Ornapaper

ANNUAL REPORT 2018

Contents

Corporate Information

BOARD OF DIRECTORS	: Mr. Ang Kwee Teng (Executive Chairman) 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: 606-8525300 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	: 70
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 and brother of Sai Ah Sai
Conflict of interest with the Company	: None
List of conviction for offences within the past 5 years	: None

Mr Ang Kwee Teng

Age	: 69
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 Tan Chin Hwee

Age	: 53
Nationality	: Malaysian
Gender	: Male
Designation / Position in the Company	: Independent Non-Executive Director; Chairman of Board Risk Management Committee; 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

Mr Siow Kee Yen

Age	: 48
Nationality	: Malaysian
Gender	: Male
Designation / Position in the Company	: Independent Non-Executive Director; Chairman of Audit Committee and Nomination Committee; Members of Remuneration Committee and Board Risk Management 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

Profile of Directors

Datuk Adillah binti Ahmad Nordin

Age	: 50
Nationality	: Malaysian
Gender	: Female
Designation/ Position in the Company	: Independent Non-Executive Director; Chairperson of Remuneration Committee; Members of Audit Committee, Remuneration Committee and Board Risk Management 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

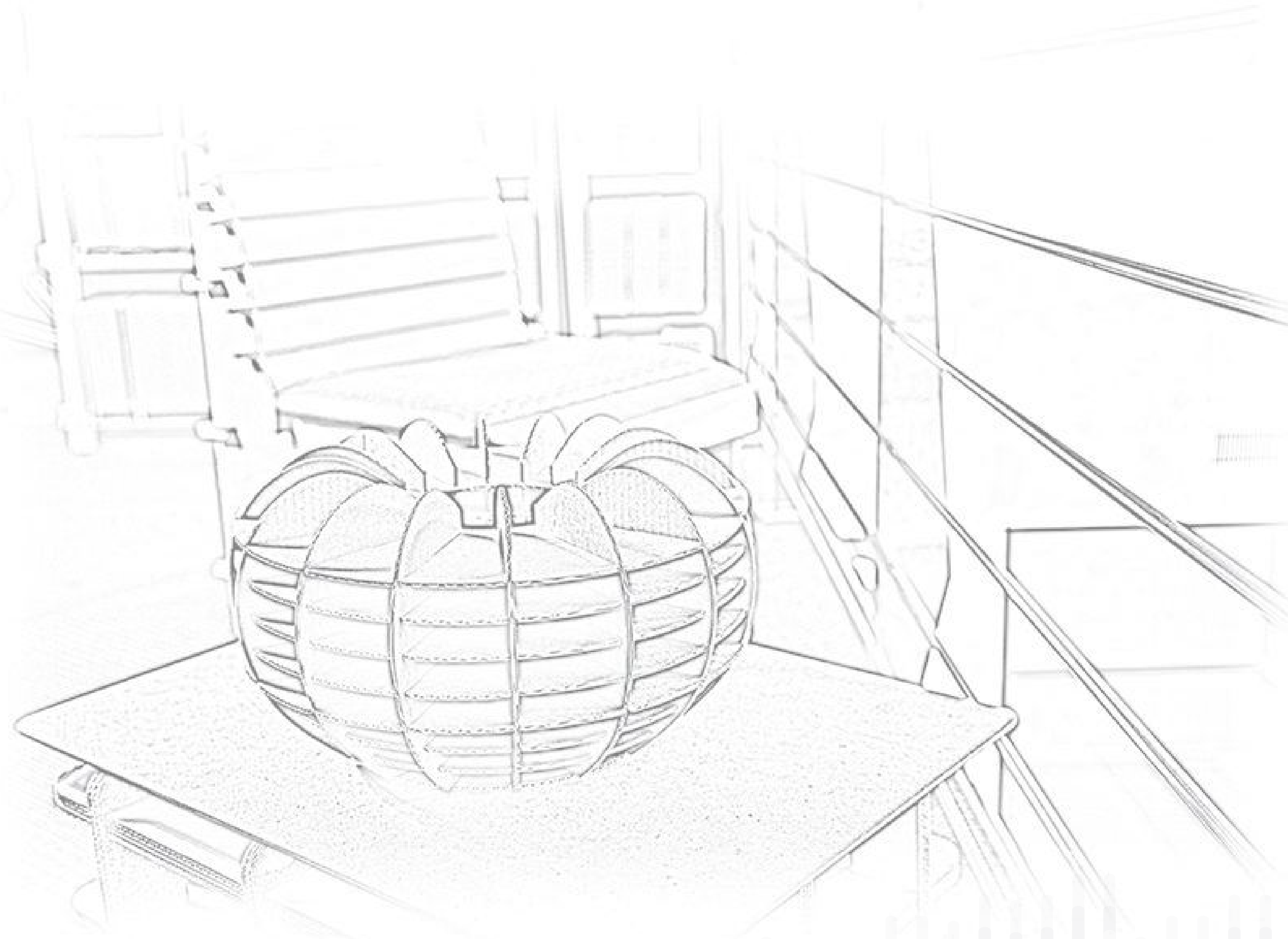
Mr Sai Han Siong

Age	: 49
Nationality	: Malaysian
Gender	: Male
Designation / Position in the Company	: Chief 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 – 23,155,198 shares
Family relationship with any directors and / or major shareholders of the Company	: Nephew of Sai Chin Hock and son of Sai Ah Sai
Conflict of interest with the Company	: None
List of conviction for offences within the past 5 years	: None

Profile of Directors

Mr Sai Ah Sai

Age	: 82
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 and father of Sai Han Siong
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	: 48
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	: 59
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

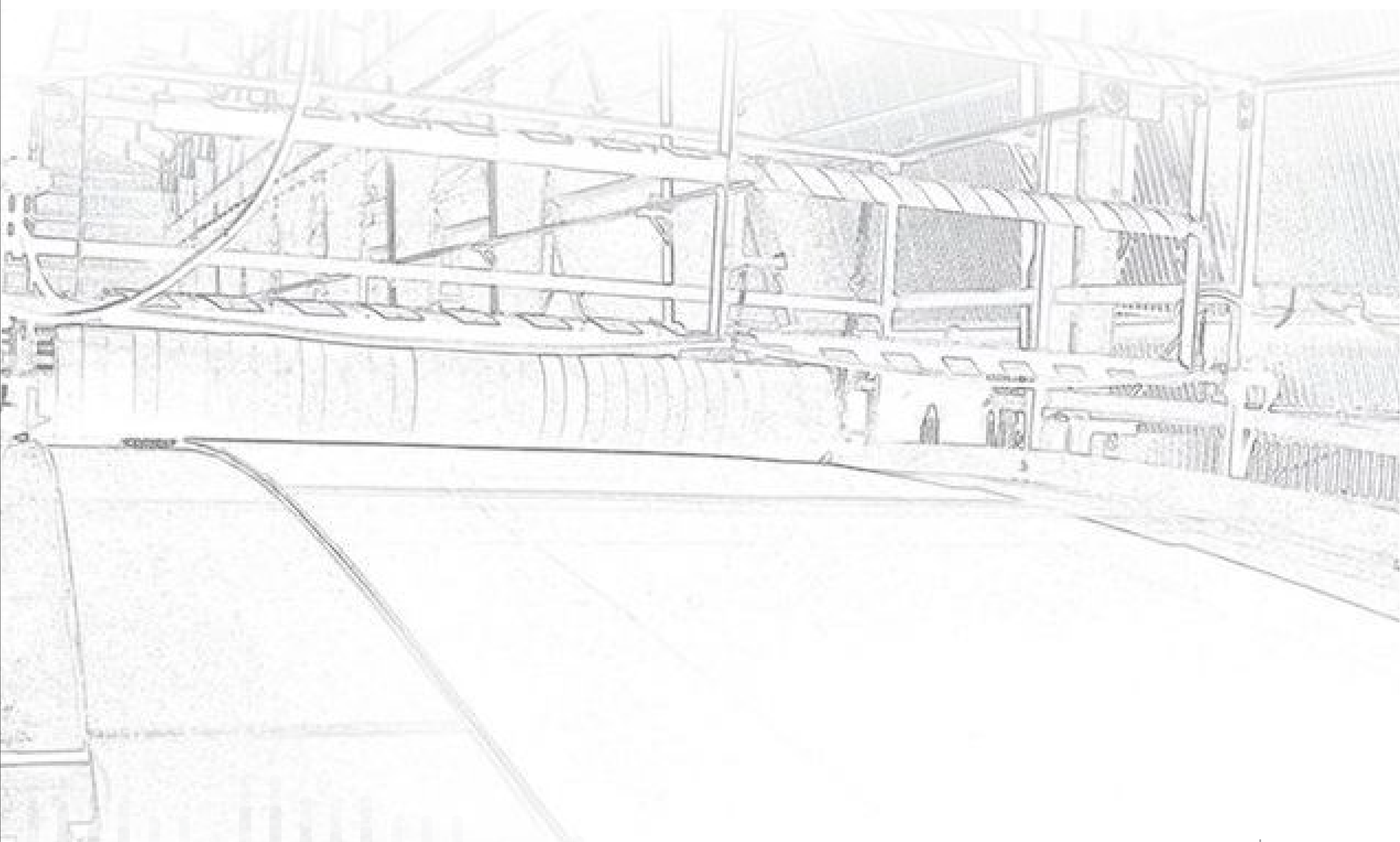
Profile of Key Management

Name	: Foo Chee Juin
Age	: 64
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	: 46
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	: 52
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" and together with its subsidiaries, "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 Malaysia Securities Berhad ("Bursa Malaysia"), the Kuala Lumpur stock exchange in 2002.

The Group is involved in the manufacturing of corrugated boards and cartons boxes (paper packaging), paper based 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., Tripack Packaging (M) Sdn. Bhd., Quantum Rhythm Sdn. Bhd. and Ornapaper Logistics Sdn. Bhd., as well as its partly owned subsidiary, namely, Ornapaper Industry (Johor) Sdn. Bhd.

Ornapaper Logistics Sdn. Bhd. is a newly established logistics company and commenced its business operation since August 2017 to provide transportation service substantially to the Group. Hence, the revenue contribution of the logistics company to the Group's revenue in 2018 was remained insignificant at approximately 0.32%. 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 9% to the Group's total revenue consistently for the past few years from both local (approximately 85% of Quantum Rhythm Sdn. Bhd.'s sales) and export (approximately 15% of Quantum Rhythm Sdn. Bhd.'s sales) markets. Whereas, the rest of the subsidiaries 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 Group is also supplying measuring cardboard boxes and corrugated flutes comprising single face, single wall, double wall and triple wall corrugated fibreboard.

The Group is 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 and environmental standards in compliance with ISO 9001:2015 and ISO 14001:2015 accreditations. The Quality Assurance laboratories of the Group are 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. The Group 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

The Group 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 the Group's operational core competency. Most of the Group's products are manufactured according to customers' specifications. With the vision "To be the best business partner for its customers", the Group 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, the Group is capable of producing high quality corrugated boards and packaging products that meet customers' needs and satisfaction and lifting the packaging standards within the industry in Malaysia. Its existing facilities throughout Malaysia enable the Group to produce approximately 118,110 metric tonnes of corrugated boards and cartons per annum. The Group 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. As the operating environment of the industry become increasingly complex, the Group is looking more to leveraging on teamwork to attain extraordinary results over the long term. Instil of integrity and honesty are essential to organisation's work culture in order to enhance the effective teamwork and communication.

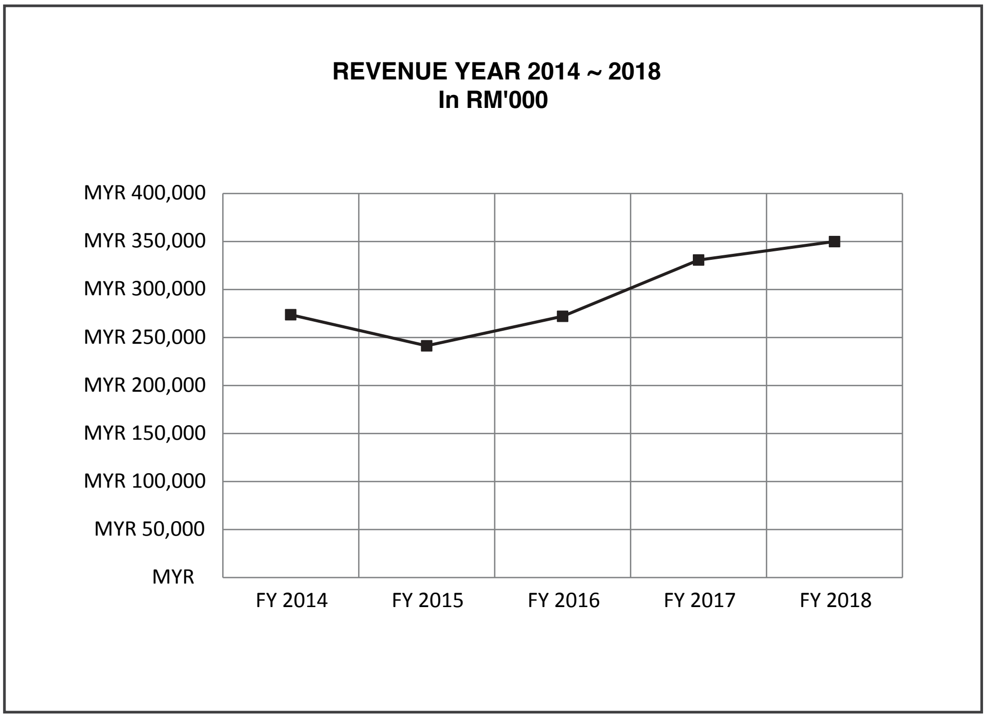
FINANCIAL REVIEW OPERATION REVIEW

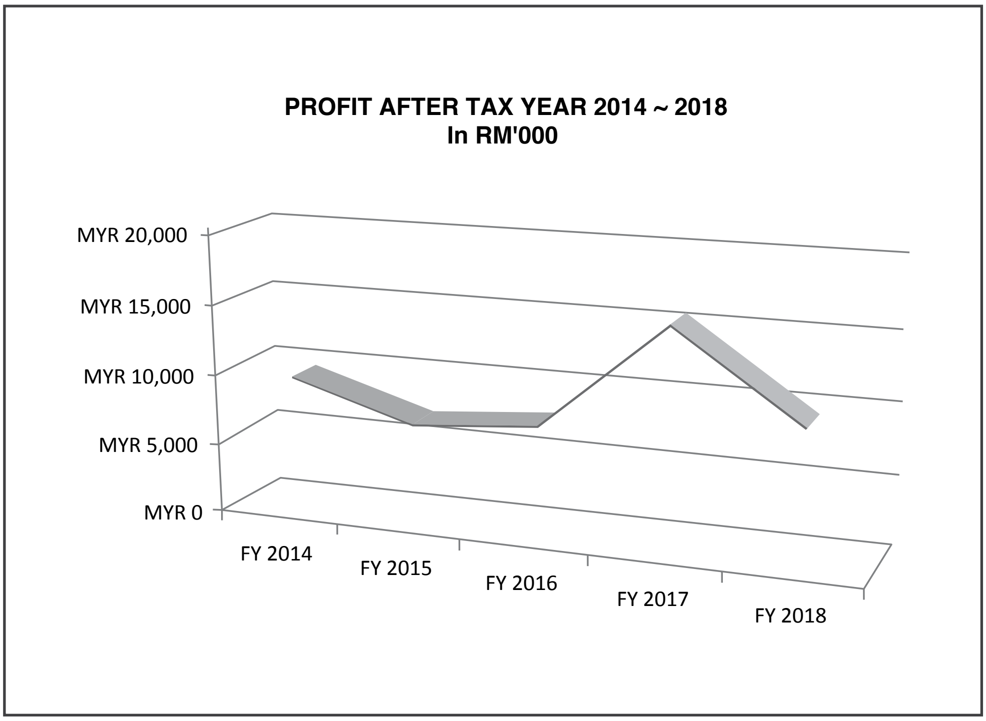
Financial Year Ended 31 December 2018 ("2018") compared with Financial Year Ended 31 December 2017 ("2017")

In RM'000 (unless otherwise stated)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
REVENUE	273,696	241,287	272,052	330,699	349,853
GROSS PROFIT	51,325	43,048	47,930	60,636	41,986
PROFIT AFTER TAX *	9,643	7,040	7,770	15,536	9,429
NA	132,949	138,215	143,773	157,642	165,501
NA per share (RM) **	1.79	1.86	1.94	2.13	2.23
EPS Basic (sen)	13.00	9.50	10.50	21.00	13.00

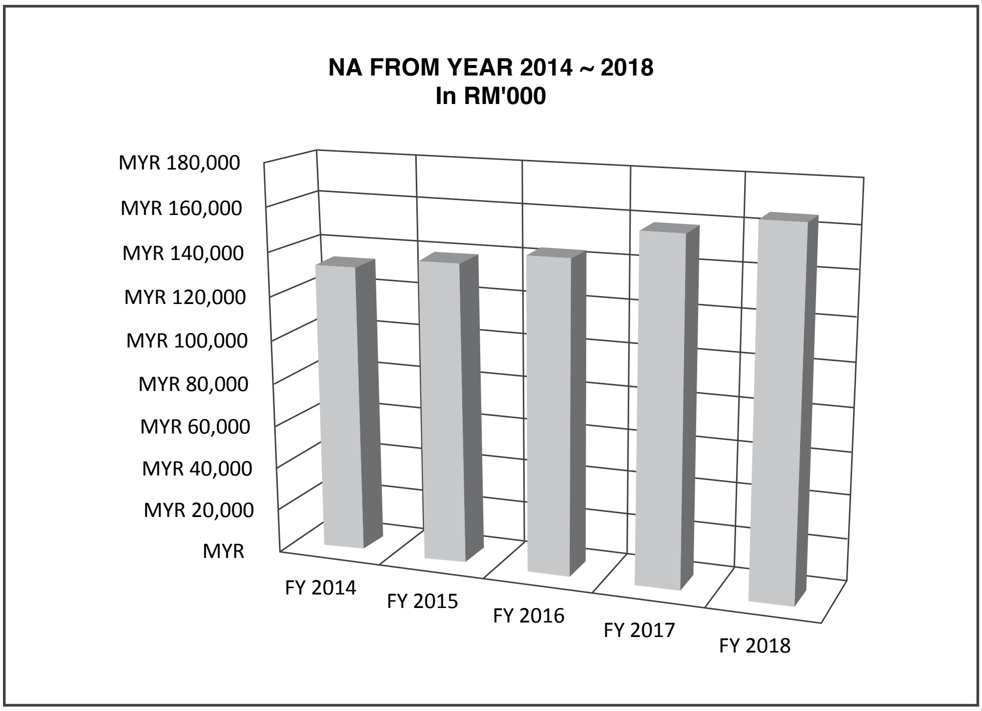
* *Attributable to Owners of Parent.*
** *Exclude Treasury Shares.*

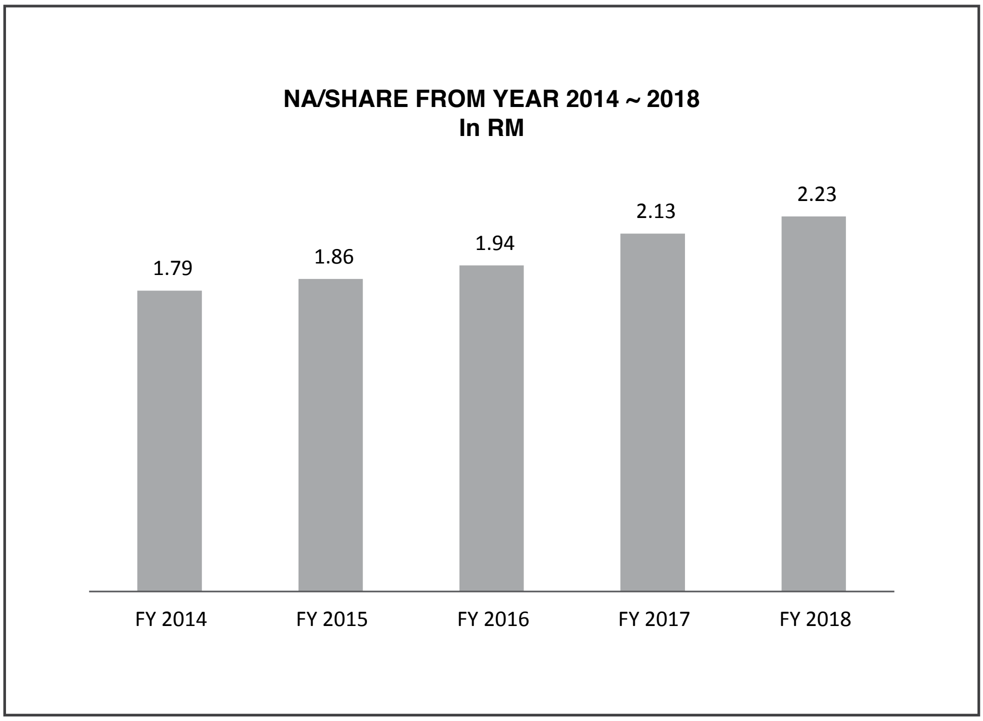
Management Discussion and Analysis



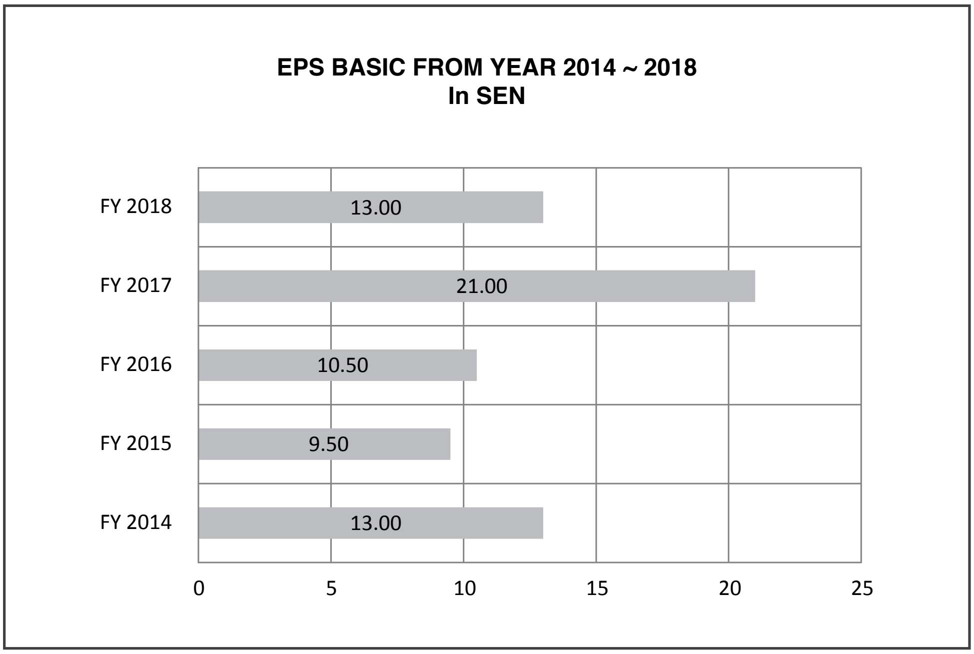


Management Discussion and Analysis





Management Discussion and Analysis



Revenue

Despite the challenging business environment with slower economic momentum, our Group's revenue increased by approximately RM 19.154 million or 6% from 2017 to 2018, at reported revenue of RM 349.853 million for 2018 compared to the preceding year's revenue of RM 330.699 million. Such growth was primarily contributed by paper packaging division of the Group.

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 2018. F&B industry, E&E industry and furniture industry remained as the top three (3) sectors for the revenue generation of the Group, amounted to 53% of the Group's sales in 2018.

The revenue growth was mainly driven by the increase in sales volume from 2017 to 2018 by approximately 6%, which was observed mostly from the paper packaging division, from approximately 93,940 MT in 2017 to 99,646 MT in 2018. Despite the weak business climate, the higher sales volume of both corrugated boards and carton boxes in 2018 were secured from the new and existing customers by diversifying its customer base to wide spectrum of industries in order to counter the seasonal and cyclical pattern of a particular industry.

The increase in our Group's revenue also partly contributed by the paper based stationary product division, whereby there was an increase in average selling price by approximately 8% from 2017 to 2018, as a result of the continuous cost pass-through efforts by the Group's Sales and Marketing team in order to deal with the increasing raw materials cost. Despite higher average selling price of paper based stationary products could be less competitive in the industry, the Management continued its efforts and successfully secured the local and export market demands from new and existing customers to counter the impact of slower economic environment.

Management Discussion and Analysis

Cost of Goods Sold and Gross Profit Margin

Our Group's cost of goods sold increased by approximately RM 37.804 million or 14% from RM 270.063 million for 2017 to RM 307.867 million for 2018, mainly due to the accounting reclassification of carriage outwards expenses of approximately RM 14.722 million from selling and marketing expenses to cost of goods sold in 2018.

Apart from that, spill over effects of high paper roll price from previous financial year was carried through to the current financial year, which resulted in increased cost of goods sold in 2018. Paper roll is 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 2018 increased by approximately 8% and 3% respectively compared to the preceding financial year, resulted in such increase in costs of goods sold. Furthermore, the higher labours and direct overheads expenses incurred in 2018 to accommodate the increase in sales volume during the year also gave rise to the increase in costs of goods sold.

On overall, the gross profit margin of the Group has reduced from 18% in 2017 to 12% in 2018, primarily due to the aforementioned accounting reclassification of carriage outward expenses, further spurred by the spill over effects of high paper roll price from previous financial year and the increase of labour and overheads expenses, despite the increased demand from customers.

