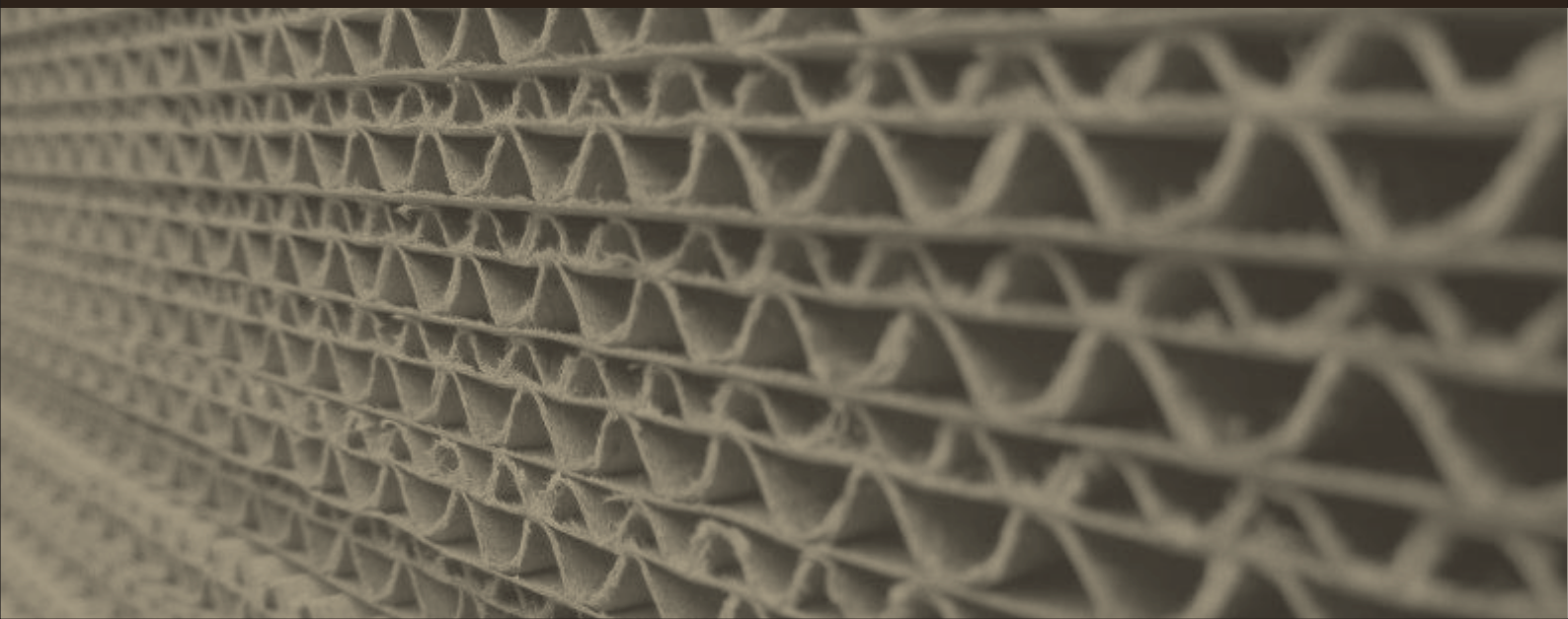




ANNUAL REPORT

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2022
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Proxy Form



Corporate Information

| | |
|--|---|
| BOARD OF DIRECTORS | : Mr. Sai Chin Hock (Executive Director) Mr. Sai Han Siong (Chief 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) SSM PC No.: 201908002648 Ms. Yau Jye Yee (MAICSA 7059233) SSM PC No.: 202008000733 |
| REGISTERED OFFICE | No. 60-1, Jalan Lagenda 5, Taman 1 Lagenda, 75400 Melaka. Tel: 606-2880220 Fax: 606-2880570 |
| CORPORATE OFFICE | No. 8998, Kawasan Perindustrian Peringkat IV, Batu Berendam, 75350 Melaka. Tel: 606-3355888 Fax: 606-3356988 Website: www.ornapaper.com |
| SHARE REGISTRAR | Aldpro Corporate Services Sdn. Bhd. 202101043817 (1444117-M) B-21-1, Level 21, Tower B, Northpoint Mid Valley City, No. 1, Medan Syed Putra Utara, 59200 Kuala Lumpur, Wilayah Persekutuan. Tel: 603-9770 2200 Fax: 603-9770 2239 Email: admin@aldpro.com.my |
| AUDITORS | Crowe Malaysia PLT 201906000005 (LLP0018817-LCA) & AF 1018 Chartered Accountants 52, Jalan Kota Laksamana 2/15, Taman Kota Laksamana, Seksyen 2, 75200 Melaka. Tel: 606-2825995 Fax: 606-2836449 |
| PRINCIPAL BANKER | RHB Islamic Bank Berhad |
| STOCK EXCHANGE LISTING | Main Market of Bursa Malaysia Securities Berhad |

Profile of Directors

Mr Sai Chin Hock

| | |
|--|---|
| Age | : 74 |
| 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 – 37,885,219 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 Tan Chin Hwee

| | |
|---|---|
| Age | : 57 |
| Nationality | : Malaysian |
| Gender | : Male |
| Designation / Position in the Company | : Independent Non-Executive Director; Chairman of Board Risk Management Committee; Member 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 Secretarial Sdn Bhd (2015 - present) |
| Directorship in other Public Companies & listed issuers | : None |
| Securities holding in the Company and its subsidiaries | : Nil |
| Family relationship with any directors and / or major shareholders of the Company | : None |
| Conflict of interest with the Company | : None |
| List of conviction for offences within the past 5 years | : None |

Profile of Directors

Mr Siow Kee Yen

| | |
|---|---|
| Age | : 52 |
| Nationality | : Malaysian |
| Gender | : Male |
| Designation / Position in the Company | : Independent Non-Executive Director; Chairman of Audit Committee and Nomination Committee; Member 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 2001-2019); Partner of KY Siow & Co. PLT (since 2020) |
| Directorship in other Public Companies & listed issuers | : None |
| Securities holding in the Company and its subsidiaries | : Direct - 30,500 shares : Indirect - 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 |

Datuk Adillah binti Ahmad Nordin

| | |
|--|--|
| Age | : 54 |
| Nationality | : Malaysian |
| Gender | : Female |
| Designation/ Position in the Company | : Independent Non-Executive Director; Chairperson of Remuneration Committee; Member of Audit Committee, Nomination Committee and Board Risk Management Committee |
| Date of appointment | : 2 December 2002 |
| Qualification | : LL.B (Honours) Nottingham University Barrister-At-Law (Middle Temple London) |
| 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 | : Direct - Nil : Indirect - Nil |
| Family relationship with any directors and/ or major shareholders of the Company | : None |
| Conflict of interest with the Company | : None |
| List of conviction for offences within the past 5 years | : None |

Profile of Directors

Mr Sai Han Siong

| | |
|--|--|
| Age | : 53 |
| Nationality | : Malaysian |
| Gender | : Male |
| Designation / Position in the Company | : Chief Executive Director |
| Date of appointment | : 27 May 2016 |
| Qualification | : Singapore-Cambridge Certificate - GCE O 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 – 38,467,543 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 |

Mr Sai Ah Sai

| | |
|--|--|
| Age | : 86 |
| 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 – 39,532,043 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 | : 52 |
| Nationality | : Malaysian |
| Gender | : Male |
| Designation /Position in the Company | : Chief Operations Officer |
| 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) Chief Operations Officer - Ornapaper Industry (M) Sdn Bhd (2020 - 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 | : 63 |
| Nationality | : Malaysian |
| Gender | : Male |
| Designation /Position in the Company | : General 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) General Manager - Ornapaper Industry (Perak) Sdn Bhd (2020 - 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 | : 68 |
| 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 | : 50 |
| 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 (Batu Pahat) Sdn Bhd (2003 - 2005) Senior Sales Executive - Ornapaper Industry (Batu Pahat) Sdn Bhd (2005 - 2010) Asst. Sales Manager - Ornapaper Industry (Batu Pahat) Sdn Bhd (2010 - 2011) Asst. General Manager - Ornapaper Industry (Batu Pahat) 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 | : 56 |
| 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 its subsidiaries ("the Group") started their corporate journey with the incorporation 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 90s and with a continuous investment programme, a new high-technology production and development facility was made available in October 1996. The Group then expanded its operation to become a corrugated board manufacturer and Ornapaper Berhad was listed on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities"), 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 the 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 logistics company established and commenced its business operation in August 2017 to fulfil the internal transportation needs of the Group. The revenue contribution of the logistics company to the Group's revenue in 2022 remained insignificant at approximately 0.7%. As for Quantum Rhythm Sdn. Bhd. which is primarily involved in the manufacturing of paper-based stationery products, it contributed approximately 5% of the Group's total revenue consistently for the past few years from both local (approximately 70% of Quantum Rhythm Sdn. Bhd.'s sales) and export (approximately 30% of Quantum Rhythm Sdn. Bhd.'s sales) markets.

The rest of the subsidiaries that 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, rubber and plastic, hardware and steel, chemical products, healthcare, sports, textile and garments, stationery and agriculture industry as well as other stand-alone converters that do not own a corrugator plant.

The Group specialises in delivering customised corrugated cartons and value-added solutions to our customers with our industry expertise in a rapidly changing marketplace. There is a wide range selection of corrugated box types produced by the Group, 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, nesting, corrugated pads and die-cut products. The Group also supplies measuring cardboard boxes and corrugated flutes comprising single face, single wall, double wall and triple wall corrugated sheetboard to fulfil different industry needs.

Management Discussion and Analysis

The Group is one of the largest manufacturers and suppliers of corrugated boards and cartons in Malaysia, supplying corrugated boards and packaging products of superior quality through strict adherence to quality and environmental standards in compliance with ISO 9001 Quality Assurance Manual 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 for delivery to customers. The Group is working aggressively in exploiting all potential synergies to improve and maintain high product quality and service efficiency. The Group is mindful that improving quality is the key to improving performance, and performance is the yardstick of quality. Constant improvement to machinery and production technology has enhanced the Group's competitive edge over others in the industry.

The Group aims to be a leading provider of packaging and related solutions serving the packaging needs of the modern manufacturing sector, by improving and strengthening the Group's operational core competency. Most of the Group's products are manufactured in accordance with customers' specifications and requirements. With Ornapaper's vision to be the best business partner for our customers, the Group is offering the greatest quality products and outstanding customer service while achieving optimal 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 vendors to deliver value-added products for the customers.

Armed with the application of modern 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 as well as lifting the packaging standards within the industry in Malaysia. Its existing facilities throughout Malaysia enable the Group to produce approximately 115,000 metric tonnes of corrugated boards and cartons per annum. Strategic service points have been set up in many states in Peninsular Malaysia to provide services and products with the highest possible quality aiming at complete customer satisfaction and delight. The Group prides itself as a supplier of superior products, with excellent customer service and reasonable pricing offered as its fundamentals, thus gaining support from all its wide-ranging customers. As such, based on progressive management techniques and strong teamwork, we set goals for continuous improvement in technical know-how and professionalism.

Besides, the Group intends to co-exist with society as a guardian of our environment in promoting the recycling program and practising proper waste control management, which supports the long-term sustainability of the Group's businesses and operations. As the operating environment of the industry becomes increasingly complex, the Group is progressing towards leveraging teamwork to attain extraordinary results over the long term. Nevertheless, integrity, transparency, objectivity and accountability are essential to the organisation's work culture in order to enhance efficient and effective teamwork and communication among employees in driving the Group to success and growth beyond.

Amidst another year fraught with challenges as the market and economy are impacted by uncertainties in the global and local economic outlook from the effects of a prolonged pandemic, coupled with the Ukraine-Russia war as well as the global supply chain disruptions that caused many interruptions to almost all sectors of economies worldwide, the overall business performance of the Group continues to be optimistic. Nevertheless, the Group adopts a conservative approach in ensuring its balance sheet remains healthy and continuously monitoring its costs and cash flow management, maintaining its presence in the market and improving operating efficiency.

Management Discussion and Analysis

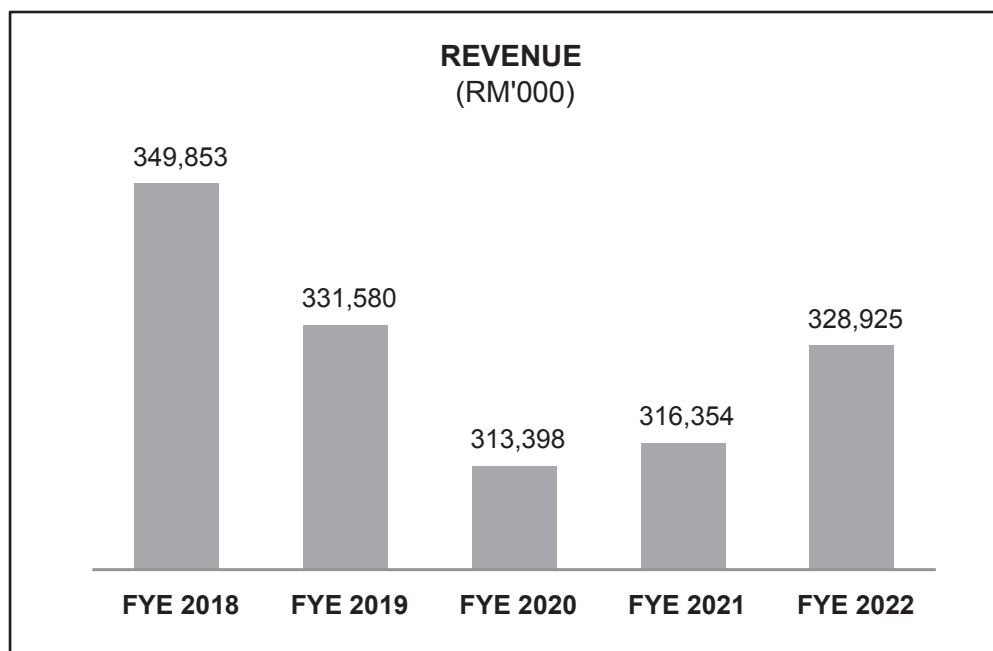
FINANCIAL REVIEW AND OPERATION REVIEW

Financial Year Ended 31 December 2022 ("2022") compared with Financial Year Ended 31 December 2021 ("2021")

