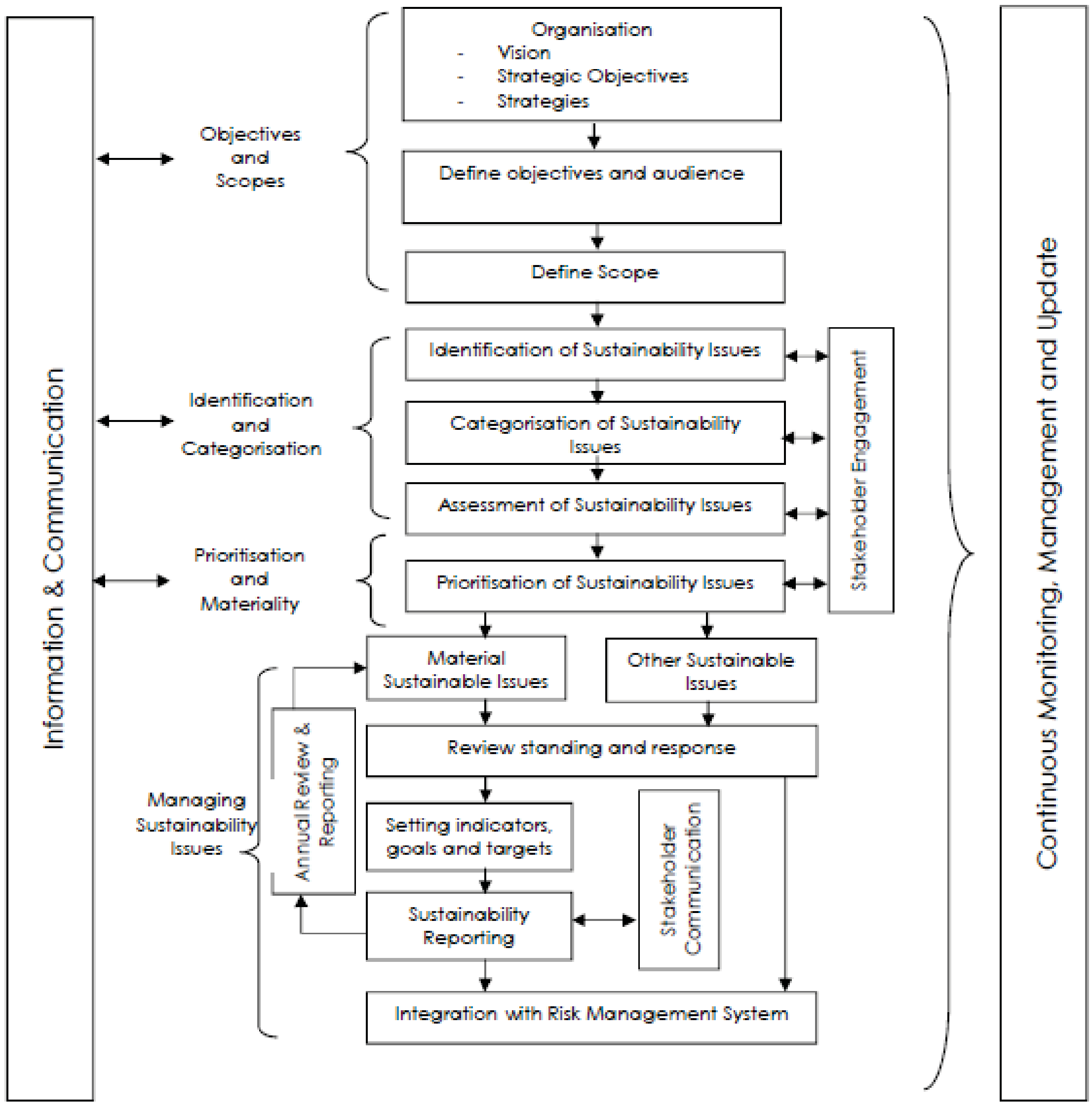


The governance structure defines on the roles and responsibilities expected of the Board, the Audit Committee, RSMC and HODs. To sum up, the Board assumes the ultimate responsibility for sustainability management and performance within the Group while the Audit Committee is tasked with the duties to oversee the sustainability management and performance of the Group for reporting to the Board. As for the RSMC and HODs, their primary responsibilities are to manage sustainability matters of the business processes under his/her control and to assist the Board with the implementation of the sustainability process of identification, assessment, management and monitoring of all sustainability matters.

Sustainability Statement

Sustainability Governance Process

The sustainability matters management process established by the Board, in compliance with the Guide and Toolkit: Materiality Assessment issued by Bursa Securities with necessary adaption based on the nature and scale of the businesses of the Group, is as follows:



The material sustainability matters assessment process employed by the Group entails the following major steps for each significant business segment and geographical segment, taking into consideration of the business strategies promoted by the Board: -

Sustainability Statement

- Identification of the intended stakeholder groups and sub-groups, the focus areas expected by the intended stakeholders and engagement objective(s) for each stakeholder group through Stakeholders' Mapping and the establishment of the Stakeholders' Profile;

- The stakeholders identified for each significant business segment and geographical segment are prioritised in relation to its influence over and dependence on the Group so that the Group can put in more effort on stakeholder groups that have higher influence and dependency and the concerns of key stakeholders will carry greater weight. The prioritisation of the stakeholders is conducted by the Risk and Sustainability Committee by using Stakeholder Prioritisation Matrix whereby each stakeholder identified are assessed by using influence and dependence criteria and rating scale established by the Board. The results of the prioritisation can be used to determine the level of engagement to be employed by the Group with respective stakeholders (from collaborate/empower to keep informed) based on the perceived influence and dependency of each stakeholder group;

- Identification of sustainability matters for each significant business segment and geographical segment via internal sources (through internal documentations as well as information system and internal stakeholders' communication via engagement medium and direct communication) and from external sources (through internal documentations, management information system, trusted public domains, correspondences with external stakeholders and external stakeholders' communication via engagement medium and direct communication);

- Sustainability matters identified for each significant business segment and geographical segment via internal and external sources are refined, consolidated and categorised into respective sustainability categories determined by the Board and enlisted in the Sustainability Matters Listing, detailing the influential and dependent internal and external stakeholders;

- Sustainability matters categorised in the Sustainability Matters Listing are subjected to internal materiality assessment by the Risk and Sustainability Management Committee in order to prioritise the sustainability matters for assessment by internal and external stakeholders.

  Sustainability issues considered material if:
  - it has significant economic, environmental and social impacts on the Group from the organisation's point of view;
  - substantively influence the assessments and decisions of stakeholders from the stakeholders' point of view; and
  - it has significant economic, environmental and social impacts that affect the ability to meet the needs of the present and future generations.

  The internal materiality assessment entails the assessment by the Risk and Sustainability Management Committee based on the rating scale established by the Board on the significance of each sustainability matters on the revenue, cost, reputation, strategic and operational risk and business opportunities criteria;

Sustainability Statement

From internal and external stakeholders' perspective, stakeholders' assessment of the sustainability matters is based on the significance of such matters to influence on the assessment and decision by respective stakeholder. The stakeholders' assessment of the sustainability matters is obtained during stakeholders' engagement, either through prescribed checklist or direct communication by Risk and Sustainability Management Committee or Heads of Department/Division, via the rating system established by the Board.

- Subsequent to the assessment process, sustainable matters identified above are subjected to risk management process established by the Board for the assessment and management of the risk and opportunities identified.

  In the context of the sustainability matters management, the current standing of sustainability matters is assessed for its adequacy and effectiveness by the Executive Directors and to formulate management response (if existing controls are inadequate or ineffective) to mitigate the sustainability risk or optimise the sustainability opportunities, in line with the risk appetite and business strategies established by the Board. Please refer to Statement of Risk Management and Internal Control on the risk management system employed by the Group in the identification, management and monitoring of business risks.

- For the management of material sustainability matters, the RSMC to develop position and response with respect to each material sustainability matters in the following manners:
  - developing policies and procedures
  - implementing various initiatives, measures or action plans
  - to comply with applicable laws and regulations
  - setting indicators, goals, targets and timeframe in line with the strategic objectives
  - implementing new, or changing existing systems, to capture, report, analyse, and manage data requirements

  The Executive Directors, who are the Chairmen of RSMC, to monitor the current standing (including but not limited to, indicators, target and actual performance) and responses of the material sustainability matters and actual performance and to report to the Audit Committee on half yearly basis for review and for their recommendation to the Board for review and approval.

Sustainability Statement

Sustainability Management Activity

As at the date of this Statement, the Board had put in place formal Sustainability Framework, including the sustainability management process. Despite that, the Board has yet to undertake a formal material sustainability assessment to determine material sustainability matters that are of importance to the Group's internal and external stakeholders. The Board is committed to perform formal material sustainability assessment in accordance with the formal sustainability assessment process established by the Board during the financial year ending 31 December 2018 and to report the sustainability assessment activities undertaken, the performance indicator(s) and target(s) used to measure progress, the actual performance with comparison to preceding financial year(s) and target(s), effectiveness or efficiency of the policies, measures or actions taken to manage associated material sustainability risks for financial year ending 31 December 2018.

During the financial year under review and up to the date of this Statement, the Board relied on the informal assessment system at strategic and operation level and existing risk management practice for the identification of the sustainability matters that requires the attention of the Board and responses to mitigate the sustainability risk factor or to maximise the sustainability opportunity present. Based on the informal assessment at strategic and operation level and risk management practice carried out during the financial year under review, the Group had identified several sustainability matters that may have a direct or indirect impact on the Group's ability to create, preserve or enhance economic, environment and social values and responses had been formulated by the Management to address potential sustainability risk(s) identified by incorporating adequate and effective control activities in that respect. Based on the above processes, the sustainability matters were identified in the operational/management committee reports of the Group.

Stakeholders' Engagement

The Board recognises and admits that the contribution and support of the internal and external stakeholders are utmost important for the realisation the Group's missions and the Group's long-term business sustainability and excellence. It is on this basis that the Board is pursuing the sustainable strategy of continuous engagement with internal and external stakeholders who is dependent on and influence by the activities undertaken by the Group and to ensure such engagements are to include all internal and external stakeholders across the value chain and to response proactively, via formal and informal channels, to the concerns and views of respective stakeholder groups. By actively engaging with all stakeholders, the Board is able to identify risks and opportunities in the way the businesses of the Group are carried out. During such engagement, the Group is able to validate the sustainable matters identified by the Management of the Group. The Group's stakeholder engagement process is guided by the Guide and Toolkit: Stakeholder Engagement issued by Bursa Securities with necessary adaption based on the nature and scale of the businesses of the Group.

During the financial year ended 31 December 2017, the Management relied on the informal channels (such as, meetings, face-to-face communication) employed by the Head of Departments and Executive Directors, supported by formal channel of communication (such as, employees' performance appraisal) to engage with the stakeholders.

Sustainability Statement

The Board acknowledges that the above stakeholder engagement by the Group can be further improved so that key topics and concerns of respective stakeholder group are communicated at the required interval to the correct governance body of the Group to response to such topics and concerns on timely manner. Therefore, as part of the implementation of the formal Sustainability Framework established during the financial year ending 31 December 2018, the Board is committed to compile stakeholders' profile and to employ stakeholder mapping and profiling exercise to assess the level of respective stakeholder group's dependency on and influence over the Group in the context of the businesses carried out by the Group and industries that the Group is participating in. Through this prioritisation process, the Board is able to determine the recommended level of engagement and recommended frequency with respective stakeholders and to incorporate the prioritisation results into the material sustainability matter assessment process.