Costs and Expenses

(a) Administrative expenses increased by approximately RM2.236 million or 17%, from RM 12.840 million for 2017 to RM 15.076 million for 2018. The increase in administrative expenses was mainly due to the higher payroll related expenses incurred in 2018 in tandem with the expansion of our workforce from 918 employees in 2017 to 962 employees in 2018. In addition, retirement gratuity given to an Executive Director as a token of appreciation in 2018 resulted in higher administrative expenses incurred during the year.

(b) Selling and marketing expenses decreased by approximately RM 15.686 million or 76%, from RM 20.604 million for 2017 to RM 4.918 million for 2018, mainly due to the accounting reclassification of carriage outwards expenses of approximately RM 14.722 million for 2018, which was accounted under cost of goods sold instead of selling and marketing expenses.

(c) Other expenses increased from RM 5.864 million for 2017 to RM 6,784 million for 2018, representing an increase of approximately RM 0.920 million or 16%. The increase was mainly attributable to the foreign workers levy which was fully borne by the employer subsequent to the implementation of the new policy introduced by the authority and put into effect on 1 January 2018.

(d) Finance costs increased from RM 3.067 million for 2017 to RM 3,557 million for 2018 by approximately RM 0.490 million or 16%, mainly contributed by the increase of banker acceptance ("BA") drawn during the year to finance the purchases of paper rolls in accommodating the increased production and sales volume in 2018. Apart from that, the acquisition of new machineries for expansion of production capacity and efficiency enhancement have also resulted in the increase in lease payables and term loan interests.

Management Discussion and Analysis

Profit Attributable to Owners of the Company

The profit attributable to owners of the Company was lower by approximately RM 6.107 million or 39% from RM 15.536 million for 2017 to RM 9.429 million for 2018. This was principally due to lower gross profit margin and higher costs of goods sold compared to preceding year, as a result of carriage outward expenses which was reclassified from selling and marketing expenses to costs of goods sold in 2018 as well as the spill over effects of high paper roll price from previous financial year.

Property, Plant and Equipment

Property, plant and equipment of the Group recorded a decrease of approximately RM 3.913 million or 4% from RM 100.761 million in 2017 to RM 96.848 million in 2018, primarily due to full year impact of depreciation of property, plant and equipment, i.e. machinery and other production equipment, purchased in 2017 in financial year ended 31 December 2018 with lower investment of machinery and other production equipment during financial year ended 31 December 2018 as compared to preceding financial year.

Land Use Rights

The land use rights of the Group for 2018 was recorded at RM 6.529 million compared to RM 6.686 million in 2017, representing a decrease of approximately RM 0.157 million or 2%. The reduction was attributable to the amortisation of the land use rights in 2018.

Inventories

Inventories of the Group recorded a decrease of approximately RM 5.999 million or 11% from RM 53.396 million in 2017 to RM 47.397 million in 2018. The management has taken the initiative to stringent the procurement planning and inventory management process of the Group. Continuous strict monitoring of raw materials, i.e. paper rolls was performed by the Management in order to be able to respond proactively for any adverse change of paper roll price, demand and supply in the global market. The inventory management is better controlled with the Management's practice of procuring new materials, i.e. paper rolls only upon required.

With the aforementioned approaches employed by the management, the inventory turnover days (average inventories divided by total costs of goods sold for the year) were appeared to be relatively comparable with a marginal drop from averagely 61 days in 2017 to averagely 60 days in 2018.

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 a decrease of approximately RM 2.265 million or 3% from RM 87.343 million in 2017 to RM 85.078 million in 2018, mainly resulted from the decrease in trade receivables during the year by approximately 2% or RM 1.979 million from RM 86.252 million in 2017 to RM 84.273 million in 2018 arising from the improved collections from customers. The trade receivables turnover days (average trade receivables divided by total sales for the year) increased from 84 days in 2017 to 89 days in 2018. This was due to the lower trade receivables in 2016 used as the base for computation of the average trade receivables for 2017 for calculation of trade receivables days for financial year ended 31 December 2017, which resulted in lower turnover days in 2017 as compared to 2018.

Management Discussion and Analysis

Other Current Assets

Other current assets of the Group increased from RM 1.033 million in 2017 to RM 3.745 million in 2018, representing an increase of approximately RM 2.712 million or 263%. The increase was mainly contributed by the deposits made by the Company to vendors in 2018 amounted to approximately RM 1.567 million for purchases of machineries for planned upgrade exercise and capacity expansion. Additionally, the increase was also contributed by the prepayment of life insurance amounted to approximately RM 0.328 million as collateral to secure the new bank facility as well as a prepayment of approximately RM 0.444 million made during the year for procurement of raw materials.

Deposits with Licensed Banks

The deposits with licensed banks balances recorded an increase by approximately RM 2.482 million from RM 3.954 million in 2017 to RM 6.436 million in 2018. It was mainly contributed by fixed deposit investment in 2018 of approximately RM 2.350 million in order to secure new bank facilities.

Trade and Other Payables

On overall, the trade and other payables recorded an increase of approximately RM 3.678 million from RM 34.885 million in 2017 to RM 38.563 million in 2018. The increase was partially contributed by the increase in trade payables by approximately RM 1.078 million from RM 24.270 million in 2017 to RM 25.348 million in 2018, mainly due to the increased purchases of raw materials, i.e. paper rolls to accommodate the increased production and sales volume during the year. Despite that, the trade payables turnover days (average trade payables divided by total purchases for the year) were maintained at 29 days for both 2017 and 2018.

Aside from increase in trade payables aforementioned, an increase in other payables by approximately RM 2.600 million from RM 10.615 million in 2017 to RM 13,215 million in 2018 was the main contributor to the overall increase in trade and other payables. The increase in other payables was mainly contributed by the outstanding balances owed to vendors for purchases of machineries by approximately RM 1.104 million. Such increase was also partly due to the accrual of retirement gratuity incurred in 2018, which was subsequently paid on 14 January 2019.

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 machineries upgrade and capacity expansion mainly for Ornapaper Industry (M) Sdn. Bhd., Ornapaper Industry (Perak) Sdn. Bhd., Ornapaper Industry (Batu Pahat) Sdn. Bhd., Ornapaper Industry (Johor) Sdn. Bhd. and Quantum Rhythm Sdn. Bhd. to improve production efficiency and to cater for the increased production and sales volume. 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 machineries upgrade at respective operating subsidiaries to increase production capacity and to improve production efficiency in coming years.

Management Discussion and Analysis

From working capital aspect, the Group was able to improve its current ratio to 1.79 times in 2018 as compared to 1.59 times in the preceding financial year. Whereas, the acid test ratio of the Group was gradually improved from 1.06 times in 2017 to 1.30 times in 2018.

Cash and cash equivalents increased from RM 15.093 million as at 31 December 2017 to RM 29.747 million as at 31 December 2018. The increase in cash and cash equivalents was mainly attributable to the upsurge in net cash flows generated from operating activities, which recorded a net cash inflow of RM 33.904 million in 2018 compared to RM 2.797 million in 2017. This reflected the efforts of the management in stringent procurement and inventory planning and management as well as credit control management.

Apart from that, the net cash flows used in investing activities slightly reduced from RM 13.178 million in 2017 to RM 10.370 million in 2018. The decreased net cash outflow was primarily due to lesser property, plant and equipment purchased by the Group during the year as compared to the previous financial year as well as the additional deposits placed with banks in 2018.

On the other hand, the net cash flows used in financing activities, which recorded at RM 8.895 million in 2018 compared to net cash flows generated from financing activities at RM 19.101 million in the preceding financial year. This was mainly attributed by higher repayment of short term borrowings during financial year ended 31 December 2018 in relation to such borrowings drawn for the purpose of purchases of paper rolls during financial year ended 31 December 2017.

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 2018 improved to 30% as compared to 36% as at 31 December 2017. Lower debt-to-equity ratio of the Group during the financial year of 2018 was mainly attributable to the higher net cash inflow generated from operating activities as well as higher repayment of short term borrowings that were previously utilised for purchases of paper rolls.

In RM'000 (unless otherwise stated)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
GROSS PROFIT MARGIN (%)	19%	18%	18%	18%	12%
EBITDA MARGIN (%)	10%	10%	9%	11%	9%
REVENUE PER AVERAGE EMPLOYEE	310	277	330	382	372
EBITDA PER AVERAGE EMPLOYEE	31	27	29	41	33
NUMBER OF AVERAGE EMPLOYEE (PAX)	884	871	825	865	940

There are two (2) core operating segments that the Group is involved in, i.e. paper packaging business and paper based stationery products. The gross profit margin was relatively stable throughout the financial years from 2014 to 2017, except for the decline shown in 2018, as a result of the accounting reclassification of carriage outwards expenses which was accounted under cost of goods sold instead of selling and distribution expenses for 2018 as well as the spill over effects of higher paper roll price from 2017.

Management Discussion and Analysis

Apart from that, the earnings before interest, taxes, depreciation and amortization ("EBITDA") margin of the Group remained relatively comparable throughout the financial years from 2014 to 2018, at a range of 9% to 11%. The EBITDA margin slightly reduce from 11% in 2017 to 9% in 2018, mainly contributed by the increase in operating expenses to accommodate the improved sales volume and production capacity utilisation and efficiency. The average revenue generated per average employee of the Group still remained stable throughout the five (5) financial years especially in 2016, 2017 and 2018, amounted to approximately RM 0.330 million, RM 0.382 million and RM 0.372 million respectively, notwithstanding the increase of numbers of average employees throughout the years with 940 employees employed in 2018.

The Group 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, the Group 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, justified by reasonable entry price.

(i) Paper Packaging

The paper packaging segment of the Group 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 has reduced throughout the five (5) financial years from 2014 to 2018, from 17% in 2014 to 11% in 2018, mainly due to the increase in costs of goods sold in tandem with the spill over effects of higher paper roll price from previous financial year, in addition to the accounting reclassification of carriage outwards expenses accounted to costs of goods sold instead of sales and marketing expenses in 2018.

Nonetheless, throughout the five (5) financial years, the revenue (before intercompany sales elimination) generated from the paper packaging segment in 2018 presented a positive growth of approximately 5% from RM 349.539 million in 2017 to RM 368.498 million in 2018. The growth in revenue was generally resulted from the improved sales volume of corrugated board and carton boxes secured from new and existing customers from diverse industries.

Likewise, the costs of goods sold (before intercompany purchases elimination) in 2018 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 increase of average purchase price of paper rolls. Hence, the costs of goods sold in 2018 increased by approximately 13% from RM 291.886 million in 2017 to RM 328.946 million in 2018.

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 decrease of approximately 33% from RM 36.623 million in 2017 to RM 24.564 million in 2018. It was mainly contributed by the decrease in selling and marketing expenses by approximately 78% from RM 18.664 million in 2017 to RM 4.155 million in 2018 as a result of the accounting reclassification of carriage outwards expenses to be accounted under cost of goods sold. However, the decrease in overall operating expenses was slightly mitigated by the increase in administrative expenses by approximately 15% from RM 12.283 million in 2017 to RM 14.103 million in 2018, primarily due to the higher payroll and non-recurring gratuity expenses incurred in 2018.

On overall, throughout the five (5) financial years from 2014 to 2018, the profits before tax generated from the paper packaging segment were appeared to be rather stable except for 2014, 2017 and the recent 2018. The decrease of profit before tax by approximately 31.50% from RM 19.922 million in 2017 to RM 13.647 million in 2018 was partly due to the spill over effects of higher paper roll price from previous year, which was then lead to a lower gross profit margin in 2018 compared to the preceding financial year. Furthermore, such lower profit before tax in 2018 also partly contributed by the expenses incurred for enhancement of business operation and retirement gratuity.

During the financial year, three (3) types of industries have contributed a revenue of approximately 53% to the Group in 2018, whereby approximately 21% of the revenue was generated from the F&B industry, 18% of the revenue was generated from the E&E industry and 14% of the revenue was generated from the furniture industry. The revenue contribution from these three (3) types of industries for 2018 were relatively comparable to the sales performance in 2017.

(ii) Paper Based Stationery

The revenue generated from the paper based stationery segment, operated by Quantum Rhythm Sdn. Bhd. ("Quantum"), had reported a steady growth throughout the five (5) financial years from 2014 to 2018. Quantum's revenue was generated from the sales of manufacturing products which consist of office products, stationery paper products and trading items (which include corrugated carton boxes), with the revenue contributions of 12%, 65% and 23% respectively to the total revenue of Quantum in 2018.

The revenue charted positive growth of approximately 7% in 2018 from RM 28.534 million in 2017 to RM 30.613 million in 2018. The increase in revenue from 2017 to 2018 was generally contributed by the increase in average selling price offered to customers as a result of continuous cost pass-through exercises by the Sales and Marketing Department to subdue the impact of higher cost of raw materials.

The costs of goods sold increased by approximately 12% from RM 25.509 million in 2017 to RM 28.642 million in 2018, which was mainly attributable to the spill over effects of higher paper roll price from 2017. In addition, the increase in production headcount from 2017 to 2018 was also one of the reasons that contributed to the increase in costs of goods sold during the year. The accounting reclassification of carriage outward expenses for approximately RM 1.128 million in 2018 was also one of the key factors to such increment in cost of goods sold from 2017 to 2018.

Management Discussion and Analysis

On the other hand, the overall operating expenses which included the administrative expenses, selling and marketing expenses and other operating expenses recorded an overall decrease of approximately 35% from RM 2.851 million in 2017 to RM 1.853 million in 2018. The major contribution to such reduction was the accounting reclassification of carriage outwards expenses that was accounted under cost of goods sold in 2018 instead of selling and distribution expenses in 2017. In addition, the overall operating expenses was slightly mitigated by the higher administrative expenses during the year arising from the increase in payroll related expenses in line with the increased manpower in 2018. Apart from that, the enforcement of new levy policy effective from 1 January 2018 has required the Company to fully borne the levy expenses of foreign workers, resulting to increase in other operating expenses from 2017 to 2018.

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

On overall, the operating environment remains challenging due to the volatility of the Ringgit Malaysia against United States Dollar ("USD"), Singapore Dollar ("SGD") and Euro ("EUR"), as well as the global economic uncertainties which may affect the Group's profit margin.

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 EUR, as a result of strengthening of USD, SGD and EUR 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 close 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.

(ii) Raw Material 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. Therefore, the price fluctuation may significantly affect the cost of corrugated boards, carton boxes and paper based stationery products produced. Nonetheless, such risk is reasonably reduced during the current year ending 31 December 2019 as the spill over effects of high paper roll price in 2017 were substantially realised during financial year ended 31 December 2018.

Management Discussion and Analysis

In order to reduce the impact of cost increase 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 have difficulty to increase profit margin in the paper and packaging market due to insufficient capital in sourcing for better technologies and weaker bargaining power in procuring raw materials, which result in a higher production cost to be incurred and hence higher selling price offered to customers in order to sustain further. The small players with little to no profit margin are primed to 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 has a diverse customer base in different industrial groups with different product mix structure to counteract the intense competition in local scene. Furthermore, by engaging and maintaining a competent workforce, the Group is able to ensure optimal productivity with minimal wastages 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.

(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 global economy is expected to grow continuously at a moderate pace amid a brittle demand and lessened trade flows in 2019. The International Monetary Fund ("IMF") projected the world economy to grow by 3.5% in 2019 and improve marginally to 3.6% in 2020, after growing at the estimated rate of 3.7% last year[1]. The downturn of the global growth was reflected by the uncertainties of trade policy in the global economy, the policy environment and geopolitical developments may result in volatility in financial and foreign exchange markets. For the paper packaging and paper based stationery industry, it is hinge heavily on the performance of the global economy and relevant industries the Group is supplying to, not only in Malaysia but also regionally. Nonetheless, the main raw material – paper rolls are still relying heavily on the availability of paper supply worldwide along with the volatility price of paper rolls in the global market.

[1] https://www.mier.org.my/outlook/

Management Discussion and Analysis

With the backdrop of a slower global growth, Nikkei Malaysia Manufacturing Purchasing Managers' Index ("PMI") for December result has recorded an even larger contraction and this is attributed to a declining index of the new goods export orders, as the consequences of the effect of the US-China trade war on China. Likewise, the Industrial Production Index ("IPI") growth has also moderated due to slower growth in the manufacturing index as well as in the mining index. The slower growth in manufacturing in turn, is due to a moderation in the export-oriented industries. Thus, the Malaysian economy is relying heavily on domestic demand to steer growth. According Malaysian Institute of Economic Research, the domestic demand in Malaysia is expected to grow by 5.1%, underpinned by a robust albeit slower growth in private consumption at 6.4% in 2019. In overall, the growth projection for 2019 is expected to be at 4.5%. Such growth is expected to pick up a little bit next year in the range of 4.5-5.5%.

The continuous expansion of global demand for packaging in the key end-use sectors such as food and beverages, electrical and electronics and e-commerce industries are expected to drive the demand for paper packaging products. Substantial growth in e-commerce industry is expected for the next 4-5 years owing to the growing popularity of online shopping in the developed, as well as in developing countries, such as Germany, the U.S., India, and China[2]. This is largely attributable to growing populations, rising disposable incomes, and a transition from traditional markets to the purchasing of packaged consumerist goods, especially in the food segment. China alone is forecast to represent almost 48.0% of world packaging consumption growth through to 2022 with India accounting for a further 8.5%[3].

With the rise in online shopping platforms, the demand for paper packaging products, such as corrugated boxes, folding cartons, and other flexible paper packaging solutions that offer optimum protection during shipping and handling will also gain a strong foothold in the global paper packaging market. Paper packaging can be easily recycled and does not pose any threat to the environment. The global push for recyclability in the paper packaging market will create enormous opportunities for recycling companies globally. It is also observed that recycled paper packaging offers distinct cost advantage for the production of corrugated boxes and cartons and other paper packaging solutions.

While the global market is presenting a slower growth in most of the industries including the paper packaging industry and other key industries that the Group serves going forward while opportunity present in the e-commerce scene and environmental aspect, 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 since August 2017, going forward, the Management intends to expand this operation with the additions of lorry 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.

[2] https://www.futuremarketinsights.com/reports/paper-packaging-market
[3] https://www.smitherspira.com/resources/2018/february/the-future-of-pakackaging-trends

Management Discussion and Analysis

Albeit the business environment remains challenging, the Group still manage to elevate the sales volume notwithstanding the weak business climate in 2018. With the above expected developments in the economies and industries as well as further rooting of environmental friendly mentality, the Group strives to preserve its position as one of the market leaders in the corrugated boards and carton boxes manufacturing industry in Malaysia and is expecting to maintain reasonable performance in year 2019 with the business strategies implemented under intense competition market environment.

DIVIDEND

A final 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 16 July 2018 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 2018, 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.

Principle A – Board Leadership and Effectiveness

- **Board Roles and Responsibilities**

  The Board is responsible for the overall corporate governance of Ornapaper Berhad ("the Company") (collectively with its subsidiaries, "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

Corporate Governance Overview Statement

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.

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. During the financial year under review, the Board through Directors' Resolution in Writing has reviewed and approved the re-designation of Mr. Sai Han Siong, Executive Director who is responsible for Group's business operation as CED, replacing Mr. See Wan Seng who retired as Director of the Company on 31 December 2018.

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 ensure 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. During the financial year under review, the Board has established a Board Risk Management Committee.

The Board Committees (Audit Committee, Nomination Committee, Remuneration Committee and Board Risk Management Committee) are entrusted with specific responsibilities to oversee the Company's affairs, in accordance with their respective Terms of References or policy 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, policies and Limit of Authority Matrix approved by the Executive Directors.

Corporate Governance Overview Statement

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.

- **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 behaviour 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 2018, 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[1]	5/5
Sai Han Siong	5/5
Tan Chin Hwee	5/5
Siow Kee Yen	5/5
Datuk Adillah binti Ahmad Nordin	5/5
Sai Ah Sai[2]	4/5

[1] Mr See Wan Seng retired from the Company on 31 December 2018.
[2] 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 seven (7) members of which three (3) are Executive Directors, one (1) is 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 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 42.9% 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 recognizes 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 representation 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 Diversity 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

- **Independence of Independent Director**

  All Independent Non-Executive Directors are subject to independence assessment by the Nomination Committee and to be recommended to the Board to form an opinion on the independency of the Independent Non-Executive Directors. Based on the Independence declaration obtained from Independent Director during the Financial year ended under review, 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 sufficient 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 MMLR. The requirement on time commitment is stated in the 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, Remuneration Committee and Board Risk Management 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 45 to 49 of this Annual Report.

Corporate Governance Overview Statement

◦ **Nomination Committee**

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 2018 under review, Nomination Committee met two times and the members of the committee and attendance are as follow:

Name	Position	Number of Meetings Attended
Siow Kee Yen	(Chairman)	2/2
Datuk Adillah Binti Ahmad Nordin	(Member)	2/2
Tan Chin Hwee	(Member)	2/2

The terms of office and performance of 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. 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 Nomination Committee is available at "Investor Relation" section of the Company's website at www.ornapaper.com.

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, Nomination Committee had carried out the following:

- **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 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

Corporate Governance Overview Statement

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; and
5. Independence of Independent Director (for Independent Director)

Nomination Committee has reviewed and assessed the candidate of Non-Independent Non-Executive Directors based on the recommendation received from member of the Board. The candidate was assessed based on the prescribed criteria stated above and through the review of his background and profile. In recommending the nomination of Non-Independent Non-Executive Director for Board's consideration, 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 2018.

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 17th Annual General Meeting of the Company to be held on 24 May 2019 are as stated in the Notice of the 17th Annual General Meeting.

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

  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. 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 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.

Corporate Governance Overview Statement

During the financial year under review, the Board, through Nomination Committee, conducted the Board and Board Committee Evaluation, Directors' Self-Evaluation for individual Directors and the assessment on the effectiveness of Audit Committee and its composition through Audit Committee Members' Peer Performance Evaluation and Audit Committee Evaluation.

Based on the Board and Board Committee, Audit Committee, Audit Committee Members' Peer Performance Evaluation and Directors' Self-Evaluation for individual Directors conducted for the financial year 31 December 2018, 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 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, Audit Committee and self-assessment for individual Directors.

- **Assessment of Independence**

The Board, through Nomination Committee, assessed the independence of Independent Non-Executive Directors. The assessment of the independence of Independent Non-Executive Directors includes the use of "Annual Self-Assessment of The Independence of Independent Director" self-assessment form with prescribed criteria adapted from Corporate Governance Guide issued by Bursa Securities. 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 judgment 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 two-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**

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. Remuneration Committee is guided by formal terms of reference. Further disclosure on Remuneration Committee (and its activities) and Remuneration Policies and Procedure is disclosed in Practice 6.1 and 6.2 of CG Report.

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 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. Remuneration Committee is guided by formal terms of reference approved by the Board which states the composition requirement, authority roles and responsibilities 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 year ended 31 December 2018, 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, and directors' fees for Non-Executive Directors 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 2018 are as follow:

Corporate Governance Overview Statement

The Group							
Name	Salary (RM'000)	Director Fee's (RM'000)	Bonus (RM'000)	Allowances* (RM'000)	Employer's Contribution EPF & SOCSO (RM'000)	Benefit-in-Kind** (RM'000)	Gratuity (RM'000)
Executive Director							
See Wan Seng[1]	551.33	60.00	273.75	2.50	52.13	19.16	1,000.00
Sai Chin Hock	498.00	60.00	312.50	2.50	49.82	-	-
Ang Kwee Teng	108.00	78.00	15.00	20.50	10.35	11.42	-
Sai Han Siong	156.00	60.00	150.00	2.50	37.55	-	-
Non-Executive Director							
Sai Ah Sai[2]	-	60.00	-	2.00	-	-	-
Datuk Adillah Binti Ahmad Nordin	-	60.00	-	2.50	-	-	-
Siow Kee Yen	-	60.00	-	2.50	-	-	-
Tan Chin Hwee	-	60.00	-	2.50	-	-	-

The Company							
Name	Salary (RM'000)	Director Fee's (RM'000)	Bonus (RM'000)	Allowances* (RM'000)	Employer's Contribution EPF & SOCSO (RM'000)	Benefit-in-Kind** (RM'000)	Gratuity (RM'000)
Executive Director							
See Wan Seng[1]	-	-	-	2.50	-	-	-
Sai Chin Hock	-	-	-	2.50	-	-	-
Ang Kwee Teng	-	-	-	2.50	-	-	-
Sai Han Siong	-	-	-	2.50	-	-	-
Non-Executive Director							
Sai Ah Sai[2]	-	60.00	-	2.00	-	-	-
Datuk Adillah Binti Ahmad Nordin	-	60.00	-	2.50	-	-	-
Siow Kee Yen	-	60.00	-	2.50	-	-	-
Tan Chin Hwee	-	60.00	-	2.50	-	-	-

* Allowances consist of meeting allowance and car allowance (if any)
** Benefit-in-Kind consist of petrol, company car and mobile phone usage claim (if any)
[1] Mr See Wan Seng has retired from the Company on 31 December 2018.
[2] Mr Sai Ah Sai was appointed as Non-Independent and Non-Executive Director on 01 January 2018.

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 2018 are as follow:

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

Corporate Governance Overview Statement

- **Board Risk Management Committee**

  Board Risk Management Committee was established by the Board during the financial year under review. The principal objective of Board Risk Management Committee is to assist the Board of Directors in their responsibilities to oversee the Company's risk management framework and policies, which includes identifying, analysing, evaluating, managing and monitoring potential and significant financial and non-financial risks. Board Risk Management Committee is guided by written terms of reference and Risk Management Policy. Further disclosures on Board Risk Management Committee and Risk Management Policy is disclosed in Statement on Risk Management and Internal Control of this Annual Report.