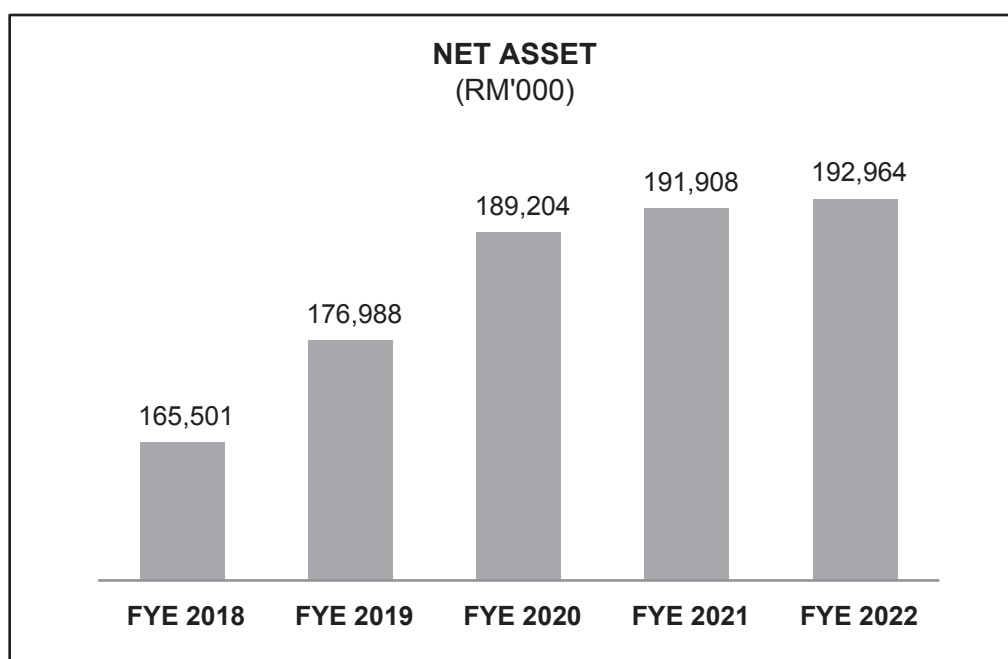
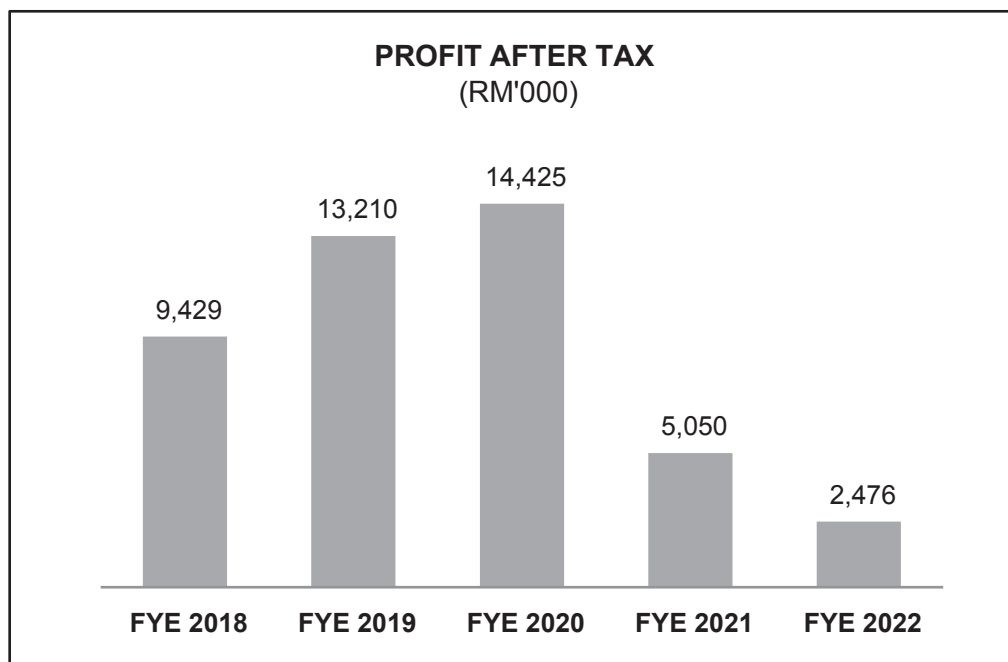
| In RM'000 (Unless otherwise stated) | FYE 2018 | FYE 2019 | FYE 2020 | FYE 2021 | FYE 2022 |
|--|----------|----------|----------|----------|----------|
| REVENUE | 349,853 | 331,580 | 313,398 | 316,354 | 328,925 |
| GROSS PROFIT | 41,986 | 48,884 | 49,172 | 36,455 | 33,585 |
| PROFIT AFTER TAX * | 9,429 | 13,210 | 14,425 | 5,050 | 2,476 |
| NET ASSET | 165,501 | 176,988 | 189,204 | 191,908 | 192,964 |
| NET ASSET PER SHARE (RM) ** | 2.23 | 2.39 | 2.55 | 2.59 | 2.60 |
| EPS BASIC (SEN) | 12.7 | 17.8 | 19.5 | 6.8 | 3.3 |
| DIVIDEND PER SHARE (SEN) | 2.5 | 3.0 | 3.25 | 2.0 | 1.0 |

* Attributable to Owners of Parent.

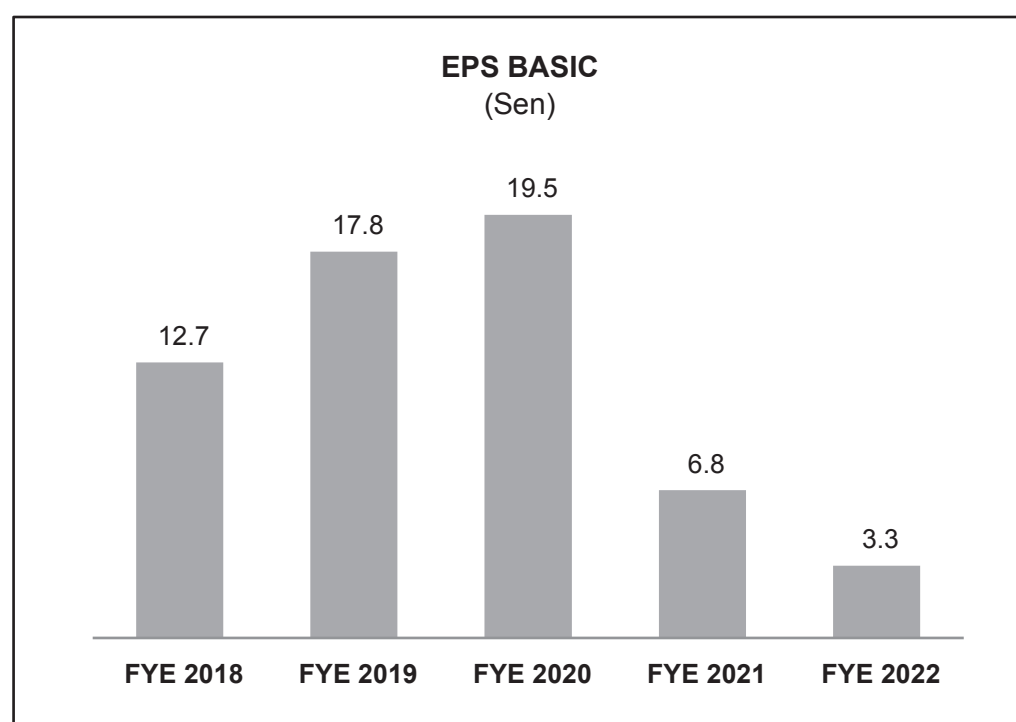
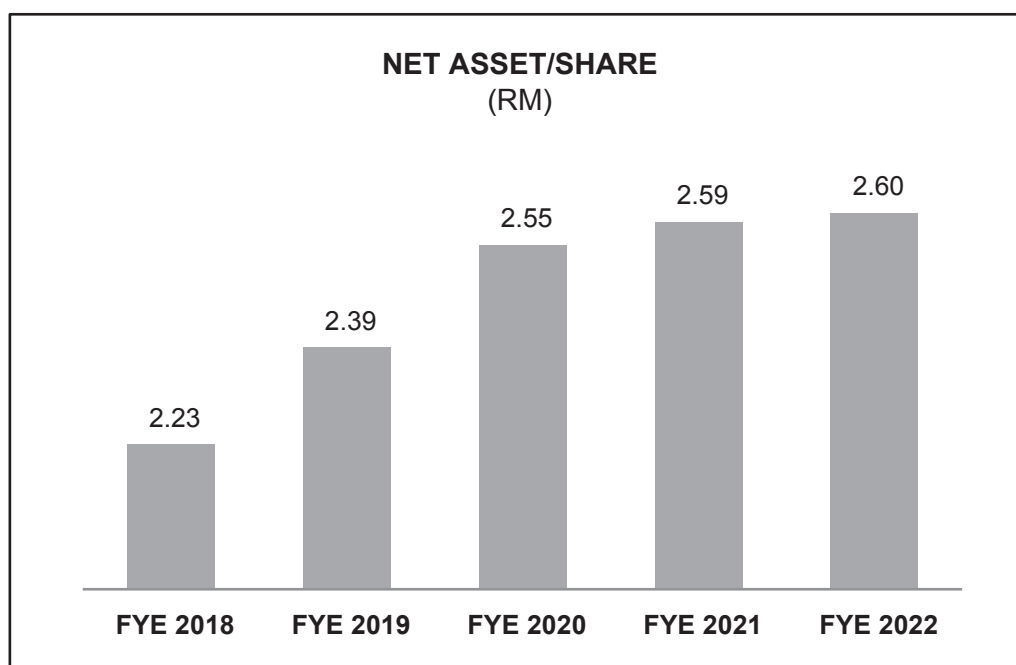
** Exclude Treasury Shares.



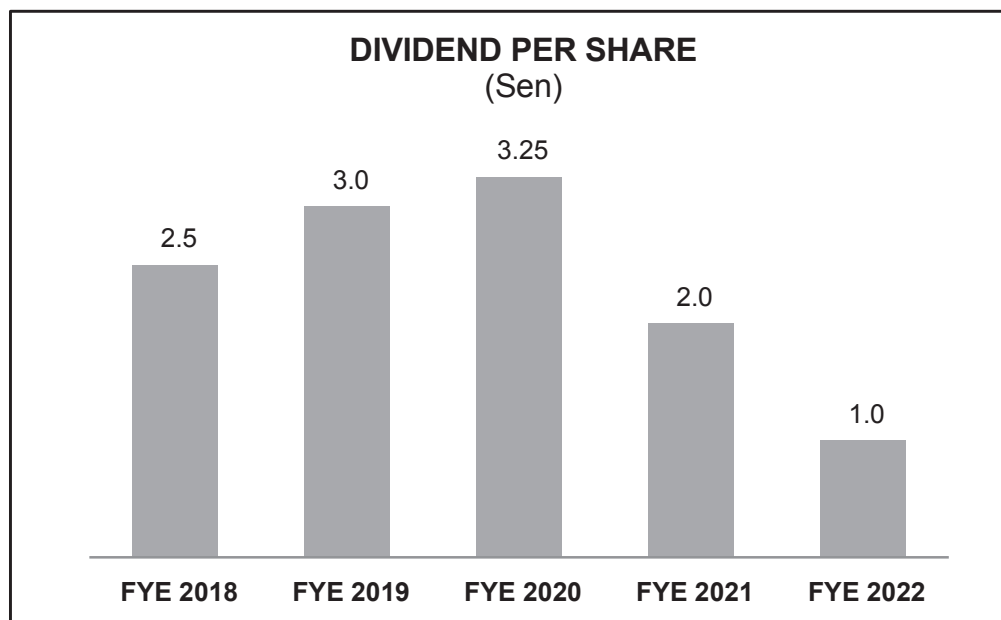
Management Discussion and Analysis



Management Discussion and Analysis



Management Discussion and Analysis



Revenue, Cost of Goods Sold and Gross Profit Margin

Apart from the COVID-19 pandemic that has progressively transitioned to an endemic phase during the financial year under review, the ongoing trade spat between the major economic powerhouses, the war in Ukraine and subsequent inflationary pressures, the rising interest rates and energy costs, the global supply chain disruptions, coupled with the domestic political uncertainty have brought about substantial disruptions to businesses and caused uncertainties elevated across global and domestic markets.

Despite the challenging operating environment, the Group managed to remain resilient by generating a revenue of RM 328.925 million for 2022, an increase of approximately RM 12.571 million as compared to the preceding year's revenue of RM 316.354 million. The higher revenue was mainly contributed by the paper packaging division of the Group. The paper packaging division remained 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 2022. Similar to 2021, the F&B industry, furniture industry and E&E industry remained as the top three (3) sectors the Group was serving, accounting for approximately 50% of the Group's sales in 2022.

The increase in our Group's revenue for the year was primarily driven by the increase in the average selling price of the paper packaging product, by approximately 5% from 2021 to 2022, as a result of the continuous cost pass-through efforts by the Group's Sales and Marketing team in dealing with the increasing raw materials costs which were mainly affected by the global supply-chain interruption subsequent to the on-going Russia-Ukraine war as well as the container insufficiency issue. Besides, the improved product mix structure by improving the premium cartons' contribution to the overall sales composition as well as the customisation of corrugated cartons and value-added solutions provided to customers also contributed to the increase in average selling price.

Besides, the increase in the average selling price in 2022 was in tandem with the increase in the average purchase price of paper rolls (per metric tonne ("MT")) by approximately 6% compared to the previous financial year. Paper roll is the highest cost component of both paper packaging and paper-based stationery products. Hence, the Group's cost of goods sold demonstrated an increase of approximately RM 15.441 million or 6%, from RM 279.899 million for 2021 to RM 295.340 million for 2022.

Management Discussion and Analysis

Overall, the gross profit margin of the Group slightly decreased from 12% in 2021 to 10% in 2022, mainly due to the greater increase in costs of goods sold as compared to the increase in revenue generated by the Group from 2021 to 2022, as a result of the price hike and global supply chain interruption subsequent to the COVID-19 pandemic and the Russia-Ukraine war. The impact of such cost upsurge was slightly reduced by the continuous cost pass-through exercises by the Sales and Marketing Department of respective operating subsidiaries as explained above.

Other Expenses

Other expenses decreased by approximately RM 1.466 million or 16%, from RM 8.930 million for 2021 to RM 7.464 million for 2022, mainly due to the lesser impairment losses on property, plant and equipment during the year amounted to approximately RM 0.760 million as compared to RM 2.244 million in the previous financial year.

Profit Attributable to Owners of the Company

On overall, the profit attributable to owners of the Company reduced by approximately RM 2.574 million or 51% from RM 5.050 million for 2021 to RM 2,476 million for 2022. Such decrease was primarily due to the lower gross profit margin with higher costs of goods sold compared to the preceding year, as a result of the higher costs of raw materials, especially paper rolls, incurred by the Group during the year due to the lingering impact of the pandemic and supply chain disruptions. Nevertheless, the impact was slightly reduced by the continuous cost pass-through efforts performed in view of the increased costs of raw materials.