Major Economic, Environment and Social Activities Undertaken During Financial Year

The Group focus strongly on delivering value to shareholders, practicing good governance, maximising contributions to stakeholders and minimising environmental footprint. The Group also focuses on the initiatives of sustainability in accordance with Environmental, Economic and Social ("EES") risks and opportunities of the business. With that value in mind, the Group had undertaken the following control activities in managing sustainability matters during the financial year 2017: -

A. Environment

The Group's operations were built on governance procedures intended to ensure sound environmental practices in our daily operation. Having said so, it is the mindset of the Group that all relevant regulatory requirements are being adhered to and imbedded to our operations. Our target is to sustainably maintain operational quality across the Group, in which would promote sensible use of natural resources. To enhance this, the Company have obtained ISO 14000:2015 certification.

Given the nature and size of our operations, our processes produce significant amount of waste. The Company is subject to periodic assessments by the Department of Environment Malaysia("DOE") in which ensure that the Company operates its business in an environmentally responsible manner. Scheduled waste generated from the Company operations is collected by DOE approved contractors pursuant to the Environmental Quality (Scheduled Waste) Regulations, 2005. As for non-scheduled waste generated, it is scrapped or collected by selected waste collectors to be recycled or disposed at landfills. The nature of our industry does not generate significant air emissions but that does not exclude us from meting regulatory standards set by the DOE pursuant to Clean Air Regulation (2014). Our emissions to atmosphere are channelled through 2 chimneys. Our Safety Department conducts regular air emissions monitoring through stack monitoring in order to ensure continuous compliance to DOE's limits.

As noise is inevitable in some of the Company's processes, we have implemented measures to mitigate the impact to our workers. In particular, our corrugating section has been identified as the process that generates the highest noise levels. Noise levels are subject to periodic assessments by an Environmental Consultant approved by the Department of Occupational Safety & Health (DOSH). In order to better control noise levels, we deploy engineering controls as far as reasonably practicable such as machineries being constructed with noise reducing specifications. We also mitigate employee noise exposure by ensuring Personal Protective Equipment (PPE) such as hearing protections are worn especially at sections with higher noise exposure. Audiometry tests for machine operators are carried out periodically to monitor employee's risk of detrimental exposure to noise.

B. Our People and Culture

To have a strong-based workforce and ensure the Group remains competitive and continues to attract and retain the right talents, The Board acknowledges its efforts to remunerate our people with remuneration and benefits that commensurate with duties and responsibilities, to offer on-going opportunities for training and development, and long-term career prospects. To enable this, the Group encourages each employee to undergo learning to support their career development and performance enhancement. The learning can be inclusive of functional, on-the-job or people skills that are relevant to current or future job function.

The Board is committed to build performance-based culture by allowing the employees to demonstrate their capabilities. Annual performance appraisals are undertaken by the Management, not only for the performance-based remuneration, but also to have effective two-way communication with our people whereby the past performance and expectations for the future years by the Management on our people are communicated while our people's commitment and concerns are conveyed for future monitoring.

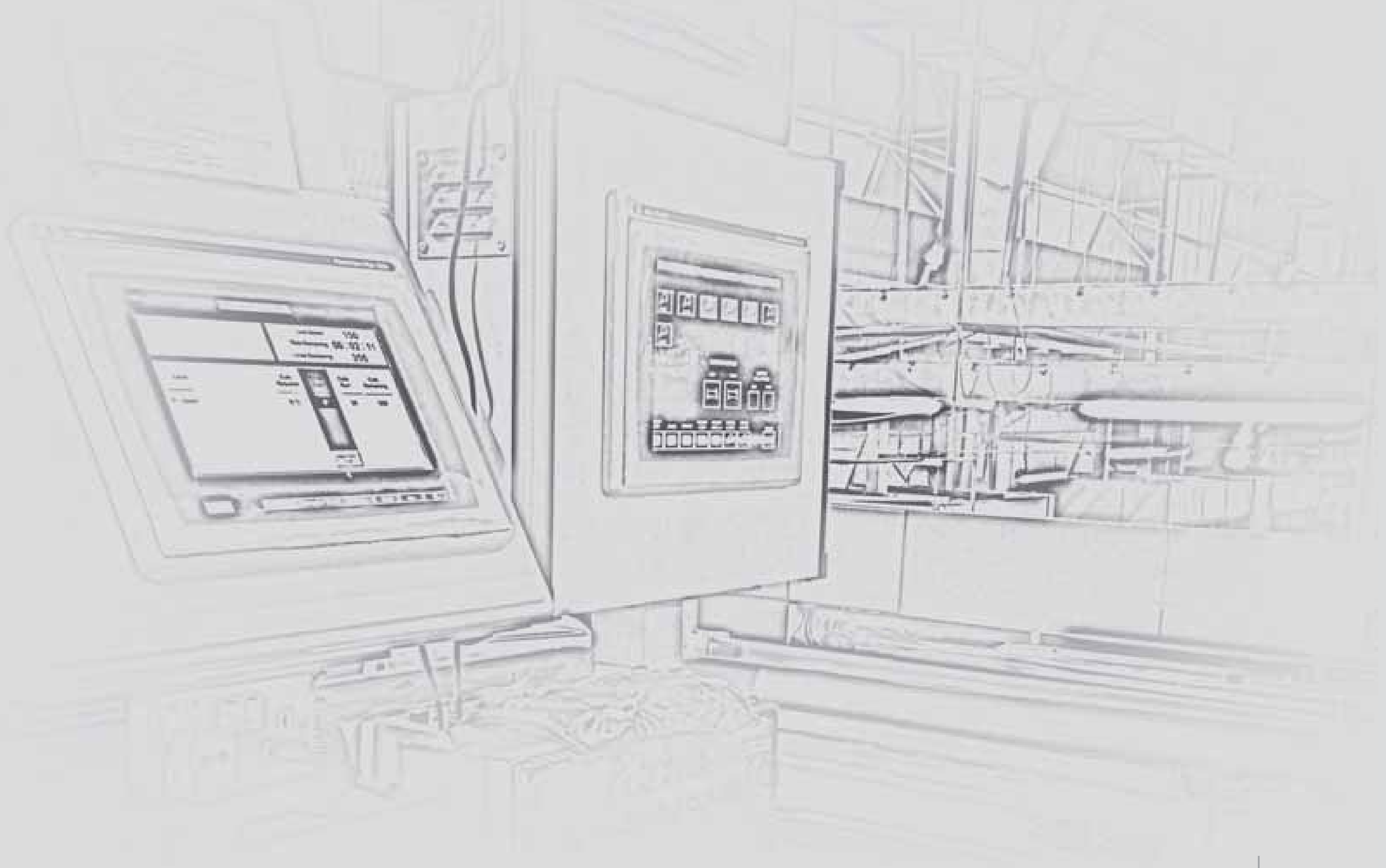
Making the Group a secure and comfortable place continues to be an important focus in business strategy for health and safety improvements benefits will eventually deliver to employees, contractors, purchasers, investors as well as general public. The Board understand the inherent risk of our operations, especially in the Production Department. While we take every possible measure to safeguard the occupational health and safety of individuals involved in our operations, all our employees possess general duties to comply with occupational health and safety standard operating procedures in accordance to Section 25 of the Occupational Safety and Health Act 1994. We continuously aim to improve our safety culture through the renewal and deployment of occupational health & safety trainings and courses delivered to selected personnel.

The Board is also championing equal opportunity for all employees regardless of race, religion, nationality, age, marital status, gender or any other characteristic. In addition, equal access and opportunities are provided to our employees in terms of recruitment, retention and training.

Lastly, the Group is committed in giving back to communities. Our strategy is to generate sustainable value for both the community and economic growth through effective use of the Group's capabilities and resources as well as sharing of financial resources with local community for their developments. During the financial year, we have supported various community causes through corporate donations and community events for the less fortunate. The Group is committed to continue to invest in community programmes and other corporate social responsibility initiatives to contribute towards the betterment of local communities.

Employee's participation is the key to success of these initiatives. Such initiatives help to increase employee's interaction outside working hours, build fellowship and support inter-departmental bonds. Whilst communities benefit, our employees benefit too.

Financial Statements



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 2017.

Principal activities

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.

Results

	Group RM'000	Company RM'000
Profit, net of tax, attributable to:		
Owners of the Company	15,536	3,522
Non-controlling interest	300	-
	15,836	3,522

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 2016 was as follows:

	RM'000
In respect of the financial year ended 31 December 2017:	
Interim single tier dividend of 2.5%, declared on 29 November 2017 and paid on 15 December 2017	1,854

At the forthcoming Annual General Meeting, a final single-tier dividend in respect of the financial year ended 31 December 2017, 2.5 sen per share on 75,250,601 ordinary shares, amounting to a dividend payable of approximately RM1,881,000 will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2018.

Directors' Report

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**

**These directors are also directors of the Company's subsidiaries.

The names of the directors of the Company's subsidiaries since the beginning of the financial year to the date of this report (not including those directors listed above) are:

Fong Yew Teck
Pong Hee Kit
Foo Chee Juin

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:

Directors' Report

Directors' interests (continued)

	Number of ordinary shares of RM1 each			
	1.1.2017	**Acquired**	**Sold**	**31.12.2017**
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

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.

Indemnities to directors and officers

During the financial year, the total amount of insurance effected for the directors and officers of the Company was RM500,000 under the Group Directors' and Officers' Liability Insurance Policy.

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.

(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.

Other statutory information (continued)

(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.

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.

Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement against claims by third parties arising from the audit. No payment has been made to indemnify Ernst & Young during or since the financial year.

Signed on behalf of the Board in accordance with a resolution of the directors dated 10 April 2018.

Sai Chin Hock　　　　See Wan Seng

Statement by Directors

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 66 to 140 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 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 2017 and of their financial performance and cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 10 April 2018.

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 66 to 140 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 10 April 2018

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 2017 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 66 to 140.

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 2017, 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 2016 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. We have determined that there are no Key Audit Matters to communicate in our report on the financial statements of the Company. The key audit matters for the audit of the financial statements of the Group are described below. 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.

Independent Auditors' Report

Key audit matters (continued)

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.

Revenue recognition
(Refer to Note 4.5(a) and Note 8 to the financial statements)

Revenue from sale of finished goods recorded by the Group during the year amounted to RM330 million. We have identified revenue recognition for sale of goods to be a key audit matter as we consider the significant growth in the Group's revenue during the year and the voluminous sales transactions to be the possible causes for higher risk of material misstatements from the perspective of timing of recognition and the amount of revenue recognised. Specifically, we focused our audit efforts to determine the possibility of overstatement of revenue.

Our response

Our audit procedures included testing the Group's internal controls over the timing for the recognition of revenue and the amount of revenue recognised. We inspected the terms of material sales contracts, quotations and purchase orders to determine the point of transfer of significant risk and rewards on a sample basis. We inspected documents which evidenced the delivery of goods to customers. We also focused on testing the recording of sales transactions for the financial year, including testing revenue cut-off and review of credit notes issued after year end, to establish whether the sales transactions were recorded in the correct accounting period.

Impairment of trade receivables
(Refer to Note 7.2(b) and Note 22 to the financial statements)

As of 31 December 2017, the trade receivables amounted to RM86 million which represents about 32% of total assets of the Group.

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

The impairment assessment on trade receivables has been identified as a key audit matter due to the significance of the trade receivables 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.

Independent Auditors' Report

Our response (continued)

We further evaluated 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 2016 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.

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.