  Board Risk Management Committee comprises three (3) Independent Non-Executive Directors as follow:

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

- **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 2018, 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 2018:

Corporate Governance Overview Statement

No.	Director	Date	Topics	Organiser
1)	Sai Chin Hock	16.10.2018	Going Forward Interpreting SST Implementation	ITS Management Sdn Bhd
2)	Sai Ah Sai	09.04.2018 to 10.04.2018	Mandatory Accreditation Programme for Directors of Public Listed Companies	The Iclif Leadership and Governance Centre
3)	Ang Kwee Teng	16.10.2018	Going Forward Interpreting SST Implementation	ITS Management Sdn Bhd
4)	See Wan Seng	16.10.2018	Going Forward Interpreting SST Implementation	ITS Management Sdn Bhd
5)	Sai Han Siong	17.05.2018	Sustainability Reporting Workshop	Ampro Solutions
		16.10.2018	Going Forward Interpreting SST Implementation	ITS Management Sdn Bhd
6)	Siow Kee Yen	09.01.2018	Practical Auditing Methodology for SMPs	Malaysian Institute of Accountants
		29.01.2018	Tax and Your Property Transactions	Chartered Tax Institute of Malaysia
		05.07.2018	Public Rulings 2017 & 2018 - Understanding the Legal and Practical Aspects	Chartered Tax Institute of Malaysia
		04.10.2018	Topical Tax Issues Facing SMEs	Chartered Tax Institute of Malaysia
		21.11.2018	Seminar Percukaian Kebangsaan 2018	Lembaga Hasil Dalam Negeri Malaysia
7)	Datuk Adillah binti Ahmad Nordin	16.10.2018	Going Forward Interpreting SST Implementation	ITS Management Sdn Bhd
8)	Tan Chin Hwee	18.05.2018	Company Secretarial Practice Under The Companies Act 2016 (Part 1)	Institute of Approved Company Secretaries
		25.09.2018	Transitional Issues From GST to SST - Your Questions On SST Answered	Chartered Tax Institute of Malaysia
		16.10.2018	Going Forward Interpreting SST Implementation	ITS Management Sdn Bhd
		22.10.2018	Introduction to Malaysian Business Reporting System (MBRS)	Companies Commission of Malaysia & Malaysian Institute of Accountants
		03.12.2018	The 2019 Budget Seminar	Malaysian Institute of Accountants

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

Corporate Governance Overview Statement

- **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

Audit Committee is also tasked to oversight the role on the effectiveness of Audit of the Group, while Board Risk Management Committee is tasked with the oversight of the effectiveness of Risk Management of the Group. The composition, activities carried out during the financial year under review by the Audit Committee, including the number of meetings held and attendance are disclosed in the Audit Committee Report on page 45 to 49 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 are governed by the engagement letter which was reviewed by 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, fraud considerations and the risk of management override, internal control considerations, 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 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 Audit Committee.

  It is the policy of Audit Committee to meet with the external auditors to discuss their audit plan, audit findings and the Group'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.

Corporate Governance Overview Statement

During the financial year, 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". 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 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 2018 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 Audit Committee and recommended to the Board for reappointment subject to shareholders' approval during 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 45 to 49.

- **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 45 to 49 of this Annual Report.

- **Risk Management**

The Board affirms its overall responsibility for maintaining a sound risk management and internal control system in pursuing Company's objective. The Board has established a formal Risk Management Framework and policy. The details of the Risk management framework and risk management process is disclosed in Practice 9.1 of CG Report and Statement on Risk Management and Internal Control of this Annual Report.

Corporate Governance Overview Statement

- **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. The salient features of the internal control system is disclosed in Statement on Risk Management and Internal Control of this Annual Report.

- **Internal Audit Function**

  The Group outsources its Internal Audit function to a qualified professional firm to assist 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.

The Statement on Risk Management and Internal Control pursuant to Chapter 15.26(b) of the MMLR is set out in pages 50 to 58 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.

  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.

Corporate Governance Overview Statement

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 be attending the forthcoming Annual General Meeting.

The Summary of key matters discussed during General Meeting 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 17th Annual General Meeting to be held on 24 May 2019 are to be voted by way of poll voting.

Key Focus Areas and Future Priorities

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 MCCG. During the financial year under review and up to date of this report, the Board has established Board Risk Management Committee that is governed by written terms of reference. The Board has also put in place a formal Risk Management Framework and Policy. A formal report of the key risk profile has also been undertaken for structured risk monitoring.

The Board's immediate priorities in relation to the corporate governance going forward is to further align the Group's corporate governance practices and relevant board charter, policies and terms of reference with MCCG and MMLR through update and to publish such charter, policies and terms of reference, i.e. independent sources to identify suitably qualified candidate for directorship, cooling-off period of at least two (2) 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.

In the medium to longer 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.

Corporate Governance Overview Statement

Additional Disclosure Under MMLR

- **Utilisation of Proceeds**
  The Company did not implement any fund-raising exercise during the financial year ended 31 December 2018.

- **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 2018.

- **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 2018 are as follow:

	Company	Group	Details on Non-Audit Fees
Audit Fees (RM)	44,000	196,000	
Non-Audit Fees (RM)	3,000	35,000	Submission of Income Tax
	12,000	12,000	MFRS 9, MFRS 15, MFRS 16 impact analysis review and reading of annual report
	7,000	7,000	Review of Statement of Risk Management and Internal Control, Key Audit Matter

- **Material Contracts**
  During the financial year, except for the recurrent related party transaction as disclosed below, 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 2018 are as follow:

Corporate Governance Overview Statement

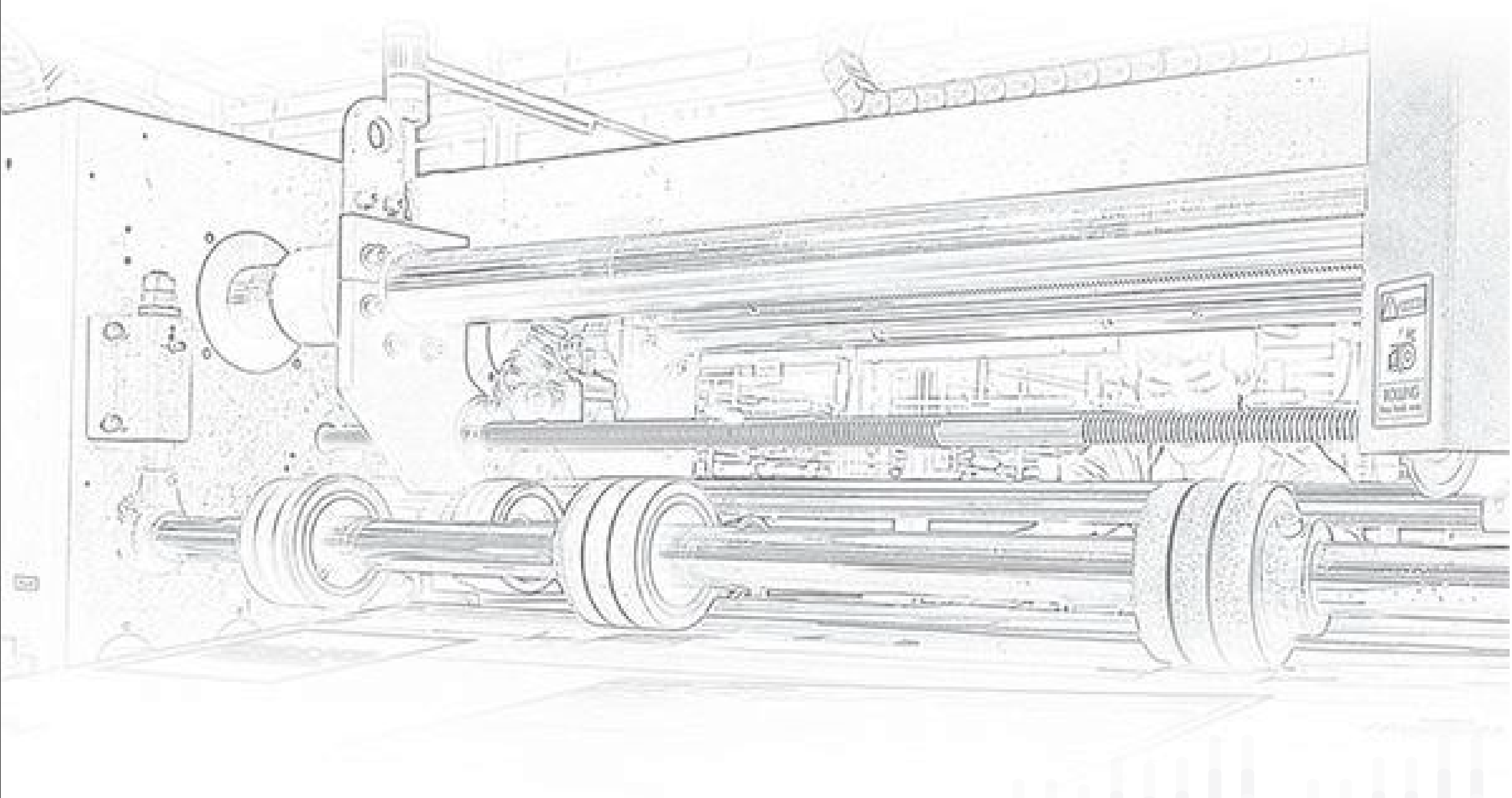
Name of Related Parties		Nature of RRPT	Aggregate Value of Transactions RM'000
Julie's Manufacturing Sdn Bhd (Formerly known as Greatbrand Food Industries Sdn Bhd)*	-	Sales of corrugated carton boxes by Ornapaper Industry (M) Sdn Bhd	13,004
	-	Sales of stationery products by Quantum Rhythm Sdn Bhd	21
STH Wire Industry (M) Sdn Bhd @	-	Sales of corrugated carton boxes by Ornapaper Industry (M) Sdn Bhd	76
	-	Sales of stationery products by Quantum Rhythm Sdn Bhd	0.6
	-	Purchase of raw material by the Group	535

Notes:

* Companies in which Sai Chin Hock, a director and substantial shareholder, has interest
* Companies in which Sai Ah Sai, a director, has interest
* Companies in which Sai Han Siong (the son of Sai Ah Sai and nephew of Sai Chin Hock), has indirect interest

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

This statement is made in accordance with a resolution of the Board dated 03 April 2019



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 Audit Committee is in compliance with the paragraph 15.09 (1), where Audit Committee consists of three (3) Independent Non-Executive Directors, 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 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 2018, there were a total of five (5) meetings held by Audit Committee and details of the attendance of 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 Audit Committee meetings were given to 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, 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 Audit Committee on specific issues during the meetings.

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

SUMMARY OF WORK OF AUDIT COMMITTEE DURING THE YEAR

The following is a summary of the works performed by Audit Committee during the financial year ended 31 December 2018:-

Audit Committee Report

a) **Reviewed the quarterly financial reports**

During the scheduled quarterly meetings, Head of Accounts Department presented the draft unaudited quarterly financial results including the notes to the quarterly report for 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 Management with regards to the Group's performance for the coming quarter and year were also presented to Audit Committee for discussion.

The results of the quarterly financial review by 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 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, fraud considerations and the risk of management override, internal control considerations, involvement of internal audit and others, audit timeline and deliverables, revised engagement letter, proposed audit fees, digital audit strategy 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 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, 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 Audit Committee, through its review with the external auditors and Management, was satisfied that the financial statements comply with applicable accounting standards and statutory requirements.

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 Audit Committee for their review and assessment on the adequacy and effectiveness of the outsourced internal audit function.

Audit Committee Report

During the same meetings, the progress of the approved internal audit plan was presented to Audit Committee for their review and revision, if deemed necessary by 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 Audit Committee for review and approval.

The oversight role of Audit Committee on the outsourced internal audit function is available in the Statement of Risk Management and Internal Control located on page 50 to 58 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 Head of Accounts Department to Audit Committee for review to enable Audit Committee to take prompt actions in the event that the RRPT exceed 10% of the mandated amount.

Aside from the updates on RRPT, 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, 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 Audit Committee meetings, 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, briefing on the updates and changes to the indirect tax regime - Sales and Service Tax ("SST"), Malaysian Code of Corporate Governance and sustainability reporting requirements were provided to Audit Committee members and the Board members by professionals.

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, 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 Audit Committee on the draft circular on the share buy-back statement was on the compliance with relevant laws and regulations.

Audit Committee Report

h) Others

- Reviewed and recommended Audit Committee Report to the Board for inclusion into the Company's annual report.

- Reviewed the effectiveness of the external auditors. 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 Company for the current financial year.

- Reviewed the proposed Sustainability Framework and proposed Group Risk Management Framework proposed by the Management to ensure its adequacy and effectiveness in sustainability management and enterprise risk management and recommended to the Board for deliberation and approval.

- Reviewed the status of compliance of Corporate Governance Report in relation to MMLR and MCCG and reported the same to the Board for deliberation and approval.

- Reviewed, together with Management, the process and results of sustainability assessment based on the Sustainability Matters Report for the year 2018 and reported the same to the Board for deliberation and approval.

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

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 Audit Committee in providing an independent assessment of the adequacy, efficiency and effectiveness of the Group's internal control system. The audit engagement of the outsourced internal audit function is governed by engagement letter that are stated with key terms that include the purpose and scope of work, accountability, independence, responsibilities of each party, the authority accorded to the outsourced internal audit function, limitation of scope of works, confidentiality, proposed fees and engagement team. The appointment and resignation of the internal audit function as well as the proposed audit fees are subject to review and approval by the Audit Committee for its reporting to the Board for ultimate approval.

Audit Committee Report

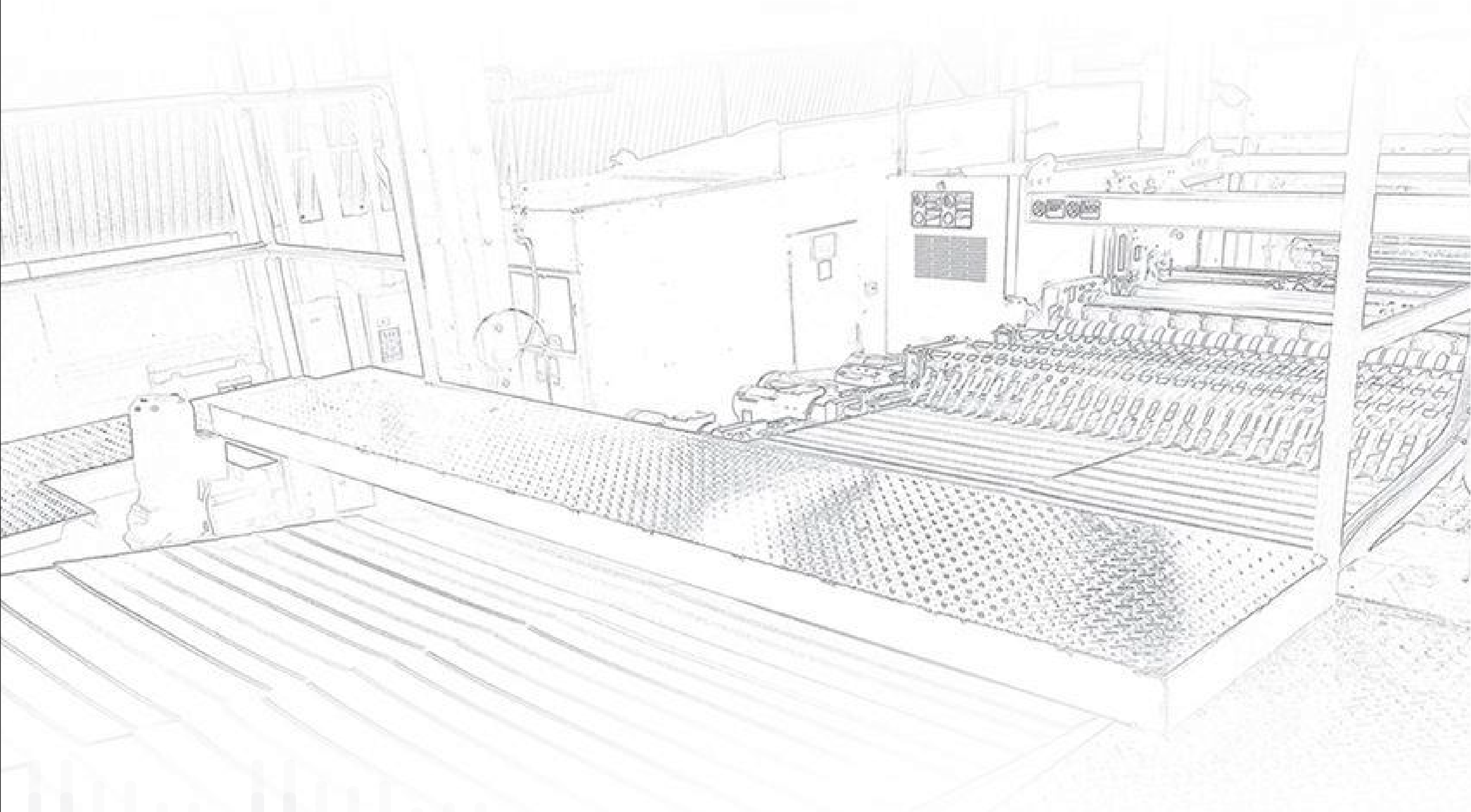
The scope of review by the outsourced internal audit function is determined through the internal audit plan approved by Audit Committee with feedbacks from Senior Management. During the financial year ended 31 December 2018, the outsourced internal audit function conducted internal audit reviews in accordance to the internal audit plan approved by 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 Audit Committee.

The areas covered by the internal audits on key manufacturing subsidiaries in Malaysia during the financial year under review were as follows:-

- Governance
- Sales and marketing management
- Treasury management
- Management information system management

In assisting Audit Committee in discharging its oversight role for the internal audit function, 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 50 to 58 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 is committed to the establishment and maintenance of an appropriate control environment and framework that is embedded into the corporate culture, processes and strategies of the Group. The Board delegates the duty of identification, assessment and management of key business risks to Sustainability and Risk Management Committee ("SRMC") while the oversight roles are delegated to Risk Management Committee (for risk management) and Audit Committee (for internal controls) whereby Board Risk Management Committee and Audit Committee are assigned with the duty, vide Risk Management Policy and Terms of Reference respectively as approved by the Board, to provide assurance to the Board on the adequacy and effectiveness of risk management and internal control systems of the Group respectively. Through Board Risk Management Committee and Audit Committee, the Board is kept informed on all significant control issues brought to the attention of Board Risk Management Committee and Audit Committee by the Management, the internal audit function and the external auditors, and the Board are provided with reasonable assurance that any impact arising from foreseeable future events or situations are 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.

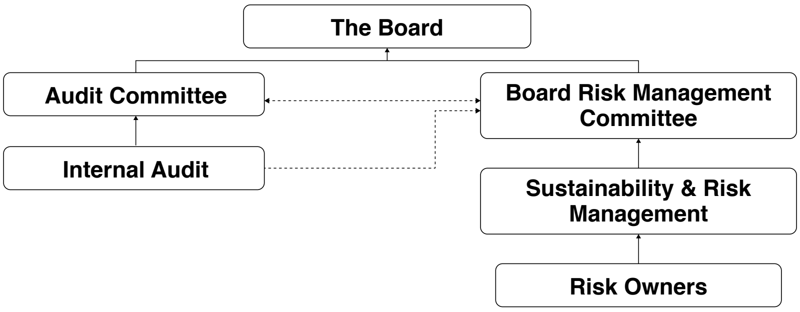
RISK MANAGEMENT

The Board maintains an on-going commitment for identifying, evaluating and managing significant risks faced by the Group during the financial year under review. As the second-line-of-defense, during the financial year under review, the Board has put in place a structured Risk Management Policy that are integrated , as the governance structure and processes for the risk management on enterprise wide, in order to embed the risk management practice into all level of the Group and to manage key business risks faced by the Group as well as to optimize key business opportunities available to the Group adequately and effectively. The duties for the identification, evaluation and management of the key business risks are delegated to SRMC, led by Chief Executive Director ("CED") with designated Executive Director as alternate Chairman, in the absence of CED.

The principles, practices and process of the Risk Management Framework and Policy established by the Board are, in material aspects guided by the ISO 31000:2018 – Risk Management Guidelines.

Statement on Risk Management and Internal Control

The Risk Management Policy established lays down the risk management's objectives and processes established by the Board with formalised governance structure of the risk management activities of the Group established as follow:



Clear roles and responsibilities of the Board, Board Risk Management Committee ("BRMC"), Audit Committee, SRMC, Risk Owners, Key Sustainability & Risk Officer ("KSRO") and Internal Audit Function are defined in the Risk Management Policy. In particular, the composition, roles and responsibilities of BRMC and SRMC are listed below.

BRMC is made up of all Independent Non-Executive Directors and the roles and responsibilities as follow:

(a) Review, assess, formulate and recommend risk management strategies, framework, policies, processes, tolerance and risk appetite limits to the Board;
(b) Monitoring of Group risk exposures to ensure implementation and compliance with approved risk policies and processes of the Group, and to ensure that significant risks identified are being responded to appropriately;
(c) Review status of management action in mitigating significant risks identified;
(d) Review and assess the adequacy and effectiveness of the risk management structure, approved risk policies, processes, and support system and to recommend such changes as may be deemed necessary to the Board;
(e) Review and assess the risks associated with all proposed strategic transactions of the Group and report the same to the Board for its deliberation of the transaction;
(f) Review the adequacy and effectiveness of the Group's system of internal controls established by the Management to manage key business risks through internal audit reports from internal audit function; and
(g) To coordinate with Audit Committee on the activities of the internal audit function of the Group in relation to the review of risk management policy, structure, processes and activities and to ensure significant business risks are adequately managed by the Group.

SRMC members are nominated employees from various divisions in the Group (i.e. Executive Directors and Head of Departments) and is chaired by CED (in the absence of CED, designated Executive Director) and the General Manager as KSRO. The roles and responsibilities of SRMC are as follow:

Statement on Risk Management and Internal Control

(a) Implement the risk management policy as approved by the Board;
(b) The risk management process which includes the identification of key risks and devising appropriate action plan(s) in cases where existing controls are ineffective, inadequate or non-existence and communicate methodology to the risk owners;
(c) Ensure that risk strategies adopted are aligned with the Group's organisational strategies (e.g. vision/mission, corporate strategies/goals, etc.), risk management policy & process and risk appetite/tolerance;
(d) Continuous review and update of the Key Risk Registers of the Group due to changes in internal business processes, business strategies or external environment and determination of management action plan, if required;
(e) Update the Board, through the BRMC, on changes to the Key Risk Registers on periodical basis (at least on annual basis) or when appropriate (due to significant change to the internal business processes, business strategies or external environment) and the course of action to be taken by management in managing the changes; and
(f) To perform risk identification and assessment in relation to major asset/business acquisition or divestment or business diversification or business consolidation and to report the results of the assessment to the Board for strategic decision making.

In addition, the risk owners which are made up of the Operational Management team, i.e. Managers and Heads of Department, is designated as risk owners within their area of expertise and delegated with following responsibilities:

(a) Manage the risks of the business processes under his/her control;
(b) Continuously identify risks and evaluate existing controls. If controls deemed ineffective, inadequate or non-existent, to establish and implement controls to reduce the likelihood and/or impact.
(c) to report to the SRMC of the emergence of new business risks or change in the existing business risks through the use of prescribed form on a timely manner and assist the SRMC with the development of the management action plans and implement these action plans;
(d) assist the SRMC with the update of the changes in the Key Risks Register, management action plans and the status of these plans; and
(e) ensure that staffs working under the him/her understand the risk exposure of the relevant process under his/her duty and the importance of the related controls.

The Group's Risk Management Policy specifies the structured risk management process, where each step of the risk and opportunity identification, evaluation, control identification, treatment and control activities are laid down for application by SRMC and Risk Owners.

Risk assessment, at gross and residual level, are guided by the likelihood rating and impact rating that was established based on the risk tolerance acceptable by the Board. Based on the risk management process stipulated in Risk Management Policy, key risk registers are compiled by the KSRO and Risk Owners, with relevant key risks identified rated based on the approved risk rating before reporting to SRMC. The Key Risk Registers are primarily used for the identification of high residual risks which is above the risk tolerance of the Group that require the Management and the Board's immediate attention and risk treatment as well as for future risk monitoring. Key Risk Registers of key operating subsidiaries and assessment of emerging risks and opportunities identified at strategic and operational level are subjected to review on annual basis or on more frequent basis if circumstances required and to report to the BRMC on the results of the review and assessment.

Statement on Risk Management and Internal Control

The Group has adopted risk-based quality management system and environmental management system in line with ISO 9001:2015 and ISO 14001:2015 certification for its key subsidiary. The risk and opportunity management process, consistent with Risk Management Policy approved by the Board, were executed by Quality Management Representatives ("QMR"), with respective Managers and Heads of Department (i.e. the Risk Owners) responsible for managing risks and opportunities identified. The risk assessment process involved risk identification, risk assessment and risk treatment in accordance with Risk Management Policy (including the rating of the likelihood and impact) and documented into Risk and Opportunity Registers (including the action plans to address such risk and/or opportunity). The results of the risk assessment process were fed to SRMC for its review and consolidation into the Group's Key Risk Profile. Any changes and emerging risk or opportunity and status of risk treatment are highlighted by QMR and/or Risk Owners during the management review meetings attended by Managers and Head of Departments, Executive Directors and SRMC.