Property, Plant and Equipment and Right-Of-Use Assets

Property, plant and equipment as well as right-of-use assets of the Group recorded an increase of approximately RM 18.495 million or 18% from RM 104.744 million in 2021 to RM 123.239 million in 2022. The increase was primarily due to the higher investment in additional machineries as well as lands and buildings by the Group during the year. Nevertheless, such an increase was mitigated by a decrease in the impairment losses on plant and equipment during the year, which amounted to approximately RM 0.760 million in 2022 as compared to RM 2.244 million in 2021.

Inventories

Inventories of the Group recorded a decrease of approximately RM 7.431 million or 11% from RM 67.779 million in 2021 to RM 60.348 million in 2022. The decrease was primarily due to the lower volume of paper rolls purchased in 2022 following the upsurge in the average purchase price of raw materials (especially paper roll which is the highest cost component in producing paper packaging and paper-based stationery products).

The management has taken the initiative to stringent the procurement planning and inventory management process of the Group. Continuous strict monitoring of raw materials, especially paper rolls, was performed by the Management in order to be able to respond proactively to any adverse change in 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.

Management Discussion and Analysis

With the approaches employed by the management, the inventory turnover days (average inventories divided by total costs of goods sold for the year) appeared to be relatively comparable with a marginal increase from an average of 78 days in 2021 to an average of 79 days in 2022. As the Group adopted a First-In-First-Out approach for its inventory management and closed monitoring of its inventory levels, the write-down of inventories was observed at a very minimal amount.

Trade Receivables

Trade receivables of the Group recorded a decrease by approximately RM 11.670 million or 15% from RM 78.430 million in 2021 to RM 66.760 million in 2022. Such a decrease mainly contributed to the improved collections from customers following discounts given to customers for prompt payments made. The trade receivables turnover days (average trade receivables divided by total sales for the year) improved too from an average of 91 days in 2021 to an average of 81 days in 2022 despite the overall weak and challenging business and market sentiment worldwide. The Group made every effort in managing its sales with prudent and conservative credit measures in view of the weak market sentiment and volatile backdrop.

Other Receivables, Deposits and Prepayments

Other receivables, deposits and prepayments of the Group decreased from RM 8.123 million in 2021 to RM 5.412 million in 2022, representing a decrease of approximately RM 2.711 million or 33%. The decrease was mainly contributed by lower progressive payments and deposits made to vendors in 2022 amounted to approximately RM 3.271 million compared to 2021 at approximately RM 5.846 million, for purchases of machineries for planned upgrade exercise.

Trade Payables

The trade payables balances decreased from RM 28.959 million in 2021 to RM 15.180 million in 2022, by approximately RM 13.779 million or 48%, mainly due to lesser purchases of raw materials, especially paper rolls, made by the Group during the year. Besides, prompt payments were also made to suppliers for purchases of paper rolls which resulted in lower trade payable balances in 2022. Therefore, the trade payables turnover days (average trade payables divided by total purchases for the year) demonstrated a decrease from an average of 35 days in 2021 to an average of 27 days in 2022.

Loans and Borrowings

The total short-term and long-term loans and borrowings of the Group increased by approximately RM 4.704 million or 7% from RM 72.081 million in 2021 to RM 76.785 million in 2022. The increment was primarily due to the drawdown of new term loans by the Group for the financing of lands and buildings in 2022, amounting to approximately RM 12.237 million. However, such an increase was mitigated by the reduction in utilisation of banker acceptance facilities by the Group in 2022 as compared to 2021, by approximately RM 4.742 million, following the decrease in purchases of paper rolls during the year.

Lease Liabilities

On overall, the total current and non-current lease liabilities of the Group decreased by approximately RM 1.020 million or 37% from RM 2.769 million in 2021 to RM 1.749 million in 2022. The decrease was mainly due to the termination of several hostel rental agreements by the Group in 2022.

Management Discussion and Analysis

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 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 projects to improve production capacity and efficiency. The capital expenditures incurred during the financial year were financed by internally generated funds and long-term debt financing. The Group will continue to carry out plant and machineries upgrades at respective operating subsidiaries to facilitate production capacity expansion and to improve production efficiency in the near future in order to maintain our competitiveness.

From the working capital aspect, the Group continued to demonstrate its ability to maintain its working capital liquidity by paying its current liabilities with cash collected from its current assets generated from its business operations. The Group was able to maintain its current ratio at 2 times in 2022 as compared to 1.9 times in the preceding financial year. Meanwhile, the acid test ratio of the Group was relatively stable with a minimal increase from 1.30 times in 2021 to 1.36 times in 2022.

Cash and cash equivalents decreased slightly from RM 53.008 million as at 31 December 2021 to RM 45.342 million as at 31 December 2022. The decrease in cash and cash equivalents was mainly attributable to the higher net cash flows used in investing activities which increased from RM 9.909 million in 2021 to RM 29.995 million in 2022. The increased net cash outflow was primarily due to the higher investment in additional machineries as well as lands and buildings by the Group during the year as compared to the previous financial year in order to have more efficient productivity with high quality products being produced by the Group.

On the other hand, the decrease in cash and cash equivalents was mitigated by the higher net cash inflow generated from the operating activities by the Group at RM 23.530 million in 2022 compared to RM 10.671 million in the preceding financial year. This was mainly attributable to the decrease in inventories during the year due to the lower purchases of raw materials (especially paper rolls) in 2022 following the upsurge in its average purchase price. Besides, there were also improved collections from customers that resulted in a decrease in trade and other receivables during the year, hence, higher net cash inflow generated from the operating activities during the year.

Apart from that, the net cash flows used in financing activities have recorded a reduction too from RM 5.942 million in 2021 to RM 1.187 million in 2022. This was mainly attributed to a higher drawdown of new term loans by the Group for the financing of lands and buildings in the year 2022, coupled with the higher repayment of short-term borrowings during the financial year ended 31 December 2022 in relation to such borrowings drawn for the purpose of purchases of paper rolls during the financial year ended 31 December 2021.

Debt-to-Equity Ratio

The debt-to-equity ratio (net debt divided by shareholders' equity plus net debt) of the Group as of 31 December 2022 improved to 23% as compared to 24% as of 31 December 2021. The lower debt-to-equity ratio of the Group during the financial year of 2022 was mainly attributable to the prompt payments made to suppliers for purchases of paper rolls and machineries which resulted in the lower trade and other payable balances at the end of the current financial year as compared to the previous financial year.

Management Discussion and Analysis

REVIEW OF OPERATING ACTIVITIES

| In RM'000 (unless otherwise stated) | FYE 2018 | FYE 2019 | FYE 2020 | FYE 2021 | FYE 2022 |
|-------------------------------------|----------|----------|----------|----------|----------|
| GROSS PROFIT MARGIN (%) | 12% | 15% | 16% | 12% | 10% |
| EBITDA MARGIN (%) | 9% | 11% | 12% | 8% | 7% |
| REVENUE PER AVERAGE EMPLOYEE | 372 | 336 | 314 | 338 | 357 |
| EBITDA PER AVERAGE EMPLOYEE | 32 | 36 | 39 | 27 | 24 |
| NUMBER OF AVERAGE EMPLOYEES (PAX) | 940 | 986 | 998 | 936 | 922 |

There are two (2) core operating segments that the Group is involved in, i.e. paper packaging business and paper-based stationery products. The lower gross profit margin of 10% in 2022 was mainly attributable to the higher average purchase price of raw materials, especially paper rolls, over the increase in average selling price during 2022. Albeit the surge in the average purchase price of paper rolls throughout the year, the effort was put in to improve the production efficiency in driving down the unit manufacturing cost along with the continuous cost pass-through exercises by the Sales and Marketing Department of respective operating subsidiaries. Hence, the average revenue generated per average employee of the Group demonstrated growth from approximately RM 0.338 million in 2021 to approximately RM 0.357 million in 2022.

The Group is developing its business growth through the organic growth strategy, which includes building its revenue and bottom line by increasing and maintaining its customer base, reinvesting profits made as well as improving capacity utilisation and efficiency by enhancing the plants' capacity utilisation with a 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. For the past five (5) financial years, the revenue (before intercompany sales elimination) generated by the paper packaging segment demonstrated positive growth, except for 2019 and 2020. There was a slight increment in revenue by approximately 2.4% from RM 345.561 million in 2021 to RM 353.853 million in 2022, generally resulting from the higher average selling price offered to the customers in recompensing the aftermath of increase in costs of paper rolls due to the supply chain interruption from the after-effect of the Russia-Ukraine war as well as the container insufficiency matter.

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Likewise, the costs of goods sold (before intercompany purchases elimination) also reported a corresponding increase trend throughout the financial years, except for 2019 and 2020. It has increased by approximately 4% from RM 308.849 million in 2021 to RM 321.224 million in 2022. Paper roll is one of the core raw materials used to produce corrugated boards, hence, the upsurge in the average purchase price of paper rolls certainly raised the costs of goods sold and impacted the profit margin of the Group. Therefore, the gross profit margin of the Group's paper packaging segment recorded slight fluctuation throughout the financial years, at a range of 9% to 15%, whereby 2020 recorded the highest margin of approximately 15% while 2022 recorded the lowest margin of approximately 9%.

During the financial year, three (3) types of industries served by the Group contributed approximately 50% to the Group's total revenue in 2022, whereby approximately 23% of the revenue was generated from the F&B industry, approximately 15% of the revenue was generated from the furniture industry and approximately 12% of the revenue was generated from the E&E industry. The revenue contribution from these three (3) types of industries for 2022 was relatively consistent as compared to the sales contribution in 2021.

For the past five (5) financial years from 2018 to 2022, profits before tax generated from the paper packaging segment presented a growth trend, except for 2021 and 2022 with a lesser profit before tax earned as compared to the respective preceding financial years. The profit before tax recorded a decrease from RM 11.545 million in 2021 to RM 5.964 million in 2022 due to the explanations aforementioned amid the challenging and volatile global market conditions filled with innumerable uncertainties as a result of the supply chain disruptions, the Ukraine war, the trade war between the major powerhouses, energy crisis, inflationary issue, pandemic, as well as the weak consumer sentiments during 2022.

(ii) *Paper-Based Stationery*

The paper-based stationery segment of the Group is operated by Quantum Rhythm Sdn. Bhd. ("Quantum"). Quantum generated its revenue from the sales of manufacturing products which consist of office products and stationery paper products, as well as the sales of trading items, with revenue contributions of approximately 6%, 83% and 11% respectively to the total revenue of Quantum in 2022.

The revenue generated by Quantum recorded a constant decrease from 2018 to 2021, except for 2022. The revenue increased by approximately 31% from RM 15.448 million in 2021 to RM 20.166 million in 2022, mainly due to the increase in overall sales volume by approximately 38% from 2021 to 2022, particularly the sales of stationery paper products for schools' usage. Besides, the increase in average selling price offered to customers as a result of the continuous cost pass-through exercises by the Sales and Marketing Department to mitigate the impact of the higher cost of raw materials had also contributed to the increase in revenue generated by Quantum in 2022. Consequent to the increase in revenue generated by Quantum during the year, the costs of goods sold incurred by Quantum increased too by approximately 23% from RM 16.116 million in 2021 to RM 19.856 million in 2022.

On the other hand, other expenses recorded a decrease from RM 2.014 million in 2021 to RM 0.640 million in 2022, by approximately RM 1.374 million or 68%, mainly due to the lower impairment losses on plant and equipment during the year.

Management Discussion and Analysis

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, detailed as follows:

(i) *Economic Risk*

Bringing forward the uncertain global economic condition from the prior years with a pronounced slowdown of global economic growth resulting from the trade war situation between economy powerhouses as well as the COVID-19 pandemic, the Russia-Ukraine war, global supply-chain disruptions, energy crisis, rising interest rates and inflationary pressures, as well as the elevated financial vulnerabilities in large swaths of the world are among the factors that led to challenging and volatile market conditions which hasten the possibility of the imminent global recession.

With global recession a forgone conclusion coupled with innumerable uncertainties mentioned, challenges abounded in such negative economic conditions in the months or a year ahead, while recovery is anticipated and expected in the year 2024 at the earliest period following the current situation. The challenges involved include slower sales due to weakening demand and soft consumer sentiment, tightening of working capital availability due to delay in payment from or delinquency of customers, cost pressure due to the increasing costs of raw materials and energy costs.

In spite of the numerous challenges aforementioned that affected the business operations of the Group, the management undertook various measures, such as, proactive and prompt actions taken to ensure efficient productivity with good quality products produced, closely followed up with the customers to preserve the existing sales by the Group arising from the triple headwinds, close monitoring of collections from customers, prudent working capital planning and cash preservation measures, rational cost saving measures, obtained financial assistance via the stimulus packages introduced by the Malaysian government earlier, as well as enforcement of strict safety and health measures to prevent the spread of COVID-19 in the factory premises.

(ii) *Volatile Key Raw Material Price*

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 volatility in key raw material prices such as paper rolls as well as its supply consistency. The 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. It is especially critical presently as a consequence of the global supply chain interruption and container insufficiency concern, along with other factors such as the Ukraine war, inflationary pressures and the energy crisis apart from the pandemic concern. Hence, the demand for paper that began outstripping its supply had driven the fluctuation and increment in paper roll prices significantly, resulting in the increase in selling price to customers.

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In order to reduce the impact of cost increases without impairing the profit margin and quality of products produced from time to time, the Group has taken initiatives to strictly monitor the costs of raw materials, increase production efficiency with production optimisation and reduce wastage. Close communication is maintained with suppliers in order to ensure swift and efficient responses to such volatility. Apart from that, continuous and reasonable cost pass-through through revised selling prices is practised by the Sales and Marketing Department of respective subsidiaries in order to remain sustainable.

(iii) Foreign Currency Risk

In the near foreseeable future, stemming from the imminent global recession and inflationary pressures with enormous uncertainties that might severely affect the global economic condition, we expect the operating environment the Group faces will be challenging and intense, especially in the context of the Malaysian Ringgit ("RM") against United States Dollar ("USD") and Singapore Dollar ("SGD"), and these developments may affect the Group's profit margin. The Group is exposed to foreign currency risk primarily through sales of paper-based stationery products as well as purchases of raw materials, i.e. paper rolls and machineries that were transacted in USD and SGD as a result of the strengthening of USD and SGD against RM.

The Group does not practice any active hedging of foreign currency due to unpredictable fluctuation of foreign currency, especially in this volatile economic condition. The management of foreign currency risk is performed through close monitoring of foreign currency movement with limited hedging through forward contracts when necessary and prudent 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 the import of paper rolls from overseas by substituting the consumption requirements through local sources.