Independent Auditors' Report

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

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 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
02187/09/2019 J
Chartered Accountant

Melaka, Malaysia
Date: 10 April 2018

Statements of Comprehensive Income

For the year ended 31 December 2017

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Revenue	8	330,699	272,052	3,983	6,018
Cost of goods sold		(270,063)	(224,122)	-	-
Gross profit		60,636	47,930	3,983	6,018
Other items of income					
Interest income	9	260	156	55	71
Other income	10	1,287	1,141	-	-
Other items of expense					
Administrative expenses		(12,840)	(11,525)	(379)	(347)
Selling and marketing expenses		(20,604)	(19,045)	(7)	(7)
Other expenses		(5,864)	(7,031)	(111)	(81)
Operating profit		22,875	11,626	3,541	5,654
Finance costs	11	(3,067)	(2,325)	-	-
Profit before tax	12	19,808	9,301	3,541	5,654
Income tax expense	15	(3,972)	(1,450)	(19)	(40)
Profit, net of tax, representing total comprehensive income for the year		15,836	7,851	3,522	5,614
Attributable to:					
Owners of the Company		15,536	7,770	3,522	5,614
Non-controlling interest		300	81	-	-
		15,836	7,851	3,522	5,614
Earnings per share attributable to owners of the Company (sen)					
Basic	16	21.0	10.5		
Diluted	16	21.0	10.5		

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

Statements of Financial Position

As at 31 December 2017

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Assets					
Non-current assets					
Property, plant and equipment	17	100,761	97,119	-	-
Land use rights	18	6,686	5,437	-	-
Investment in subsidiaries	19	-	-	100,159	97,658
Goodwill	20	1,633	1,633	-	-
Deferred tax assets	29	196	428	-	-
		109,276	104,617	100,159	97,658
Current assets					
Inventories	21	53,396	37,256	-	-
Trade and other receivables	22	87,343	67,848	57	869
Other current assets	23	1,033	5,100	1	1
Tax recoverable		356	735	-	-
Derivatives	24	-	6	-	-
Held-to-maturity investment	25	3,954	4,347	1,631	1,587
Cash and bank balances	26	15,432	8,620	17	58
		161,514	123,912	1,706	2,515
Total assets		270,790	228,529	101,865	100,173
Equity and liabilities					
Current liabilities					
Loans and borrowings	27	66,315	48,343	-	-
Trade and other payables	28	34,885	27,261	27	17
Current tax payable		553	132	22	8
		101,753	75,736	49	25
Non-current liabilities					
Loans and borrowings	27	2,288	368	-	-
Deferred tax liabilities	29	9,107	8,652	-	-
Non-current liabilities		11,395	9,020	-	-
Total liabilities		113,148	84,756	49	25

Statements of Financial Position

As at 31 December 2017

Statements of financial position
As at 31 December 2017 (continued)

	Note	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Equity attributable to owners of the parent					
Share capital	30	86,407	75,251	86,407	75,251
Share premium	31	-	11,156	-	11,156
Treasury shares	32	(541)	(541)	(541)	(541)
Retained earnings	33	70,530	56,848	15,950	14,282
		156,396	142,714	101,816	100,148
Non-controlling interest	19	1,246	1,059	-	-
Total equity		157,642	143,773	101,816	100,148
Total equity and liabilities		270,790	228,529	101,865	100,173
Net current assets		59,761	48,176	1,657	2,490
Net assets		157,642	143,773	101,816	100,148

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 2017

	Note	Non-distributable Share capital RM'000	Non-distributable Share premium RM'000	Non-distributable Treasury shares RM'000	Distributable Retained earnings RM'000	Total equity attributable to owners of the parent RM'000	Non-controlling interest RM'000	Total equity RM'000
Group								
Opening balance at 1 January 2017		75,251	11,156	(541)	56,848	142,714	1,059	143,773
Total comprehensive income		-	-	-	15,536	15,536	300	15,836
Transition to no-par value regime (Note 30)		11,156	(11,156)	-	-	-	-	-
Transactions with owners								
Dividend	34	-	-	-	(1,854)	(1,854)	-	(1,854)
Dividend paid to non-controlling interest		-	-	-	-	-	(113)	(113)
		-	-	-	(1,854)	(1,854)	(113)	(1,967)
Closing balance at 31 December 2017		86,407	-	(541)	70,530	156,396	1,246	157,642
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 interest		-	-	-	-	-	(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

Statements of Changes in Equity

For the year ended 31 December 2017

Statements of changes in equity
For the year ended 31 December 2017 (continued)

	Note	Non-distributable Share capital RM'000	Non-distributable Share premium RM'000	Non-distributable Treasury shares RM'000	Distributable Retained earnings RM'000	Total equity RM'000
Company						
Opening balance at 1 January 2017		75,251	11,156	(541)	14,282	100,148
Total comprehensive income		-	-	-	3,522	3,522
Transition to no-par value regime (Note 30)		11,156	(11,156)	-	-	-
Transaction with owners						
Dividend	34	-	-	-	(1,854)	(1,854)
Closing balance at 31 December 2017		86,407	-	(541)	15,950	101,816
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

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 2017

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Operating activities				
Profit before tax	19,808	9,301	3,541	5,654
Adjustments for:				
Adjustment for property, plant and equipment	-	86	-	-
Bad debts recovered	(22)	-	-	-
Bad debts written off	14	69	-	-
Depreciation and amortisation:				
- Property, plant and equipment	12,782	12,034	-	-
- Land use rights	137	128	-	-
Dividend income from subsidiaries	-	-	(3,856)	-
Fair value loss on derivatives	6	1	-	-
Impairment loss on trade receivables	-	269	-	-
(Gain)/loss on disposal of property, plant and equipment	(206)	1,197	-	-
Property, plant and equipment written off	24	-	-	-
Reversal of allowance for impairment loss on trade receivables	(9)	(720)	-	-
Unrealised loss/(gain) on foreign exchange	83	(80)	-	-
Interest expense	3,067	2,325	-	-
Interest income	(260)	(156)	(55)	(71)
Total adjustments	15,616	15,153	(3,911)	(71)
Operating cash flows before changes in working capital	35,424	24,454	(370)	5,583
Changes in working capital				
Increase in inventories	(16,140)	(1,416)	-	-
Increase in receivables	(19,556)	(6,990)	-	-
Decrease/(increase) in other current assets	1,078	(1,309)	-	-
Increase/(decrease) in payables	7,658	(312)	10	(26)
Total changes in working capital	(26,960)	(10,027)	10	(26)
Cash flows from/(used in) operations	8,464	14,427	(360)	5,557
Interest paid	(3,182)	(2,384)		-
Taxes paid	(2,551)	(1,765)	(23)	(52)
Taxes refunded	66	334	18	-
GST refunded	-	155	-	4
Net cash generated from operating activities	2,797	10,767	(365)	5,509

Statements of Cash Flows

For the year ended 31 December 2017

Statements of cash flows
For the year ended 31 December 2017 (continued)

	Group		Company	
	2017	**2016**	**2017**	**2016**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Investing activities				
Purchase of property, plant and equipment	(12,770)	(17,060)	-	-
Dividend received from subsidiaries	-	-	3,856	-
Purchase of prepaid land lease	(1,386)	(1,534)	-	-
Interest received	255	151	55	66
Investment in a subsidiary	-	-	(2,501)	(3,500)
Proceeds from disposal of property, plant and equipment	330	1,359	-	-
Decrease/(increase) in held-to-maturity investment	393	(607)	(44)	(44)
Net cash used in investing activities	(13,178)	(17,691)	1,366	(3,478)
Financing activities				
Decrease in amount due from subsidiaries	-	-	812	187
Dividend paid on ordinary shares	(1,854)	(2,225)	(1,854)	(2,225)
Dividend paid to non-controlling interest	(113)	(68)	-	-
Drawdown of term loans	1,500	-	-	-
Drawdown of finance lease payables	800	-	-	-
Repayment of term loans	(540)	(445)	-	-
Repayment of finance lease payables	(297)	(423)	-	-
Increase in short-term borrowings	19,605	13,663	-	-
Net cash generated from/(used in) financing activities	19,101	10,502	(1,042)	(2,038)
Net increase/(decrease) in cash and cash equivalents	8,720	3,578	(41)	(7)
Effect of exchange rate changes on cash and cash equivalents	(34)	(21)	-	-
Cash and cash equivalents at 1 January	6,407	2,850	58	65
Cash and cash equivalents at 31 December (Note 26)	15,093	6,407	17	58

Statements of Cash Flows

For the year ended 31 December 2017

Statements of cash flows
For the year ended 31 December 2017 (continued)

Changes in liabilities arising from financing activities:

	Note	1 January 2017 RM'000	Changes from financing cash flows RM'000	Changes from investing cash flows RM'000	31 December 2017 RM'000
Dividends on ordinary shares	34	-	(1,854)	-	(1,854)
Dividend on non-controlling interest		-	(113)	-	(113)
Obligations under finance leases	27	288	503	698	1,489
Other loans and borrowings	27	45,567	19,605	-	65,172
Term loans	27	643	960	-	1,603
		46,498	19,101	698	66,297

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 2017

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.

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 2016 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.

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.

4. Summary of significant accounting policies (continued)

4.1 Business combinations and goodwill (continued)

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.

4.2 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.

4. Summary of significant accounting policies (continued)

4.2 Current versus non-current classification (continued)

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.

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:

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

4.3 Fair value measurement (continued)

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.

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.

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

4.4 Foreign currencies (continued)

(b) Transactions and balances (continued)

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 or the Company 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 and the Company have concluded that they are the principals in all of its revenue arrangements since they are the primary obligors in all the revenue arrangements, have pricing latitude and are also exposed to inventory and credit 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.

(b) Dividend income

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

(c) Management fees

Management fees are recognised when services are rendered.

Notes to the Financial Statements

For the year ended 31 December 2017

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

4.5 Revenue recognition (continued)

Other income of the Group and the Company, presented separately from revenue, are recognised using the following bases:

(a) Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income or expense 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 statement of comprehensive income.

(b) 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.

4.7 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.

4. Summary of significant accounting policies (continued)

4.7 Taxes (continued)

(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.

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.

4. Summary of significant accounting policies (continued)

4.7 Taxes (continued)

(b) Deferred tax (continued)

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.

4.9 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.

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

4.9 Leases (continued)

(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 comprehensive income.

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 comprehensive income 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.

Notes to the Financial Statements

For the year ended 31 December 2017

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 comprehensive income 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.

4.13 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.

Notes to the Financial Statements

For the year ended 31 December 2017

4. Summary of significant accounting policies (continued)

4.13 Inventories (continued)

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 comprehensive income in expense categories consistent with the function of the impaired asset.

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.

4. Summary of significant accounting policies (continued)

4.15 Impairment of non-financial assets (continued)

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 comprehensive income.

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.

(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 comprehensive income.

4. Summary of significant accounting policies (continued)

4.16 Financial instruments (continued)

(a) Financial assets (continued)

(ii) Subsequent measurement (continued)

Financial assets at fair value through profit or loss (continued)

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 comprehensive income. 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 comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs for loans and in cost of sales or other operating expenses for receivables.

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 comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income as finance costs.

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 comprehensive income. Interest income (recorded as finance income in the statement of comprehensive income) 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 comprehensive income.

(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.

4. Summary of significant accounting policies (continued)

4.16 Financial instruments (continued)

(c) Financial liabilities (continued)

(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.

Gains or losses on liabilities held for trading are recognised in the statement of comprehensive income.

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 comprehensive income.

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

4. Summary of significant accounting policies (continued)

4.16 Financial instruments (continued)

(c) Financial liabilities (continued)

(ii) Subsequent measurement (continued)

<u>Financial guarantee contracts</u>

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 comprehensive income.

(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. Summary of significant accounting policies (continued)

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 comprehensive income.

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 2017, the Group and the Company adopted the following new and amended MFRSs mandatory for annual financial periods beginning on or after 1 January 2017.

Effective for annual periods beginning on or after 1 January 2017

MFRS 107: Disclosures Initiatives (Amendments to MFRS 107)
MFRS 112: Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to MFRS 112)
Annual Improvements to MFRS Standards 2014 – 2016 Cycle - Amendments to MFRS 12: Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in MFRS 12

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 these amendments, entities are not required to provide comparative information for preceding periods. Apart from the additional disclosures as shown in the statement of cash flows, the application of these amendments had no impact on the Company.