As at the date of this report, SRMC had conducted assessment exercise whereby existing strategic, governance and key operational risks (in addition to risk identified per ISO 9001:2015 and ISO 14001:2015 certification) of key operating subsidiaries were identified, assessed and treated based on the Risk Management Policy approved and incorporated into the Key Risk Registers at subsidiary level for on-going risk and opportunities monitoring and assessment. While risks identified in Key Risk Registers of key operating subsidiaries are to be monitored and managed by Risk Owners identified at subsidiary level, such risks were consolidated, based on nature of risks, into Consolidated Risk Registers at the Group level for monitoring and management by SRMC.

The Group's Key Risk Profile (included but not limited to, Risk and Opportunity Registers per ISO 9001:2015 and ISO 14001:2015, Consolidated Risk Registers (consisted of strategic risks and key operational risks, likelihood and impact rating used and risk management process employed for assessment exercise by SRMC) was compiled and tabled to BRMC for its review and deliberation on its adequacy and effectiveness and for its reporting the results of review to the Board, which assumes the primary responsibility of the risk management of the Group.

At operational level, 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 minimize the risk exposure identified as first line-of-defense. At operational level, respective Managers and Heads of Department (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 CED and Executive Director during the weekly Executive Committee ("EXCO") meetings or 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 CED and Executive Director are kept up to date on the implementation and effectiveness of such controls and measures formulated during subsequent weekly EXCO meetings or monthly management review meetings. Critical or material risks highlighted by the Risk Owners are reported to BRMC and Audit Committee and the Board by the CED and Executive Director for deliberation and final decisions on the formulation and implementation of effective internal controls in managing such risks.

Statement on Risk Management and Internal Control

During meetings of the Board, CED and Executive Director 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 tolerance and strategic objectives.

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

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 Audit Committee.

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

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

INTERNAL CONTROL SYSTEM

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

- **Board of Directors & Board Committees**

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

  During the financial year under review, the Board has established BRMC as recommended by MCCG. The roles and responsibilities of the Board Risk Management Committee is governed by written terms of reference and Group's Risk Management Policy.

  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.

Statement on Risk Management and Internal Control

- **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, which was established and approved by the Board on 3 April 2017 and updated on 3 April 2019. 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 and limit of authority matrix.

- **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.

  The Group has put in place an 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 on 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.

Statement on Risk Management and Internal Control

- **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 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 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.

Based on the formal 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, Audit Committee and the Board are satisfied:

Statement on Risk Management and Internal Control

- 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 and authority 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, results, processes or investigation undertaken.

Risk-based internal audit plan in respect of the financial year ended 31 December 2018 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 third line-of-defense, 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 2018, in accordance with the internal audit plan approved by Audit Committee, the internal audit function conducted review for governance, sales and marketing, treasury, credit control and management information system 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 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 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 Audit Committee during the financial year for review and deliberation. In addition, during 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 in-house independent personnel and surveillance audit is conducted by an independent certification body to provide assurance on compliance with established ISO procedures.

The cost incurred in maintaining the outsourced internal audit function for the financial year ended 31 December 2018 amounted to RM29,434.

Statement on Risk Management and Internal Control

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

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

In addition, in line with the Guidelines, the CED, 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 CED, 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 Bursa Malaysia Listing Requirements, the External Auditors have reviewed this Statement on Risk Management and Internal Control. Their review was performed in accordance with Audit and Assurance Practice Guides (AAPG 3): 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

The Board of Directors ("the Board") of Ornapaper Berhad recognises the importance of continuously developing and improving the business operations of the Group in a sustainable and responsible manner. The Board believes that by placing sustainability as the core of its business operations will drive the long-term business growth of Ornapaper Berhad and its subsidiaries ("the Group") as well as establishing mutually favourable relationships with its stakeholders. The sustainable business practices of the Group can be enhanced by having its business operating strategies and corporate culture being continuously aligned to the Sustainable Development Goals ("SDGs") developed by the United Nations to promote prosperity while protecting the environment.

The Board is committed to continuously promote good sustainability practices, update the sustainability progress and engage openly and responsively with the Group's stakeholders through transparent sustainability reporting that captures the economic, environmental and social aspects of our business operations. We recognise that stakeholder engagement plays a vital role to ensure the businesses pursued by the Group is sustainable in the long term. Through Sustainability Statement, we provide our stakeholders a better understanding on our approach to create sustainable long-term value for stakeholders as well as the progress in meeting these commitments.

The Board of Ornapaper Berhad acknowledges that businesses are not solely judged by its financial performance but also, not to a lesser extent, on its conducts in respect of governance, economic, environment and social aspects in order to withstand in this challenging environment and to generate value to its stakeholders on long term sustainable manner. It is, therefore, the underlying value of the Group to achieve optimum equilibrium between short-term financial performance and its long-term business sustainability and value creation. In demonstrating the Board's commitment towards embracing good sustainability practices, the Board has continuously integrated such practices into its working environment and culture, business processes and strategy making process in developing sustainable businesses that brings positive impact on the community, economy and environment. Hence, the Group is committed to be accountable and transparent in its sustainability performance and exercises.

The Board is pleased to present this Sustainability Statement for the financial year ended 31 December 2018 prepared pursuant to paragraph 6.1, 6.2 and 6.3 of Practice Note 9 of the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Malaysia"). In particular, the management of material sustainability matters is disclosed in accordance with Part III of Practice Note 9 of MMLR and Sustainability Reporting Guide issued by Bursa Malaysia ('the Guide") on the content of the Sustainability Statement.

Scope of the Statement

The contents of this Sustainability Statement primarily include activities carried out during the financial year ended 31 December 2018 and up to the date of this Statement. This Statement covers the Group's economic, environmental and social management and performance across all its business operations in Malaysia. The Board adheres to the sustainability requirement in which the Statement defines stakeholder engagement, materiality assessment, sustainability commitment and achievement, and the complete information of significant economic, environmental, and social impact for assessment of the Group's management and performance.

"The disclosures of the corporate governance practices and compliance with relevant provisions and requirements per MMLR and Malaysia Code on Corporate Governance 2017 are made in the Corporate Governance Overview Statement and Corporate Governance Report in the Annual Report.

Sustainability Statement

The Group is involved in the manufacturing of paper based packaging and stationery products as well as provision of logistics services in Malaysia with the core operating segment, i.e. paper packaging business encompasses activities related to manufacturing and sales of corrugated boards and carton boxes, contributed to more than 90% of the Group's total revenue.

As at the date of this Statement, information disclosed in this Statement involves identification, management and reporting of sustainability matters and performance of one of the subsidiaries, namely Ornapaper Industry (M) Sdn. Bhd. ("Ornapaper Melaka" or "the Company"), which contributes the highest proportion of revenue to the Group throughout the years thus far.

Nonetheless, as at the date of this Statement, the Sustainability and Risk Management Committee together with the Head of Departments had yet to undertake an internal materiality assessment of sustainability matters for the remaining key operating subsidiaries of Ornapaper Berhad by using predetermined criteria and rating scale approved by the Board and to engage with the stakeholder groups identified to obtain their assessments of the degree of significance of the sustainable matters identified to influence on their decision.

The Sustainability and Risk Management Committee and the Board are committed to perform such assessment in stages from financial year ending 31 December 2020 to financial year ending 31 December 2021 and to report the sustainability assessment activities undertaken in accordance with MMLR and the Guide in respective financial years.

Sustainability Principles

As the highest governance body within the Group, the Board assume the ultimate accountability for the integration of sustainability in 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;
- 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.

Sustainability Statement

Sustainability Policy

World-over, the adoption of the United Nation's 2030 Agenda for Sustainable Development marks a significant navigation change within the political system, private sector and civil society. The Sustainability Policy established by the Board is guided by the 17 Sustainable Development Goals ("SDGs"), otherwise known as the Global Goals, developed by the United Nations. The 17 SDGs are a universal call for action by all developed and developing countries to address a range of social and economic development issues such as poverty, hunger, health, education, climate change, gender equality, water, sanitation, energy, environment and social justice in order to create a world that is comprehensively sustainable.

The Board had formalised a formal Sustainability Policy which supports our commitment to reaching an equilibrium between being at the forefront of our industry and meeting the commercial expectations of our stakeholders. The said Sustainability Policy entails:

- Compliance of high ethical standards of suppliers;
- Compliance to Environmental and Occupational Safety and Health regulations;
- Adoption of "Green" principles in procurement and manufacturing practices;
- Reduction of material consumption through recycling of waste materials;
- Management and disposal of waste in a responsible manner;
- Commitment to ensure a safe and healthy working environment;
- Fair treatment of employees;

Sustainability Statement

- Continuous training and development of employees;
- Contributions towards local authorities and communities;
- Uphold business excellence and continuity;
- Commitment to continual research & development in achieving product innovation and enhancing product quality;
- Continuous selection of potential supplier at significant location of operations to optimise cost and sales value;
- Customer profile diversification to ensure economic interest of all relevant stakeholders are preserved and prevention from loss of key customers; and
- Compliance to better practices under the Malaysian Code of Corporate Governance 2017 (“MCCG”).

Governance Structure and Process

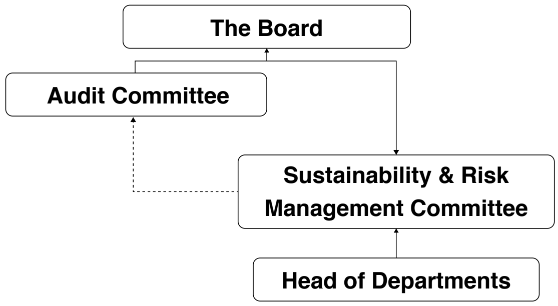
The Board affirms its overall responsibility for integration of the recommended sustainable economic, environment and social practices throughout the Group to ensure business strategies of the Group are developed with regards to the sustainability consideration and to ensure sustainability performance are monitored for its accomplishment from time to time. The governance structure in relation to the Group’s sustainability management is guided by the Guide and Toolkit: Governance issued by Bursa Malaysia with necessary adaption based on the nature and scale of the businesses of the Group.

The Group’s commitment towards sustainable business practices is imputed throughout all levels of its organisation. At the leadership level, the Board, Executive Directors and Management recognise the importance of ensuring good sustainable economic, environment and social practices are comprehended and implemented by all levels of organisation.

To ensure such commitment of good sustainable economic, environment and social practices is embedded throughout the Group, the Board put in place formal structure to ensure accountability, oversight and review in the identification, management and reporting of sustainability matters and performance. Such formal structure is important to ensure that execution of the sustainability initiatives at all levels of organisation and business units are aligned with the Board’s sustainability and business strategies with reporting at predetermined intervals so that the Group is able to response timely with the sustainability risks and opportunities applicable to the Group. The duties for the identification, management and reporting of sustainability matters and performance are delegated to the Sustainability and Risk Management Committee.

The Board has formalised the sustainability principles, policies and processes envisaged by the Board through the establishment of Sustainability Policy. Furthermore, formal governance structure, based on the existing geographical scope, scale and nature of the business the Group is pursuing, for the identification, management and reporting of sustainability matters and performance of the Group is established by the Board in the following manner:

Sustainability Statement



The governance structure defines clearly on the roles and responsibilities expected of the Board, the Audit Committee, Sustainability and Risk Management Committee, Head of Departments and Key Sustainability and Risk Officer. In a nutshell, the Board assumes to possess 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.

The Sustainability and Risk Management Committee, chaired by the Chief Executive Director and Executive Director of Ornapaper Berhad, is tasked with the following duties:-

a. implement the sustainability strategy and management policy as approved by the Board;

b. lead and implement the process of sustainability matters identification, assessment and management and devising appropriate action plan in cases where sustainability issues are not adequately or effectively addressed and communicate proposed action plans to the Heads of Departments;

c. To conduct periodic review of all sustainability matters of the Group (at least on an annual basis) and determine the adequacy of the response and the current standing of the sustainability matters and to report the review results (including material sustainability matters) and recommendations to the Audit Committee;

d. To manage stakeholder engagement for input for assessment and communication of results of review and response;

e. To implement the material sustainability matters' indicator and the target and performance monitoring thereof and the preparation of sustainability disclosures as required by laws and/or rules, and to report to the Audit Committee for review;

f. To oversee the Heads of Departments in the implementation of systems of sustainability management;

g. To update the Audit Committee on changes to the material sustainability matters on periodical basis (at least on annual basis) respectively or when appropriate (due to change in external environment or internally) and the course of action to be taken by management in managing the changes; and

h. To ensure relevant sustainability trainings are provided for appropriate level of employees to cultivate a positive attitude and promote correct approach toward sustainability management.

Sustainability Statement

As for the Heads of Departments, their primary responsibilities are to manage sustainability matters of the business processes under his/her control and to assist the Sustainability and Risk Management Committee with the implementation of the process of sustainability matters identification, assessment, management and monitoring of all sustainability matters.

The sustainability matters management process is established by the Board in compliance with the Guide and Toolkit: Materiality Assessment issued by Bursa Malaysia with necessary adaption based on the nature and scale of the businesses of the Group, taking into consideration the business strategies promoted by the Board, is as follows:-

- 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 Sustainability and Risk Committee by using Stakeholder Prioritisation Matrix, whereby each stakeholder identified are assessed by using the 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 Sustainability and Risk Management Committee in order to prioritise the sustainability matters for assessment by internal and external stakeholders.

Sustainability Statement

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 Sustainability and Risk 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;

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 Sustainability and Risk Management Committee or Heads of Departments, via the rating system established by the Board.

- Subsequent to the assessment process, sustainable matters identified above are subjected to risk management policy and 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 Sustainability and Risk Management Committee 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 Key Sustainability and Risk Officer 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 Sustainability and Risk Management Committee 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 yearly basis or review and for their recommendation to the Board for review and approval.

Sustainability Statement

Stakeholders' Engagement

The Board recognises and admits that contribution and support of the internal and external stakeholders are utmost important for realisation of the Group's missions and 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 influenced by the activities undertaken by the Group and to ensure that 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 Malaysia with necessary adaption based on the nature and scale of the businesses of the Group.

During the financial year under review and up to the date of this Statement, with regards to the sustainability assessment, management and monitoring process, the Sustainability and Risk Management Committee relied on the informal channels (such as meetings and 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.

The Board acknowledges that the stakeholder engagement by the Sustainability and Risk Management Committee can be further enhanced by employing preferred level of engagement per Stakeholders' Profile at preferred frequency as determined by the Board so that key topics and concerns of respective stakeholder groups are communicated timely and reliably to the correct governance body of the Group to response to such topics and concerns.

For Ornapaper Melaka with sustainability assessment performed, the Board has determined that, through stakeholder mapping exercise conducted by the Sustainability and Risk Management Committee and Head of Departments and reported to them, the following stakeholders have influence over and dependence on Ornapaper Melaka:-

Sustainability Statement

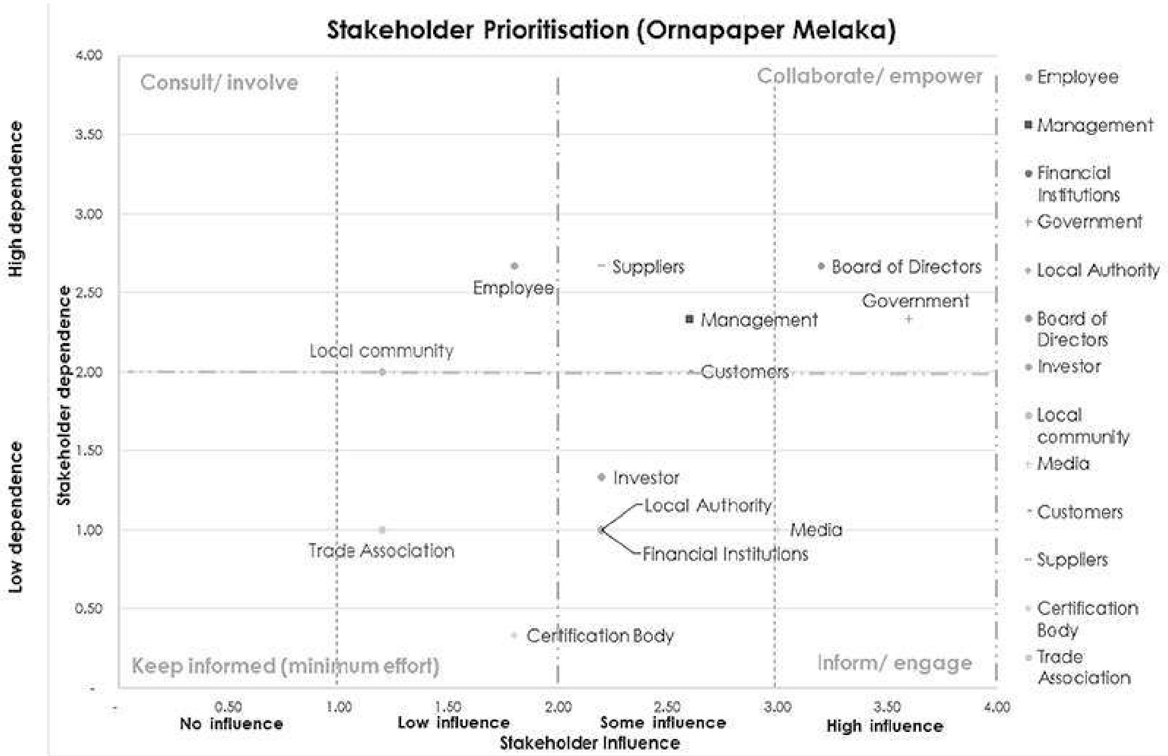
Stakeholder Group	Engagement Objective(s)	Preferred Engagement Method(s)
Employees	• To ensure fair engagement of salary • To establish career pathway for workforce at all levels • To have a safe and healthy working environment • To strike for work life balance	• Performance appraisal • Employee’s self-evaluation • Memorandum • Electronic mail system • Meetings • Employees' dialogue
Management	• To ensure sustainable of human resources in pursuing of company's goals	• Meetings • Memorandum • Electronic mail system
Board of Directors	• To ensure business strategy take into consideration of sustainable practices	• Committee meetings • Board of Directors meeting
Financial Institutions	• To demonstrate financial sustainability • To understand and comply with laws	• Annual report • Public announcements • Meetings
Government	• To ensure full compliance with relevant laws and regulations	• Official submission • Official letter • Public dialogue involving government officials • Public announcements • Telephone conversation • Face-to-face meetings • Electronic mail system • Periodical audit
Local Authority	• To ensure full compliance with relevant laws and regulations	• Official submission • Official letter • Public dialogue • Public announcements • Telephone conversation • Face-to-face meetings • Electronic mail system • Periodical audit
Customers	• To improve customer's satisfaction • To meet potential customer's requirements	• Face-to-face meetings • Electronic mail system • Telephone conversation • Customer’s audits • Letter of complaint • Official letter • SCAR

Sustainability Statement

Stakeholder Group	Engagement Objective(s)	Preferred Engagement Method(s)
Suppliers	• To ensure all materials are RoHS compliance/ environmental friendly • To strive for reasonable price materials and services at acceptable quality, consistent and on-time delivery • To ensure safety and health during loading and unloading process & delivery journey • To ensure product quality and safety	• Supplier's evaluation and appraisal • Meetings • Conflict of Interest Policy • Code of Conduct • Electronic mail system • Telephone conversation • Official letter/ memorandum • Supplier audit
Investors	• To demonstrate financial sustainability	• Annual report • Annual general meeting • Shareholders' communication • Press release and public announcements
Certification Body	• To ensure compliance with ISO 9001: 2015 and 14001: 2015 standard	• Audit • Electronic mail system • Telephone conversation • Reports
Local community	• To ensure pollution and social ills free community	• Corporate social responsibility programme • Face-to-face meetings • Press release • Official letters • Electronic mail system • Telephone conversation
Media	• To minimize negative reporting and protect company image • To ensure reporting accuracy	• Press release • Telephone conversation
Trade Association	• To seek for protection of employer's interests and opportunities in business trade • Sharing of industrial update	• Meetings • Forums

Subsequent to the stakeholder groups identification with respective engagement methods proposed, stakeholders prioritisation exercise was conducted for Ornapaper Melaka to rank respective stakeholder groups' influence over and dependence on Ornapaper Melaka based on influence over and dependence rating criteria and scale approved by the Board. The results of the stakeholders prioritisation exercise for Ornapaper Melaka are tabulated in the following Stakeholder Prioritisation Matrix with recommended level of engagement for respective quadrum:

Sustainability Statement



Sustainability Management Activity

During the financial year under review and up to the date of this Statement, Ornapaper Melaka had performed the following activities in relation to the identification, management and reporting of sustainability matters and performance:

- Identification of the internal and external stakeholders for manufacturing activities that have influence over and dependence on Ornapaper Melaka through Stakeholder's Mapping and with individual Stakeholder Profile established for each stakeholder identified.

- Internal and external stakeholders for both manufacturing activities identified by Sustainability and Risk Management Committee were assessed and prioritised for its degree of influence over and dependence on Ornapaper Melaka based on the agreed upon criteria and rating scale ("Stakeholder Prioritisation Exercise").

- Sustainability and Risk Management Committee performed identification of the sustainability matters through internal sources and informal stakeholders' engagement through direct communication with relevant internal and external stakeholders by Head of Departments.

- Sustainability and Risk Management Committee performed the internal materiality assessment by using predetermined criteria and rating scale to prioritise the sustainability matters for assessment by internal and external stakeholders and to determine the significance of the sustainability matters from the Group perspective ("Internal Materiality Assessment").

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- The degree of significance of the sustainable matters to influence on the assessment and decision by internal and external stakeholders are performed by Sustainability and Risk Management Committee by using informal stakeholders' engagement through direct communication with relevant internal and external stakeholders by Head of Departments.

- The results of the Stakeholder Prioritisation Exercise, Internal Materiality Assessment and degree of significance of the sustainable matters to influence on the assessment and decision by internal and external stakeholders are used to prioritised sustainability matters and identification of material sustainable matters by Sustainability and Risk Management Committee. An identified sustainability matter is considered to be material if it is above the material threshold established by the Board.

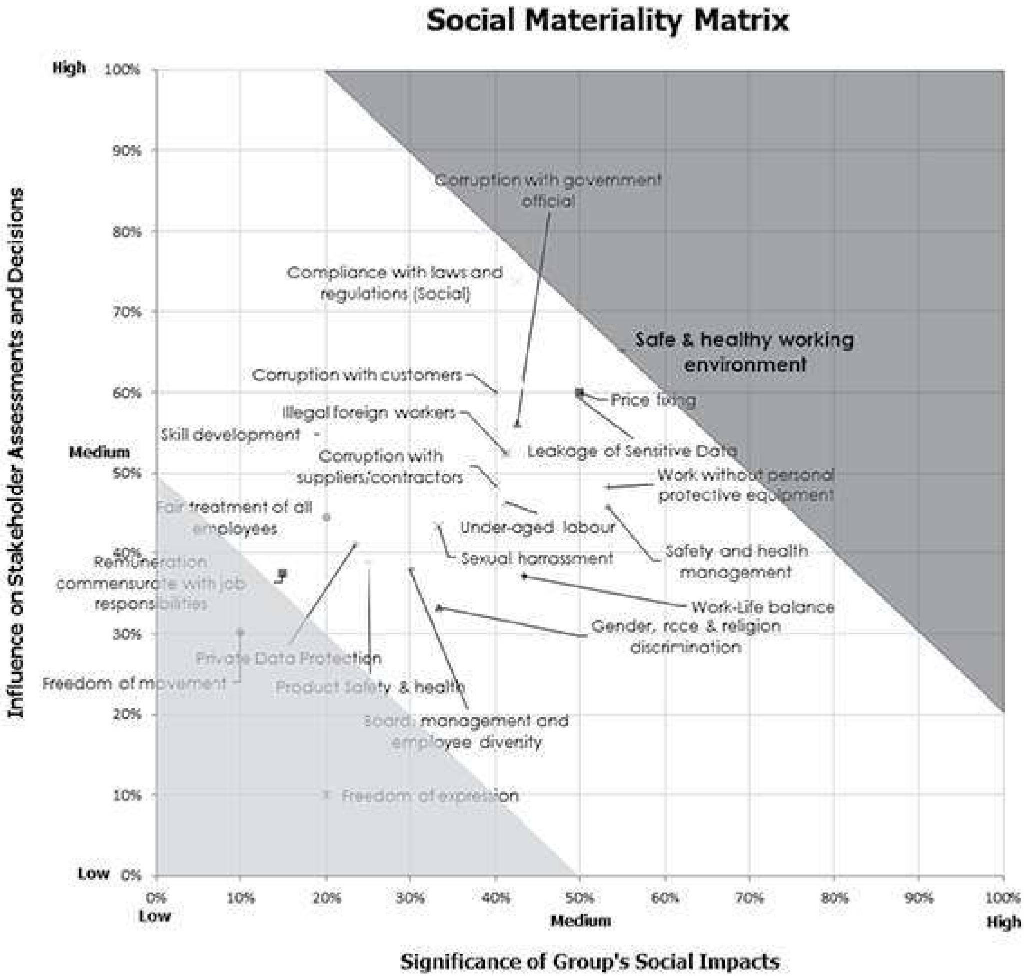
Material Sustainability Matters

The Group focus strongly on delivering value to shareholders, practicing good governance, maximising contributions to stakeholders and minimising environmental footprint. The Group's material sustainability matters are identified through the materiality assessment process, whereby the Economic, Environmental and Social ("EES") matters relevant and important to the Group's long-term sustainability are identified and prioritised through structured process and assessment mechanism as approved by the Board, guided by the Guide Toolkit: Materiality Assessment issued by Bursa Malaysia with necessary adaption based on the nature and scale of the businesses of the Group on sustainability context, materiality, completeness and stakeholder inclusiveness through a cycle of identification, prioritisation, validation and review.