(iv) Competitive Risk

The 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 and their controls on the upstream of the supply chain. Meanwhile, the small-scale paper and packaging players will have difficulty increasing profit margins in the paper and packaging market due to insufficient capital in sourcing for better technologies as well as weaker bargaining power in procuring raw materials especially in encountering the scarcity of supply of paper rolls at this juncture, as well as to cope with the significant upsurge of paper rolls prices, which are then lead to 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 will then be consolidated through mergers and acquisitions by the bigger players in expanding their market shares.

Therefore, it is important for the Group to be competitive enough in securing and maintaining its position in the challenging market. The Group has a diverse customer base in different industrial groups with different product mix structures to counteract the intense competition in the local scene. Furthermore, by engaging and maintaining a competent workforce with proper trainings provided, the Group is able to ensure optimal productivity with minimal wastage and excellent quality products and services. With the investments in automation machines and plant expansion, machines capacity could be maximized and expanded which leads to cost efficiency and economy of scale in offering a more competitive pricing structure to customers.

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(v) *Credit risk*

The credit risk of customers increased in response to the weak market sentiment and such risk is expected to heighten given the enormous uncertainties regarding the recovery of global and local economic conditions. The Group had adopted a feasible sales and marketing approach balanced with prudent credit management and sustainable sales growth. Comprehensive credit management policy and processes had been put in place in that respect, whereby credit management is further enhanced by the management by employing proactive credit monitoring, negotiation of temporary measures for payment delay, if necessary, and tightening credit. Despite the demanding backdrop and market uncertainties that impacted most of the companies' business operations, most of the Group's trade debtors have generally made their payments within the approved credit periods.

FUTURE OUTLOOK

The paper packaging and paper-based stationery industry hinge heavily on the performance of the economic and relevant industries the Group is supplying to, not only in Malaysia but also regionally. On the other hand, the main raw materials – paper rolls are still relying heavily on the availability of paper supply worldwide along with the volatile price of paper rolls in the global market. The fluctuations in raw material costs triggered by the prevailing geo-political tensions and the expected economic turbulences are among the key challenges faced by the industry players in forecasting and planning the purchases of raw materials, especially paper rolls which appeared as the highest cost component in producing the paper packaging and paper-based stationery products. The increase in wood pulp prices has increased production costs for manufacturers that rely on the materials as an input, especially paper-based packaging manufacturers. As such, the paper rolls supplied to the subsequent paper packaging and paper-based stationery manufacturers are certainly traded at a higher price too.

Generally, risks to the global baseline are very much leaned towards the downside. Ascending inflation, debt and income inequality could possibly obstruct the recovery of emerging and developing economies. Additionally, the occurrences of inclining energy prices and supply chain disruptions globally are the dominant forces precipitating the surge in the global inflation rate. Despite the recovery of economic activities due to the reopening of the global economy and improvement in labour market conditions after the COVID-19 pandemic, the breakout of war in Ukraine has further restrained the global economic recovery from the pandemic seeing that the war has caused soaring food and fuel prices along with economic sanctions imposed by numerous countries against Russia. The conflict between Russia and Ukraine is expected to keep energy costs rising while the continued global supply bottleneck hampers growth. Hence, disruptions to the global supply chain are expected to accelerate the increment in inflation rate and decelerate the global economy development.

Management Discussion and Analysis

In accordance with the report issued by International Monetary Fund (“IMF”) in January 2023, the global growth for the year 2023 is forecasted to be contracted to 2.9 percent as compared to 3.4 percent in 2022, and then rise to 3.1 percent in 2024¹. Rising inflation and sluggish growth will be felt by the entire global economy in consonance with Russia’s invasion of Ukraine as Russia and Ukraine are the major commodities producers, especially oil and natural gas. The consequences of such a humanitarian crisis will flow through three main channels. Firstly, surging prices for commodities such as food and energy will further accelerate the inflation rise, deteriorate the value of incomes and weigh on demand. Secondly, neighbouring economies in particular will be struggling to cope with the disrupted trade, and supply chains as well as an extraordinary surge in refugee flows. Thirdly, higher investor uncertainty and lower business confidence will weigh on asset prices, contracting financial conditions and conceivably inducing the occurrence of capital outflows from emerging markets².

Regardless of the worsening geopolitical issues and supply chain disruptions globally, the Malaysian economy in 2023 is expected to expand at a more moderate pace amid a challenging external environment. Malaysia’s economic or gross domestic product (“GDP”) growth is projected to expand by 4% in 2023³, as slowing global growth is anticipated to weigh on exports while concern about elevated costs of living and input costs are expected to impact spending by households and businesses. Domestic demand, particularly private sector spending, will remain the anchor of growth for the Malaysian economy in 2023, supported by the continued recovery in the labour market and the realisation of multi-year investment projects.

Private consumption is projected to continue growing, albeit at a more moderate pace at 6.1% in 2023, from 11.3% in 2022. While households are expected to further adjust spending in response to the elevated cost of living, consumer spending will be underpinned by continued improvements in labour market conditions. The unemployment rate is expected to improve to 3.5%, with a more broad-based expansion in income. The services and manufacturing sectors will also continue to support growth. Growth in the manufacturing sector is expected to be moderate to 4% this year from 8.1% last year, with the E&E cluster projected to grow below its long-term average of 6.2%, in tandem with the anticipated slowdown of global semiconductor sales. Growth in the consumer-related manufacturing cluster would also be lower, amid the normalisation in household spending activities.⁴

Headline and core inflation are expected to moderate but remain elevated in 2023 amid lingering cost and demand pressures. Core inflation is expected to remain elevated in the near term, in part due to the low base in the first half of 2022. Existing price controls and fuel subsidies, and the remaining spare capacity in the economy, will continue to partly contain the extent of upward pressures to inflation. The inflation outlook remains highly subject to any changes to domestic policy, as well as global commodity price developments. Nevertheless, the unfavourable risks to the country’s economic prospects should not be neglected as the greater volatility in the financial markets, ongoing disruption in the global supply chain, gradual labour market recovery and geopolitical issues could disrupt the nation’s economic recovery progress.

¹ <https://www.imf.org/en/Publications/WEO/Issues/2023/01/31/world-economic-outlook-update-january-2023>

² <https://blogs.imf.org/2022/03/15/how-war-in-ukraine-is-reverberating-across-worlds-regions/>

³ <https://www.worldbank.org/en/country/malaysia/publication/malaysia-economic-monitor-february-2023-expanding-malaysia-s-digital-frontier>

⁴ <https://www.theedgemarkets.com/node/661194>

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All in all, the Covid-19 pandemic along with the intensifying geopolitical issues has induced considerable human suffering as well as major economic and supply chain disruptions. It has significantly impacted all industries and businesses including the paper packaging industry in terms of local and export sales, inventory and supply of paper board, logistic interruption, workforce and capacity utilisation, production volume, capital investment as well as the various fixed and variable costs to be incurred. Concerns of the global economic slowdown, the impact of war in Ukraine, the energy crisis, the Covid-19 pandemic, the risks of stagflation as well as the on-going trade war are pressing the need for the industry players to be more vigilant and forward-looking for sustainable future growth.

With the imminent global recession to be unfolded in foreseeable future, the Group is expected to be affected by such developments, similar to the majority of businesses worldwide. Therefore, it is paramount for the Group to act prudently in the conduct of the businesses of the Group by preserving the sales, practising prudent capital management and pursuing cost saving measures while maintaining an adequate and skilled workforce in order to ride through such a challenging time. However, it poses challenges to the Group quantifying the exact financial impacts and the severity of such impacts that could affect the Group at this juncture in view of the uncertainties, instabilities and geopolitical issues, same holds true regarding the economic impacts of triple headwinds. Therefore, additional risk mitigation measures will be taken by the Management in the future to ride through this headwind shall the conditions worsen in future.

Beyond its cyclical impact on growth, the pandemic has fundamentally reshaped the economy and the way we conduct our businesses and daily affairs. A substantial volume of businesses has made the transition to widen their reach to the customers and greater community through the virtual realm utilising existing online e-commerce platforms. In the medium term, it is also important for the Group to continue its strategy of not being overly dependent on one industry group and continue to diversify its customer and industry bases in coming years as the business landscape and delivery mode (for example, opportunity present in the e-commerce scene) are expected to shift post Covid-19 pandemic and imminent recession. In order to sustain itself in the aftermath of the Covid-19 pandemic and imminent recession, it is important for the Group to position itself as the green partner (as the voice of environment conservation growing by the days), rather than just pure packaging material supplier, to provide value-added services to its customers.

Along with the blooming of environmental and sustainability concerns globally, consumers' and regulatory bodies' awareness of these issues and their potential impacts has seemed to escalate throughout recent decades. Regulatory bodies are now imposing and devising restrictions to reduce non-biodegradable wastage and consumers are actively reducing their reliance on plastic packaging by seeking for other alternatives to battle against the environmental and sustainability issues. In pursuance of minimising disposable plastic waste within Malaysia, which could pose a long-lasting threat to the livelihood of its people if it is left unattended, the Malaysian government has implemented an initiative to prohibit the usage of disposable single-use plastic by the year 2030⁵. Such a prohibition initiative may lead to potential positive prospects for paper packaging which has been seen as the most environmentally friendly packaging solution. Paper packaging materials can be easily reused and recycled as compared to other materials, such as metals and plastics. Therefore, paper packaging is amongst the most eco-friendly and economical forms of packaging. Demand for paper packaging materials is expected to be driven up in the forthcoming years in view of its potential to be the perfect substitute for plastic packaging materials..

⁵ <https://www.malaymail.com/news/malaysia/2020/11/19/all-state-govts-back-implementation-of-no-plastic-bag-campaign-says-environ/1924319>

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Being one of the leading paper packaging companies, we highly anticipate growth in the demand for paper packaging products, which is popularly used in consumer products packaging as well as e-commerce product packaging following the rapid growth and convenience of online shopping and delivery-on-demand services in addition to the heightened consumers' awareness on environmental issues. The pandemic outbreak has also changed the shopping behaviour of consumers due to the preventive measures of social distancing and lockdown imposed. More consumers have shifted from making their purchases in brick-and-mortar stores to online e-commerce platforms. People would perceive that online shopping provides a safer environment and creates more conveniences rather than in-store purchasing. In line with the booming of e-commerce business in recent years as well as the aspiration among a strengthening middle class to engage with global brands and shopping habits, it has facilitated the usage of alternative packaging options such as green packaging and corrugated packaging with the aim to preserve our environment through minimising the usage of plastics. Therefore, packaging producers must concentrate on tapping the potential growth in emerging markets as well as in developed economies.

In response to the above projected developments in the economic and market conditions, the Group is acting proactively and prudently 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 as compared to comparable industry peers in Malaysia during the year as well as in years to come, with counter measures implemented in response to the triple headwinds. Nevertheless, the Board of Directors do maintain a cautious outlook for the Group's performance in the coming financial year 2023 as the business environment continues to be incredibly challenging following the worsening geopolitical crisis, inflationary pressures, political instability and other uncertainties apart from the pandemic. Although the operating landscape remains volatile, the Group will continue to stay agile while navigating the headwinds and keeping steadfast in enhancing the customers' experience. The Group will continue its effort to align its business strategies, improve operational efficiency and product quality in navigating through the challenging and intensely competitive market environment.

DIVIDEND

A final single-tier dividend of 2 sen per ordinary share (net of treasury shares) was distributed to the shareholders on 20 May 2022 in respect of the financial year ended 31 December 2021, amounting to approximately RM 1.483 million. Besides, a final single-tier dividend of 1 sen per ordinary share (net of treasury share) in respect of the current financial year ended 31 December 2022 has been declared for payment on 19 May 2023 to shareholders registered in the Register of Members on 5 May 2023, amounting to approximately RM 0.742 million.

The Group adopts a prudent and conservative approach toward its capital expenditure and working capital requirements, especially during the current challenging business environment. As such, capital expenditure and working capital financing requirements are sourced, firstly, by internally generated funds, supplemented by suitable debt and equity financings. As such, at present, the Group does not adopt a fixed dividend policy but considers distributing excess profits generated after taking into consideration of the cash reserve requirements for the black swan event, planned capital expenditures and working capital requirements in the 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 (“MCCG”) issued by Securities Commission which took effect from 28 April 2021. 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 2022, 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 Reports for the financial year under review is available for download from the Company’s website at www.ornapaper.com as well via an announcement on the website of Bursa Securities.

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 the Group, including its strategic plan, overall management and business performance, management of principal risk and controls, standard of conduct, sustainability management 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 and the Board is guided by the **Board Charter**. The roles and responsibilities of the Board are 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:-

- Set the key values, corporate objectives, and ethos of the Group (including its subsidiaries);
- Review and approve strategic plans for the Group (including its subsidiaries) and ensure that such strategic plans are consistent with corporate objectives and supports long-term value creation and includes strategies on economic, environmental and social consideration underpinning sustainability;
- Oversee the conduct of the Group’s (including its subsidiaries) business and evaluate whether the business is being properly managed;
- Review, challenge and decide on the Group’s overall corporate strategy, budgets, plans and policies proposed by the Directors of the Company and its subsidiaries and Key Senior Management of the Group, and monitor on the implementation of such proposals;

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- Together with the Directors of its subsidiaries and Key Senior Management of the Group, promote good corporate governance culture and practices within the Group which reinforces ethical, prudent and professional behaviour;
- Identify principal risks of the Group (including its subsidiaries) and ensuring the implementation of appropriate internal controls and mitigation measures by the Directors of the Company and its subsidiaries and Key Senior Management of the Group;
- Set the risk appetite within which the Board of the Company expects Management to operate and to ensure there is a sound risk management framework to identify, analyse, evaluate, manage and monitor significant financial and non-financial risks;
- Ensure adequate trainings are provided to the Board's members of the Company and its subsidiaries and Key Senior Management of the Group;
- Ensure all Directors of the Company and its subsidiaries are able to understand financial statements and form a view on the information presented;
- Review the policy and procedures for appointment and re-appointment of Director of the Company and its subsidiaries and appointment of member of Key Senior Management of the Group that such Director or member of Key Senior Management possess the required character, experience, integrity, competence and time to:
 - effectively and diligently discharge their responsibilities and duties and contribute to the proper governance of the Company and its subsidiaries, and
 - manage the Group's business activities and affairs in the best interests of its stakeholders;
- Ensure that succession planning of the Directors of the Company and its subsidiaries and Key Senior Management of the Group are in place;
- Ensure formal and transparent remuneration policy and procedure is established to attract and retain directors of the Company and its subsidiaries and Key Senior Management of the Group and the remunerations of the directors of the Company and its subsidiaries and Key Senior Management of the Group are measured against their contributions, performance (including performance in relation sustainability management) and long-term sustainability of the Group;
- Oversee the development and implementation of Corporate Disclosure Policy for the Group (including its subsidiaries) to enable effective communication with stakeholders and in compliance with relevant laws and regulations;
- Oversee the implementation of internal and external stakeholder engagement by the Company and its subsidiaries to ensure inputs are obtained from the stakeholders on the economic, environmental and social matters and potential risks in relation to the businesses of the Group and the interests of the all affected stakeholders are taken care of;
- Review the adequacy and integrity of the internal controls system and management information system of the Company and its subsidiaries, and that integrity of the Group's financial and non-financial reporting (including subsidiaries) is preserved for decision making and external compliance purposes;
- Ensure the integrity of the Group's financial and non-financial reporting (including subsidiaries) is preserved for decision making and external compliance purposes;
- Oversee the development and implementation of Sustainability Policy for the Group (including its subsidiaries) to manage economic, environmental and social matters in relation to the businesses of the Group and to ensure that the strategic plan of the Company and its subsidiaries supports long term sustainability;
- Regular review the division of responsibilities among the Board, Board Committees, Chairman, Chief Executive Director ("CED") and authorities delegated to Management through CED;

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- Ensure the Code of Conduct of the Company and its subsidiaries promote the core values of the Group established by the Board and ensure the implementation of appropriate internal control system to support, promote and ensure its compliance;
- Oversee the development and implementation of Whistleblowing Policy for the Group (including its subsidiaries) to enable genuine concerns are objectively investigated and addressed with corrective actions; and
- Review the adequacy and effectiveness of the Group's Anti-Bribery and Corruption Management ("ABCM") system including promoting appropriate anti-bribery and corruption culture within the Group.