MFRS 112 Recognition of Deferred Tax Assets 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.

The application of these amendments has had no impact on the Group and on the Company as the Group and the Company already assess the sufficiency of future taxable profits in a way that is consistent with these amendments.

Annual Improvements to MFRS Standards 2014–2016 Cycle
Amendments to MFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope

The amendments clarify that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The application of these amendments has had no effect on the Group as none of the Group's interest in these entities are classified, or included in a disposal group that is classified, as held for sale.

Notes to the Financial Statements

For the year ended 31 December 2017

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 2 Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)	1 January 2018
MFRS 9 Financial Instruments	1 January 2018
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 140 Transfers of Investment Property (Amendments to MFRS 140)	1 January 2018
Annual Improvements to MFRS Standards 2014 – 2016 Cycle	1 January 2018
IC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
MFRS 9 Prepayment Features with Negative Compensation (Amendments to MFRS 9)	1 January 2019
MFRS 16 Leases	1 January 2019
MFRS 119 Employee Benefits (Amendments to MFRS 119)	1 January 2019
MFRS 128 Long-term Interests in Associates and Joint Ventures (Amendments to MFRS 128)	1 January 2019
Annual Improvements to MFRS Standards 2015–2017 Cycle	1 January 2019
IC Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019
MFRS 17 Insurance Contracts	1 January 2021
Amendments to MFRS 10 and MFRS 128: Sales or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

The directors are of opinion that the standards and interpretations above would not have any material impact on the financial statements in the year of initial application except as discussed below:

MFRS 9 Financial Instruments

MFRS 9 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. During 2017, the Group has performed a detailed impact assessment of all three aspects of MFRS 9. The assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group adopts MFRS 9.

Based on the analysis of the Group's financial assets and liabilities as at 31 December 2017 on the basis of facts and circumstances that exist at that date, the directors of the Group have assessed the impact of MFRS 9 to the Group's financial statements as follows:

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

(i) **Classification and measurement**

The Group does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of MFRS 9.

Loans and receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal. The Group analysed the contractual cash flow characteristics of this instruments and concluded that they meet the criteria for amortised cost measurement under MFRS 9. Therefore, reclassification for these instruments is not required.

(ii) **Impairment**

The Group will apply the simplified approach and record lifetime expected losses on all trade receivables.

MFRS 15 Revenue from Contracts with Customers

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118 Revenue, MFRS 111 Construction Contracts and the related interpretations when it becomes effective.

The core principle of MFRS 15 is that an entity should recognise revenue which depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

The Group plans to adopt the new standard on the required effective date using the modified retrospective method. The directors have assessed the effects of applying the new standard on the Group's financial statements.

(i) **Sales of goods and rendering of services**

The Group is in the business of manufacturing and sale of corrugated boards and carton boxes.

The Group also involves in the delivery of the corrugated boards and carton boxes to the customer. Currently, the Group accounts for the bundled sales as one deliverable and recognises revenue when the significant risks and rewards of the goods have passed to the buyer. Under MFRS 15, the sale of goods and the rendering of delivery services are separate deliverables of bundled sales. The considerations received or receivable should be allocated between these deliverables based on relative stand-alone selling prices of each deliverable.

6. Standards issued but not yet effective (continued)

MFRS 15 Revenue from Contracts with Customers (continued)

(i) Sales of goods and rendering of services (continued)

The Group expects the revenue recognition for the sales of goods to occur at a point in time when the control of the asset is transferred to the customer, generally on delivery of the goods. Whereas the revenue recognition for the delivery services will be recognised over time when the delivery services are rendered.

Based on the Group's preliminary assessment, the Group did not expect any material impact to revenue and profit for the year upon the adoption of MFRS 15.

In addition, costs relating to the fulfilment of the delivery services currently classified as selling and marketing expenses will be reclassified as costs of goods sold under MFRS 15.

(ii) Presentation and disclosure requirements

The presentation and disclosure requirements in MFRS 15 are more detailed than the current standard. Many of the disclosure requirements in MFRS 15 are new and the Group has assessed that the impact of some of these disclosures will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgments made: when determining the transaction price of those contracts that include how the transaction price has been allocated to each performance obligation, and the assumptions made to estimate the stand-alone selling prices of each performance obligation. MFRS 15 also requires revenue recognised to be disaggregated into categories that depict the nature, amount, timing and uncertainty of revenue and cash flows.

In 2017, the Group continued testing the appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

MFRS 140 Transfers of Investment Property (Amendments to MFRS 140)

The amendments clarify that when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of change in use.

Entities can apply these amendments either retrospectively (if this is possible without the use of hindsight) or prospectively. Earlier application of the amendments is permitted and must be disclosed. The Group will apply these amendments when they become effective. However, since the Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its financial statements.

6. Standards issued but not yet effective (continued)

IC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that, in determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability, the date of transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments either retrospectively or prospectively. Specific transition provisions apply to prospective application. Early application is permitted and must be disclosed. The application of these amendments will not have an impact on the Group as the Group are already accounting for transactions involving the payment or receipt of advance consideration in foreign currency in a way that is consistent with the amendments.

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. The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions), less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications.

Classification of cash flows will also be affected as operating lease payments under MFRS 117 are presented as operating cash flows, whereas under MFRS 16, the lease payments will be split into a principal (which will be presented as financing cash flows) and an interest portion (which will be presented as operating cash flows).

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 also requires lessees and lessors to make more extensive disclosures than under MFRS 117.

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.

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

Annual Improvements to MFRS Standards 2015–2017 Cycle

The Annual Improvements to MFRS Standards 2015-2017 Cycle include a number of amendments to various MFRSs, which are summarised below. These amendments do not have a significant impact on the Group's and the Company's financial statements.

(a) **MFRS 3 Business Combinations – Previously held interests in a joint operation**

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted.

(b) **MFRS 11 Joint Arrangements – Previously held interests in a joint operation**

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in MFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies these amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted.

(c) **MFRS 112 Income Taxes – Income tax consequences of payments on financial instruments classified as equity**

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies these amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. When an entity first applies these amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

(d) **MFRS 123 Borrowing Costs – Borrowing costs eligible for capitalisation**

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies these amendments to borrowing costs incurred on or after the beginning of the annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

6. Standards issued but not yet effective (continued)

IC Interpretation 23 Uncertainty over Income Tax Treatments

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of MFRS 112 and does not apply to taxes or levies outside the scope of MFRS 112, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- whether an entity considers uncertain tax treatments separately;
- the assumptions an entity makes about the estimation of tax treatments by taxation authorities;
- how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- how an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Group and the Company will apply the interpretation from its effective date. Since the Group operates in a complex multinational tax environment, applying the interpretation may affect its consolidated financial statements and the required disclosures. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the interpretation on a timely basis.

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.

Notes to the Financial Statements

For the year ended 31 December 2017

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 amounts of recognised tax losses and tax credits of the Group is disclosed in Note 29.

8. Revenue

	Group		Company	
	2017	**2016**	**2017**	**2016**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Sales of goods	330,696	272,052	-	-
Dividend income from subsidiaries	-	-	3,856	5,911
Management fees from subsidiaries	-	-	127	107
Transportation fees	3	-	-	-
	330,699	272,052	3,983	6,018

9. Interest income

	Group		Company	
	2017	**2016**	**2017**	**2016**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Interest income from:				
Loans and receivables	260	156	55	71

10. Other income

	Group	
	2017	**2016**
	RM'000	**RM'000**
Bad debts recovered	22	5
Claim from transporter	48	-
Commission received	10	-
Gain on disposal of property, plant and equipment	206	-
Gain on disposal of scrap materials	277	243
Insurance claims	113	1
Realised gain on foreign exchange	534	12
Unrealised gain on foreign exchange	-	80
Rental received	2	-
Reversal of allowance for impairment loss on trade receivables (Note 22(a))	9	720
Miscellaneous	66	80
	1,287	1,141

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For the year ended 31 December 2017

11. Finance costs

	Group	
	2017	2016
	RM'000	RM'000
Interest expense on:		
- Bank loans and overdrafts	3,025	2,297
- Obligations under finance leases	42	28
	3,067	2,325

12. Profit before tax

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

	Group		Company	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Auditors' remuneration:				
- Statutory audit				
Current year	200	182	56	49
Underprovision in prior year	-	7	-	2
- Other services	51	38	20	14
Bad debts written off	14	69	-	-
Carriage inwards and outwards	18,747	14,119	-	-
Depreciation and amortisation:				
- Property, plant and equipment (Note 17)	12,782	12,034	-	-
- Land use rights (Note 18)	137	128	-	-
Employee benefits expense (Note 13)	33,521	30,525	100	100
Fair value loss on derivatives	6	1	-	-
Impairment loss on trade receivables (Note 22(a))	-	269	-	-
Incorporation expenses	3	-	-	-
Non-executive directors' remuneration (Note 14)	152	152	152	152
Operating lease:				
- Minimum lease payments on land and buildings	670	599	-	-
Loss on disposal of property, plant and equipment	-	1,197	-	-
Property, plant and equipment written off	24	-	-	-
Unrealised loss on foreign exchange	83	-	-	-

13. Employee benefits expense

	Group		Company	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Wages and salaries	29,278	26,521	93	93
Contributions to defined contribution plans	2,318	2,157	7	7
Social security contributions	250	220	-	-
Other benefits	1,675	1,627	-	-
	33,521	30,525	100	100

Included in employee benefits expense of the Group and of the Company are executive directors' remuneration amounting to RM2,896,000 and RM100,000 (2016: RM2,552,000 and RM100,000) respectively as further disclosed in Note 14.

Notes to the Financial Statements

For the year ended 31 December 2017

14. Directors' remuneration

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Executive directors				
Directors of the Company:				
- Fees	494	417	28	28
- Salaries and other emoluments	1,612	1,468	65	65
- Defined contribution plans	105	92	7	7
	2,211	1,977	100	100
Other directors of subsidiaries:				
- Salaries and other emoluments	612	514	-	-
- Defined contribution plans	73	61	-	-
	685	575	-	-
Total executive directors' remuneration (Note 13)	2,896	2,552	100	100
Estimated money value of benefits-in-kind	11	11	-	-
Total executive directors' remuneration (including benefits-in-kind)	2,907	2,563	100	100
Non-executive directors (Note 12)				
Directors of the Company:				
- Fees	144	144	144	144
- Other emoluments	8	8	8	8
	152	152	152	152
Total directors' remuneration	3,059	2,715	252	252

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:

	2017	2016
Executive directors		
RM50,001 to RM100,000	-	1
RM200,001 to RM250,000	2	1
RM800,001 to RM850,000	-	2
RM850,001 to RM900,000	1	-
RM900,001 to RM950,000	1	-
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 2017 and 2016 are:

	Group	
	2017	**2016**
	RM'000	**RM'000**
Statements of comprehensive income:		
Current income tax:		
- Malaysian income tax	3,245	1,300
- Underprovision in prior years	40	120
	3,285	1,420
Deferred tax (Note 29):		
- Origination and reversal of temporary differences	470	(16)
- Relating to reduction in Malaysian income tax rate	-	(23)
- Underprovision in prior years	217	69
	687	30
Income tax expense recognised in profit or loss	3,972	1,450

	Company	
	2017	**2016**
	RM'000	**RM'000**
Statements of comprehensive income:		
Current income tax:		
- Malaysian income tax	40	40
- Overprovision in prior years	(21)	-
Income tax expense recognised in profit or loss	19	40

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% (2016: 24%) of the estimated assessable profit for the year. On 21 October 2016, the Government of Malaysia announced the reduction of income tax rate based on the percentage of increase in chargeable income as compared to the immediate preceding year of assessment effective Year of Assessment 2017 and 2018. The effect of the change in future tax rate to deferred tax of the Group is determined not to be significant.