A list of material sustainability issues was identified and determined by the sustainability matters assessment and prioritisation exercise of Ornapaper Melaka undertaken by Sustainability and Risk Management Committee that reflected the critical sustainable considerations expected of Ornapaper Melaka in respect of the business and geographical extent Ornapaper Melaka is operating in and highlighted the expectations and concerns of stakeholder groups. The sustainability matters are rated as "Material", "Low and Medium" and "Not Material", through material matrix, in respect of its significance from the Management's perspective on the impact as well as all significant stakeholders' perspectives in terms of its influence on the respective stakeholders' assessments and decisions.

The final list of sustainability matters together with its details of identification and assessment of Ornapaper Melaka were reviewed by the Audit Committee and reported to the Board for its approval during the financial year under review and up to the date of this Statement to ensure effective sustainability management and monitoring.

Sustainability Statement



The following sustainability matters are considered material both by the Management of Ornapaper Melaka and the stakeholder groups:

		Aspect Boundary			
Sustainability Matter	**Definition**	**Internal Stakeholders**	**External Stakeholders**	**Relevant SDG Goals**	**Corresponding Risk Register**
Safe and Healthy Working Environment (Social)	Anticipation, recognition, evaluation and control of hazards arising in or from the workplace that could impair the health and well-being of workers and stakeholders	Board of Directors, Investors, Management, Employee	DOSH, Media, Customer, Certification Body	3 GOOD HEALTH AND WELL-BEING 8 DECENT WORK AND ECONOMIC GROWTH	Compliance with Occupational Safety & Health Act

Sustainability Statement

Safe and Healthy Working Environment (Social)

The Company's long-term sustainability hinged heavily on the safety and well-being of the employees and not to a lesser extent, the stakeholders. A safe and healthy workplace is not only the fundamental right of the employees but also relevant stakeholder groups, such as customers, suppliers and contractors. It is the Company's priority to take the responsibility to maintain a productive workplace by minimising the risk of accidents, injury and exposure to health hazards.

In this respect, the Company places utmost importance on continuous compliance with all relevant safety and health laws and regulations. The safety and health management at workplace is managed by the Safety and Health Committee (made up of representatives from the Management and the employees) in compliance with Occupational Safety and Health Act 1994, Occupational Safety and Health (Safety and Health Committee) Regulations 1996, Poisons Act 1952, Poisons (Sodium Hydroxide) Regulations 1962, Fire Services Act 1988 and Factories and Machinery Act 1967 (and its orders and regulations).

The safety and health management at workplace is guided by the Safety and Health Policy established by the Safety and Health Committee and approved by the Chief Executive Director. Safety and health rules and regulations are also established by the Safety and Health Committee and approved by the Management to ensure the operational activities are carried out in a manner to minimise industrial accidents. The Safety and Health Committee established by the Company shall oversee the due observance of safety and health rules and regulations established at workplace and to promote safe and healthy conducts and environment at workplace. The Company strives to work towards its goals in achieving "A Zero Accident" workforce, meanwhile, creating "A Good, Safe and Pleasant" environment to the employees and relevant stakeholders in order to prevent unnecessary accidents and injuries at workplace.

Safety and health audits are conducted by Safety and Health Committee to all departments of the Company to ensure that incidents of non-compliance of the safety and health rules by relevant stakeholders are identified promptly and corrective actions are implemented swiftly. Identification of anticipated hazards and assessment of corresponding risks to safety and health arising from existing or proposed work environment are performed by the Safety and Health Committee with planned controls formulated to eliminate hazards or control risks at regular interval.

Scheduled meetings of the Safety and Health Committee are held at predetermined interval in accordance with the rules and regulations to monitor the trends of accident and immediately investigate near-miss accident, dangerous occurrence, occupational poisoning or occupational disease which occurs at the workplace. Awareness programmes for safety and health are established and implemented to ensure that all relevant stakeholders are competent to uphold the safety and health during the execution of their duties and responsibilities. To promote safety and health culture among the employees, regular safety and health related trainings are conducted and provided to all employees to keep them abreast with the current safety and health practices.

Sustainability Statement

As safety measures, safety notices/signboards and indicators are placed at strategic and hazard-prone locations as well as on production equipment to convey safety messages and potential safety hazard to the employees, customers, suppliers, contractors and other visitors. Relevant stakeholders with access to our production facility are provided with required personal protective equipment per our safety and health rules and regulations established. Besides, access to the Company required all visitors to report to the security personnel for security clearance and visitor registration. Access to the manufacturing and storage area is also restricted to the authorised personnel only with required personal protective gears to be equipped. Strategic locations at our factory are monitored through closed-circuit television system too.

As noise is inevitable in some of the Company's processes, we have implemented measures to mitigate the impact to our employees. 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's noise exposure by ensuring personal protective equipment 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.

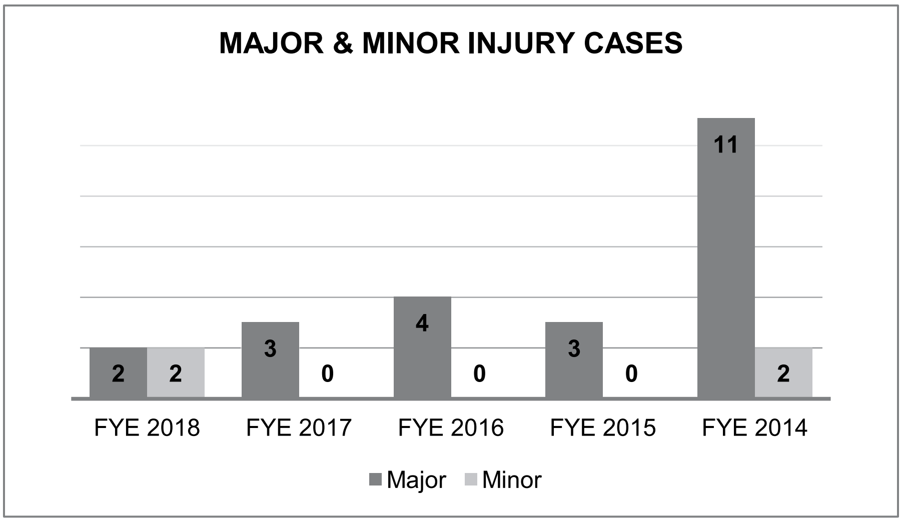
In addition, fire preventive equipment and systems are installed and inspected at regular interval to ensure its functionalities are not compromised over time and clear escape route plans are place in strategic locations. All plants and equipment used within the Company are subject to service and maintenance at predetermined interval to ensure its functionality with any defects or potential defects detected at earliest opportunity to reduce the risk of unplanned machinery breakdown and risk of industrial accident. To ensure our readiness in the event of unfortunate event, emergency preparedness and response programme including fire drills are conducted and practiced at regular intervals to ensure that such unlikely incident can be handled satisfactorily and promptly to minimise damage to the properties and people. Further measures on proper storage of flammable materials/ chemicals in dedicated areas, regular safety inspection of electrical wiring and cables and prohibition of smoking at workplace (except in dedicated smoking areas) are implemented too to reduce the likelihood of fire hazard.

Occupational safety and health performance are regularly monitored and reported in monthly progress reports, identifying any new or recurring health and safety issues that may occur in workplace and the measures undertaken to address these issues. The Company targets a zero-injury (both minor and major) rate. The figures below illustrate the incident records of the Company over the course of 5 years from financial year end 2014 to 2018:-

Year	FYE 2018	FYE 2017	FYE 2016	FYE 2015	FYE 2014
Major	2	3	4	3	11
Minor	2	0	0	0	2
Target	0	0	0	0	0

Sustainability Statement

Classification of Major and Minor Injury:	
Major injury	Employees who injured cause incapacity for more than 4 calendar days
Minor injury	Employees who injured cause incapacity for less than 5 days



There was no major legal action taken against the Company nor any fine or monetary sanction imposed related to occupational safety and health aspects during the financial year under review.

Other Major Environment and Social Activities Undertaken During Financial Year

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 environmental regulatory requirements, i.e. Environmental Quality Act and its regulations, 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 has 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 periodical assessments by the Department of Environment Malaysia ("DOE") to ensure that the Company operates its business in an environmentally responsible manner. Scheduled wastes generated from the Company's operations are collected and stored in compliance with the Environmental Quality (Scheduled Wastes) Regulations 2005 and disposed to licensed scheduled waste operators which are approved by DOE for material recovery and proper handling and ultimate disposal of such wastes. The scheduled wastes' generation and movement are monitored by using Electronic Scheduled Waste Information System under DOE.

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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 meeting regulatory standards set by DOE pursuant to Environmental Quality (Clean Air) Regulations 2014. Our emissions to atmosphere are channelled through two (2) chimneys. Our Safety Department conducts regular air emissions monitoring through stack monitoring in order to ensure continuous compliance to DOE's limits. Besides, engineering controls were deployed on plants and machineries to the extent possible in order to reduce the wastages generated, improve air quality and minimise/ prevent depletion of natural resources.

In addition, the Company practices the "Reduce, Reuse and Recycle" policy to uphold its value on environmental proposition. Instances of the Company's initiatives in practicing the "Reduce, Reuse and Recycle" policy are as follows:-

- Reuse and recycle of A4 paper which helps to reduce trees being cut down and reduce greenhouse gases emission;
- Recycle and reuse the printer toner cartridge by sending the empty toner to supplier for refilling;
- Reduce electronic waste to be disposed through landfill, which helps to conserve environment by saving energy, water, and natural resources and reduces greenhouse gases caused by manufacturing new cartridges.
- Recycle of trim waste, paper core and rejected carton which help to conserve energy and natural resources and ultimately reduce pollution.
- Reuse cleaning water for glue starch generation which aids to reduce water bills and minimise water pollution.
- Reuse of hydraulic lubricant, which is the residue of cleaning corrugating rolls, for maintenance processes.

As an environmentally conscious business entity by holding environment preservation closed to its heart, an Environmental Policy is established and approved by the Chief Executive Director. Besides, in order to strive to minimise releases to air, water and land, several environmental objectives and targets are set up by the management and performance are reviewed periodically with necessary corrective actions taken, shown as follows:-

Environmental Objective(s)	Environmental Target(s)
1. To control water consumption	To ensure the water consumption not exceeding average of 2800m³/month.
2. To control energy consumption	To ensure the energy consumption not exceeding average of 290,000 kwh for the next twelve months.
3. To reduce disposal of glue sludge	To reduce the disposal of glue sludge accumulated to 30 MT/year.
4. To reduce disposal of plant waste	To ensure disposal of plant waste not exceeding 11%/month.
5. To reduce disposal of peel	To reduce disposal of peel waste from Incoming Warehouse below 5 MT/month.

Sustainability Statement

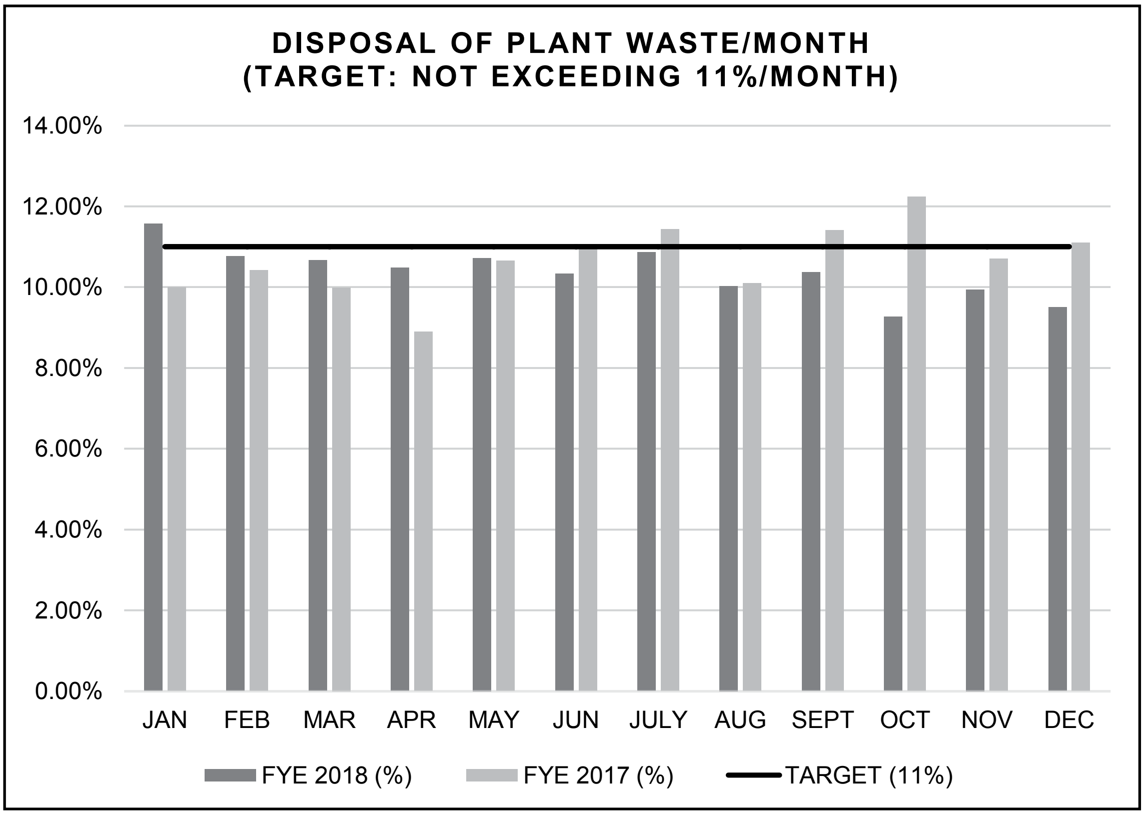
➢ *Energy and Water Consumption:*

	FYE 2018	FYE 2017	TARGET
Average Water Consumed/Month (m^3/month)	3,477	3,720	2,800
Average Energy Consumed/Month (kwh/month)	251,907	290,898	290,000

➢ *Disposal of Glue Sludge:*

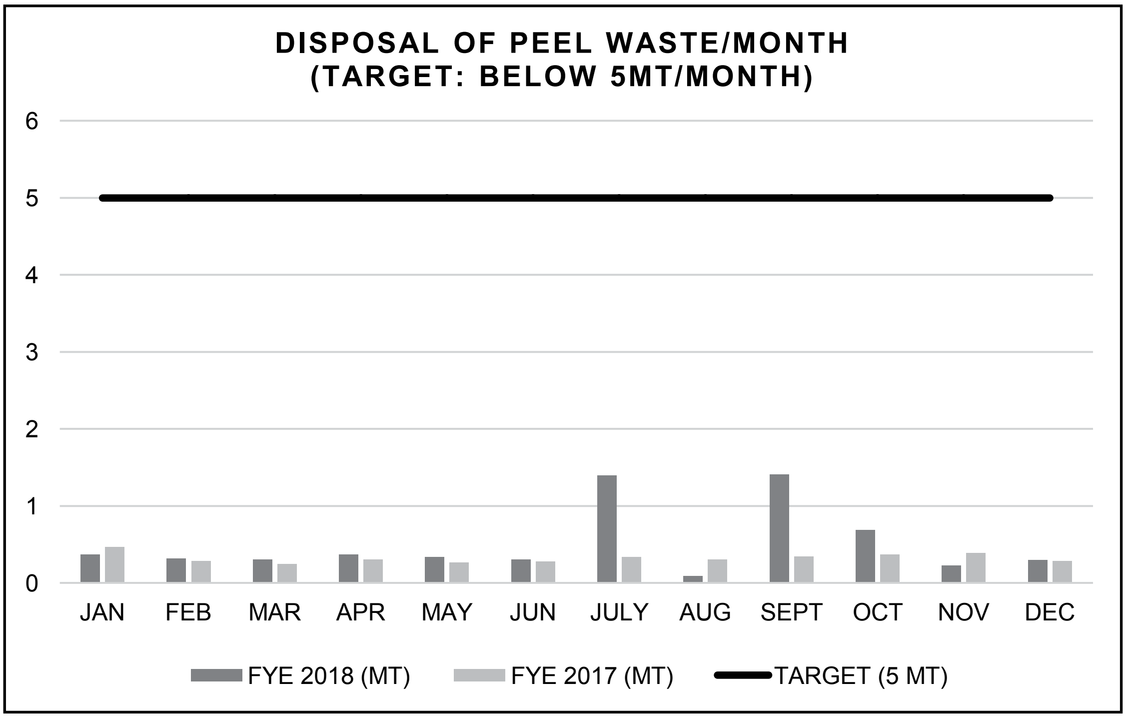
	FYE 2018	FYE 2017	TARGET
Average Glue Sludge Disposed/Month (MT/month)	16.11	22.67	30

➢ *Disposal of plant waste:*



Sustainability Statement

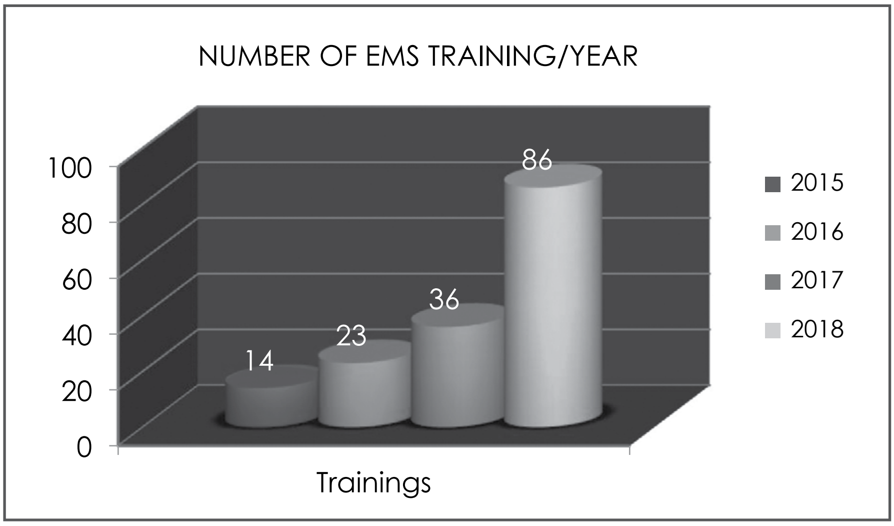
➢ *Disposal of peel waste:*



In order to instil environmental friendly mindset in all employees and the compliance requirements of Environmental Quality Act and its regulations, continuous environmental preservation awareness trainings are provided to employees on the environmental causes championed and the required conducts expected from the employees.

TRAINING/YEAR	YEAR 2015	YEAR 2016	YEAR 2017	YEAR 2018
NO. OF EMS TRAINING	14	23	36	86

Sustainability Statement



There was no legal action taken against the Company nor any fine or monetary sanction imposed related to environmental aspects during the financial year under review.

B. Social

The long-term business success and sustainability of the Company lies in every employee as employees are a valuable resource and a key business success factor for the Company. Therefore, it is vital for the Board aims to treat them equally, provide them with a safe, healthy and sustainable working environment as well as to actively develop, invest in and foster growth amongst our employees to further develop the skills and talents of our employees. We have developed Employee Handbook and Human Resource policies and procedures in that respect for transparency in employee's benefits and entitlements.

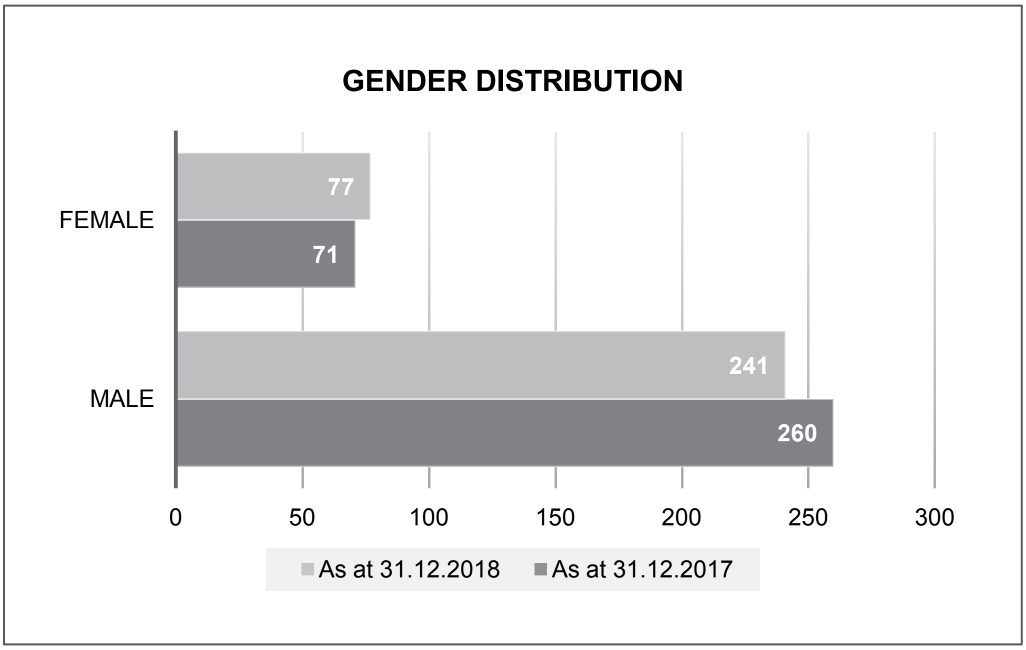
To have a strong-based workforce and ensure the Company remains competitive and continues to attract and retain the right talents, the Board acknowledges the efforts to remunerate our people with remuneration and benefits that commensurate with duties and responsibilities, to offer on-going opportunities for trainings and developments, and long-term career prospects. To enable this, the Company encourages employees to undergo learnings to support their career development and performance enhancement. The learnings can be inclusive of functional, on-the-job or people skills that are relevant to current or future job function, which shall prepare them for the next level of long-term career with the Company.

The Board is committed to build performance-based culture by allowing employees to demonstrate their capabilities. We are mindful that fair compensation is essential in motivating and engaging workforce to achieve our growth target. Thus, employees are to be reasonably rewarded based on the competencies demonstrated and efforts dedicated by them in delivering their duties and responsibilities. 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.

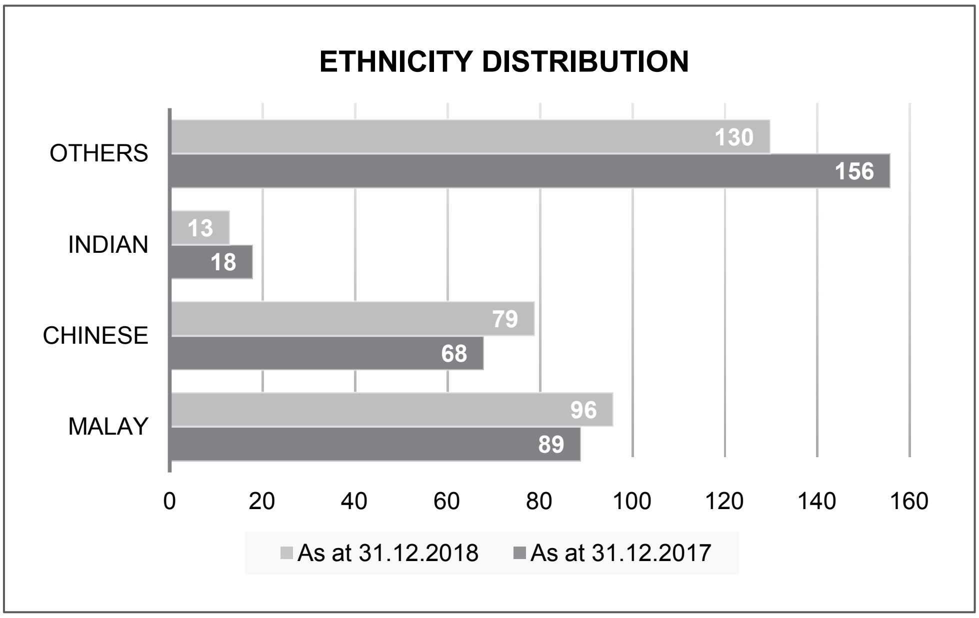
Sustainability Statement

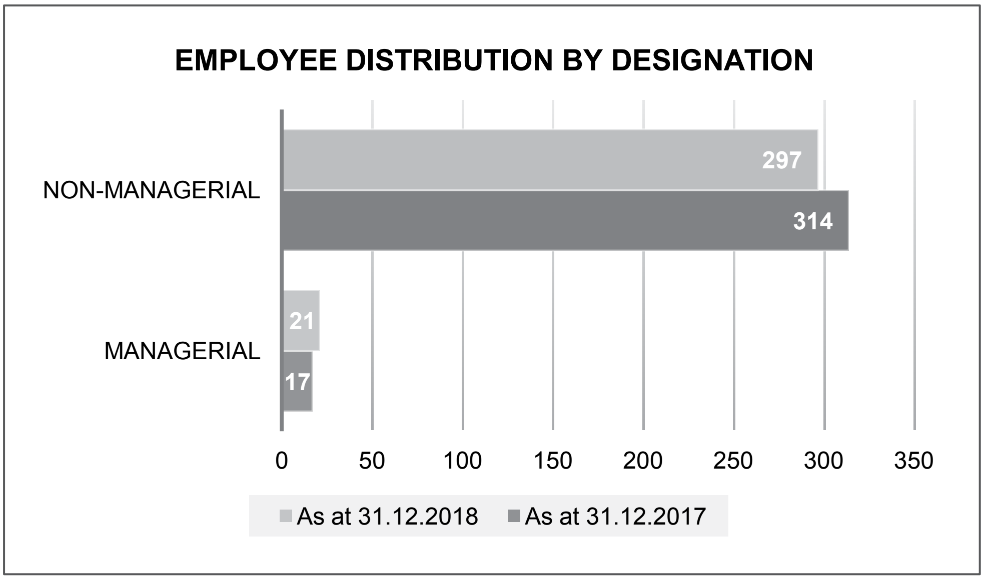
Making the Company a secure and comfortable workplace continues to be an important focus in our business strategy for health and safety improvements benefits will eventually deliver to employees, suppliers, contractors, customers, investors and general public. The Board understands the inherent risk 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 the Occupational Safety and Health Act 1994. We continuously aim to improve our safety culture through the renewal and deployment of occupational health and safety trainings and courses delivered to selected personnel.