The roles and responsibilities of the Board and the application of the MCCG's practice are disclosed in Practice 1.1 of the CG Report.

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

Pursuant to the **Board Charter**, the Board shall be led by the Chairman who shall be acting as the head of the Board to ensure effective functioning of the Board. However, the resignation of Executive Chairman, Mr. Ang Kwee Teng, on 22 December 2021 to pursue his personal matters had resulted in casual vacancy in the Chairman of the Board. Mr. Sai Chin Hock (the Executive Director) or Mr. Siow Kee Yen (the Independent Non-Executive Director) was elected as Chairman of the meeting held during the financial year under review pursuant to Clause 158 of the Company's Constitution. It is the immediate focus of the Board to identify a senior member of the Board to be appointed as the Chairman of the Board during the financing year ending 31 December 2023.

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 CED whose responsibilities are disclosed in Practice 1.3 of the CG Report.

To ensure that there is a balance of power and authority within the Board, the position of the Chairman and CED is separated and there is a clear division of responsibility between the Chairman and CED. The 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 the Chairman and CED is disclosed in Practice 1.3 of CG Report.

Mr. Sai Chin Hock, the Executive Director elected as Chairman of the meeting for three Board's meetings while Mr. Siow Kee Yen, the Independent Non-Executive Director elected as Chairman of the meeting for one Board's meeting held during the financial year under review. Mr. Sai Chin Hock was not a member of the Audit Committee ("AC"), Nomination Committee ("NC"), Remuneration Committee ("RC") and Board Risk Management Committee ("BRMC"). However, he had attended several of the Board Committee's meetings by way of invitation during the financial year under review. Mr. Siow Kee Yen is the Chairman of the AC. Kindly refer to Practice 1.4 of CG Report for further details and explanation for departure.

Corporate Governance Overview Statement

The Independent Non-Executive Directors (“INED”) 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 stakeholders are given due considerations during the decision-making process.

The Board members, in carrying out their duties and responsibilities, are firmly committed to ensuring that the highest standards of corporate governance and corporate conduct are adhered to, in order for the Company to achieve strong financial performance for each financial year, and more importantly to deliver long-term and sustainable value to stakeholders. To ensure the effective discharge of its functions and responsibilities, the Board delegates a reasonable level of the Board’s authorities and discretion to the Executive Directors, representing the Management, as well as a reasonable level of the Board’s duties to formally constituted Board Committees.

The Board Committees (AC, NC, RC and BRMC) 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 to and oversee the heads of department, who are responsible for day-to-day operational efficiency and effectiveness and for compliance with relevant laws and regulations as well as the procedures and authorities granted per the Group’s operating procedures and Limit of Authority Matrix approved by the Executive Directors. The authorisation procedures for key processes are stated in the Group’s policies and procedures.

The Board is assisted by professional Chartered Secretaries in discharging duties efficiently and effectively. The details of the Company Secretaries are disclosed in Practice 1.5 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), qualification, vacation of office and removal of Directors, roles and responsibilities (Board, Board Committees, Chairman, CED and Executive Directors, Non-Executive Directors (“NED”), Company Secretaries and matters reserved for the Board), and Board activities and processes (Board meetings, Directors’ training, Directors’ remuneration and Board and member assessment), financial reporting, access to information and independent advice, stakeholder’s engagement, general meeting and attendance, conflict of interest, code of conduct of Directors and group governance’s responsibility.

Further disclosures on the details of the **Board Charter** are disclosed in Practice 2.1 of the CG Report.

The **Board Charter** is available for reference at “Corporate Governance” section of “Investor Relations” of the Company’s website www.ornapaper.com. The **Board Charter** was last reviewed and updated on 30 December 2021.

Corporate Governance Overview Statement

- **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 updated and approved by the Board on 30 December 2021 to govern the standards of ethics and good conduct expected for the Directors, Management and employees of the Group. The **Code of Conduct** forms the cornerstone for the establishment of the integrity and ethical value expected and which are incorporated in the **Employees Handbook**.

To further enhance the ethical value throughout the Group, a formal **Anti-Bribery and Corruption Framework** had been put in place by the Board to effectively manage and mitigate risk of bribery and conflict of interest situation. Further disclosure pertaining to the Group's Code of Conduct is disclosed in Practice 3.1 of the CG Report.

To foster an environment where integrity and ethical behavior are maintained and any illegal or improper action and/or wrongdoing in the Group, the Board established the **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, Anti-Bribery and Corruption Framework**, legal issues and accounting or audit matters. Further disclosure pertaining to the **Whistleblowing Policy** is disclosed in Practice 3.2 of the CG Report.

The **Code of Conduct, Anti-Bribery and Corruption Framework** and **Whistleblowing Policy** are available for download from "Corporate Governance" section of "Investor Relations" of the Company's website at www.ornapaper.com.

- **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 2022, five (5) meetings have been held and attendance of each of the Directors is as follows: -

| Names of Directors | Number of Meetings Attended |
|----------------------------------|-----------------------------|
| Sai Chin Hock | 4/5 |
| 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 | 5/5 |

The Chairman of the Board, on the advice of the Company Secretary, determined the agenda of the meetings of the Board during the financial year under review and ensure that sufficient time was allocated during the meeting proceedings so that each agenda items or issues brought up were discussed or deliberated in necessary depth before decisions were made.

Corporate Governance Overview Statement

Board Committee meetings held during the financial year under review were not combined with the Board Meetings.

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 ensure 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.

Kindly refer to Practice 1.6 of the CG Report for Board meeting's proceedings and activities.

- **Supply of Information**

The Board members in their individual capacity have unrestricted access to complete information on a timely basis in the form and quality necessary for the discharge of their duties and responsibilities. All the Directors are notified of the Board meetings within stipulated time prior to the meetings date. Notice of each meeting and 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 1.6 of the CG Report for details of the Board's meeting materials and supply of information.

- **Composition of the Board**

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

Corporate Governance Overview Statement

The appointment and re-appointment of Directors of the Company and its subsidiaries are governed by ***Policy and Procedure on Nomination and Appointment of Director and Senior Management and Re-Appointment of Director*** and ***Fit and Proper Policy*** approved by the Board. It is the duty of NC to ensure that the composition of the Board is refreshed periodically based on the results of the Board evaluation and performance and the tenure of each Director. The tenure of the Directors of the Company was evaluated by NC in February 2023 and the recommendations for the re-appointment of Directors for the forthcoming Annual General Meeting (“AGM”) were made after NC and the Board were satisfied that the current board composition and the tenure of each director were able to fulfil the current and future needs of the Group and that performance and contribution of directors seek for re-appointment were satisfactorily to the proper governance and oversight responsibilities of the Board. Please refer to Practice 5.1 of the CG report for the detailed disclosure on review of Board composition and tenure of individual Directors and that re-appointment is based on satisfactory evaluation of the Director’s performance and contribution to the Board.

The Board currently comprises of six (6) members of which two (2) are Executive Directors, one (1) Non-Independent and Non-Executive Director (“NINED”) and three (3) are INEDs. The profiles of the Directors are set out in the Profile section of this Annual Report. With the present composition of the Board, the Company complies with Practice 5.2 of MCCG which requires that at least half of the Directors of the Board should be INEDs.

- **Board Diversity**

The Board recognises the importance of diversity in the boardroom and senior level management. The boardroom diversity (including gender diversity) is part of the criteria in proposing of the appointment of new director. The appointment of new Director and member of Key Senior Management or the re-appointment of Directors are governed by ***Policy and Procedure on Nomination and Appointment of Director and Senior Management and Re-Appointment of Director*** and the criteria for such appointment and re-appointment are fit and proper (governed by ***Fit and Proper Policy*** with requirement on probity, personal integrity, reputation, financial integrity, experience and competency, time and commitment (including directorship in public and private limited companies)), skilled and diverse backgrounds, requirements on Boardroom and Senior Management diversity, knowledge and skill on sustainability oversight and management and independence for independent director.

It is the policy of the Board that active politician shall not be appointed as a member of the Board of the Company and its subsidiaries. At present, active politician was not appointed as a member of the Board of the Company and its subsidiaries. Please refer to Practice 5.5 of the CG Report on procedure and criteria for appointment of Director and member of Senior Management and re-appointment of Director and Practice 5.10 of the CG Report on the disclosure on the policy on board diversity per ***Policy and Procedure on Nomination and Appointment of Director and Senior Management and Re-Appointment of Director***.

Based on the ***Board Charter***, the Board had set its sight to meet the requirement to have at least one (1) female representation on the Board of the Company. Presently, there is one (1) female Director on the Board of the Company, and the Company aims to continue in promoting the representation of women in the composition of the Board and senior level of management.

Corporate Governance Overview Statement

- **Appointment of Directors and Key Senior Management and Re-Appointment of Directors**

Appointment of new Director to the Board and member of Key Senior Management are recommended by NC to the Board for consideration and approval. The processes and criteria (including conflict of interest check) for the nomination and appointment of Director and Key Senior Management are specified in the ***Policy and Procedure on Nomination and Appointment of Director and Senior Management and Re-Appointment of Director*** and ***Fit and Proper Policy***. It is the policy established by the Board that recommendations from independent sources shall be sought (in addition to the recommendations from existing Directors and major shareholders) in relation to candidates for new directorship.

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 AGM and at least once every three (3) years. The Directors retiring from office shall be eligible for re-election by the shareholders.

All Board members who are newly appointed are subject to retirement at the subsequent AGM of the Company. All Directors (including CED) will retire at regular intervals by rotation at least once every three (3) years and shall be eligible for re-election. The process and criteria for re-appointment of director is included in ***Policy and Procedure on Nomination and Appointment of Director and Key Senior Management and Re-Appointment of Director*** and ***Fit and Proper Policy***.

The recommendations of re-appointment of retiring directors during forthcoming 21st AGM was only made by NC to the Board and the Board for the shareholders of the Company upon satisfactory results of fit and proper and conflict of interest check, independence assessment (for INEDs) and performance evaluation of such Directors by NC. To facilitate the informed decision by the shareholders on the re-appointment of retiring directors during forthcoming 21st AGM, disclosures were made in the notes to the agendas of the general meeting in relation to interest, position or relationship of such Directors individually that might influence the independent judgement to be brought to the Board and might influence such Director to act in the best interests of the Group and that such recommendations of re-appointment are based on the satisfactory results of fit and proper and conflict of interest check, independence assessment (for INEDs) and performance evaluation performed on such directors.

Please refer to Practice 5.6 and 5.7 of CG Report for the details on the nomination and election, appointment and re-appointment process of the Director and member of Key Senior Managements.

- **Performance Assessment and Evaluation of the Board, Board Committees and Individual Directors**

NC reviews the required mix of skills, competencies, experience and other qualities on an annual basis, including core competencies of individual Director which the Directors should bring to the Board. NC undertakes an annual assessment of the INEDs' 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 NC annually for the assessment and feedback to the Board on 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

On annual basis, the Company Secretary circulates to each Director the relevant assessment and review forms/questionnaires in relation to the Board and Board Committee assessments/evaluations with sufficient time for all the Directors to complete in advance of the meeting of NC and the Board in order for the Company Secretary to collate the assessments/evaluations results for NC to review and report to the Board.

During the financial year under review, the Board, through NC, conducted the Board and Board Committee Evaluation, Directors' Self-Evaluation for individual Directors and the assessment on the term of office and effectiveness of AC (including the performance of its individual members) through Audit Committee Members' Peer Performance Evaluation and Audit Committee Evaluation.

Based on the above evaluations conducted for the financial year 31 December 2022, NC and the Board were satisfied with the composition and competency of the present Board, the Board Committees and individual Directors. In particular, based on the above assessments performed on AC and its members, the Board is of the opinion that AC and its members had effectively discharged their duties in accordance with its terms of reference. The summary result of the assessment was presented by NC to the Board for review, acceptance and deliberation.

Please refer to Practice 6.1 of the CG Report for the details on the performance evaluation of the Board, the Board Committees and self-assessment for individual Directors.

- **Independence of INED**

In order for INEDs 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 INEDs whom will be preserved via independent assessment by NC 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. The assessment of the independence of INEDs includes the use of "Annual Assessment of the Independence of Independent Director Checklist" self-assessment form with prescribed criteria.

All INEDs are subject to independence assessment by NC and its recommended to the Board to form an opinion on the independency of the INEDs. In addition, written independence declaration which is consistent with the definition of Independent Director defined in Practice Note 13 and the MMLR for the individual INEDs were obtained annually. Based on the independence assessment performed and independence declaration obtained from INEDs during the financial year under review, NC and the Board is satisfied with the level of independence demonstrated by all the INEDs, and their ability to bring independent and objective judgement during board deliberations.

The tenure of an INED, as stated in the **Board Charter**, shall not exceed a cumulative term of nine (9) years. Upon completion of the nine (9) years, such INED may continue to serve on the Board subject to the director's re-designation as a Non-Independent Director. If the Board continues to retain the INED after the ninth (9th) years, the Board should seek annual shareholders' approval through a two-tiers voting process.