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 2017 and 2016 is as follows:

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Profit before tax	19,808	9,301	3,541	5,654
Taxation at 24% (2016: 24%)	4,754	2,232	850	1,357
Reduction in Malaysian income tax rate on deferred tax		(23)	-	-
Tax effect of:				
- Non-deductible expenses	558	450	115	102
- Non-taxable income	(106)	(218)	(925)	(1,419)
Utilisation of current year's reinvestment allowance	(1,238)	(945)	-	-
Claw back of capital allowances	-	(5)	-	-
Deferred tax asset recognised on unabsorbed reinvestment allowances	(267)	(230)	-	-
Deferred tax asset not recognised on unabsorbed capital allowances	14	-	-	-
Under/(over) provision in prior years:				
- Income tax	40	120	(21)	-
- Deferred tax	217	69	-	-
Income tax expense recognised in profit or loss	3,972	1,450	19	40

Domestic current income tax is calculated at the statutory tax rate of 24% (2016: 24%) of the estimated assessable profit for the financial year.

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

	Group	
	2017 RM'000	2016 RM'000
Unutilised tax losses	1,181	1,625
Unabsorbed capital allowances	-	171
Unabsorbed reinvestment allowances	4,369	5,508
	5,550	7,304

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	
	2017	**2016**
Profit, net of tax, attributable to owners of the parent (RM'000)	15,536	7,770
Weighted average number of ordinary shares in issue ('000)*	74,153	74,153
Basic earnings per share (sen)	21.0	10.5
Diluted earnings per share (sen)	21.0	10.5

* 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 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 and 1 January 2017	8,959	45,684	128,982	10,465	2,250	196,340
Additions	-	1,160	9,724	2,245	3,443	16,572
Disposals	-	-	(1,029)	(730)	(38)	(1,797)
Written off	-	-	(766)	(189)	-	(955)
Reclassification	-	-	918	-	(918)	-
At 31 December 2017	8,959	46,844	137,829	11,791	4,737	210,160

* Being asset expensed off to the statement of comprehensive income

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 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 and 1 January 2017	1,689	16,103	73,667	7,762	-	99,221
Charge for the year (Note 12)	94	1,240	10,346	1,102		12,782
Disposals	-	-	(1,009)	(664)	-	(1,673)
Written off	-	-	(748)	(183)	-	(931)
At 31 December 2017	1,783	17,343	82,256	8,017	-	109,399
Carrying amounts						
At 31 December 2016	7,270	29,581	55,315	2,703	2,250	97,119
At 31 December 2017	7,176	29,501	55,573	3,774	4,737	100,761

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 RM16,572,000 (2016: RM14,293,000) by means of:

	2017 RM'000	2016 RM'000
Total additions	16,572	14,293
Advance payment to suppliers	(3,104)	2,767
Finance lease arrangement	(698)	-
Cash outflow on acquisition of property, plant and equipment	12,770	17,060

(d) The carrying amounts of motor vehicles, plant and machinery held under finance leases at the reporting date were RM1,664,000 (2016: RM2,519,000).

18. Land use rights

	Group 2017 RM'000	Group 2016 RM'000
Cost		
At 1 January	7,069	5,535
Additions	1,386	1,534
At 31 December	8,455	7,069
Accumulated amortisation		
At 1 January	1,632	1,504
Amortisation (Note 12)	137	128
At 31 December	1,769	1,632
Carrying amount	6,686	5,437
Amount to be amortised:		
- Not later than one year	138	128
- Later than one year but not later than 5 years	550	518
- Later than 5 years	5,998	4,791

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

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19. Investment in subsidiaries

	Company 2017 RM'000	Company 2016 RM'000
Unquoted shares, at cost		
At 1 January	97,658	94,158
Addition	2,501	3,500
At 31 December	100,159	97,658

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

Name of subsidiaries	Principal activities	Proportion (%) of ownership interest 2017	Proportion (%) of ownership interest 2016
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. [1]	Manufacturing of paper based stationery products and trading in corrugated carton boxes	100	100
Tripack Packaging (M) Sdn. Bhd. [1]	Manufacturing and sale of carton boxes	100	100
Ornapaper Industry (Johor) Sdn. Bhd. [1]	Manufacturing and sale of carton boxes	80	80
Ornapaper Logistics Sdn. Bhd. [1]	Transportation service	100*	-

[1] Not audited by Ernst & Young

* The total equity interests held by the Group is 100% and it is held by the following subsidiary:
Ornapaper Industry (M) Sdn. Bhd. 100%

(b) On 28 February 2017, the Company had acquired 2 ordinary shares, representing the entire issued and paid up capital of Ornapaper Logistics 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.

(c) During the financial year, a subsidiary of the Company, Ornapaper Industry (M) Sdn. Bhd. further subscribed for an additional 1,249,998 new ordinary shares in OLSB for a cash consideration of RM1,249,998. The proportion of ownership interests of OLSB held by the Company remained unchange.

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19. Investment in subsidiaries (continued)

(d) On 31 July 2017, the Company increased the issued and paid up capital of a wholly owned subsidiary, Ornapaper Industry (Batu Pahat) Sdn. Bhd. from RM10,000,000 to RM12,500,000 for a total cash consideration of RM2,500,000.

(e) **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.

(i) Summarised statement of financial position

	2017 RM'000	2016 RM'000
As at 31 December		
Non-current assets	4,630	5,187
Current assets	14,077	10,698
Total assets	18,707	15,885
Non-current liabilities	(1,246)	(296)
Current liabilities	(11,230)	(10,295)
Total liabilities	(12,476)	(10,591)
Net assets	6,231	5,294
Equity attributable to owners of the Company	4,985	4,235
Non-controlling interest	1,246	1,059

(ii) Summarised statement of comprehensive income

	2017 RM'000	2016 RM'000
Revenue	38,699	29,215
Profit for the year	1,501	407
Profit attributable to:		
- Owners of the Company	1,201	326
- Non-controlling interest	300	81

(iii) Summarised statement of cash flows

	2017 RM'000	2016 RM'000
Cash (outflows)/inflows from operating activities	(531)	2,184
Cash outflows used in investing activities	(65)	(1,743)
Cash inflows/(outflows) used in financing activities	668	(748)
Net increase/(decrease) in cash and cash equivalents	72	(307)
Cash and cash equivalents at the beginning of the year	179	486
Cash and cash equivalents at the end of the year	251	179

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:

	2017 RM'000	2016 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	
	2017	2016	2017	2016
Budgeted gross margins	23%	20%	17%	16%
Pre-tax discount rates	10%	14%	10%	14%

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

Budgeted gross margins - The budgeted gross margin is determined based on value archived in the immediate year before the beginning of the budget period.

Pre-tax discount rates - Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates.

Terminal Value – Terminal value is the net present value of all of the forecast free cash flows that are expected to be generated by the CGU after the explicit forecast period. The terminal value for Ornapaper Industry (Perak) Sdn. Bhd. is RM37,826,000 (2016: RM11,755,000).

The Group believes that any reasonable possible change in the above key assumptions applied is unlikely to materially cause the recoverable amount to be lower than its carrying amount.

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21. Inventories

	Group 2017 RM'000	Group 2016 RM'000
At cost:		
Raw materials and consumables	45,870	31,426
Work-in-progress	833	973
Finished goods	6,693	4,857
	53,396	37,256
Cost of inventories recognised as an expense in cost of sales	267,441	218,286

22. Trade and other receivables

	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Trade receivables				
Third parties	81,512	63,805	-	-
Companies in which a director has interest	5,088	3,245	-	-
	86,600	67,050	-	-
Allowance for impairment				
- Third parties	(348)	(361)	-	-
Trade receivables, net	86,252	66,689	-	-
Other receivables				
Third parties	946	1,405	-	-
Subsidiaries				
- interest bearing at 3% per annum	-	-	47	858
Sundry deposits	637	303	2	2
Interest receivable	5	5	5	5
GST receivable	228	171	3	4
	1,816	1,884	57	869
Allowance for impairment				
- Third parties	(725)	(725)	-	-
Other receivables, net	1,091	1,159	57	869
Total trade and other receivables	87,343	67,848	57	869
Total trade and other receivables	87,343	67,848	57	869
Add: Cash and bank balances (Note 26)	15,432	8,620	17	58
Total loans and receivables	102,775	76,468	74	927

Notes to the Financial Statements

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22. Trade and other receivables (continued)

(a) Trade receivables

Trade receivables are non-interest bearing and are generally on 30 to 150 (2016: 30 to 150) days terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

Ageing analysis of trade receivables

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

	Group	
	2017	**2016**
	RM'000	**RM'000**
Neither past due nor impaired	62,891	49,543
1 to 30 days past due not impaired	15,602	11,997
31 to 60 days past due not impaired	5,686	2,978
More than 61 days past due not impaired	2,073	2,171
Total past due not impaired	23,361	17,146
Impaired	348	361
	86,600	67,050

Receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group. None of these trade receivables have been renegotiated during the financial year.

Receivables that are past due but not impaired

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

Receivables that are impaired

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

22. Trade and other receivables (continued)

(a) Trade receivables (continued)

Receivables that are impaired (continued)

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

	Group	
	2017	**2016**
	RM'000	**RM'000**
Individually impaired		
Trade receivables - nominal amounts	348	361
Less: Allowance for impairment	(348)	(361)
	-	-

Movement in allowance accounts:

	Group	
	2017	**2016**
	RM'000	**RM'000**
At 1 January	361	879
Bad debt recovered	(13)	-
Charge for the year (Note 12)	-	269
Reversal of impairment losses (Note 10)	(9)	(720)
Written off/(back)	9	(67)
At 31 December	348	361

(b) Other receivables

Subsidiaries

Amounts due from subsidiaries are unsecured and repayable on demand. Further details on related party transactions are disclosed in Note 35.

Other receivables that are impaired

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

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	
	2017 RM'000	2016 RM'000
Individually impaired		
Other receivables - nominal amounts	725	725
Less: Allowance for impairment	(725)	(725)
	-	-

Movement in allowance accounts:

	Group	
	2017 RM'000	2016 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	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Advance payments to suppliers of property, plant and equipment	154	3,258	-	-
Prepaid interest expenses	115	59	-	-
Prepaid operating expenses	764	1,783	1	1
	1,033	5,100	1	1

24. Derivatives

	2017		2016	
Group	Notional Amount RM'000	Assets RM'000	Notional Amount RM'000	Assets RM'000
Non-hedging derivatives:				
Foreign currency forward contracts	-	-	590	6

Notes to the Financial Statements

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24. Derivatives (continued)

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.

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		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Deposits with licensed banks	3,954	4,347	1,631	1,587

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

	Group and Company	
	2017	2016
Deposits with licensed banks	2.75%	2.80%

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

	Group and Company	
	2017 months	2016 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		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Cash on hand and at banks	15,432	8,620	17	58

26. Cash and bank balances (continued)

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

	Group		Company	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Cash on hand and at banks	15,432	8,620	17	58
Bank overdrafts (Note 27)	(339)	(2,213)	-	-
Cash and cash equivalents	15,093	6,407	17	58

27. Loans and borrowings

		Group	
		2017	2016
	Maturity	RM'000	RM'000
Current			
Secured:			
Bank overdrafts (Note 26)	On demand	339	2,213
Bankers' acceptances	2017	65,001	44,743
Charge card	2017	171	
Trust receipts	2017	-	824
Term loans	2017	450	362
Finance lease payables (Note 36(b))	2017	354	201
		66,315	48,343
Non-current			
Secured:			
Term loans	2018 to 2019	1,153	281
Finance lease payables (Note 36(b))	2018 to 2019	1,135	87
		2,288	368
Total loans and borrowings		68,603	48,711

The remaining maturities of the borrowings as at 31 December 2017 and 2016 are as follows:

	Group	
	2017	2016
	RM'000	RM'000
On demand or within one year	66,315	48,343
Later than one year and not later than 2 years	856	251
Later than 2 years and not later than 5 years	1,432	117
	68,603	48,711

27. Loans and borrowings (continued)

(a) Bank overdrafts

Bank overdrafts are denominated in RM, bear interest on an average of 7.68% (2016: 7.21%) 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 4.03% (2016: 4.08%) 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 nil (2016: 7.85%) per annum.