The Board is also championing equal opportunity for all employees regardless of race/ethnicity, religion, nationality, age, marital status, gender or any other characteristics. There is strict enforcement of no illegals in the work place. In addition, equal access and opportunities are provided to our employees in terms of recruitment, retention and training. We are committed to providing a work environment that is free from discrimination for our employees. This is evidenced by the diversity profile of our human capital in the Company.



Sustainability Statement





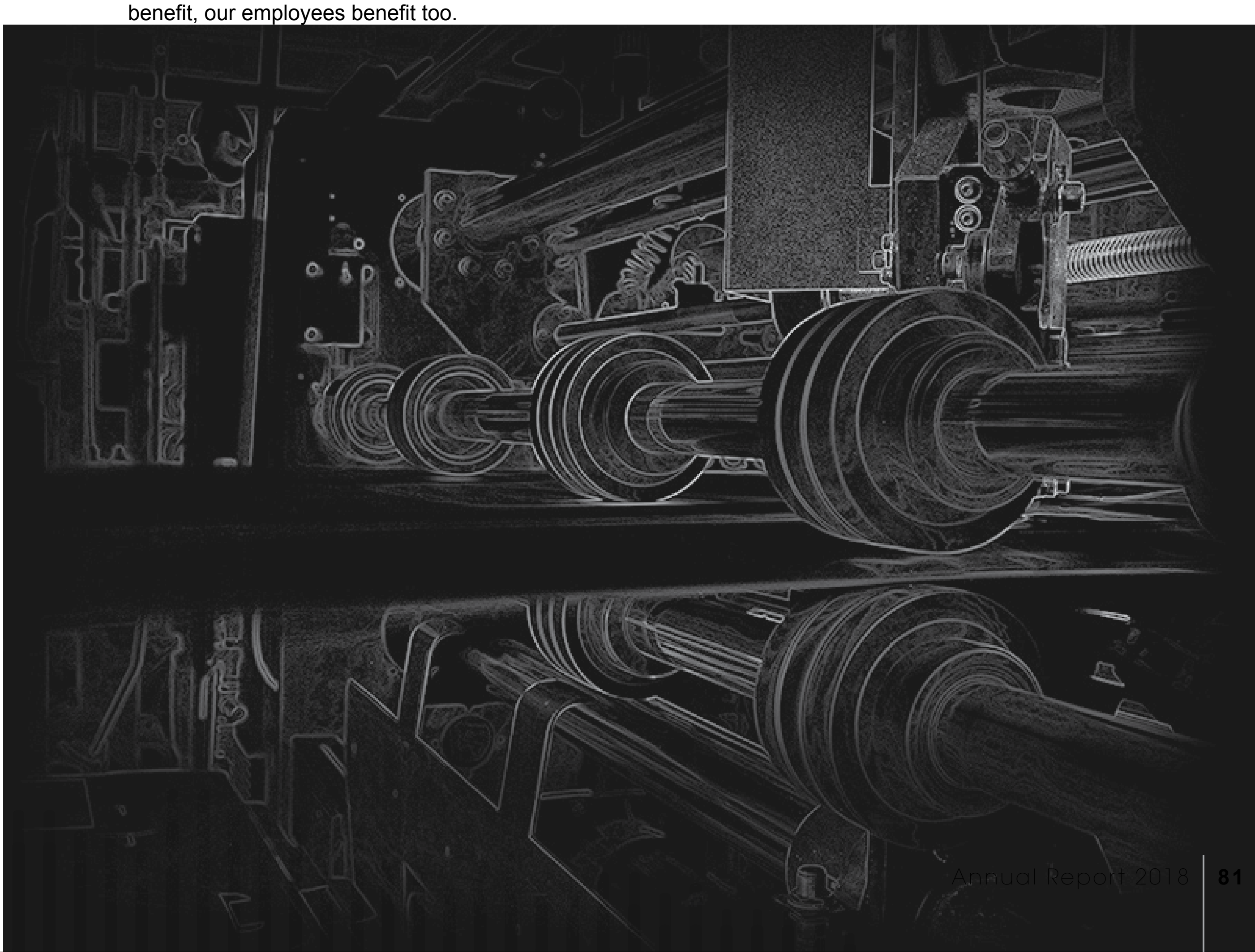
Sustainability Statement

In order to accord our people with their rights as an employee of the Company, it is the policy of the Company to comply with all applicable prevailing human resource laws and regulation, at the minimum. It is paramount for the Group to also comply with the other relevant social laws and regulations, such as The Federal Constitution of Malaysia, Minimum Wages Order, Competition Act, Personal Data Protection Act, Minimum Retirement Age Act and Child Act.

The Group has established a proper channel for whistle-blowing with serious effort being taken in communicating the whistle-blowing policy to all our employees. Such whistle-blowing channel set-up encourages whistle-blower to report any inappropriate ethical behaviours and workplace grievances. The confidentiality of the identification of the whistle-blowers is to be strictly maintained, unless prohibited by law. There was zero incident of whistle blowing reported through the established whistle blowing channel during the financial year under review.

Lastly, the Company 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 Company is committed to continue investing 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

Director's Report

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 2018.

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	9,429	7,298
Non-controlling interest	419	-
	9,848	7,298

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 2017 was as follows:

	RM'000
In respect of the financial year ended 31 December 2017:	
Final single tier dividend of 2.5%, declared on 2 July 2018 and paid on 16 July 2018	1,854

At the forthcoming Annual General Meeting, a final single-tier dividend in respect of the financial year ended 31 December 2018, of 2.5 sen per share on 74,152,146 ordinary shares, amounting to a dividend payable of approximately RM1,853,804 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 2019.

Director's 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:

Ang Kwee Teng**	
Datuk Adillah binti Ahmad Nordin	
Sai Ah Sai	(appointed on 1 January 2018)
Sai Chin Hock**	
Sai Han Siong**	
See Wan Seng**	(resigned on 31 December 2018)
Siow Kee Yen	
Tan Chin Hwee	

**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 below) by reason of a contract made by the Company or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except as disclosed in Note 34 to the financial statements.

The directors' benefits are as follows:

	Group RM'000	Company RM'000
Salaries and other emoluments	2,867	20
Fees	782	240
Bonus	627	-
Defined contribution plan	226	-
Estimated money value of benefits-in-kind	31	-
Insurance effected to indemnify directors*	3	-
	4,536	260

*The Company maintains a liability insurance for the directors of the Group. The total amount of sum insured for the directors and officers of the Group was RM500,000 under the Group Directors' and Officers' Liability Insurance policy.

Director's Report

Directors' interests

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

	Number of ordinary shares			
	1.1.2018	**Acquired**	**Sold**	**31.12.2018**
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
Sai Ah Sai	120,000	-	-	120,000
Indirect interest				
Sai Chin Hock	19,094,212	4,057,986	-	23,152,198
Sai Han Siong	19,217,212	4,057,986	-	23,275,198
Sai Ah Sai	19,280,712	4,057,986	-	23,338,698

Sai Ah Sai, Sai Chin Hock and Sai Han Siong, by virtue of their interests in shares in the Company, are also deemed interested in shares in all the Company's subsidiaries to the extent that the Company has an interest.

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

Other statutory information

(a) Before the statements of comprehensive income and statements of financial position of the Group and of the Company were made out, the directors took reasonable steps:

  (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and

  (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

(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.

Director's Report

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

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

Auditors' remuneration is as follows:

	Group RM'000	Company RM'000
Ernst & Young	147	56
Other auditors	61	-
	208	56

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 for the financial year ended 31 December 2018.

Signed on behalf of the Board in accordance with a resolution of the directors dated 5 April 2019.

Sai Chin Hock

Sai Han Siong

Statement by Directors

Statement by directors
Pursuant to Section 251(2) of the Companies Act 2016

We, Sai Chin Hock and Sai Han Siong, 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 83 to 159 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 2018 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 5 April 2019.

Sai Chin Hock

Sai Han Siong

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

I, Sai Han Siong, 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 83 to 159 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 Sai Han Siong
at Melaka in the State of Melaka
on 5 April 2019

Sai Han Siong

Before me,

SHAHRIZAH BINTI YAHYA (NO. M084)
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 2018 of the Group and of the Company, and statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 83 to 159

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 2018, 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 judgment, 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.

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.

Independent Auditors' Report

Key audit matters (continued)

Revenue recognition

(Refer to Note 4.5, Note 7.1(a) and Note 8 to the financial statements)

Revenue from contracts with customers arising from the sale of goods recorded by the Group during the year amounted to RM350 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 control 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.

We further evaluated the adequacy of disclosures on revenue recognition as disclosed in the financial statements.

Impairment of trade receivables

(Refer to Note 4.17(a)(iv), Note 7.2(b) and Note 22 to the financial statements)

As of 31 December 2018, the trade receivables amounted to RM84 million which represents 30% of total assets of the Group.

The management applied the simplified approach and has calculated the Expected Credit Loss ("ECL") based on lifetime ECL. The Group established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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 judgment and estimate in determining lifetime ELCs and forward-looking assumptions.

Independent Auditors’ Report

Key audit matters (continued)

Our response

We obtained an understanding of the Group's process relating to the monitoring of trade receivables to identify potential credit losses. We reviewed management's assumptions used to calculate trade receivables impairment under the simplified approach through reviewing historical collection trends and market information. We also tested subsequent collection from trade receivables on a sampling basis.

We further evaluated the adequacy disclosures on trade receivables as disclosed in 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.

Independent Auditors' Report

Auditors' responsibilities for the audit of the financial statements

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

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgment 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 statement (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.

The partner in charge of the audit resulting in this independent auditor's report is Lee Ah Too.

Ernst & Young	Lee Ah Too
AF 0039	02187/09/2019 J
Chartered Accountants	Chartered Accountant
Melaka, Malaysia	
Date: 5 April 2019	

Statements of Comprehensive Income

For the year ended 31 December 2018

	Note	Group		Company	
		2018	2017	2018	2017
		RM'000	RM'000	RM'000	RM'000
Revenue	8	349,853	330,699	7,726	3,983
Cost of goods sold		(307,867)	(270,063)	-	-
Gross profit		41,986	60,636	7,726	3,983
Other items of income					
Interest income	9	331	260	88	55
Other income	10	1,463	1,287	-	-
Other items of expense					
Administrative expenses		(15,076)	(12,840)	(382)	(379)
Selling and marketing expenses		(4,918)	(20,604)	(5)	(7)
Other expenses		(6,784)	(5,864)	(129)	(111)
Operating profit		17,002	22,875	7,298	3,541
Finance costs	11	(3,557)	(3,067)	-	-
Profit before tax	12	13,445	19,808	7,298	3,541
Income tax expense	15	(3,597)	(3,972)	-	(19)
Profit, net of tax, representing total comprehensive income for the year		9,848	15,836	7,298	3,522
Attributable to:					
Owners of the Company		9,429	15,536	7,298	3,522
Non-controlling interest		419	300	-	-
		9,848	15,836	7,298	3,522
Earnings per share attributable to owners of the Company (sen)					
Basic	16	12.7	21.0		
Diluted	16	12.7	21.0		

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

Statements of Financial Position

As at 31 December 2018

	Note	Group		Company	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Assets					
Non-current assets					
Property, plant and equipment	17	96,848	100,761	-	-
Land use rights	18	6,529	6,686	-	-
Investment in subsidiaries	19	-	-	103,659	100,159
Goodwill	20	1,633	1,633	-	-
Deferred tax assets	28	713	196	-	-
		105,723	109,276	103,659	100,159
Current assets					
Inventories	21	47,397	53,396	-	-
Right of return assets	8	110	-	-	-
Trade and other receivables	22	85,078	87,343	21	57
Other current assets	23	3,745	1,033	1	1
Tax recoverable		11	356	-	-
Deposits with licensed banks	24	6,436	3,954	3,066	1,631
Cash and bank balances	25	29,747	15,432	574	17
		172,524	161,514	3,662	1,706
Total assets		278,247	270,790	107,321	101,865
Equity and liabilities					
Current liabilities					
Trade and other payables	27	38,563	34,885	60	27
Refund liabilities	8	628	-	-	-
Loans and borrowings	26	56,403	66,315	-	-
Current tax payable		702	553	1	22
		96,296	101,753	61	49
Non-current liabilities					
Loans and borrowings	26	6,628	2,288	-	-
Deferred tax liabilities	28	9,822	9,107	-	-
		16,450	11,395	-	-
Total liabilities		112,746	113,148	61	49

Statements of Financial Position

As at 31 December 2018

Statements of financial position
As at 31 December 2018 (continued)

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Equity attributable to owners of the parent					
Share capital	29	86,407	86,407	86,407	86,407
Treasury shares	31	(541)	(541)	(541)	(541)
Retained earnings	32	78,105	70,530	21,394	15,950
		163,971	156,396	107,260	101,816
Non-controlling interest	19	1,530	1,246	-	-
Total equity		165,501	157,642	107,260	101,816
Total equity and liabilities		278,247	270,790	107,321	101,865
Net current assets		76,228	59,761	3,601	1,657
Net assets		165,501	157,642	107,260	101,816

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 2018

	Note	|----------- Non-distributable ----------| Share capital RM'000	Share premium RM'000	Treasury shares RM'000	Distributable Retained earnings RM'000	Total equity attributable to owners of the parent RM'000	Non-controlling interest RM'000	Total equity RM'000
Group								
Opening balance at 1 January 2018		86,407	-	(541)	70,530	156,396	1,246	157,642
Total comprehensive income		-	-	-	9,429	9,429	419	9,848
Transactions with owners								
Dividend	33	-	-	-	(1,854)	(1,854)	-	(1,854)
Dividend paid to non-controlling interest		-	-	-	-	-	(135)	(135)
		-	-	-	(1,854)	(1,854)	(135)	(1,989)
Closing balance at 31 December 2018		86,407	-	(541)	78,105	163,971	1,530	165,501
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 29)		11,156	(11,156)	-	-	-	-	-
Transactions with owners								
Dividend	33	-	-	-	(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

Statements of Changes in Equity

For the year ended 31 December 2018

Statements of changes in equity
For the year ended 31 December 2018 (continued)

		|------- Non-distributable --------|			Distributable	
Company	**Note**	**Share capital RM'000**	**Share premium RM'000**	**Treasury shares RM'000**	**Retained earnings RM'000**	**Total equity RM'000**
Opening balance at 1 January 2018		86,407	-	(541)	15,950	101,816
Total comprehensive income		-	-	-	7,298	7,298
Transaction with owners						
Dividend	33	-	-	-	(1,854)	(1,854)
Closing balance at 31 December 2018		86,407	-	(541)	21,394	107,260
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 29)		11,156	(11,156)	-	-	-
Transaction with owners						
Dividend	33	-	-	-	(1,854)	(1,854)
Closing balance at 31 December 2017		86,407	-	(541)	15,950	101,816

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 2018

	Group		Company	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Operating activities				
Profit before tax	13,445	19,808	7,298	3,541
Adjustments to reconcile profit before tax to net cash flows:				
Bad debts recovered	(9)	(22)	-	-
Bad debts written off	235	14	-	-
Depreciation and amortisation:				
- Property, plant and equipment	13,524	12,782	-	-
- Land use rights	157	137	-	-
Fair value loss on derivatives	-	6	-	-
Gain on disposal of property, plant and equipment	(210)	(206)	-	-
Property, plant and equipment written off	2	24	-	-
Reversal of allowance for impairment loss on trade and other receivables	(339)	(9)	-	-
Unrealised (gain)/loss on foreign exchange	(15)	83	-	-
Interest expense	3,557	3,067	-	-
Interest income	(331)	(260)	(88)	(55)
Total adjustments	16,571	15,616	(88)	(55)
Operating cash flows before changes in working capital	30,016	35,424	7,210	3,486
Working capital adjustments:				
Decrease/(increase) in inventories and right of return assets	5,889	(16,140)	-	-
Decrease/(increase) in receivables	2,404	(19,556)	39	-
(Increase)/decrease in other current assets	(929)	1,078	-	-
Increase in payables and refund liablities	3,202	7,658	33	10
Total changes in working capital	10,566	(26,960)	72	10
Cash flows from operations	40,582	8,464	7,282	3,496
Interest paid	(3,773)	(3,182)	-	-
Income tax paid	(3,610)	(2,551)	(22)	(23)
Income tax refunded	705	66	1	18
Net cash generated from operating activities	33,904	2,797	7,261	3,491

Statements of Cash Flows

For the year ended 31 December 2018

Statements of cash flows
For the year ended 31 December 2018 (continued)

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Investing activities				
Purchase of property, plant and equipment	(8,484)	(12,770)	-	-
Purchase of prepaid land lease	-	(1,386)	-	-
Interest received	173	255	-	55
Investment in a subsidiary	-	-	(3,499)	(2,501)
Proceeds from disposal of property, plant and equipment	291	330	-	-
(Placement)/withdrawal of deposits with licensed banks	(2,350)	393	(1,350)	(44)
Net cash used in investing activities	(10,370)	(13,178)	(4,849)	(2,490)
Financing activities				
Decrease in amount due from subsidiaries	-	-	-	812
Dividends paid on ordinary shares	(1,854)	(1,854)	(1,854)	(1,854)
Dividend paid to non-controlling interest	(135)	(113)	-	-
Drawdown of term loans	3,300	1,500	-	-
Drawdown of finance lease payables	2,219	800	-	-
Repayment of term loans	(667)	(540)	-	-
Repayment of finance lease payables	(954)	(297)	-	-
(Decrease)/increase in short-term borrowings	(10,804)	19,605	-	-
Net cash (used in)/generated from financing activities	(8,895)	19,101	(1,854)	(1,042)
Net increase/(decrease) in cash and cash equivalents	14,639	8,720	558	(41)
Effect of exchange rate changes on cash and cash equivalents	15	(34)	-	-
Cash and cash equivalents at 1 January	15,093	6,407	17	58
Cash and cash equivalents at 31 December (Note 25)	29,747	15,093	575	17

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 2018

Statements of cash flows
For the year ended 31 December 2018 (continued)

Changes in liabilities arising from financing activities:

	Note	1 January 2018 RM'000	Changes from financing cash flows RM'000	New leases RM'000	31 December 2018 RM'000
Obligations under finance leases	26	1,489	1,265	1,673	4,427
Other loans and borrowings	26	65,172	(10,804)	-	54,368
Term loans	26	1,603	2,633	-	4,236
		68,264	(6,906)	1,673	63,031

	Note	1 January 2017 RM'000	Changes from financing cash flows RM'000	New leases RM'000	31 December 2017 RM'000
Obligations under finance leases	26	288	503	698	1,489
Other loans and borrowings	26	45,567	19,605	-	65,172
Term loans	26	643	960	-	1,603
		46,498	21,068	698	68,264

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 2018

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

The consolidated financial statements are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, due to the modified retrospective application of accounting policies as a result of adoption of new accounting standards, the Group accumulates the effect of initially applying the new accounting standards as an adjustment to the opening balance of retained earnings at the date of initial application, as shown in Statement of changes in equity.

3. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and 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.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and 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.

Notes to the Financial Statements

For the year ended 31 December 2018

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 consolidated financial statements 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 related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

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.

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of MFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with MFRS 9. Other contingent consideration that is not within the scope of MFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

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.

Notes to the Financial Statements

For the year ended 31 December 2018

4. Summary of significant accounting policies (continued)

4.1 Business combinations and goodwill (continued)

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.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of the amount that would be recognised in accordance with the requirements for provisions in MFRS 137 Provisions, Contingent Liabilities and Contingent Assets or the amount initially recognised less (when appropriate) cumulative amortisation recognised in accordance with the requirements for revenue recognition.

4.2 Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

All other liabilities are classified as non-current.

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

Notes to the Financial Statements

For the year ended 31 December 2018

4. Summary of significant accounting policies (continued)

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:

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.

Policies and procedures are determined by senior management for both recurring fair value measurement and for non-recurring measurement.

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.

Notes to the Financial Statements

For the year ended 31 December 2018

4. Summary of significant accounting policies (continued)

4.3 Fair value measurement (continued)

The senior management, 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 ("RM") which is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(b) Transactions and balances

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

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

Differences arising on settlement or translation of monetary items are recognised in statements of comprehensive income. 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).

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

Notes to the Financial Statements

For the year ended 31 December 2018

4. Summary of significant accounting policies (continued)

4.5 Revenue recognition

Revenue from contracts with customers

The Group recognise revenue from contracts with customers for the sale of goods and provision of after sale services based on the five-step model as set out below:

(i) Identify contract with a customer. A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria that must be met.

(ii) Identify performance obligations in the contract. A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.

(iii) Determine the transaction price. The transaction price is the amount of consideration to which the Group expect to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

(iv) Allocate the transaction price to the performance obligations in the contract. For a contract that has more than one performance obligation, the Group allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expect to be entitled in exchange for satisfying each performance obligation.

(v) Recognise revenue when (or as) the Group satisfy a performance obligation.

The Group satisfy a performance obligation and recognise revenue over time if the Group's performance:

(i) Do not create an asset with an alternative use to the Group and have an enforceable right to payment for performance completed to-date; or

(ii) Create or enhance an asset that the customer controls as the asset is created or enhanced; or

(iii) Provide benefits that the customer simultaneously receives and consumes as the Group perform.

For performance obligations where any one of the above conditions is not met, revenue is recognised at the point in time at which the performance obligation is satisfied.

The Group is in the business of investment holding, provision of management services, manufacturing and sale of paper based stationery products, corrugated boards and carton boxes and transportation services. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Notes to the Financial Statements

For the year ended 31 December 2018

4. Summary of significant accounting policies (continued)

4.5 Revenue recognition (continued)

<u>**Revenue from contracts with customers (continued)**</u>

(a) Sale of goods

Revenue from sale of goods comprises sale of paper based stationery products, corrugated boards and carton boxes. Revenue from sale of goods are recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. The normal credit term is 30 to 150 days upon delivery.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties). In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any).

<u>Variable consideration</u>

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

<u>Rights of return</u>

The Group uses the expected value method to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in MFRS 15 on constraining estimates of variable consideration are also applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, the Group recognises a refund liability. A right of return asset (and corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

<u>Volume and cash discounts</u>

The Group provides retrospective volume discounts to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. The Group also provides cash discounts to certain customers when early settlement made within credit term. Discounts are offset against amounts payable by the customer. To estimate the variable consideration for the expected future discounts, the Group applies the most likely amount method for contracts with expected value method. The Group then recognises a refund liability for the expected future rebates.

Notes to the Financial Statements

For the year ended 31 December 2018

4. Summary of significant accounting policies (continued)

4.5 Revenue recognition (continued)

Revenue from contracts with customers (continued)

(a) Sale of goods (continued)

Right of return assets

Right of return asset represents the Group's right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. The Group updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned products.

Refund liabilities

A refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of the financial year.

(b) Management fees

Management fees are recognised when services are rendered.

(c) Transportation fees

Transportation fees are recognised when services are rendered.

Some of the item of income may represent other revenue from part of the entity's ordinary activities:

(a) Dividend income

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

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 statements of comprehensive income.

Notes to the Financial Statements

For the year ended 31 December 2018

4. Summary of significant accounting policies (continued)

4.5 Revenue recognition (continued)

(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.

(c) Commission income

Commission income is recognised when services are rendered.

4.6 Employee benefits

(a) 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.

(b) Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. 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.

(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.

Notes to the Financial Statements

For the year ended 31 December 2018

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

4.7 Taxes (continued)

(b) Deferred tax (continued)

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 re-assessed 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.

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 statements of comprehensive income.

Notes to the Financial Statements

For the year ended 31 December 2018

4. Summary of significant accounting policies (continued)

4.7 Taxes (continued)

(b) Deferred tax (continued)

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(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 statements of financial position.

4.8 Sales and Services Tax ("SST")

Beginning September 2018, expenses and assets are recognised net of the amount of SST, except:

- When the amount of SST incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the SST is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and

- When receivables and payables are stated with the amount of SST included.

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

4.9 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.

Notes to the Financial Statements

For the year ended 31 December 2018

4. Summary of significant accounting policies (continued)

4.10 Leases

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

(a) Group as lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date 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 statements 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.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statements 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 rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statements of comprehensive income due to its operating nature. Initial direct costs incurred in negotiating and arranging 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.

4.11 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.

Notes to the Financial Statements

For the year ended 31 December 2018

4. Summary of significant accounting policies (continued)

4.11 Property, plant and equipment (continued)

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.

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

Construction in progress 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 statements 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.

4.12 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.

4.13 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.

Notes to the Financial Statements

For the year ended 31 December 2018

4. Summary of significant accounting policies (continued)

4.14 Inventories

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

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

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

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

4.15 Cash and bank balances

Cash and bank balances in the statements of financial position comprise cash at banks and on hand 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 bank balances as defined above, net of any outstanding bank overdrafts.

4.16 Impairment of non-financial assets

The Group assesses, 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 expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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 statements of comprehensive income in expense categories consistent with the function of the impaired asset.

Notes to the Financial Statements

For the year ended 31 December 2018

4. Summary of significant accounting policies (continued)

4.16 Impairment of non-financial assets (continued)

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

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 statements of comprehensive income.

Intangible assets with indefinite useful lives are tested for impairment annually as at reporting date at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

4.17 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 subsequently measured at amortised cost, fair value through other comprehensive income ("OCI"), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under MFRS 15. Refer to the accounting policies in Note 4.5.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest ("SPPI")' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Notes to the Financial Statements

For the year ended 31 December 2018

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

4.17 Financial instruments (continued)

(a) Financial assets (continued)

(i) Initial recognition and measurement (continued)

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.