Corporate Governance Overview Statement

As at the date of this Annual Report, Mr. Siow Kee Yen and Datuk Adillah binti Ahmad Nordin had served for a cumulative term of more than twelve (12) years and they are resigning as Directors of the Company on or before 31 May 2023 in order to comply with the amendments to the MMLR in relation to limit of the tenure of the INED to 12 years which will take effect on 1 June 2023. It is the immediate focus of NC and the Board to identify suitable and qualified personnel to be appointed as INEDs to take on the roles assumed by Mr. Siow Kee Yen and Datuk Adillah binti Ahmad Nordin.

On the other hand, Mr. Tan Chin Hwee had served on the Board for a cumulative term of more than nine (9) years. Based on the independence assessment performed and independence declaration obtained from Mr. Tan Chin Hwee, the Board concluded that Mr. Tan Chin Hwee, remains objective and independent during the deliberations and decision making of the Board and Board Committees he is in. The length of his service on the Board did not interfere with his independent judgment and he continues to act in the best interest of the Group.

To remain as INED, Mr. Tan Chin Hwee will be subjected to two-tier voting in the forthcoming 21st AGM.

Please refer to Practice 5.3 of the CG Report for further details.

- **Time Commitment**

In order for the Board to operate effectively and efficiently, each Board member is 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.

- **Directors and Key Senior Management Remuneration**

The Board assumes the overall responsibility to establish and implement effective remuneration policy that serves to attract, retain and motivate the Directors and Key Senior Management in pursue of the medium to long-term objectives of the Group. The Board had put in place a **Remuneration Policy for Directors and Senior Management** for adoption by RC and serves as a guidance when reviewing the proposed remuneration package of the members of the Board and Key Senior Management. Major components of the remuneration package for Executive Director, member of Key Senior Management and NED are specified in the Policy.

RC is responsible for recommending to the Board the remuneration packages of the members of the Board and Key Senior Management. The Board as a whole determines the remuneration of the Directors and Key Senior Management. Individual Director is abstained from deliberation and approval of his/her own remuneration. Director who are shareholder and controlling shareholder with a nominee or connected Director on the Board will be abstained from voting at general meetings to approve the remunerations to be paid to such interested Director.

Corporate Governance Overview Statement

Please refer to Practice 7.1 and 7.2 of CG Report for the details of **Remuneration Policy for Directors and Senior Management** and summary of details of **Terms of Reference of RC**.

Please refer to Practice 8.1 of CG Report for the breakdowns of remuneration of individual Directors (including fees, salary, bonus, benefits in-kind and other emoluments) on named basis for the financial year ended 31 December 2022.

Please refer to Practice 8.2 of CG Report for the disclosure on named basis top five (5) Key Senior Management members' remuneration component in bands of RM50,000.

- **Board Committees**

As part of its efforts to ensure the effective discharge of its duties, the Board delegates certain functions to certain Committees, namely AC, NC, RC and BRMC 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.

- **AC**

The composition and terms of reference of AC, the number of meetings held, attendance, and activities carried out during the financial year are available in the Audit Committee Report as set out in this Annual Report.

- **NC**

NC comprises of three (3) INEDs which is in compliance with the MMLR and chaired by INED. During the financial year ended 31 December 2022 under review, NC met two (2) 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 |

NC 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 NC** is available for download at "Corporate Governance" section of "Investor Relation" of the Company's website at www.ornapaper.com.

NC meetings were held to review and assess, the performance of the Board, the Board Committees, individual Directors, independence assessment of INEDs and proposed nomination of new Director and Senior Management as well as re-appointment of Director. The results of the review and assessment were reported to the Board for review and deliberation.

During financial year ended 31 December 2022, there was no new directorship and new member of Senior Management appointed.

Please refer to Practice 5.1, 5.2, 5.3, 5.5, 5.6, 5.7, 5.8 and 6.1 of the CG Report for the details on the NC and its activities.

Corporate Governance Overview Statement

• RC

RC was formed to assist the Board in determining, developing and recommending an appropriate remuneration policy and remuneration package for Directors and Senior Management so as to attract, retain and motivate the Directors and Senior Management. RC is guided by formal **Terms of Reference**. Further disclosure on RC (and its activities) and **Remuneration Policy for Directors and Senior Management** are disclosed in Practice 7.1 and 7.2 of the CG Report.

RC comprises three (3) INEDs as follow:-

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

RC is guided by formal **Terms of Reference** approved by the Board which states the composition requirement, authority roles and responsibility of the committee. The **Terms of Reference of RC** is available at "Corporate Governance" section of "Investor Relations" of the Company's website at www.ornapaper.com.

During the financial year ended 31 December 2022, RC met once and the attendance of individual committee members is as follow:-

| Name | Number of Meetings Attended |
|----------------------------------|-----------------------------|
| Datuk Adillah Binti Ahmad Nordin | 1/1 |
| Siow Kee Yen | 1/1 |
| Tan Chin Hwee | 1/1 |

The meeting was held to review on the remuneration package of Executive Directors and Key Senior Management and Directors' fees and benefits for NEDs and recommended to the Board and shareholders (if required) for approval.

• BRMC

BRMC was formed to provide oversight, direction and counsel to the Group risk management process and to assist the Board in identifying, mitigating and monitoring critical risk highlighted by businesses units.

The BRMC comprises of three (3) INEDs, in compliance with the Step-Up practice recommended by MCCG as follows:

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

Corporate Governance Overview Statement

During the financial year ended 31 December 2022, the Board Risk Management Committee met once and the attendance of individual committee members is as follow:

| Name | Number of Meetings Attended |
|----------------------------------|-----------------------------|
| Tan Chin Hwee | 1/1 |
| Siow Kee Yen | 1/1 |
| Datuk Adillah Binti Ahmad Nordin | 1/1 |

The BRMC's Terms of Reference is published in "Corporate Governance" section of "Investor Relations" of the Company website at www.ornapaper.com.

Further disclosure on the risk management activities during the financial year can be found in Practice 10.1 and 10.2 of the CG Report and the Statement on Risk Management and Internal Control of this Annual Report.

- **Directors' Training**

As per the **Board Charter**, the Board is assigned with the responsibility to assess the training needs of the Directors (including the knowledge and skill sets required to perform its oversight role in relation to sustainability management) of its individual members and recommend to the Board of the Company of the relevant training programme to ensure the Directors of the Company have access to continuing education programme relevant to their discharge of fiduciary duties.

All 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 evaluation and directors' self-evaluation carried out by NC.

During the financial year ended 31 December 2022, all members of the Board have attended training(s) that were organised by regulatory bodies or professional organizations. The trainings attended by individual Board member are shown in the following table:

Corporate Governance Overview Statement

| Director | Name of Conference/Talk/Seminar Attended or Participated | Organiser |
|----------------------------------|---|---|
| Sai Chin Hock | Updates on MMLR (November 2022) – Enhanced Sustainability Disclosures, Greenhouse Gas Protocol Standard and Task Force on Climate-Related Financial Disclosures | NeedsBridge Advisory Sdn Bhd |
| Sai Ah Sai | Updates on MMLR (November 2022) – Enhanced Sustainability Disclosures, Greenhouse Gas Protocol Standard and Task Force on Climate-Related Financial Disclosures | NeedsBridge Advisory Sdn Bhd |
| Sai Han Siong | Updates on MMLR (November 2022) – Enhanced Sustainability Disclosures, Greenhouse Gas Protocol Standard and Task Force on Climate-Related Financial Disclosures | NeedsBridge Advisory Sdn Bhd |
| Siow Kee Yen | Tax Compliance, Tax Knowledge, Tax Complexity | Chartered Tax Institute of Malaysia |
| | International Standard on Quality Management Webinar – Starting Your implementation Journey Right | Malaysian Institute of Accountants |
| | Case Study-Based MFRS Webinar – COVID-19 Reporting: Lessons Learnt Thus Far | Malaysian Institute of Accountants |
| | ISQM1 Guide and Illustrative Manual (IGIM) | The Malaysian Institute of Certified Public Accountants |
| | Seminar on Quarterly Tax Updates 2022 | Chartered Tax Institute of Malaysia |
| | Updates on MMLR (November 2022) – Enhanced Sustainability Disclosures, Greenhouse Gas Protocol Standard and Task Force on Climate-Related Financial Disclosures | NeedsBridge Advisory Sdn Bhd |
| Datuk Adillah binti Ahmad Nordin | Updates on MMLR (November 2022) – Enhanced Sustainability Disclosures, Greenhouse Gas Protocol Standard and Task Force on Climate-Related Financial Disclosures | NeedsBridge Advisory Sdn Bhd |
| Tan Chin Hwee | Restructuring the Board of Directors – the Process and Procedures | Institute of Approved Company Secretaries |
| | Redeemable Preference Shares – An Overview | Institute of Approved Company Secretaries |
| | Assessing the Guidelines, Practice Notes and Practice Directives Issued by SSM | Institute of Approved Company Secretaries |
| | Corporate Talk 2022 – Anti-Money Laundering and Counter Terrorism Financing (“AMLCFT”) | Suruhanjaya Syarikat Malaysia |
| | Updates on MMLR (November 2022) – Enhanced Sustainability Disclosures, Greenhouse Gas Protocol Standard and Task Force on Climate-Related Financial Disclosures | NeedsBridge Advisory Sdn Bhd |

Corporate Governance Overview Statement

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

- **Sustainability Oversight and Management**

In order to promote sustainability of the Group's businesses, one of the business strategies adopted by the Board is to ensure the sustainability 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 environmentally friendly business practices and to uphold good social practice.

One of the key responsibilities of the Board of the Company is to regularly evaluate economic, environmental, social and governance issues of the Group, to assume the ultimate responsibilities for and the oversight roles for the Group's sustainability management. The sustainability management of the Group is governed by the **Sustainability Framework** established by the Board. Formal governance structure, stakeholders' engagement and process to identify, assess and formulation and monitoring of responses to material sustainability issues are prescribed in such framework with the assessment results and responses are fed into risk management process of the Group for continuous monitoring. As an important communication with stakeholders of the Group, Sustainability Statement was published along with the Annual Report for the financial year under review.

One of the responsibilities of the Board of the Company is to evaluate the sustainability risks and opportunities regularly, including taking into consideration the changes in the external business environment or the interests of the stakeholders. Periodic review, led by CED and Executive Director who are the designated senior management personnel on the strategic sustainability management, on the sustainability matters (including climate change risks and opportunities) faced by the Group and corresponding strategies and responses formulated was performed with escalation mechanism put in place to report on timely basis sustainability matters, their corresponding strategies and responses as well as performances from the heads of departments to the Board as governance body of the Company. The review of the sustainability and stakeholders' engagement activities, sustainability strategies and responses and actual performances of responses to sustainability matters was performed by BRMC and the Board during the financial year under review.

Please refer to the Practice 4.1, 4.2, 4.3, 4.4 and 4.5 of the CG Report and 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.

Principle B – Effective Audit and Risk Management

AC is also tasked to oversight the role on the effectiveness of audit and internal controls of the Group. The composition, activities carried out during the financial year under review, including the number of meetings held and attendance are disclosed in the Audit Committee Report set out in this Annual Report and Practice 9.1 to 9.5 of CG Report.

Corporate Governance Overview Statement

- **Relationship with External Auditors**

The Group maintains a close and transparent relationship with the group's external auditor in seeking professional advice and ensuring compliance with the approved accounting standards, relevant rules and regulations and Group's policies and procedures. The roles and responsibilities of AC in relation to the external auditors are prescribed in the ***Terms of Reference of AC***.

The engagement of external auditors is governed by the engagement letter with terms of engagement (which includes, among others, the scope of audit, the responsibilities of directors and external auditors, confidentiality, reporting and the proposed fees) reviewed by AC and its recommendation to the Board.

AC met with the external auditors three (3) times during the financial year under review (including two (2) private session without management's presence) to discuss on audit plans, audit findings, financial statements and other special matters that require AC's attention. AC also encourages free flow of information and views between AC and external auditors to allow external auditors to freely express their opinion without undue pressure.

The oversight of the external auditors was enhanced by the conduct of performance evaluation of external auditors by AC and subsequently reported to the Board. Additionally, through the Audit Plan and Audit Results submitted by the external auditors and written confirmation provided during AC meetings, the external auditors of the Company confirmed on their independence and objectivity for the audit engagement for the financial year ended 31 December 2022 in accordance with the By-laws of the Malaysian Institute of Accountants.

The summary of AC's activities and oversights of external and internal auditors during the financial year under review is available in Audit Committee Report set out in this Annual Report.

- **Uphold Integrity in Financial Reporting**

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 were reviewed by AC and recommended to the Board for approval before releasing to the public, via Bursa Securities' website. AC also reviewed 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.

The Board, through the review by AC and consultation with the Management and the external auditors, had presented fair and meaningful assessment of the Group's financial performance and position.

A summary of the functions and duties of AC in the oversight of financial reporting for the financial year are available in the Audit Committee Report set out in this Annual Report.

Corporate Governance Overview Statement

- **Risk Management**

The Board affirm its overall responsibility for maintaining a sound risk management and internal control system in pursuing the Company's objectives and have in place a formal **Group Risk Management Framework**. The details of the **Group Risk Management Framework** and risk management process are disclosed in Practice 10.1 and 10.2 of the CG Report and Statement on Risk Management and Internal Control of this Annual Report.

- **Internal Control and Internal Audit Function**

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 Group outsources its Internal Audit function to a qualified professional firm to assist AC in reviewing the state of internal control of the Group and to highlight areas for management and operational improvements.

The state of internal control system and Internal Audit function of the Group are explained in greater detail in Practice 11.1 and 11.2 of the CG Report and Statement on Risk Management and Internal Control of this Annual Report.

The Statement on Risk Management and Internal Control pursuant to Paragraph 15.26(b) of the MMLR is set out in 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 financial 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 relationship with shareholders and potential investors through appropriate channels with the Board 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 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.

The content of the **Corporate Disclosure Policy** and channel of communications and processes used by the Company for Stakeholders communications are further discussed in Practice 12.1 of the CG Report.

- **Encourage Shareholder Participation at General Meetings**

The Company's General Meetings serves as one of the key avenues 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 to be provided at least twenty-eight (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 13.1 of the CG Report on further disclosure on the distribution and content of the Notice of general meeting.

The Company provides information to the shareholders on, amongst others, the Annual Report, details of AGM, their entitlement to attend AGM, the right to appoint a proxy as well as the qualifications of a proxy.

To further promote participation of members through proxy(ies), the Company's Constitution includes explicit 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 imposes no restriction on proxy's qualification.