(d) Term loans

The loans are repayable over a period of 5 years. The weighted average effective interest rate is 5.64% (2016: 7.19%) per annum.

(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 3.49% (2016: 4.15%) per annum.

(f) Charge card

Charge card is denominated in RM, bears interest at minimum RM50 or 3.5% for late payment charges.

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	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Trade payables				
Third parties	24,263	18,984	-	-
Companies in which a director has interest	7	-	-	-
	24,270	18,984	-	-

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

	Group		Company	
	2017	**2016**	**2017**	**2016**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Other payables				
Accrued operating expenses	6,934	4,854	27	17
Sundry payables	3,243	2,846	-	-
GST payable	283	326	-	-
Provision	155	251	-	-
	10,615	8,277	27	17
Total trade and other payables	34,885	27,261	27	17
Total trade and other payables	34,885	27,261	27	17
Less: GST payable	(283)	(326)	-	-
Add: Loans and borrowings (Note 27)	68,603	48,711	-	-
Total financial liabilities carried at amortised cost	103,205	75,646	27	17

(a) **Trade payables**

Trade payables are non-interest bearing and are normally settled on 30 to 120 (2016: 30 to 120) days terms.

(b) **Other payables**

Other payables are non-interest bearing and normally settled on an average of 3 to 6 (2016: 6) months.

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

	Group	
	2017	**2016**
	RM'000	**RM'000**
At 1 January	(8,224)	(8,194)
Recognised in profit or loss (Note 15)	(687)	(30)
At 31 December	(8,911)	(8,224)
Reflected in the statements of financial position as follows:		
- Deferred tax assets	196	428
- Deferred tax liabilities	(9,107)	(8,652)
	(8,911)	(8,224)

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

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 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 and 1 January 2017	(9,977)	390	41	1,322	(8,224)
Recognised in profit or loss	(265)	(107)	(41)	(274)	(687)
At 31 December 2017	(10,242)	283	-	1,048	(8,911)

30. Share capital

	Group and Company			
	Number of shares		Amount	
	2017 '000	2016 '000	2017 RM'000	2016 RM'000
Issued and fully paid				
At beginning of financial year	75,251	75,251	75,251	75,251
Transition to no-par value regime	-	-	11,156	-
At end of financial year	75,251	75,251	86,407	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.

Effective from 31 January 2017, the Companies Act 2016 ("the Act") abolished the concept of authorised share capital and par value of share capital. Consequently, the amount standing to the credit balance of share premium become a part of the Company's share capital persuant to the transitional provision set out in Section 618(2) of the Act. Notwithstanding this provision, the Company may within 24 months from the commencement of the Act, use this amount for purposes as set out in Section 618(4) of the Act. There is no impact on the number of ordinary shares in issue or the relative entitlement of the member as a result of this transition.

Notes to the Financial Statements

For the year ended 31 December 2017

31. Share premium

	Group and Company 2017 RM'000	Group and Company 2016 RM'000
At beginning of financial year	11,156	11,156
Transition to no-par value regime	(11,156)	-
At end of financial year	-	11,156

Share premium represents the premium arising from the issue of shares.

32. Treasury shares

This amount relates to the acquisition cost of treasury shares net of the proceeds received on their subsequent sale or issuance.

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 1,098,455 (2016: 1,098,445) ordinary shares of RM1 each as treasury shares.

The directors of the Company are committed in enhancing the value of the Company to its shareholders and believe that the Share Buy Back can be applied in the best interests of the Company and its shareholders.

33. Retained earnings

The Company may distributes dividends out of its entire retained earnings as at 31 December 2017 under the single tier system.

34. Dividend

	Net dividend per ordinary share		Amount	
	2017 Sen	2016 Sen	2017 RM'000	2016 RM'000
Interim single tier dividend for 2017: 2.5% (2016: 3.0%)	2.5	3.0	1,854	2,225

At the forthcoming Annual General Meeting, a final single-tier dividend in respect of the financial year ended 31 December 2017, of 2.5 sen per share on 75,250,601 ordinary shares, amounting to a dividend payable of approximately RM1,881,000 will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2018.

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	
	2017 RM'000	2016 RM'000
With subsidiaries		
Management fee charged to:		
- Ornapaper Industry (M) Sdn. Bhd.	73	56
- Ornapaper Industry (Perak) Sdn. Bhd.	35	35
- Ornapaper Industry (Batu Pahat) Sdn. Bhd.	19	16
Dividends received from:		
- Ornapaper Industry (Johor) Sdn. Bhd.	452	271
- Tripack Packaging (M) Sdn. Bhd.	-	262
- Ornapaper Industry (M) Sdn. Bhd.	3,404	4,128
- Ornapaper Industry (Perak) Sdn. Bhd.	-	1,250
Interest received from:		
- Quantum Rhythm Sdn. Bhd.	10	27

	Group	
	2017 RM'000	2016 RM'000
With other related parties		
Purchases from STH Wire Industry (M) Sdn. Bhd.	504	442
Sales to:		
- Perfect Food Manufacturing (M) Sdn. Bhd.	8,785	8,093
- Greatbrand Food Industries Sdn. Bhd.	3,234	2,582
- STH Wire Industry (M) Sdn. Bhd.	83	60
Rental paid to Perfect Food Manufacturing (M) Sdn. Bhd.	-	60

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	
	2017 RM'000	2016 RM'000
Salaries and other emoluments	966	965
Defined contribution plans	111	111
	1,077	1,076

Notes to the Financial Statements

For the year ended 31 December 2017

36. Commitments

(a) Capital commitments

	Group 2017 RM'000	Group 2016 RM'000
Capital expenditure approved and contracted for:		
- Property, plant and equipment	1,703	481

(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 2017 RM'000	Group 2016 RM'000
Minimum lease payments:		
Not later than one year	431	210
Later than one year and not later than 2 years	505	51
Later than 2 years and not later than 5 years	754	42
Total minimum lease payments	1,690	303
Less: Amounts representing future finance charges	(201)	(15)
Present value of minimum lease payments	1,489	288

	Group 2017 RM'000	Group 2016 RM'000
Present value of finance lease payables:		
Not later than one year	354	201
Later than one year and not later than 2 years	447	48
Later than 2 years and not later than 5 years	688	39
Present value of minimum lease payments	1,489	288
Less: Amount due within 12 months (Note 27)	(354)	(201)
Amount due after 12 months (Note 27)	1,135	87

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 dated 20 May 2004 that was referred to the Industrial Court.

The Industrial Court has fixed this case for continued hearing on the 14 May 2018, 15 May 2018 and 26 June 2018. 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.

Notes to the Financial Statements

For the year ended 31 December 2017

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	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Held-to-maturity investment	3,954	4,347	1,631	1,587
Foreign currency forward contract	-	6	-	-

There have been no transfers between Level 1, Level 2 and Level 3 fair value measurements during the financial years ended 31 December 2017 and 2016.

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 RM330,000 (2016: RM242,000) 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 that are not denominated in their functional currencies are as follows:

	Net financial assets/(liabilities) held in non-functional currency			
	EURO RM'000	**SGD RM'000**	**USD RM'000**	**Total RM'000**
At 31 December 2017				
Trade and other receivables	9	68	428	505
Trade and other payables	-	-	(63)	(63)
Cash and bank balances	-	10	159	169
	9	78	524	611

	Net financial assets/(liabilities) held in non-functional currency			
	EURO RM'000	**SGD RM'000**	**USD RM'000**	**Total 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

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Company's profit net of tax to a reasonably possible change in the USD/RM, SGD/RM and EUR/RM exchange rate, with all other variables held constant.

	Profit net of tax	
	2017 RM'000	**2016 RM'000**
USD strengthened by 6% (2016: 5%)	83	145
USD weakened by 6% (2016: 5%)	(83)	(145)
SGD strengthened by 3% (2016: 5%)	5	12
SGD weakened by 3% (2016: 5%)	(5)	(12)
Euro strengthened by 5% (2016: 5%)	(1)	2
Euro weakened by 5% (2016: 5%)	1	(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 23% (2016: 17%) of the Group's gross trade receivables were due from 9 (2016: 4) 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 RM67,323,000 (2016: RM46,850,000) 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:

2017	**On demand or within one year RM'000**	**One to five years RM'000**	**Total RM'000**
Group			
Trade and other payables	34,885	-	34,885
Loans and borrowings	68,260	2,331	70,591
Total undiscounted financial liabilities	103,145	2,331	105,476
Company			
Trade and other payables	27	-	27
Total undiscounted financial liabilities	27	-	27
2016			
Group			
Trade and other payables	27,261	-	27,261
Loans and borrowings	50,434	390	50,824
Total undiscounted financial liabilities	77,695	390	78,085
Company			
Trade and other payables	17	-	17
Total undiscounted financial liabilities	17	-	17

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 2017 and 2016.

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	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Loans and borrowings	27	68,603	48,711	-	-
Trade and other payables	28	34,885	27,261	27	17
Less: Cash and bank balances	26	(15,432)	(8,620)	(17)	(58)
Net debt		88,056	67,352	-	-
Equity attributable to owners of the parent		156,396	142,714	101,816	100,148
Capital and net debt		244,452	210,066	101,816	100,148
Gearing ratio		36%	32%	-	-

41. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the directors on 10 April 2018.

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 31/12/2017 (RM'000)
OISB(M)	H. S. (M) 455 to H. S. (M) 470 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 Lot PT4960 to PT4964 Mukim of Bachang, District of Melaka Tengah, Melaka	17,505	Leasehold 99 Years Expiring On 24/09/2094	Industrial	21	04-Mar-02	29,261
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 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	20	27-Oct-97	
	Factory No. PLO 271, Jalan Kawasan Perindustrian Sri Gading, 83009 Batu Pahat, Johor Darul Takzim						5,931
OISB(BP)	H. S. (D) 38426 (PTD35123), Mukim of Simpang Kanan, District of Batu Pahat, Johor Darul Takzim	4,047	Leasehold 60 Years Expiring On 04/02/2058	Industrial	20	27-Dec-11	
OISB(PERAK)	H. S. (D) 10127, H.S. (D) 101313 To H.S. (D)10135 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	27	25-May-90	7,672
	Factory No. Plot 9, Persiaran Perindustrian Kanthan 2, Industrial Estate, 31200 Chemor, Perak Darul Ridzuan						
OISB(JOHOR)	H. S. (D) 248366 Lot PTD 46025 Mukim & District of Senai-Kulai, Johor Bahru	6,070	Leasehold 60 Years Expiring On 10/07/2056	Industrial	11	14-Mar-02	2,876
	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 28 March 2018

Issued capital : RM75,250,601.00
Class of shares : Ordinary Shares
Voting rights : One (1) Vote per Ordinary Share

DISTRIBUTION OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 to 99	14	0.78	353	0.00
100 to 1,000	297	16.53	247,056	0.33
1,001 to 10,000	986	54.87	5,034,000	6.79
10,001 to 100,000	429	23.87	14,730,204	19.87
100,001 to 3,707,606	69	3.84	25,567,669	34.48
3,707,607 and above	2	0.11	28,572,874	38.53
Total	1,797	100.00	74,152,156	100.00