The Group's financial assets include trade and other receivables, other current assets, deposits with licensed banks and cash and bank balances.

(ii) Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the EIR method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notes to the Financial Statements

For the year ended 31 December 2018

4. Summary of significant accounting policies (continued)

4.17 Financial instruments (continued)

(a) Financial assets (continued)

(ii) Subsequent measurement (continued)

Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments) (continued)

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statements of comprehensive income and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under MFRS 132 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statements of comprehensive income when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. 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. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statements of financial position at fair value with net changes in fair value recognised in the statements of comprehensive income.

Dividends on listed equity investments are also recognised as other income in the statements of comprehensive income when the right of payment has been established.

Notes to the Financial Statements

For the year ended 31 December 2018

4. Summary of significant accounting policies (continued)

4.17 Financial instruments (continued)

(a) Financial assets (continued)

(ii) Subsequent measurement (continued)

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

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment 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 category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

(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.

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

4.17 Financial instruments (continued)

(a) Financial assets (continued)

(iv) Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 365 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(b) 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.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdraft and financial guarantee contracts.

Notes to the Financial Statements

For the year ended 31 December 2018

4. Summary of significant accounting policies (continued)

4.17 Financial instruments (continued)

(b) 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 9. 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 statements 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 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

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 statements of comprehensive income.

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

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 statements of comprehensive income.

Notes to the Financial Statements

For the year ended 31 December 2018

4. Summary of significant accounting policies (continued)

4.17 Financial instruments (continued)

(c) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements 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.

4.18 Provisions

Provisions are recognised when the Group has 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 comprehensive income 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.

4.19 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.

4.20 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.

4.21 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 statements of comprehensive income.

Notes to the Financial Statements

For the year ended 31 December 2018

4. Summary of significant accounting policies (continued)

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 2018, the Group and the Company adopted the following new and amended MFRSs mandatory for annual financial periods beginning on or after 1 January 2018.

Effective for annual periods beginning on or after 1 January 2018

MFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)
MFRS 9 Financial Instruments
MFRS 15 Revenue from Contracts with Customers
MFRS 140 Transfers of Investment Property (Amendments to MFRS 140)
Annual Improvements to MFRS Standards 2014–2016 Cycle
IC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The adoption of the above new standards, IC Interpretation and amendments did not have any significant impact on the financial statements other than the below.

<u>MFRS 9 Financial Instruments</u>

MFRS 9 Financial Instruments replaces MFRS 139 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group applied MFRS 9 prospectively, with an initial application date of 1 January 2018. The Group has not restated the comparative information, which continues to be reported under MFRS 139. Differences arising from the adoption of MFRS 9 should be recognised directly in retained earnings.

There is no effect of adopting MFRS 9 as at 1 January 2018.

The nature of these financial instruments are described below:

- Classification and measurement

  Under MFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through OCI. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

Notes to the Financial Statements

For the year ended 31 December 2018

5. Changes in accounting policies (continued)

MFRS 9 Financial Instruments (continued)

- Classification and measurement (continued)

The assessment of the Group's business model was made as of the date of initial application, 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of MFRS 9 did not have a significant impact to the Group. The Group continued measuring at fair value all financial assets previously held at fair value under MFRS 139. The following are the changes in the classification of the Group's financial assets:

- Trade receivables as at 31 December 2017 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as *Debt instruments at amortised cost* beginning 1 January 2018.

The Group has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Group's financial liabilities.

- Impairment

The adoption of MFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing MFRS 139's incurred loss approach with a forward-looking expected credit loss approach. MFRS 9 requires the Group to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

Due to the strong creditworthiness of the Group's debtors, the adoption of the ECL requirements of MFRS 9 did not result in any material increase in impairment allowance of the Group's financial assets.

MFRS 15 Revenue from Contracts with Customers

MFRS 15 supersedes MFRS 111 Construction Contracts, MFRS 118 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. MFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

MFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted MFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 January 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the standard to all contracts as at 1 January 2018.

Notes to the Financial Statements

For the year ended 31 December 2018

5. Changes in accounting policies (continued)

MFRS 15 Revenue from Contracts with Customers (continued)

The cumulative effect of initially applying MFRS 15 is recognised at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information was not restated and continues to be reported under MFRS 118 and related Interpretations.

The effect of adopting MFRS 15 has been accounted for in the Group's statements of comprehensive income and statements of financial position. However, the adoption of MFRS 15 did not have any material impact on the financial statements for the immediate preceeding financial year.

The nature of these adjustments are described below:

(a) Sales of goods with variable consideration

Some contracts for the sale of corrugated boards and carton boxes provide customers with a right of return. Before adopting MFRS 15, the Group recognised revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and discounts. Under MFRS 15, rights of return give rise to variable consideration.

- Rights of return

  Under MFRS 15, the consideration received from the customer is variable because the contract allows the customer to return the products. The Group used the expected value method to estimate the goods that will not be returned. For goods expected to be returned, the Group presented a refund liability and an asset for the right to recover products from a customer separately in the statements of financial position.

- Volume and cash discounts

  The Group provides retrospective volume discounts to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. The Group also provides cash discounts to certain customers when early settlement made within credit term given. Discounts are offset against amounts payable by the customer. The Group has estimated the variable consideration for the expected future discounts and recognises a refund liability for the expected future discounts.

(b) Classification of delivery services

The Group provides delivery services of its goods to the customers. As these delivery services are performed before the customer obtains control of the related good, it will be activities to fulfil its promise to transfer control of the good. Previously, the Group accounted for the carriage outward cost under selling and marketing expenses. Under MFRS 15, the Group classified carriage outward cost which are regarded as cost to fulfil a contract under cost of goods sold, in current financial year ended 31 December 2018.

Notes to the Financial Statements

For the year ended 31 December 2018

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 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
Amendments to MFRS 3: Definition of a Business	1 January 2020
Amendments to MFRS 101 and MFRS 108: Definition of Material	1 January 2020
Amendments to references to the Conceptual Framework in MFRS Standards	1 January 2020
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:

<u>MFRS 16 Leases</u>

MFRS 16 was issued in January 2016 and it replaces 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. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under MFRS 16 is substantially unchanged from today's 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, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under MFRS 117.

6. Standards issued but not yet effective (continued)

MFRS 16 Leases (continued)

Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group is currently assessing the impact of MFRS 16 and plans to adopt the new standard on the required effective date.

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.

Notes to the Financial Statements

For the year ended 31 December 2018

6. Standards issued but not yet effective (continued)

Annual Improvements to MFRS Standards 2015–2017 Cycle (continued)

(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.

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.

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.

Notes to the Financial Statements

For the year ended 31 December 2018

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

7.1 Judgments made in applying accounting policies (continued)

(a) Revenue from contracts with customers

The Group applied the following judgments that significantly affect the determination of the amount and timing of revenue from contracts with customers:

- Identifying performance obligations in sale of goods and delivery services

  The Group provides delivery services for customer. The Group determined that delivery services that occur before the customer obtains control of the related goods are fulfilment activities. Hence sale of goods and delivery services are grouped as one performance obligation.

- Determining method to estimate variable consideration and assessing the constraint

  Certain sales of goods include a right of return that give rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

  The Group determined that the expected value method is the appropriate method to use in estimating the variable consideration for the sale of goods with rights of return.

  Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained based on its historical experience.

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.

Notes to the Financial Statements

For the year ended 31 December 2018

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 of disposing of the asset. The value in use calculation is based on a DCF 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 performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Group. 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) Provision for expected credit losses of trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by customer type).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in Note 22.

(c) Taxes

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses 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.

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.

Notes to the Financial Statements

For the year ended 31 December 2018

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

7.2 Estimates and assumptions (continued)

(c) Taxes (continued)

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.

The carrying amounts of recognised tax losses and tax credits of the Group is disclosed in Note 28.

(d) Useful lives of plant and machinery

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

(e) Estimating variable consideration for returns and discounts

The Group estimates variable considerations to be included in the transaction price for the sale of goods with rights of return and discounts.

The Group developed a statistical model for forecasting sales returns and discounts. The model used the historical return and discount data of each product to come up with expected return and discount percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to historical return pattern will impact the expected return and discount percentages estimated by the Group.

The Group updates its assessment of expected returns and discounts annually and the refund liabilities are adjusted accordingly. Estimates of expected returns and discounts are sensitive to changes in circumstances and the Group's past experience regarding returns and discounts entitlements may not be representative of customers' actual returns entitlements in the future.

Notes to the Financial Statements

For the year ended 31 December 2018

8. Revenue

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Revenue from contracts with customers:				
Sale of goods	349,772	330,696	-	-
Management fees from subsidiaries	-	-	-	127
Transportation fees	81	3	-	-
Other revenue:				
Dividend income from subsidiaries	-	-	7,726	3,856
	349,853	330,699	7,726	3,983

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	Corrugated Board and Carton RM'000	Paper Stationery Product RM'000	Corporate and Others RM'000	Total RM'000
31 December 2018				
Type of industry				
Paper industry	71,260	30,543	-	101,803
Furniture, rubber, handware and steel	80,648	-	-	80,648
Food based, beverage and tobacco	72,740	-	-	72,740
Electronic and electrical	56,965	-	-	56,965
Others	37,616	-	81	37,697
Total revenue from contracts with customers	319,229	30,543	81	349,853

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Right of return assets and refund liabilities				
- Right of return assets	110	-	-	-
- Refund liabilities,				
Arising from rights of return	216	-	-	-
Arising from discounts	412	-	-	-
	628	-	-	-

Notes to the Financial Statements

For the year ended 31 December 2018

9. Interest income

	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Interest income from:				
Loans and receivables	331	260	88	55

10. Other income

	Group 2018 RM'000	Group 2017 RM'000
Bad debts recovered	9	22
Claim from transporter	-	48
Commission received	28	10
Gain on disposal of property, plant and equipment	210	206
Gain on disposal of scrap materials	215	277
Insurance claims	7	113
Realised gain on foreign exchange	519	534
Unrealised gain on foreign exchange	15	-
Rental received	-	2
Reversal of allowance for impairment loss on trade and other receivables (Note 22(a) and Note 22(b))	339	9
Miscellaneous	121	66
	1,463	1,287

11. Finance costs

	Group 2018 RM'000	Group 2017 RM'000
Interest expense on:		
- Bank loans and overdrafts	3,350	3,025
- Obligations under finance leases	207	42
	3,557	3,067

Notes to the Financial Statements

For the year ended 31 December 2018

12. Profit before tax

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

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Auditors' remuneration:				
- Statutory audit				
Current year	208	200	56	56
Underprovision in prior year	6	-	-	-
- Other services	42	51	10	20
Bad debts written off	235	14	-	-
Carriage inwards and outwards	19,285	18,747	-	-
Depreciation and amortisation:				
- Property, plant and equipment (Note 17)	13,524	12,782	-	-
- Land use rights (Note 18)	157	137	-	-
Employee benefits expense (Note 13)	35,366	33,521	10	100
Fair value loss on derivatives	-	6	-	-
Incorporation expenses	-	3	-	-
Non-executive directors' remuneration (Note 14)	250	152	250	152
Operating lease:				
- Minimum lease payments on land and buildings	710	670	-	-
Property, plant and equipment written off	2	24	-	-
Unrealised loss on foreign exchange	-	83	-	-

13. Employee benefits expense

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Wages and salaries	30,682	29,278	10	93
Contributions to defined contribution plans	2,558	2,318	-	7
Social security contributions	281	250	-	-
Other benefits	1,845	1,675	-	-
	35,366	33,521	10	100

Included in employee benefits expense of the Group and of the Company are executive directors' remuneration amounting to RM4,252,000 and RM10,000 (2017: RM2,896,000 and RM100,000) respectively as further disclosed in Note 14.

Notes to the Financial Statements

For the year ended 31 December 2018

14. Directors' remuneration

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Executive directors				
Directors of the Company:				
- Fees	542	494	-	28
- Salaries and other emoluments	2,813	1,612	10	65
- Defined contribution plans	145	105	-	7
	3,500	2,211	10	100
Other directors of subsidiaries:				
- Salaries and other emoluments	672	612	-	-
- Defined contribution plans	80	73	-	-
	752	685	-	-
Total executive directors' remuneration (Note 13)	4,252	2,896	10	100
Estimated money value of benefits-in-kind	31	11	-	-
Total executive directors' remuneration (including benefits-in-kind)	4,283	2,907	10	100
Non-executive directors (Note 12)				
Directors of the Company:				
- Fees	240	144	240	144
- Other emoluments	10	8	10	8
	250	152	250	152
Total directors' remuneration	4,533	3,059	260	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:

	2018	2017
Executive directors		
RM200,001 to RM250,000	1	2
RM400,001 to RM450,000	1	-
RM850,001 to RM900,000	-	1
RM900,001 to RM950,000	1	1
RM1,950,001 to RM2,000,000	1	-
Non-executive directors		
RM50,001 to RM100,000	4	3

Notes to the Financial Statements

For the year ended 31 December 2018

15. Income tax expense

Major components of income tax expense

The major components of income tax expense for the years ended 31 December 2018 and 2017 are:

	Group	
	2018	**2017**
	RM'000	**RM'000**
Statements of comprehensive income:		
Current income tax:		
- Malaysian income tax	3,343	3,245
- Underprovision in prior years	56	40
	3,399	3,285
Deferred tax (Note 28):		
- Origination and reversal of temporary differences	287	470
- (Over)/underprovision in prior years	(89)	217
	198	687
Income tax expense recognised in profit or loss	3,597	3,972

	Company	
	2018	**2017**
	RM'000	**RM'000**
Statements of comprehensive income:		
Current income tax:		
- Malaysian income tax	21	40
- Overprovision in prior years	(21)	(21)
Income tax expense recognised in profit or loss	-	19

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% (2017: 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.

Notes to the Financial Statements

For the year ended 31 December 2018

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 2018 and 2017 is as follows:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Profit before tax	13,445	19,808	7,298	3,541
Taxation at 24% (2017: 24%)	3,227	4,754	1,752	850
Reduction in Malaysian income tax rate	(93)	-	-	-
Tax effect of:				
- Non-deductible expenses	450	558	115	115
- Non-taxable income	-	(106)	(1,854)	(925)
Utilisation of current year's reinvestment allowance	-	(1,238)	-	-
Deferred tax asset recognised on unabsorbed reinvestment allowances	-	(267)	-	-
Deferred tax asset not recognised on unabsorbed capital allowances	38	14	-	-
Deferred tax asset not recognised on unutilised business losses	8	-	8	-
Under/(over)provision in prior years:				
- Income tax	56	40	(21)	(21)
- Deferred tax	(89)	217	-	-
Income tax expense recognised in profit or loss	3,597	3,972	-	19

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

	Group	
	2018	**2017**
	RM'000	**RM'000**
Unutilised tax losses	425	1,181
Unabsorbed reinvestment allowances	2,549	4,369
	2,974	5,550

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For the year ended 31 December 2018

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	
	2018	**2017**
Profit net of tax, attributable to owners of the parent (RM'000)	9,429	15,536
Weighted average number of ordinary shares in issue ('000)*	74,153	74,153
Basic earnings per share (sen)	12.7	21.0
Diluted earnings per share (sen)	12.7	21.0

* 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.

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For the year ended 31 December 2018

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 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	-	-	2,211	-	(2,211)	-
At 31 December 2017 and 1 January 2018	8,959	46,844	139,122	11,791	3,444	210,160
Additions	-	1,263	3,840	2,731	1,860	9,694
Disposals	-	-	(2,892)	(490)	-	(3,382)
Written off	-	-	(649)	(529)	-	(1,178)
Reclassification	-	397	3,188	-	(3,585)	-
At 31 December 2018	8,959	48,504	142,609	13,503	1,719	215,294

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 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 and 1 January 2018	1,783	17,343	82,256	8,017	-	109,399
Charge for the year (Note 12)	94	1,296	10,780	1,354	-	13,524
Disposals	-	-	(2,820)	(481)	-	(3,301)
Written off	-	-	(649)	(527)	-	(1,176)
At 31 December 2018	1,877	18,639	89,567	8,363	-	118,446
Carrying amounts						
At 31 December 2017	7,176	29,501	56,866	3,774	3,444	100,761
At 31 December 2018	7,082	29,865	53,042	5,140	1,719	96,848

Notes to the Financial Statements

For the year ended 31 December 2018

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 26.

(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 RM9,694,000 (2017: RM16,572,000) by means of:

	2018 RM'000	2017 RM'000
Total additions	9,694	16,572
Add: Advance payment to suppliers	1,567	-
Less: Finance lease arrangement	(1,673)	(698)
Less: Amount due to supplier of property, plant and equipment	(1,104)	-
Less: Reclassified from other receivables	-	(3,104)
Cash outflow on acquisition of property, plant and equipment	8,484	12,770

(d) The carrying amounts of motor vehicles, plant and machinery held under finance leases at the reporting date were RM4,110,000 (2017: RM1,664,000).

18. Land use rights

	Group	
	2018 RM'000	2017 RM'000
Cost		
At 1 January	8,455	7,069
Additions	-	1,386
At 31 December	8,455	8,455
Accumulated amortisation		
At 1 January	1,769	1,632
Amortisation (Note 12)	157	137
At 31 December	1,926	1,769
Carrying amount	6,529	6,686
Amount to be amortised:		
- Not later than one year	157	138
- Later than one year but not later than 5 years	629	550
- Later than 5 years	5,743	5,998

The above properties are pledged as securities for bank borrowings as referred to in Note 26.

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19. Investment in subsidiaries

	Company 2018 RM'000	Company 2017 RM'000
Unquoted shares, at cost		
At 1 January	100,159	97,658
Additions	3,500	2,501
At 31 December	103,659	100,159

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

Name of subsidiaries	Principal activities	Proportion (%) of ownership interest 2018	Proportion (%) of ownership interest 2017
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
Held by Ornapaper Industry (M) Sdn. Bhd.			
Ornapaper Logistics Sdn. Bhd.[1] ("OLSB")	Transportation service	100	100

[1] Not audited by Ernst & Young

(b) On 8 June 2018, the Company further subscribed for an additional 3,500,000 new ordinary shares in Quantum Rhythm Sdn. Bhd. for a cash consideration of RM3,500,000. The proportion of ownership interests of Quantum Rhythm Sdn. Bhd. held by the Company remain unchanged.

(c) On 24 October 2018, a subsidiary of the Company, Ornapaper Industry (M) Sdn. Bhd. further subscribed for an additional 250,000 ordinary shares in OLSB for a cash consideration of RM250,000. The proportion of ownership interests of OLSB held by the Company remained unchange.

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19. Investment in subsidiaries (continued)

(d) 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

	2018 RM'000	2017 RM'000
As at 31 December		
Non-current assets	5,650	4,630
Current assets	13,011	14,077
Total assets	18,661	18,707
Non-current liabilities	(1,337)	(1,246)
Current liabilities	(9,677)	(11,230)
Total liabilities	(11,014)	(12,476)
Net assets	7,647	6,231
Equity attributable to owners of the Company	6,118	4,985
Non-controlling interest	1,530	1,246

(ii) Summarised statement of comprehensive income

	2018 RM'000	2017 RM'000
Revenue	40,301	38,699
Profit for the year	2,093	1,501
Profit attributable to:		
- Owners of the Company	1,674	1,201
- Non-controlling interest	419	300

(iii) Summarised statement of cash flows

	2018 RM'000	2017 RM'000
Cash inflows/(outflows) used in operating activities	2,609	(531)
Cash outflows used in investing activities	(1,536)	(65)
Cash (outflows)/inflows from financing activities	(600)	668
Net increase in cash and cash equivalents	473	72
Cash and cash equivalents at the beginning of the year	251	179
Cash and cash equivalents at the end of the year	724	251

Notes to the Financial Statements

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20. Goodwill

Impairment tests for goodwill

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

	Group	
	2018 RM'000	2017 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	
	2018	2017	2018	2017
Budgeted gross margins	16%	23%	15%	17%
Pre-tax discount rates	10%	10%	10%	10%

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 RM35,184,000 (2017: RM37,826,000).

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.

21. Inventories

	Group	
	2018 RM'000	2017 RM'000
At cost:		
Raw materials and consumables	39,344	45,870
Work-in-progress	1,264	833
Finished goods	6,789	6,693
	47,397	53,396
Cost of inventories recognised as an expense in cost of sales	292,668	267,441

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For the year ended 31 December 2018

22. Trade and other receivables

	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Trade receivables				
Third parties	79,597	81,512	-	-
Companies in which a director has interest	4,801	5,088	-	-
	84,398	86,600	-	-
Allowance for impairment				
- Third parties	(125)	(348)	-	-
Trade receivables, net	84,273	86,252	-	-
Other receivables				
Third parties	607	946	-	-
Subsidiaries				
- Interest bearing at 3% per annum	-	-	-	47
Sundry deposits	390	637	2	2
Interest receivable	26	5	8	5
GST receivable	182	228	11	3
	1,205	1,816	21	57
Allowance for impairment				
- Third parties	(400)	(725)	-	-
Other receivables, net	805	1,091	21	57
Total trade and other receivables	85,078	87,343	21	57
Total trade and other receivables	85,078	87,343	21	57
Add: Cash and bank balances (Note 25)	29,747	15,432	575	17
Total loans and receivables	114,825	102,775	596	74

(a) Trade receivables

Trade receivables are non-interest bearing and are generally on 30 to 150 (2017: 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 2018 RM'000	Group 2017 RM'000
Neither past due nor impaired	59,440	62,891
1 to 30 days past due not impaired	16,963	15,602
31 to 60 days past due not impaired	5,381	5,686
More than 61 days past due not impaired	2,489	2,073
Total past due not impaired	24,833	23,361
Impaired	125	348
	84,398	86,600

Notes to the Financial Statements

For the year ended 31 December 2018

22. Trade and other receivables (continued)

(a) Trade receivables (continued)

Receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group. None of 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.

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

	Group	
	2018	**2017**
	RM'000	**RM'000**
Individually impaired		
Trade receivables - nominal amounts	125	348
Less: Allowance for impairment	(125)	(348)
	-	-

Movement in allowance accounts:

	Group	
	2018	**2017**
	RM'000	**RM'000**
At 1 January	348	361
Bad debt recovered	(9)	(13)
Reversal of impairment losses (Note 10)	(14)	(9)
Written off/(back)	(200)	9
At 31 December	125	348

Notes to the Financial Statements

For the year ended 31 December 2018

22. Trade and other receivables (continued)

(b) Other receivables

Subsidiaries

Amounts due from subsidiaries are unsecured and repayable on demand. Further details on related party transactions are disclosed in Note 34.

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.

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

	Group	
	2018	**2017**
	RM'000	**RM'000**
Individually impaired		
Other receivables - nominal amounts	725	725
Less: Allowance for impairment	(400)	(725)
	325	-

Movement in allowance accounts:

	Group	
	2018	**2017**
	RM'000	**RM'000**
At 1 January	725	725
Reversal of impairment losses (Note 10)	(325)	-
At 31 December	400	725

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

23. Other current assets

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Advance payments to suppliers of property, plant and equipment	1,730	163	-	-
Prepaid interest expenses	216	115	-	-
Prepaid operating expenses	1,799	755	1	1
	3,745	1,033	1	1

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For the year ended 31 December 2018

24. Deposits with licensed banks

Deposits with licensed banks with maturity period of more than three months are as follows:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Deposits with licensed banks	6,436	3,954	3,066	1,631

The weighted average effective interest rates of deposits with licensed banks at the reporting date are as follows:

	Group and Company	
	2018	**2017**
Deposits with licensed banks	3.10%	2.75%

The varying periods of deposits with licensed banks at the reporting date are as follows:

	Group and Company	
	2018	**2017**
	months	**months**
Deposits with licensed banks	12	12

Deposits with licensed banks are pledged as securities for borrowings as referred to in Note 26.

25. Cash and bank balances

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cash on hand and at banks	29,747	15,432	575	17

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

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cash on hand and at banks	29,747	15,432	575	17
Bank overdrafts (Note 26)	-	(339)	-	-
Cash and cash equivalents	29,747	15,093	575	17

Notes to the Financial Statements

For the year ended 31 December 2018

26. Loans and borrowings

	Maturity	Group 2018 RM'000	Group 2017 RM'000
Current			
Secured:			
Bank overdrafts (Note 25)	On demand	-	339
Bankers' acceptances	2019	54,211	65,001
Charge card	2019	157	171
Term loans	2019	992	450
Finance lease payables (Note 35(b))	2019	1,043	354
		56,403	66,315
Non-current			
Secured:			
Term loans	2020 to 2023	3,244	1,153
Finance lease payables (Note 35(b))	2020 to 2022	3,384	1,135
		6,628	2,288
Total loans and borrowings		63,031	68,603

The remaining maturities of the borrowings as at 31 December 2018 and 2017 are as follows:

	Group 2018 RM'000	Group 2017 RM'000
On demand or within one year	56,403	66,315
Later than one year and not later than 2 years	2,802	856
Later than 2 years and not later than 5 years	3,826	1,432
	63,031	68,603

(a) Bank overdrafts

Bank overdrafts are denominated in RM, bear interest on an average of 7.97% (2017: 7.68%) 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 4.33% (2017: 4.03%) per annum.

(c) Term loans

The loans are repayable over a period of 5 years. The weighted average effective interest rate is 6.24% (2017: 5.64%) per annum.

(d) 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 3.85% (2017: 3.49%) per annum.

26. Loans and borrowings (continued)

(e) 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 24. The borrowings are additionally guaranteed by certain directors of the Company.

Other information on financial risk of borrowings are disclosed in Note 38.