Corporate Governance Overview Statement

Adequate time is given during the general meetings to encourage and allow the shareholders to seek clarification or ask questions on pertinent and relevant matters. In order to facilitate and provide more meaningful response to question raise by shareholders, all Directors attended the 20th AGM. The external auditors were present at the 20th AGM virtually to provide professional and independent clarification on issues and concerns raised by the shareholders during the meeting.

- **Poll Voting**

In compliance with the Paragraph 8.29A(1) of MMLR, The Company is required to ensure that any resolutions set out in the notice of general meetings is to be voted by poll. All resolutions put forth for shareholders' approval at the forthcoming 21st AGM are to be voted by way of poll voting.

- **Proceedings during General Meeting**

Subsequent to the relaxation of movement control measures by the Government of Malaysia as the country entered the transition to the COVID-19 endemic phase on 1 April 2022, the Group conducted its 20th AGM physically on 10 June 2022. The general meeting held allows shareholders to exercise their right to participate, pose questions, and vote at the general meeting.

The main reasons that 20th AGM was held physically instead of via Remote Participation and Voting ("RPV") facility for remote shareholder participation was that physical general meeting will promote direct and effective interactions between the Board and the shareholders as compared to RPV facility which is merely a tool to facilitate general meeting during Movement Control Order ("MCO") period and which posed technology challenge to shareholders who are not technology savvy. On the other hand, location of the physical general meeting in Melaka, Malaysia can be accessible easily by any transportation mode and it was more cost effective to conduct physical general meeting as compared to RPV facility.

Please refer to Practice 13.3 of CG Report for the explanations of departure from the recommended practice on leverage technology to facilitate remote voting and participation at general meetings.

It is the policy of the Board that all pertinent and relevant questions posed in relation to the agendas of the general meeting will be answered by the Board and sufficient time is to be allocated by the Board to answer such questions raised. In the event that questions posed were not answered by the Board during the general meeting due to time constraint, it is the policy of the Board to have the responses to these questions published on the corporate website as key matters discussed during the general meeting. Kindly refer to Practice 13.4 of CG Report on the engagement activities between the Board and the shareholders during general meeting held during the financial year under review.

The minutes of general meeting during such meeting was uploaded to the "Annual General Meeting" section of "Investor Relations" of the Company's website at www.ornapaper.com within 30 business days from the date of the general meeting held. Kindly refer to Practice 13.6 of CG Report in relation to the practice on the publication of minutes of the meeting and key matters discussed within 30 business days after the conclusion of the general meeting.

Corporate Governance Overview Statement

Key Focus Areas and Future Priorities

The key focus areas of the Board during the financial year were to preserve governance practices championed and approved by the Board and to ensure the implementation during the financial year under review of updates to terms of reference of Board Committees and Board Charter and relevant board policies and procedures during financial year ended 31 December 2021 (i.e. fit and proper assessment for appointment and re-appointment of the Directors and members of Key Senior Management, formalisation of process of re-appointment of the retiring Directors (including fit and proper and conflict of interest check), two-tier voting for INEDs seeking for continuation in office for nine (9) years or more, incorporation of sustainability considerations in performance evaluation and review of remunerations of the Directors and members of Senior Management and extension of relevant policies and procedures on group wide basis).

It is the short-term focus of the Board to ensure that a senior member of the Board to be identified and appointed as the Chairman of the Board per Practice 1.2 of MCCG and that the Chairman of the Board will not be participating in any of the Board Committees' meetings even by way of invitation. On the other hand, with amendments to the MMLR in relation to twelve (12) years tenure limit of INED, the Board is to identify suitable and qualified personnel to fill the casual vacancy left by the impending resignation of Mr. Siow Kee Yen and Datuk Adillah binti Ahmad Nordin on or before 31 May 2023 and to update the **Board Charter** to include such tenure limit on INED during the financial year ending 31 December 2023.

In the medium to longer term, the Board is aiming to have more than one (1) female director on the Board and at least one (1) women representation at the Key Senior Management (shall such vacancy available at the Key Senior Management level).

Additional Disclosure Under MMLR

- Utilisation of Proceeds**
The Company did not implement any fund-raising exercise during the financial year ended 31 December 2022.
- 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 2022.
- 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 2022 are as follow:

| | Company | Group | Details on Non-Audit Fees |
|---------------------|---------|---------|---|
| Audit Fees (RM) | 45,000 | 215,280 | Nil |
| Non-Audit Fees (RM) | 3,000 | 53,850 | Tax computation and administration |
| | 5,000 | 5,000 | Review of Statement of Risk Management and Internal Control |

Corporate Governance Overview Statement

- Material Contracts**

During the financial year, except for the recurrent related party transaction disclosed, 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 2022 (for which shareholders' mandate was obtained during 20th AGM) are as follow:

Below are RRPT that with shareholders' mandate obtained in the last 20th AGM:

| Name of Related Parties | Interested Directors and Major Shareholders | Nature of RRPT | Aggregate Value of Transactions (RM) |
|--|--|---|--------------------------------------|
| Perfect Food Manufacturing (M) Sdn. Bhd. ("PFM") | Sai Chin Hock [^] | Sales of corrugated carton boxes by Ornapaper Industry (M) Sdn. Bhd. ("OISB") | Nil |
| | | Sales of stationery product by Quantum Rhythm Sdn. Bhd. ("QRSB") | Nil |
| Julie's Manufacturing Sdn. Bhd. ("JM") | Sai Chin Hock [^] , Sai Ah Sai [#] and Sai Han Siong [*] | Sales of corrugated carton boxes by OISB | (10,389,750) |
| | | Sales of stationery product by QRSB | (15,679) |
| STH Wire Industry (M) Sdn. Bhd. ("STH") | Sai Chin Hock [^] and his son, Sai Seak Chyuan, are directors of STH | Sales of corrugated carton boxes by OISB | (60,459) |
| | | Sales of stationery product by QRSB | (663) |
| | | Purchase of stitching wire by the Group | 454,575 |
| Johmewah Maju Paper Mill Sdn. Bhd. ("JMPM") | Sai Swee Seong [@] | Sales of waste paper by Ornapaper Industry (Batu Pahat) Sdn. Bhd. ("OIBPSB") | (127,396) |
| | | Purchase of paper roll by OISB, OIBPSB and OIPSB | 6,105,682 |
| Fairway Review Sdn. Bhd. ("FRSB") | Sai Swee Seong [@] , Sai Han Siong [*] and Sai Ah Sai [#] | Factory rental incurred by QRSB | 636,000 |
| Uptrend Performer Sdn. Bhd. ("UPSB") | Sai Swee Seong [@] | Maintenance Job provided by UPSB to the Group | 1,052,879 |

Corporate Governance Overview Statement

Notes:

- [^] Sai Chin Hock is brother of Sai Ah Sai and is a Director and a Major Shareholder of the Company. Sai Chin Hock is also a Director and deemed a substantial shareholder of PFM and JM, by virtue of his substantial shareholdings in Julie's Corporation Sdn. Bhd., the holding company of PFM and JM.
- [#] Sai Ah Sai is elder brother of Sai Chin Hock and the father of Sai Han Siong and Sai Swee Seong. Sai Ah Sai is a Director and a Major Shareholder of the Company. Sai Ah Sai is also a Director of JM, FRSB and Julie's Corporation Sdn. Bhd., the holding company of JM.
- ^{*} Sai Han Siong is the son of Sai Ah Sai, the nephew of Sai Chin Hock and the brother of Sai Swee Seong. Sai Han Siong is a Director and a Major Shareholder of the Company. Sai Han Siong is also a Director of JM and Julie's Corporation Sdn. Bhd., the holding company of JM., and deemed a substantial shareholder of JM, by virtue of his substantial shareholdings in Julie's Corporation Sdn. Bhd., the holding company of JM. Sai Han Siong is also a director and substantial shareholder of FRSB.
- [@] Sai Swee Seong is the son of Sai Ah Sai and elder brother of Sai Han Siong. Sai Swee Seong is a Director of FRSB, JMPM and UPSB respectively. He is also a substantial shareholder of FRSB and UPSB.
- [>] Factory rented by QRSB comprises of office, production and warehouse located at No. 1, Jalan Perindustrian Bachang Baru 3, Kawasan Perindustrian Batu Berendam Fasa IV, Batu Berendam, 75350 Melaka for a tenancy period of 1 year commenced from 1 October 2021 and expiring on 30 September 2022 at a monthly rental of RM53,000.00.
- [<] Maintenance job provides by UPSB is for upkeeping of offices and factories of ORNA Group.

This statement is made in accordance with a resolution of the Board dated 7 April 2023.

Audit Committee Report

COMPOSITION OF THE AUDIT COMMITTEE

The members of the Audit Committee are as follows:-

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

The composition of the Audit Committee is in compliance with paragraph 15.09 of the Main Market Listing Requirement ("MMLR") of the Bursa Malaysia Securities Berhad, where the Audit Committee consists of three (3) Independent Non-Executive Directors and the Audit Committee Chairman, Mr. Siow Kee Yen is a member of the Malaysian Institute of Accountants ("MIA") which fulfils the requirements under paragraph 15.09(1)(c)(i) and Paragraph 7.1 of Practice Note 13 of the MMLR. The Audit Committee meets the requirement under Step Up Practice 9.4 of the Malaysian Code on Corporate Governance ("MCCG") 2021 whereby the committee comprises solely of Independent Non-Executive Directors.

The Audit Committee Chairman is an Independent Director and no alternate director has been appointed as a member of the Audit Committee.

In compliance with Practice 9.1 of the MCCG 2021, the Chairman of the Audit Committee is not the Chairman of the Board of Directors of the Company. The Chairman of the Board of Directors is not a member of the Audit Committee pursuant to Practice 1.4 of the MCCG 2021.

The profile of the members can be found on the Profile of the Directors set out in this Annual Report.

TERMS OF REFERENCE

The Terms of Reference of the Audit Committee is published on the Company's website (www.ornapaper.com) under the "Corporate Governance" section of "Investor Relations".

MEETINGS OF THE AUDIT COMMITTEE

For the financial year ended 31 December 2022, there were a total of five (5) meetings held by the Audit Committee and details of the attendance of the Audit Committee members are as follows:-

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

Notice and Agenda of the Audit Committee meetings were given to the Audit Committee members together with the minutes of the previous meeting and relevant meeting papers at least five (5) business days before the meetings. As such, the members had sufficient time to review all papers to enable them to discharge their duties and responsibilities diligently and effectively in compliance with the MMLR and its Terms of Reference.

Audit Committee Report

The Company Secretary is the Secretary of the Audit Committee and is responsible, together with the Chairman of the Audit Committee, to issue and circulate the agenda, supported by relevant meeting papers prior to each meeting. The Company Secretary attended all the meetings during the financial year.

The Accounts Manager and representatives from the Management and the Company's external and internal auditors were also invited to attend the meetings and present their reports, findings or required information and explanations for proper deliberation of the matters at hand during the meetings.

The Audit Committee reported to and updated the Board on significant issues and matters discussed during the Committee's meetings and where appropriate, made the necessary recommendations to the Board. Minutes of the Committee's meetings were made available to all Board Members for review and to seek clarification and confirmation from the Audit Committee Chairman where necessary.

SUMMARY OF WORK OF THE AUDIT COMMITTEE DURING THE YEAR

The following is a summary of the works performed by the Audit Committee during the financial year ended 31 December 2022:-

a) Review the Quarterly Financial Reports

During the scheduled quarterly meetings, the Accounts Manager presented the draft unaudited quarterly financial statements including a statement of financial position, a statement of comprehensive income, a statement of cash flow and notes to the accounts for the Audit Committee's review. The review focused on 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, prospects of the Group provided by the Management with regard to the Group's performance for the coming quarter and year were also presented to the Audit Committee for discussion. During the same meetings, the financial and non-financial performance of individual subsidiaries was also presented by the Accounts Manager to the Audit Committee for review.

The results of the quarterly financial reports reviewed by the Audit Committee were then recommended to the Board for approval prior to the announcement to Bursa Malaysia Securities Berhad.

b) Review the External Auditors' Scope of Work and Audit Plan

During the financial year, the external auditors presented the Audit Plan to the Audit Committee for review and comment prior to the commencement of the audit engagement to ensure the scope of the audit is adequate and reasonable time was allowed for the audit to be carried out effectively and not under undue time pressure.

Audit Committee Report

The Audit Plan presented by the external auditors covers the audit approach, areas of audit emphasis, group audit approach, considerations of works internal auditor, reporting and deliverables, management communication channels, engagement team, fraud consideration, responsibilities of the directors and management as well as the external auditors, independence declaration under ISA 300 : Planning an Audit of Financial Statements and By-Laws (On Professional Conduct and Ethics) by the Malaysia Institute of Accountants for the statutory audit and development in accounting standards for the financial year. The Audit Plan for the financial year was discussed during the meeting and clarifications were sought from the external auditors prior to the approval of the said plan by the Audit Committee.

During the same meeting, the proposed audit fees and non-audit fees were also presented by the external auditors for review by the Audit Committee, which was then recommended to the Board for approval.

c) Review the Audited Financial Statements and Audit Results with External Auditors

Prior to the announcement of the final quarterly unaudited financial statements, the audit results for the audit conducted on the financial statements of the Group were presented by the external auditors to the Audit Committee for review.

During the same meeting, the expected opinion on the financial statements was sought from the external auditors. The report on the audit results provides the status of the group audit, key audit matters, key audit findings, summary of corrected and uncorrected misstatements, internal control observations, the status of group audits, independence declaration per By-Laws (on Professional Ethics, Conduct and Practice) of MIA and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants, proposed audit fees, related party transactions and outstanding confirmation and information.

For the review of the audited statutory financial statements by the Audit Committee, Audit Review Memorandum (Closing Meeting) was reported by external auditors to the Audit Committee which highlights status updates, a summary of unadjusted audit differences, a comparison of announced financial results and audited results and expected opinion on audited financial statements.

The audited financial statements of the Company and Group were recommended by the Audit Committee for the Board's approval and adoption after its review with the external auditors and the Management and was satisfied that the audit had been adequately planned and carried out in accordance with the approved auditing standards and the audited statutory financial statements have been prepared in full compliance with the applicable approved accounting standards and statutory requirements.

d) Conduct of Performance Evaluation and Independent Assessment on External Auditors

During the financial year under review, the Audit Committee conducted a performance evaluation and independent assessment of external auditors via the External Auditors Evaluation Form with criteria such as qualification, quality processes and performance, knowledge and skill sets of the audit team, independence and objectivity, audit works and audit communication. In addition, during the meetings with the external auditors, the external auditors confirmed with the Audit Committee their independence in relation to the audit works performed and their commitment to communicate to the Audit Committee their independence status in an ongoing manner. During the financial year, the Audit Committee also obtained confirmation from external auditors that the non-audit services provided by external auditors to the Group during the year in accordance with its independence requirements and that it was not aware of any non-audit services that compromised their independence as external auditors of the Group and the Company.