SUBSTANTIAL SHAREHOLDERS

The substantial shareholders of ORNA based on the Register of Substantial Shareholders of the Company and their respective shareholdings are as follows:

Name	Direct No. of Shares	%	Indirect No. of Share	%
Intisari Delima Sdn Bhd	22,692,874	30.60	-	-
Cartaban Nominees (Asing) Sdn Bhd Exempt An For Standard Chartered Bank Singapore (EFGBHK-ASING)	5,880,000	7.93	-	-

DIRECTORS' SHAREHOLDINGS
(Based on the Register of Directors' Shareholdings)

The Directors' Shareholdings of ORNA based on the Register of Directors' Shareholdings of the Company are as follows:

Name	No. of Shares	%	No. of Shares	%
Sai Chin Hock	-	-	23,152,198 ^	31.22
Ang Kwee Teng	10,000	0.01	-	-
Sai Han Siong	15,000	0.02	19,217,212 *	25.92
Sai Ah Sai	120,000	0.16	23,338,698 °	31.47
Siow Kee Yen	30,500	0.04	-	-
Datuk Adillah binti Ahmad Nordin	34,000	0.05	-	-

Notes:
^ Deemed interest by virtue of his major shareholdings in IDSB and the interests held by his son pursuant to Sections 8 and 197 of the Companies Act 2016 ("the Act")
* Deemed interest by virtue of his major shareholdings in PSSB and the interest held by his wife and father (Sai Ah Sai) pursuant to Sections 8 and 197 of the Act
° Deemed interest by virtue of his interest in IDSB and his indirect interest by virtue of his sons, Sai Han Siong in PSSB and Sai Swee Seong's interest in the Company pursuant to Sections 8 and 197 of the Act.

Analysis of Shareholdings

As at 28 March 2018

THIRTY (30) LARGEST SECURITIES ACCOUNT HOLDERS

No.	Shareholders	No. of shares	%
1	Intisari Delima Sdn Bhd	22,692,874	30.60
2	Cartaban Nominees (Asing) Sdn Bhd Exempt An for Standard Chartered Bank Singapore (EFGBHK-ASING)	5,880,000	7.93
3	Superior Rainbow Sdn Bhd	1,722,245	2.32
4	Lim Siew Huai	1,650,000	2.23
5	Lim Chin Tiam	1,401,800	1.89
6	Kuah Say Chong	1,339,000	1.81
7	Yeo Ser Ken	1,234,000	1.66
8	Uptrend Performer Sdn Bhd	1,000,000	1.35
9	Goh Yu Tian	980,300	1.32
10	Maybank Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Ronie Tan Choo Seng (MARGIN)	935,000	1.26
11	Grandeur Land Sdn Bhd	900,000	1.21
12	Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Kong Kok Choy (8092812)	870,000	1.17
13	Lim Hong Liang	745,000	1.00
14	Siang Teck Siong	604,900	0.82
15	RHB Capital Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Fong SiLing (CEB)	600,000	0.81
16	Wong Meng Kiang	517,000	0.70
17	Pilihan Sistematik Sdn Bhd	459,324	0.62
18	Jony Raw @ Raw Jony	456,100	0.62
19	Malacca Equity Nominees (Tempatan) Sdn Bhd Exempt An for Phillip Capital Management Sdn Bhd (EPF)	451,800	0.61
20	Maybank Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Yoong Fui Kien	412,000	0.56
21	Cimsec Nominees (Tempatan) Sdn Bhd CIMB Bank for Yap Kon Hing (M12046)	382,800	0.52
22	Teh Bee Gaik	334,800	0.45
23	Wong Lai Han	321,000	0.43
24	Lim Hong Liang	319,200	0.43
25	Ong Lei Im	283,000	0.38
26	Tey Sui Kiat	275,000	0.37
27	Yeoh Yew Choo	273,000	0.37
28	JF Apex Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Hon Meng Heng (MARGIN)	259,100	0.35
29	Sia Kim Diang	250,000	0.34
30	Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Ling Wing Kee (6000139)	249,000	0.34

Share Buy-Back Statement

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING PURSUANT TO PARAGRAPH 12.06(1) OF BURSA MALAYSIA SECURITIES BERHAD MAIN MARKET LISTING REQUIREMENTS

SHARE BUY-BACK STATEMENT

If you are in any doubt as to the course of action to be taken, you should consult your stockbroker, bank manager, solicitor, accountant or other professional advisers immediately.

Bursa Malaysia Securities Berhad ("Bursa Securities") takes no responsibility for the contents of this Statement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Statement.

INTRODUCTION

At the 15th Annual General Meeting ("AGM") of ORNA held on 24 May 2017, the shareholders approved, inter-alia, the renewal of the authorization for the Company to purchase up to 10% of the issued and paid-up share capital of the Company. The said authorization shall, in accordance with the Main Market Listing Requirements, expire at the conclusion of the forthcoming 16th AGM of the Company.

On 27 February 2018, the Board of Directors of the Company announced the Company's intension to seek a renewal of its shareholders' authorization for the Proposed Share Buy-Back Authority at the forthcoming AGM of the Company.

1. Rationale for renewal of authority from the shareholders of the Company

The Proposed Share Buy-Back will enable ORNA Group to utilise any of its surplus financial resources to purchase its shares. The Company may be able to stabilise the supply and demand of ORNA shares in the open market and thereby support its fundamental value. Further, the increase in earnings per share, if any, arising from the Proposed Share Buy-Back is expected to benefit the shareholders of the Company.

The purchased shares can be held as treasury shares and resold on Bursa Securities with the intention of realising a potential gain without affecting the total number of issued shares in the share capital of the Company. Should any treasury shares be distributed as share dividends, this would serve to reward the shareholders of the Company.

2. Retained Profits

As at 28 March 2018, the total number of issued shares of ORNA is 75,250,601. The Proposed Share Buy-Back will enable the Company to purchase up to a maximum of 7,525,060 shares, representing 10% of the enlarged and issued ordinary shares.

The total maximum amount of funds to be allocated for the Proposed Share Buy-Back must be made wholly out of the Company's retained profits based on the latest annual audited financial statements and the latest management accounts (where applicable). Therefore, the Board proposed that the maximum amount of funds to be utilized for any purchase of ORNA shares shall not exceed the aggregate of the Company's retained profits of RM70.53 million based on the Audited Financial Statements for the financial year ended 31 December 2017.

Share Buy-Back Statement

3. Source of Funds

The amount allocated for the share buy-back would be mainly financed by internally generated funds and/or bank borrowings.

In the event that the Company decides to utilize external borrowings to finance the share buy-back, the Board will ensure that the Company has sufficient funds to repay the external borrowings and such repayment will not have a material effect on the cash flow of the Company.

4. Interest of Directors, Substantial Shareholders and/or Persons Connected to them

The following table illustrates the effects on the shareholdings of Directors, substantial/major shareholders and persons connected to them as at 28 March 2018, being the most practicable date prior to the printing of this Annual Report, assuming the Proposed Share Buy-Back is implemented in full –

Directors/Substantial Shareholders	As at 28 March 2018				After Proposed Share Buy-Back#			
	Number of ORNA Shares Held				Number of ORNA Shares Held			
	Direct	%	Indirect	%	Direct	%	Indirect	%
Directors								
Sai Chin Hock	-	-	23,152,198^	31.22	-	-	23,152,198^	34.18
Ang Kwee Teng	10,000	0.01	-	-	10,000	-	-	-
Sai Han Siong	15,000	0.02	19,217,212*	25.92	15,000	0.04	19,217,212*	28.37
Sai Ah Sai	120,000	0.16	23,338,698°	31.47	120,000	0.18	23,338,698°	34.46
Siow Kee Yen	30,500	0.04	-	-	30,500	0.05	-	-
Datuk Adilah binti Ahmad Nordin	34,000	0.05	-	-	34,000	0.05	-	-
Substantial Shareholders								
Intisari Delima Sdn. Bhd. (“IDSB”)	22,692,874	30.60	-	-	22,692,874	33.51	-	-
HSBC Nominees (Asing) Sdn. Bhd.	5,880,000	7.93	-	-	5,880,000	8.68	-	-
Persons connected								
Sai Tzy Horng, son of Sai Chin Hock	-	-	459,324	0.62	-	-	459,324	0.68
Pilihan Sistematik Sdn. Bhd. (“PSSB”)	459,324	0.62	-	-	459,324	0.68	-	-

Notes:
\# Assuming that 7,525,060 shares, being the maximum of the shares not more than 10% of the total number of issued that may be bought back by the Company, are bought back.
^ Deemed interest by virtue of his major shareholdings in IDSB and the interests held by his son pursuant to Sections 8 and 197 of the Companies Act 2016 (“the Act”).
* Sai Han Siong, the son of Sai Ah Sai and nephew of Sai Chin Hock. Deemed interest by virtue of his major shareholdings in PSSB and the interest held by his wife and father pursuant to Sections 8 and 197 of the Act.
° Deemed interest by virtue of his interest in IDSB and his indirect interest by virtue of his sons, Sai Han Siong in PSSB and Sai Swee Seong interest in the Company pursuant to Sections 8 and 197 of the Act.

Share Buy-Back Statement

5. **Potential Advantages and Disadvantages**

I **Potential Advantages**
The potential advantages of the Proposed Share Buy-Back are as follows:-

(i) ORNA may be able to stabilise the supply and demand of ORNA shares in the open market and thereby support its fundamental value;

(ii) General investors' confidence in the stability of ORNA share price is expected to be enhanced as ORNA is empowered to implement the Proposed Share Buy-Back;

(iii) The ORNA Group will be able to utilise its financial resources that it has no immediate usage for the purchase of ORNA shares;

(iv) The Proposed Share Buy-Back will help enhance value for shareholders from a resultant reduction in the number of shares in the market, all things being equal. Further, it may increase the earnings per share when the purchased shares are cancelled, thereby making the shares more attractive to investors; and

(v) ORNA may utilise the treasury shares as future dividend pay out to ORNA shareholders and/or for resale in the market should opportunities arise in the future.

II **Potential Disadvantages**
The Proposed Share Buy-Back will reduce the financial resources of the Company, which may result in the Company foregoing other investment opportunities that may emerge in the future.

Nevertheless, the Proposed Share Buy-Back is not expected to have any potential material disadvantage to the Company and the shareholders, as it will be implemented only after careful consideration of the financial resources of the Group and its resultant impact.

6. **Financial Effects**

On the assumption that the share buy-back is carried out in full, the effects of the Proposed Share Buy-Back on the share capital, working capital, net assets, earnings per share of ORNA Group are set out below:-

6.1 Share Capital

The effects of the Proposed Share Buy-Back on the share capital of the Company will depend on the treatment of the shares purchased.

The effect of the Proposed Share Buy-Back on the issued share capital of the Company assuming that the maximum number of shares (up to 10% of the issued share capital) authorised under Proposed Share Buy-Back are purchased and cancelled, is set out below:-

	No. of Shares	**RM**
Total number of issued share capital as at 28.03.2018	75,250,601	75,250,601
Assuming the share purchased are cancelled (up to 10% of the issued share capital)	(7,525,060)	(7,525,060)
Total number of issued share capital after cancellation of shares under the Proposed Share Buy-Back	67,725,541	67,725,541

Share Buy-Back Statement

6.2 Working Capital

The Proposed Share Buy-back will reduce the working capital of ORNA Group, the quantum of which depends on, amongst others, the number of shares eventually purchased and the purchase price of the shares. The impact on the cash flow of the Company and the Group will depend on the number of shares eventually purchased and the purchase prices of the shares.

However, the cash flow or working capital position of the Company will be restored if the purchased of ORNA Shares are resold at least at the purchase price.