27. Trade and other payables

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Trade payables				
Third parties	25,320	24,263	-	-
Companies in which a director has interest	28	7	-	-
	25,348	24,270	-	-
Other payables				
Accrued operating expenses	8,742	6,934	60	27
Sundry payables	3,369	3,243	-	-
GST payable	-	283	-	-
Amount payable to property, plant and equipment suppliers	1,104	-	-	-
Provision	-	155	-	-
	13,215	10,615	60	27
Total trade and other payables	38,563	34,885	60	27
Total trade and other payables	38,563	34,885	60	27
Less: GST payable	-	(283)	-	-
Add: Loans and borrowings (Note 26)	63,031	68,603	-	-
Total financial liabilities carried at amortised cost	101,594	103,205	60	27

(a) Trade payables

Trade payables are non-interest bearing and are normally settled on 30 to 120 (2017: 30 to 120) days terms.

(b) Other payables

Other payables are non-interest bearing and normally settled on an average of 3 to 6 (2017: 3 to 6) months.

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For the year ended 31 December 2018

28. Deferred tax (liabilities)/assets

	Group	
	2018 RM'000	2017 RM'000
At 1 January	(8,911)	(8,224)
Recognised in profit or loss (Note 15)	(198)	(687)
At 31 December	(9,109)	(8,911)
Reflected in the statements of financial position as follows:		
- Deferred tax assets	713	196
- Deferred tax liabilities	(9,822)	(9,107)
	(9,109)	(8,911)

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 2017	(9,977)	390	41	1,322	(8,224)
Recognised in profit or loss	(265)	(107)	(41)	(274)	(687)
At 31 December 2017 and 1 January 2018	(10,242)	283	-	1,048	(8,911)
Recognised in profit or loss	420	(181)	-	(437)	(198)
At 31 December 2018	(9,822)	102	-	611	(9,109)

29. Share capital

	Group and Company			
	Number of ordinary shares		Amount	
	2018 '000	2017 '000	2018 RM'000	2017 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	11,156
At end of financial year	75,251	75,251	86,407	86,407

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

Notes to the Financial Statements

For the year ended 31 December 2018

30. Share premium

	Group and Company	
	2018	2017
	RM'000	RM'000
At beginning of financial year	-	11,156
Transition to no-par value regime	-	(11,156)
At end of financial year	-	-

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

31. 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 (2017: 1,098,455) ordinary shares 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.

32. Retained earnings

The Company may distributes dividends out of its entire retained earnings as at 31 December 2018 under the single tier system.

33. Dividend

	Net dividend per ordinary share		Amount	
	2018	2017	2018	2017
	Sen	Sen	RM'000	RM'000
Interim single tier dividend for 2018: 2.5% (2017: 2.5%)	2.5	2.5	1,854	1,854

At the forthcoming Annual General Meeting, a final single-tier dividend in respect of the financial year ended 31 December 2018, of 2.5 sen per share on 74,152,146 ordinary shares, amounting to a dividend payable of approximately RM1,853,804 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 2019.

Notes to the Financial Statements

For the year ended 31 December 2018

34. 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	
	2018	2017
	RM'000	RM'000
With subsidiaries		
Management fee charged to:		
- Ornapaper Industry (M) Sdn. Bhd.	-	73
- Ornapaper Industry (Perak) Sdn. Bhd.	-	35
- Ornapaper Industry (Batu Pahat) Sdn. Bhd.	-	19
Dividends received from:		
- Ornapaper Industry (Johor) Sdn. Bhd.	542	452
- Ornapaper Industry (M) Sdn. Bhd.	5,934	3,404
- Ornapaper Industry (Perak) Sdn. Bhd.	1,250	-
Interest received from:		
- Quantum Rhythm Sdn. Bhd.	-	10

	Group	
	2018	2017
	RM'000	RM'000
With other related parties		
Purchases from STH Wire Industry (M) Sdn. Bhd.	535	504
Sales to:		
- Perfect Food Manufacturing (M) Sdn. Bhd.	-	8,785
- Julies Manufacturing Sdn. Bhd. (formerly known as Greatbrand Industries Sdn. Bhd.)	13,025	3,234
- STH Wire Industry (M) Sdn. Bhd.	77	83

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	
	2018	2017
	RM'000	RM'000
Salaries and other emoluments	1,214	966
Defined contribution plans	146	111
	1,360	1,077

Notes to the Financial Statements

For the year ended 31 December 2018

35. Commitments

(a) Capital commitments

	Group 2018 RM'000	Group 2017 RM'000
Capital expenditure approved and contracted for:		
- Property, plant and equipment	3,680	1,703

(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 2018 RM'000	Group 2017 RM'000
Minimum lease payments:		
Not later than one year	1,287	431
Later than one year and not later than 2 years	2,152	505
Later than 2 years and not later than 5 years	1,563	754
Total minimum lease payments	5,002	1,690
Less: Amounts representing future finance charges	(575)	(201)
Present value of minimum lease payments	4,427	1,489
Present value of finance lease payables:		
Not later than one year	1,043	354
Later than one year and not later than 2 years	1,884	447
Later than 2 years and not later than 5 years	1,500	688
Present value of minimum lease payments	4,427	1,489
Less: Amount due within 12 months (Note 26)	(1,043)	(354)
Amount due after 12 months (Note 26)	3,384	1,135

36. 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.

Both parties agreed that the Learned Chairman should hand down an Award on the preliminary issues raised earlier before the Hearing commenced. As such, the Learned Chairman directed parties to file a submission on the preliminary issues on or before 29 March 2019. As at the reporting date, both parties are pending decision on the preliminary issues on a date to be fixed by the Industrial Court.

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.

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For the year ended 31 December 2018

37. 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	26
Trade and other payables	27

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	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Deposits with licensed banks	6,436	3,954	3,066	1,631

There have been no transfers between Level 1, Level 2 and Level 3 fair value measurements during the financial years ended 31 December 2018 and 2017.

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38. 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 bank balances 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.

<u>Sensitivity analysis for interest rate risk</u>

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 RM277,000 (2017: RM330,000) 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.

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

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38. Financial risk management objectives and policies (continued)

(b) Foreign currency risk (continued)

	Net financial assets/(liabilities) held in non-functional currency			
	EURO RM'000	**SGD RM'000**	**USD RM'000**	**Total RM'000**
At 31 December 2018				
Trade and other receivables	-	156	2,792	2,948
Trade and other payables	-	-	(1,148)	(1,148)
Cash and bank balances	-	6	36	42
	-	162	1,680	1,842
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

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	
	2018 RM'000	**2017 RM'000**
USD strengthened by 5% (2017: 6%)	84	83
USD weakened by 5% (2017: 6%)	(84)	(83)
SGD strengthened by 2% (2017: 3%)	3	5
SGD weakened by 2% (2017: 3%)	(3)	(5)
Euro strengthened by nil % (2017: 5%)	-	(1)
Euro weakened by nil % (2017: 5%)	-	1

(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.

38. Financial risk management objectives and policies (continued)

(c) Credit risk (continued)

(i) Trade receivables (continued)

At the reporting date, approximately 20% (2017: 23%) of the Group's gross trade receivables were due from 10 (2017: 9) 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.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

Exposure to credit risk

At the reporting date, the Group's and the Company's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statements of financial position, with positive fair value and a nominal amount of RM53,976,000 (2017: RM67,323,000) relating to corporate guarantees provided by the Company to financial institutions for credit facilities utilised by subsidiaries.

Financial assets that are neither past due nor impaired

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

Financial assets that are either past due or impaired

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.

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38. 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:

2018	On demand or within one year RM'000	One to five years RM'000	Total RM'000
Group			
Trade and other payables	38,563	-	38,563
Loans and borrowings	58,437	6,872	65,309
Total undiscounted financial liabilities	97,000	6,872	103,872
Company			
Trade and other payables	60	-	60
Total undiscounted financial liabilities	60	-	60
2017			
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	60	-	60
Total undiscounted financial liabilities	60	-	60

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For the year ended 31 December 2018

39. Capital management

For the purpose of the Group's capital management, capital includes issued capital, convertible preference shares, share premium and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise the 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 2018 and 2017.

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, loans and borrowings, trade and other payables, less cash and bank balances. Capital includes equity attributable to equity holders of the Group.

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Loans and borrowings	26	63,031	68,603	-	-
Trade and other payables	27	38,563	34,885	60	27
Less: Cash and bank balances *	25	(29,747)	(15,432)	(60)	(17)
Net debt		71,847	88,056	-	10
Equity attributable to owners of the parent		163,971	156,396	107,260	101,816
Capital and net debt		235,818	244,452	107,250	101,816
Gearing ratio		30%	36%	-	-

* Company restricted to cash and bank balances.

40. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors on 5 April 2019

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 31/12/2018 (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	22	04-Mar-02	28,870
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	21	27-Oct-97	
	Factory No. PLO 271, Jalan Kawasan Perindustrian Sri Gading, 83009 Batu Pahat, Johor Darul Takzim						6,252
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	21	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	28	25-May-90	8,023
	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	12	14-Mar-02	2,709
	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 2019

Issued and paid-up capital : RM74,152,156.00
Class of shares : Ordinary Shares
Voting rights : 1 Vote per Ordinary Share

DISTRIBUTION OF SHAREHOLDERS

Range	No. of Shareholders	%	No. of Shares	%
1 to 99	14	0.78	353	0.00
100 to 1,000	299	16.60	246,756	0.33
1,001 to 10,000	965	53.58	4,968,900	6.70
10,001 to 100,000	458	25.43	15,155,404	20.44
100,001 to 3,707,606	63	3.50	25,207,869	34.00
3,707,607 and above	2	0.11	28,572,874	38.53
	1,801	100.00	74,152,156	100.00

SUBSTANTIAL SHAREHOLDERS

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)

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	23,155,198 *	31.22
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 in PSSB pursuant to Sections 8 and 59(11)(c) of the Companies Act 2016 ("the Act").
* Deemed interest by virtue of his major shareholdings in IDSB, PSSB and the interest held by his wife pursuant to Sections 8 and 59(11)(c) 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 59(11)(c) of the Act.

Analysis of Shareholdings

As at 28 March 2019

THIRTY (30) LARGEST SECURITIES ACCOUNT HOLDERS

No.	Shareholders	No. of shares	%
1	Intisari Delima Sdn Bhd	22,692,874	30.603
2	Cartaban Nominees (Asing) Sdn Bhd	5,880,000	7.929
	Exempt An for Standard Chartered Bank Singapore		
	(EFGBHK-ASING)		
3	Huai Hin Holding Sdn Bhd	3,579,500	4.827
4	Superior Rainbow Sdn Bhd	2,558,945	3.450
5	RHB Capital Nominees (Tempatan) Sdn Bhd	1,500,000	2.022
	Pledged Securities Account for Fong SiLing (CEB)		
6	Yeo Ser Ken	1,260,000	1.699
7	Goh Yu Tian	1,000,000	1.348
8	Uptrend Performer Sdn Bhd	1,000,000	1.348
9	Grandeur Holdings Sdn Bhd	900,000	1.213
10	Lim Hong Liang	745,000	1.004
11	Wong Lok Jee @ Ong Lok Jee	600,000	0.809
12	Teo Kwee Hock	572,400	0.771
13	RHB Nominees (Tempatan) Sdn Bhd	533,000	0.718
	Exempt An for RHB Securities Singapore		
14	Gina Gan	502,800	0.678
15	Teh Bee Gaik	479,000	0.645
16	Pilihan Sistematik Sdn Bhd	459,324	0.619
17	Wong Lai Han	406,800	0.548
18	Malacca Equity Nominees (Tempatan) Sdn Bhd	362,700	0.489
	Exempt An for Phillip Capital Management Sdn Bhd		
	(EPF)		
19	Chong Nyok Moey	362,000	0.488
20	Siang Teck Siong	360,900	0.486
21	Sia Kim Diang	355,600	0.479
22	Lim Hong Liang	319,200	0.430
23	Wong Meng Kiang	307,000	0.414
24	Tey Sui Kiat	303,000	0.408
25	Teu Chee Chai	287,000	0.387
26	Oi Kim Mai	280,000	0.377
27	Public Nominees (Tempatan) Sdn Bhd	270,000	0.364
	Pledged Securities Account For Tee Kian Hong		
	(E-TSA)		
28	Voo Ah Moh	256,400	0.345
29	RHB Nominees (Asing) Sdn Bhd	237,300	0.320
	Pledged Securities Account For Lee Sui Hee		
30	Lim Chee Wieh	223,000	0.300

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 16th Annual General Meeting ("AGM") of ORNA held on 25 May 2018, 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 authorisation shall, in accordance with the Main Market Listing Requirements ("MMLR"), expire at the conclusion of the forthcoming 17th AGM of the Company.

On 25 February 2019, 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 27 March 2019, 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 RM78,105 million based on the Audited Financial Statements for the financial year ended 31 December 2018.

3. Source of Funds

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

Share Buy-Back Statement

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 27 March 2019, 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 27 March 2019				After Proposed Share Buy-Back#			
	Number of ORNAShares 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	0.01	-	-
Sai Han Siong	15,000	0.02	23,155,198*	31.22	15,000	0.02	23,155,198*	34.18
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	-	-
Cartaban Nominees (Asing) Sdn Bhd exempt an for Standard Chartered Bank Singapore (EFGBHK-Asing)	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 in PSSB pursuant to Sections 8 and 59(11)(c) 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 IDSB, PSSB and the interest held by his wife pursuant to Sections 8 and 59(11)(c) 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 59(11)(c) of the Act.

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;

Share Buy-Back Statement

(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 27.03.2019	75,250,601	86,406,501
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	78,881,441

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.

Share Buy-Back Statement

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 2018 to March 2019 are as follows:-

	Shares	
	High (RM)	**Low (RM)**
2018		
April	1.46	1.43
May	1.40	1.25
June	1.23	1.22
July	1.27	1.26
August	1.15	1.14
September	1.14	1.12
October	1.06	0.98
November	0.97	0.95
December	0.93	0.89
2019	**High (RM)**	**Low (RM)**
January	1.00	0.99
February	1.04	1.01
March	0.99	0.98

Share Buy-Back Statement

Last transacted market price of the Company's shares on 27 March 2019 was RM0.99 (being the last practicable date prior to the printing of this Statement).

(Source, https://quotes.wsj.com)

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 2018. 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 27 March 2019, 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

Pursuant to Paragraph 8.02(1) of the MMLR, a listed issuer must ensure that at least 25% of its total listed shares (excluding treasury shares) are in the hands of public shareholders ("Required Public Shareholdings Spread").

As at 27 March 2019, the Company's public shareholding spread was 67.14% 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 17th Annual General Meeting to give effect to the Proposed Share Buy-Back.

13. Other Information

13.1 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 17th 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 2017 and 31 December 2018 and the latest unaudited results since the last audited financial statements, if any.

Notice of the Seventeenth Annual General Meeting

NOTICE IS HEREBY GIVEN that the Seventeenth 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, 24 May 2019 at 10:30 a.m. for the following purposes:-

AGENDA

1. To receive the Audited Financial Statements for the financial year ended 31 December 2018 together with the Reports of the Directors and the Auditors thereon. **(Please refer to Note 6)**

2. To approve the declaration and payment of a Single-Tier Final Dividend of 2.5 sen per ordinary share for the financial year ended 31 December 2018. (Resolution 1)

3. To approve the payment of Directors' fees amounting to RM360,000.00 from 25 May 2019 until the next AGM of the Company in year 2020. (Resolution 2)

4. To approve the payment of Directors' benefits payable up to an amount of RM25,000.00, from 25 May 2019 until the next AGM of the Company in year 2020. (Resolution 3)

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

   (a) Datuk Adillah binti Ahmad Nordin (Resolution 4)
   (b) Sai Chin Hock (Resolution 5)

6. To appoint Messrs. Crowe Malaysia PLT (formerly known as Crowe Horwath) as Auditors of the Company in place of the retiring Auditors, Messrs. Ernst & Young for the ensuing year and to authorise the Directors to fix their remuneration. (Resolution 6)

   Notice of Nomination (a copy of which is annexed and marked as "**Appendix I**") has been received by the Company for the nomination of Messrs. Crowe Malaysia PLT (formerly known as Crowe Horwath), subject to their consent to act, for appointment as Auditors in place of the retiring Auditors, Messrs. Ernst & Young and of the intention to propose the following ordinary resolution:-

   "That subject to their consent to act, Messrs. Crowe Malaysia PLT (formerly known as Crowe Horwath) be and are hereby appointed as the Auditors of the Company in place of the retiring Auditors, Messrs. Ernst & Young to hold office until the conclusion of the next Annual General Meeting at a remuneration to be agreed between the Directors and the Auditors."

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

7. **Ordinary Resolution I** (Resolution 7)
   Authority to Issue Shares pursuant to Sections 75 and 76 of the Companies Act 2016

   THAT subject always to the Companies Act 2016 ("the Act "), the Articles of Association/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,

Notice of the Seventeenth Annual General Meeting

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;

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 AGM of the Company.

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

THAT subject to the passing of Resolution 4, 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 16 years, to continue to act as an Independent Non-Executive Director of the Company.

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

THAT approval be and is hereby given to Siow Kee Yen, who has served as an Independent Non-Executive Director for a cumulative term of more than 16 years, to continue to act as an Independent Non-Executive Director of the Company.

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

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/Statement to Shareholders dated 25 April 2019 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:-

Notice of the Seventeenth Annual General Meeting

(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.

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

THAT, subject to the Act, the Articles of Association/Constitution of the Company, Main Market Listing Requirements of Bursa Securities and all other applicable laws, rules and regulations and guidelines for the time being in force and the approvals of all relevant governmental and/or regulatory authority, approval be and is hereby given to the Company, to purchase such number 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 and expedient in the interest of the Company, provided that:

(i) the aggregate number of ordinary shares to be purchased and/or held by the Company pursuant to this resolution shall not exceed ten percent (10%) of the total number of issued shares of the Company as quoted on Bursa Securities as at the point of purchase; and

(ii) the maximum funds to be allocated by the Company for the purpose of purchasing its own shares shall not exceed the aggregate of the retained profits of the Company based on the latest audited financial statements and/or the latest unaudited financial statements (where applicable) available at the time of the purchase.

THAT upon completion of the purchase by the Company of its own shares, the Directors of the Company be authorised to deal with the shares purchased in their absolute discretion in the following manner:

(i) cancel all the shares so purchased; and/or

(ii) retain the shares so purchased in treasury for distribution as dividend to the shareholders and/or resell on the market of Bursa Securities; and/or

(iii) retain part thereof as treasury shares and cancel the remainder; or

in any other manner as prescribed by the Act, rules, regulations and orders made pursuant to the Act and the requirements of Bursa Securities and any other relevant authority for the time being in force.

THAT such authority conferred by this resolution shall commence upon the passing of this resolution and shall continue to be in force until:-

Notice of the Seventeenth Annual General Meeting

(a) the conclusion of the next AGM of the Company following this AGM at which such resolution was passed, at which time it will lapse, unless by an ordinary resolution passed at that meeting, the authority is renewed, either unconditionally or subject to conditions; or

(b) the expiration of the period within which the next AGM of the Company after that date is required by law to be held; or

(c) revoked or varied by an ordinary resolution passed by the shareholders of the Company at a general meeting;

whichever occurs first.

AND THAT the Directors of the Company be authorised to do all acts, deeds and things as they may consider expedient or necessary in the best interest of the Company to give full effect to the Proposed Renewal of Authority for Share Buy-Back with full powers to assent to any conditions, modifications, variations and/or amendments as may be imposed by the relevant authorities and to take all such steps, and do all such acts and things as the Board may deem fit and expedient in the best interest of the Company.

12. **Special Resolution** (Resolution 12)
<u>Proposed Adoption of a New Constitution of the Company ("Proposed Adoption")</u>

THAT approval be and is hereby given to revoke the existing Memorandum and Articles of Association of the Company in its entirety and in place thereof, a new constitution as set out in Appendix II of the Circular/Statement to Shareholders dated 25 April 2019 be and is hereby adopted as the Constitution of the Company with immediate effect;

AND THAT the Directors of the Company be and are hereby authorised to do all such acts, deeds and things as are necessary and/or expedient in order to give full effect to the Proposed Adoption with the full power to assent to any conditions, modification, and/or amendments as may be required by any relevant authorities to give effect to the Proposed Adoption."

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

<u>NOTICE OF DIVIDEND ENTITLEMENT AND PAYMENT</u>

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 2018 will be payable on 16 July 2019 to depositors who are registered in the Record of Depositors at the close of business on 2 July 2019, if approved by shareholders at the forthcoming Seventeenth AGM on Friday, 24 May 2019.

A Depositor shall qualify for entitlement to the dividend only in respect of:-

(a) Shares transferred into the Depositor's Securities Account before 4.00 p.m. on 2 July 2019 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: 25 April 2019

Notice of the Seventeenth Annual General Meeting

Notes:

1. In respect of deposited securities, only members whose names appear in the Record of Depositors on 16 May 2019 ("**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.

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 16th AGM of the Company held on 25 May 2018 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 16th 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 8 and 9 - 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 16 years. In accordance with the new Malaysian Code on Corporate Governance, 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:

Notice of the Seventeenth Annual General Meeting

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

Please refer to the Circular/Statement to Shareholders dated 25 April 2019 for detailed Information.

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

The proposed Resolution 11 is intended to allow the Company to purchase its own shares up to 10% of the total number of issued ordinary shares of the Company at any time within the time period stipulated in the Bursa Securities Main Market Listing Requirements.

(v) **Proposed Adoption of a New Constitution of the Company**

The proposed Special Resolution 12 is undertaken primarily to streamline the existing Memorandum and Articles of Association ("M&A") of the Company with the Companies Act 2016, which was effective from 31 January 2017. The Proposed Adoption is also to align the existing M&A with the Main Market Listing Requirements issued by Bursa Securities on 29 November 2017, and to provide clarity to certain provision thereof and to render consistency throughout in order to facilitate and further enhance administrative efficiency.

Please refer to the Circular/Statement to Shareholders dated 25 April 2019 for further information.

SUPERIOR RAINBOW SDN. BHD.

(Registration No : 918084-A)

NO 12-1, JALAN PANDAN INDAH 1, TAMAN PANDAN INDAH 75250 MELAKA

Dated: 16 April 2019

The Board of Directors
Ornapaper Berhad
No. 60-1, Jalan Lagenda 5
Taman 1 Lagenda
75400 Melaka

Dear Sirs,

Ornapaper Berhad ("ORNA" or "the Company")
Notice of Nomination of Auditors

~~I~~/We, the undersigned, being the registered shareholder of 2,558,945 ordinary shares in the Company hereby nominate Messrs. Crowe Malaysia PLT (formerly known as Crowe Horwath) for appointment as new Auditors of the Company in place of the retiring Auditors, Messrs. Ernst & Young at the forthcoming Seventeenth Annual General Meeting.

Therefore, ~~I~~/We propose that the following resolution be considered at the forthcoming Annual General Meeting of the Company:-

"That subject to their consent to act, Messrs Crowe Malaysia PLT (formerly known as Crowe Horwath) be and are hereby appointed as the Auditors of the Company in place of the retiring Auditors, Messrs. Ernst & Young to hold office until the conclusion of the next Annual General Meeting at a remuneration to be agreed between the Directors and the Auditors."

Yours faithfully,

DIRECTOR : YEO SER KEN

DIRECTOR : LAI LEE CHING

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 17th Annual General Meeting ("**AGM**") of the Company to be held at the Function Room 2, Level 2, Holiday Inn Melaka, Jalan Syed Abdul Aziz, 75000 Melaka on Friday, 24 May 2019 at 10:30 a.m. and at any adjournment thereof.

No.	**Resolution**
-	To receive the Audited Financial Statements for the financial year ended 31 December 2018 together with the Reports of the Directors and the Auditors thereon.

No.	**Resolutions**	**For**	**Against**
1.	To approve the declaration and payment of a Single-Tier Final Dividend of 2.5 sen per ordinary share for the financial year ended 31 December 2018.		
2.	To approve the payment of Directors' fees amounting to RM360,000.00 from 25 May 2019 until the next AGM of the Company in year 2020.		
3.	To approve the Directors' fees benefits payable up to an amount of RM25,000.00 from 25 May 2019 until the next AGM of the Company in year 2020.		
4.	To re-elect Datuk Adilah binti Ahmad Nordin in accordance with Article 92 of the Company's Articles of Association.		
5.	To re-elect Sai Chin Hock in accordance with Article 92 of the Company's Articles of Association.		
6.	To appoint Messrs. Crowe Malaysia PLT (formerly known as Crowe Horwath) as Auditors of the Company in place of the retiring Auditors, Messrs. Ernst & Young for the ensuing year and to authorise the Directors to fix their remuneration.		
7.	**SPECIAL BUSINESS** Ordinary Resolution I - Authority to Issue Shares		
8.	Ordinary Resolution II - Retention of Datuk Adillah binti Ahmad Nordin as an Independent Non-Executive Director of the Company		
9.	Ordinary Resolution III - Retention of Siow Kee Yen as an Independent Non-Executive Director of the Company		
10.	Ordinary Resolution IV - Proposed Renewal of Shareholders' Mandate for		
	Existing Recurrent Related Party Transactions of a Revenue or Trading Nature		
11.	Ordinary Resolution V - Proposed Renewal of Authority for Share Buy-Back		
12.	Special Resolution - Proposed Adoption of a New Constitution of the Company		

* 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 ___________________ 2019.

____
Signature of Member/Common Seal

Notes:

(i) In respect of deposited securities, only members whose names appear in the Record of Depositors on 16 May 2019 ("**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

fold here

Ornapaper BERHAD (573695-W)

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75350 Melaka, Malaysia.

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