6.3 Net Assets ("NA")

The effect of the Proposed Share Buy-Back on the consolidated NA of ORNA Group is subject to the number of shares purchased, purchase price of the shares, the effective funding cost, if any, and the subsequent treatment of the shares so purchased.

The NA of ORNA Group would decrease if shares bought back are cancelled. The Proposed Share Buy-Back will reduce the consolidated NA per share if the purchase price exceeds the consolidated NA per share at the time of purchase. However, the consolidated NA per share will increase if the purchase price is less than the consolidated NA per share at the time of purchase.

The consolidated NA of ORNA Group would decrease by the cost of the treasury shares due to the requirement for treasury shares to be carried at cost and be offset against equity if the shares bought back are retained as treasury shares.

Should the shares so purchased be held as treasury shares and later resold, the consolidated NA per share of ORNA Group will increase if the Company realise a gain from the resale, and vice versa.

6.4 Earnings Per Share ("EPS")

The effect of the Proposed Share Buy-Back on the EPS of ORNA Group will depend on, inter-alia, actual number of shares bought back and the price paid and the effective cost of funding to ORNA Group, or any loss in interest income to ORNA.

In the event the shares which are retained as treasury shares are resold, the extent of the effect on the EPS of ORNA Group will depend on the actual selling prices, the number of treasury shares resold and the effective gain or interest savings arising.

7. Implication Under the Malaysian Code on Take-Overs and Mergers 2016 ("the Code")

There is no implication with regard to the Code on the Company and its substantial shareholders arising from the Proposed Share Buy-Back.

8. HISTORICAL SHARE PRICES

The monthly high and low prices of the Company as traded on Bursa Securities for the last twelve (12) months from April 2017 to March 2018 are as follows:-

	Shares	
	High (RM)	**Low (RM)**
2017		
April	1.01	1.04
May	1.00	1.12
June	1.04	1.32
July	1.17	1.34
August	1.13	1.50
September	1.36	1.51
October	1.36	1.45

Share Buy-Back Statement

8. **HISTORICAL SHARE PRICES (continued)**

	Shares	
	High (RM)	**Low (RM)**
2017		
November	1.29	1.64
December	1.30	1.38
2018	**High (RM)**	**Low (RM)**
January	1.33	1.44
February	1.29	1.43
March	1.72	1.34

Last transacted market price of the Company's shares on 28 March 2018 was RM1.35 (being the last practicable date prior to the printing of this Statement).

(Source, https://in.finance.yahoo.com/quote/5065.KL/history)

9. **Purchase, Resale and Cancellation of shares made in the previous twelve (12) months**

The Company did not buy back any of its own shares during the financial year ended 31 December 2017. The Company has not resold or cancelled any of its treasury shares in the preceding twelve (12) months up to the date of printing of this Annual Report.

As at 28 March 2018, being the latest practicable date prior to the printing of this Statement, there are 1,098,445 shares held as treasury shares. There was no resale or cancellation of treasury shares during the same period.

10. **Public Shareholding Spread**

As at 28 March 2018, the Company's public shareholding spread was 60.28% of its issued share capital. Any purchase of the shares by the Company must not result in the public shareholding spread of ORNA falling below 25% of the total number of issued share capital.

The Board will ensure that prior to and after any share buy-back exercise, the Required Public Shareholdings Spread of at least 25% is maintained at all times.

11. **Directors Responsibility Statement**

This Statement has been seen and approved by the Board and they individually and collectively accept full responsibility for the accuracy of the information given in this Statement and confirm that, after making all reasonable enquiries, to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement herein misleading.

12. **Directors' Recommendation**

The Board, after having considered all aspects of the Proposed Share Buy-Back is of the opinion that the Proposed Share Buy-Back is fair, reasonable and in the best interest of the Company. Accordingly, the Board recommends that you vote in favour of the resolution to be tabled at the forthcoming 16th Annual General Meeting to give effect to the Proposed Share Buy-Back.

13. **Other Information**

12.1 **Documents Available for Inspection**

Copies of the following documents will be available for inspection during normal office hours (except public holiday) at the Registered Office of the Company at No. 60-1, Jalan Lagenda 5, Taman 1 Lagenda, 75400 Melaka for a period from the date of publication of this Statement to the date of the 16th Annual General Meeting:-

(a) Constitution of the Company; and

(b) Audited Financial Statements of the Company and Group for the past two (2) financial years ended 31 December 2016 and 31 December 2017 and the latest unaudited results since the last audited financial statements, if any.

Notice of the Sixteenth Annual General Meeting

NOTICE IS HEREBY GIVEN that the Sixteenth Annual General Meeting ("AGM") of the Company will be held at the Function Room 2, Level 2, Holiday Inn Melaka, Jalan Syed Abdul Aziz, 75000 Melaka on Friday, 25 May 2018 at 10:30 a.m. for the following purposes:-

AGENDA

1. To receive the Audited Financial Statements for the financial year ended 31 December 2017 together with the Reports of the Directors and the Auditors thereon. **(Please refer to Note 1)**

2. To approve the payment of a Single-Tier Final Dividend of 2.5 sen per ordinary share for the financial year ended 31 December 2017. (Resolution 1)

3. To approve the payment of Directors' fee amounting to RM172,000.00 in respect of the financial year ended 31 December 2017. (Resolution 2)

4. To approve the payment of Directors' fee and other benefits payable up to an amount of RM444,000.00, from 1 January 2018 until the next AGM of the Company. (Resolution 3)

5. To re-elect the following Directors who are retiring in accordance to Article 92 of the Company's Constitution and being eligible, have offered themselves for re-election:-

   (a) Ang Kwee Teng (Resolution 4)
   (b) See Wan Seng (Resolution 5)

6. To re-elect the Director, Sai Ah Sai who retires in accordance with Article 98 of the Company's Constitution and being eligible, has offered himself for re-election. (Resolution 6)

7. 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 7)

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

8. **Ordinary Resolution I**
   Authority to Issue Shares pursuant to Sections 75 and 76 of the Companies Act 2016 (Resolution 8)

   THAT subject always to the Companies Act 2016 ("the Act"), the Constitution of the Company and the approvals from Bursa Malaysia Securities Berhad ("Bursa Securities") and any other relevant governmental and/or regulatory authorities, the Directors be and are hereby empowered pursuant to the Act, to issue and allot shares in the capital of the Company from time to time at such price and upon such terms and conditions, for such purposes and to such person or persons whomsoever the Directors may in their absolute discretion deem fit provided always that the aggregate number of shares issued pursuant to this resolution does not exceed 10% of the total number of issued shares of the Company for the time being;

Notice of the Sixteenth Annual General Meeting

AND THAT 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 Securities; AND FURTHER 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.

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

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 15 years, to continue to act as an Independent Non-Executive Director of the Company.

10. **Ordinary Resolution III**
Retention of Independent Non-Executive Director (Resolution 10)

THAT approval be and is hereby given to Siow Kee Yen, who has served as an Independent Non-Executive Director for a cumulative term of more than 15 years, to continue to act as an Independent Non-Executive Director of the Company.

11. **Ordinary Resolution IV**
Proposed Renewal of Shareholders' Mandate for Existing Recurrent Related Party Transactions of a Revenue or Trading Nature (Resolution 11)

THAT subject to the provisions of the Bursa Securities Main Market Listing Requirements, approval be and is hereby given for the Proposed Renewal of Shareholders' Mandate for Existing 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 to Shareholders dated 26 April 2018 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 Renewal of 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 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 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.

12. **Ordinary Resolution V** (Resolution 12)
Proposed Renewal of Authority for Share Buy-Back

THAT subject to the compliance with Sections, 112, 113 and 127 of the Act 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 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 shares 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 of RM70.53 million, upon such terms and conditions as set out in the Share Buy-Back Statement.

THAT such authority shall commence immediately upon the passing of this resolution and until the conclusion of the next 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.

Notice of the Sixteenth Annual General Meeting

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

NOTICE OF DIVIDEND ENTITLEMENT

NOTICE IS HEREBY GIVEN THAT a Single-Tier Final Dividend of 2.5 sen per ordinary share in respect of the financial year ended 31 December 2017 will be payable on 16 July 2018 to depositors who are registered in the Record of Depositors at the close of business on 2 July 2018, if approved by shareholders at the forthcoming 16th AGM on Friday, 25 May 2018.

A Depositor shall qualify for entitlement only in respect of:-
(a) Shares transferred into the Depositor's Securities Account before 4.00 p.m. on 2 July 2018 in respect of ordinary transfers; and
(b) Shares bought on Bursa Securities on a cum entitlement basis according to the Rules of the Bursa Securities.

By Order of the Board

CHUA SIEW CHUAN (MAICSA 0777689)
TAY SEOK YIN (MAICSA 7063410)
Company Secretaries
Melaka
Dated: 26 April 2018

Notes:
1. In respect of deposited securities, only members whose names appear in the Record of Depositors on 15 May 2018 ("**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 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.

Notice of the Sixteenth Annual General Meeting

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 15th AGM of the Company held on 24 May 2017 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 15th AGM 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.

(ii) **Retention as Independent Non-Executive Directors**

Resolutions 9 and 10 - Datuk Adillah binti Ahmad Nordin and 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 15 years. In accordance with the new Malaysian Code on Corporate Governance 2017, the Board, after having assessed the independence of Datuk Adillah binti Ahmad Nordin and Siow Kee Yen, regarded them to be independent based amongst others, the following justifications and recommends that Datuk Adillah binti Ahmad Nordin and 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 Securities 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 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 Renewal of Shareholders' Mandate**

The proposed Resolution 11 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 to Shareholders dated 26 April 2018 for detailed Information.

(iv) **Proposed Renewal of Authority for the Company to Purchase Its Own Shares**

The proposed Resolution 12 is intended to allow the Company to purchase its own shares up to 10% of the total number of issued ordinary shares of the Company at any time within the time period stipulated in the Bursa Securities Main Market Listing Requirements.

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

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 16th Annual General Meeting of the Company to be held at the Function Room 2, Level 2, Holiday Inn Melaka, Jalan Syed Abdul Aziz, 75000 Melaka on Friday, 25 May 2018 at 10:30a.m. and at any adjournment thereof.

No.	**Resolution**
-	To receive the Audited Financial Statements for the financial year ended 31 December 2017 together with the Reports of the Directors and the Auditors thereon.

No.	**Resolutions**	**For**	**Against**
1.	To approve the payment of a Single-Tier Final Dividend of 2.5 sen per ordinary share for the financial year ended 31 December 2017.		
2.	To approve the payment of Directors' fees in respect of the financial year ended 31 December 2017.		
3.	To approve the Directors' fees and other benefits from 1 January 2018 until the next AGM of the Company.		
4.	To re-elect Ang Kwee Teng in accordance with Article 92 of the Company's Constitution.		
5.	To re-elect See Wan Seng in accordance with Article 92 of the Company's Constitution.		
6.	To re-elect Sai Ah Sai in accordance with Article 98 of the Company's Constitution.		
7.	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.		
8.	**SPECIAL BUSINESS** Ordinary Resolution I - Authority to Issue Shares		
9.	Ordinary Resolution II - Retention of Datuk Adillah binti Ahmad Nordin as an Independent Non-Executive Director of the Company		
10.	Ordinary Resolution III - Retention of Siow Kee Yen as an Independent Non-Executive Director of the Company		
11.	Ordinary Resolution IV - Proposed Renewal of Shareholders' Mandate for Existing Recurrent Related Party Transactions of a Revenue or Trading Nature		
12.	Ordinary Resolution V - 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 ____________________ 2018.

____
Signature of Member/Common Seal

Notes:

(i) In respect of deposited securities, only members whose names appear in the Record of Depositors on 15 May 2018 ("**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 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

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