Audit Committee Report

The Audit Committee was satisfied with the performance and independence of the external auditors and recommended to the Board their re-appointment as auditors of the Company for the financial year ending 31 December 2023.

e) Meeting with External Auditors Without the Presence of the Executive Directors and Management

The Audit Committee met twice with the external auditors on 14 April 2022 and 16 November 2022 without the presence of the Executive Directors and Management where they are given the opportunity to raise any concern or professional opinion and thus, to be able to exert its functions independently.

During the private session, the external auditors informed the Audit Committee that there was no significant issue to be highlighted to the Audit Committee.

f) Review the Adequacy and Relevance of the Scope, Functions and Resources, Internal Audit Plan and Results from the Internal Audit Reviews with the Group's Internal Audit Function

During the financial year, the Audit Committee received internal audit reports presented by the outsourced internal audit function that contain the findings, priority rating, risks/implications, root causes, recommendations and agreed on management action plans for the internal audits performed based on the approved internal audit plan. Aside from reporting on the audit findings, the status of implementation of the agreed management action plans for previous internal audit findings were also reported to the Audit Committee for its review.

During the same meetings, the progress of the approved internal audit plan was presented to the Audit Committee for their review. In addition, the outsourced internal audit function reported to the Audit Committee, through a progress update report, the resources, experience, competency and continuous professional development of the outsourced internal audit function for its review on adequacy.

The oversight role of the Audit Committee on the outsourced internal audit function is available in the Statement of Risk Management and Internal Control set out in this Annual Report.

g) Conduct of Performance Evaluation on Outsourced Internal Audit Function

During the financial year under review, the Audit Committee conducted performance evaluation on the outsourced internal audit function via the Internal Audit Function Evaluation Checklist with evaluation criteria such as, experience, competency, resources and audit approach.

Based on the evaluation performed, the Audit Committee was satisfied with the performance of the outsourced internal audit function.

h) Review the Disclosure of Related Party Transactions and Conflict-of-Interest Situation

During the scheduled quarterly meetings, updates on the value of the individual Recurrent Related Party Transactions ("RRPT") transactions (from date of shareholders' mandate to the end of financial period) as compared to the approved value of transactions per the shareholders' mandate obtained in the previous general meeting were reported by the Accounts Manager to the Audit Committee for its review. This enabled the Audit Committee to take prompt action in resolving the matter in the event the RRPT is about to exceed or exceeded by 10% of the mandated amount.

Audit Committee Report

Aside from the updates on RRPT where shareholders' mandate was obtained, the Audit Committee was also informed by the Management on the recurrent related party transaction where shareholders' mandate was not obtained for its review and for the Audit Committee to ensure compliance with MMLR in relation to such RRPT.

i) Review Latest Changes and Development in Accounting Standards

During the Audit Committee meetings, the Audit Committee was kept informed of new and revised accounting standards through the disclosures in the quarterly report announcements and through briefings provided by the external auditors.

j) Review the Draft Circular to Shareholders on the Proposed Renewal of Existing Shareholders' Mandate for RRPTs of a Revenue or Trading Nature, Proposed New 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 and proposed new shareholders' mandate for RRPTs, the Audit Committee was of the opinion that the procedures were sufficient to ensure RRPT is entered into at arm's length and in accordance with the Company's normal commercial terms and on terms which are not more favourable to the Related Parties than those generally available to the public, and not the detriment of the minority shareholders of the Company.

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

k) Review of Statement and Reports Disclosed in Annual Report

The Audit Committee had reviewed the Audit Committee Report and Statement on Risk Management and Internal Control as well as the audited financial statements of the Company to ensure compliance with applicable laws, regulations, standards, MMLR, MCCG and other guidelines and forthwith recommended to the Board for approval and publication in the Company's Annual Report.

l) Others

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

Audit Committee Report

SUMMARY OF WORK OF THE INTERNAL AUDIT FUNCTION

The Group's internal audit function is outsourced to an independent professional firm, namely Needsbridge Advisory Sdn. Bhd. 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 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.

The audit engagement of the outsourced internal audit function is governed by engagement letter and Internal Audit Charter approved by the Board during the financial year under review. Key terms of engagement 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. On the other hand, the Internal Audit Charter governs the internal audit function by specifying the purpose and mission of internal audit function, its roles, professionalism required (including adherence to The Institute of Internal Auditors' mandatory guidance including the Core Principles for the Professional Practice of Internal Auditing, Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (hereinafter referred to as "Standards"), its authorities, the reporting structure, independence and objectivity required, its responsibilities, purpose of internal audit plan, reporting and monitoring and quality assurance and improvement programme.

The scope of review by the outsourced internal audit function is determined by the internal audit plan, reviewed and approved by the Audit Committee with feedbacks from Key Senior Management. In assisting the Audit Committee in discharging its oversight role for the internal audit function, the Audit Committee, through the reports 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 during the financial year under review. The performance, independence and objectivity of the internal audit function is formally evaluated by the Audit Committee through Internal Audit Function Evaluation Checklist.

To preserve the independence and objectivity, the outsourced internal audit function is not permitted to act on behalf of Management, decide and implement management action plan, perform on-going internal control monitoring activities (except for follow up on progress of action plan implementation), authorize and execute transactions, prepare source documents on transactions, have custody of assets or act in any capacity equivalent to a member of the Management or the employee. The outsourced internal audit function is accorded unrestricted access to all functions, records, property, personnel, Audit Committee and other specialized services from within or outside the Group and necessary assistance of personnel in units of the Group where they perform audits.

During the financial year, the outsourced internal audit function conducted scheduled internal audits in accordance with the internal audit plan (and any amendments thereof) approved by the Audit Committee. Internal control deficiencies and areas for improvement identified together with the recommendations and management action plans were presented during the corresponding Audit Committee meetings. Follow up reviews were carried out to ascertain the status of implementation of agreed management action plans. The results of the follow up reviews were reported to the Audit Committee.

Further details on outsourced internal audit function and activities are disclosed in the Statement of Risk Management and Internal Control set out in 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's Main Market Listing Requirements ("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") and the Malaysian Code on Corporate Governance ("MCCG") 2021, the Board of Directors ("the Board") of Ornapaper Berhad ("Ornapaper" or "the Company") (collectively with its subsidiaries, "the Group") is pleased to present the statement on the state of the risk management and internal control system 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 RESPONSIBILITIES

The Board affirms its overall responsibility for maintaining a sound governance, risk management and internal control systems and for reviewing their adequacy and effectiveness so as to provide assurance on the achievement of the Group's mission, vision, core values, strategies and business objectives as well as to safeguard all its stakeholders' interests and protecting the Group's assets. The Board is to establish risk appetite of the Group based on the risk capacity, strategies, business objectives, internal and external business context, business nature and corporate lifecycle. The Board is committed to the establishment and maintenance of an appropriate control environment and governance framework that is embedded into the corporate culture, processes and strategies of the Group as well as to articulate and implement risk management and internal control system. The Board delegates the duty of identification, assessment and management of key business risks to Risk and Sustainability Management Committee ("RSMC") while the oversight roles are delegated to Board Risk Management Committee ("BRMC") (for risk management) and Audit Committee ("AC") (for internal control system) whereby BRMC and AC are assigned with the duty, vide Group Risk Management Framework and Terms of Reference approved by the Board, to provide assurance to the Board on the adequacy and effectiveness of risk management and internal control system of the Group respectively. Through BRMC and AC, the Board is kept informed on all significant risk events and control issues brought to the attention of BRMC and AC 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 control covers inter-alia, control environment, risk assessment control activities, information and communication and monitoring activities. However, in view of the limitations that are inherent in any system of internal control, the system of internal control is designed to manage, rather than to eliminate, the risk of failure to achieve the Group's business objectives. Accordingly, the system of internal control can only provide reasonable and not absolute assurance against material misstatement of losses and fraud.

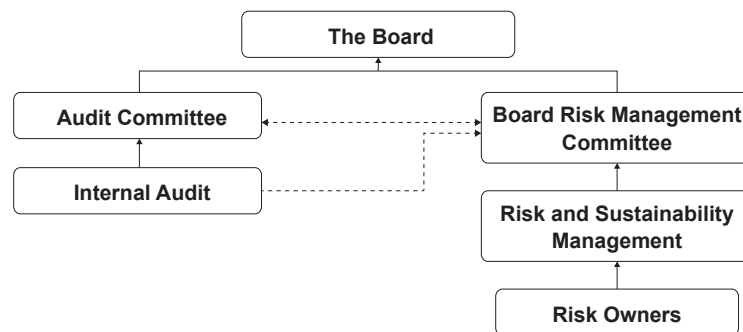
RISK MANAGEMENT

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, the Board has put in place a structured Group Risk Management Framework 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 RSMC, led by Chief Executive Director ("CED") with designated Executive Director as alternate Chairman, in the absence of CED.

Statement on Risk Management and Internal Control

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

The Group Risk Management Framework 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, the BRMC, the AC, the RSMC, Risk Owners, Key Risk & Sustainability Officer ("KRSO") and Internal Audit Function are defined in the Group Risk Management Framework. In particular the composition, roles and responsibilities of the BRMC and RSMC are listed below.

The BRMC is made up exclusively Independent Non-Executive Directors and their roles and responsibilities are as follow:

- Review, assess, formulate and recommend risk management strategies, framework, policies, processes, tolerance and risk appetite limits to the Board;
- 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;
- Review status of management action in mitigating significant risks identified;
- 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;
- 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;
- 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
- To coordinate with the 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.

Statement on Risk Management and Internal Control

The RSMC members are nominated employees from various divisions in the Group (i.e. Executive Directors and Head of Departments) and is chaired by CED with Chief Operation Officer as the KRSO. The roles and Responsibilities of RSMC are as follow:

- (a) Implement the risk management policy as approved by the Board;
- (b) Implement 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 through the use of prescribed form and to report the results of the assessment to the Board for strategic decision making.

In addition, the Risk Owners which is made up of the Operational Management team, i.e. Managers and Head 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 RSMC of the emergence of new business risk or change in the existing business risks through the use of prescribed form on a timely manner and assist the RSMC.
- (d) With the development of the management action plans and implement these action plans;
- (e) Assist the RSMC with the half-yearly update of the changes in the Key Risks Register, management action plans and the status of these plans; and
- (f) Ensure that staffs working under him/her understand the risk exposure of the relevant process under his/her duty and the importance of the related controls.

The Group Risk Management Framework 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 the RSMC and Risk Owners.

Statement on Risk Management and Internal Control

Risk assessment, at gross and residual level, are guided by the likelihood rating and impact rating that was established based on the risk appetite acceptable by the Board. Based on the risk management process stipulated in Group Risk Management Framework, Key Risk Registers are compiled by the KRSO and Risk Owners, with relevant key risks identified rated based on the approved risk rating before reported to RSMC. The Key Risk Registers are primarily used for the identification of high residual risks which is above the risk appetite of the Group that require the Management and the Board's immediate attention and risk response(s) 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.

In addition, in line with ISO 9001:2015 and ISO 14001:2015 certification for its key subsidiaries, the Group has adopted risk-based quality management system and environmental management system. The risk and opportunity management process, consistent with Group Risk Management Framework 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 Group Risk Management Framework (including the rating of the likelihood and impact) and documented into Key Risk Registers (including the action plans to address such risk and/or opportunity). Risk identified includes sustainability matters identified during sustainability assessment process and bribery risks in relation to bribery risk assessment process. The results of the risk (including bribery risks) and sustainability assessment process were fed to RSMC 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 RSMC.

As at the date of this report, RSMC had conducted assessment exercise whereby existing strategic, governance, financial, operational and bribery 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 Group Risk Management Framework approved and incorporated into Key Risk Registers at subsidiary level for on-going risks 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 RSMC.

Key Risk Registers consist of strategic, governance, financial, operational, bribery, quality and environmental risks and likelihood and impact rating used were compiled by RSMC 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.

Statement on Risk Management and Internal Control

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. Respective Heads of Department (i.e. Risk Owners) are responsible for managing the financial and operational risks under their responsibilities by way of maintaining effective internal controls and having measures to manage such financial and operational risks on a day-to-day basis. Emergence and changes of financial and operational risks identified are highlighted to the CED and Executive Director during weekly Executive Committee (“EXCO”) meetings or monthly management review meetings for discussion and formulation of effective internal controls to manage such new, and changes to the financial and operational risks. 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, AC 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.

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 appetite. 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 the Audit Committee and audits performed by in-house independent personnel on compliance with quality management system based on audit plan approved by CED.

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 made up of five core components, i.e. Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring Activities with principles representing the fundamental concepts associated with each component are as follows:

- **Board of Directors and Board Committees**

The role, functions, composition, operations and processes of the Board are guided by formal Board Charter whereby roles and responsibilities of the Board, the Chairman of the Board and the Chief Executive Directors are specified to preserve the independence of the Board from the Management and to improve the oversight roles of the Board.

Statement on Risk Management and Internal Control

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

Meetings of the Board and respective Board Committees are carried out on scheduled basis to review the performance of the Group, from financial and operational perspective while meetings for Remuneration Committee, Nomination Committee and Board Risk Management committee are carried out at least once yearly or whenever deemed necessary. Potential business strategies and business plan are proposed by the Executive Directors to the Board for its review and approval, after taking risk into consideration and responses thereto.

- **Organisation Structure and Accountability**

Clearly defined and structured lines of reporting and responsibility for key business units/departments within the Group to ensure operational efficiency, accountability and effectiveness with the Board assuming the oversight roles. Suitably qualified employees are employed so that the appropriate level of authorities and responsibilities can be delegated while accountability of performance and controls are assigned accordingly.

- **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.

Comprehensive guidelines on the human resource management are in place to ensure the Group's ability to operate in an effective and efficient manner by employing and retaining adequate competent employees that possessing necessary knowledge, skill and experience (which are enhanced by continuous trainings thereafter) to carry out their duties and responsibilities effectively and efficiently.

- **Integrity and Ethical Value**

The tone from the top on integrity and ethical value are enshrined in the formalized Code of Conduct updated and approved by the Board on 30 December 2021. 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. Code of conduct expected from employees to carry out their duties and responsibilities assigned are also established and formalised in the Employees Handbook.

To further enhance the ethical value throughout the Group, a formal Anti-Bribery and Corruption Framework had been put in place by the Management to prevent the risk of bribery and conflict of interest within the Group with Whistle-blowing Policy implemented for all stakeholders to raise genuine concerns about possible improprieties in matters of financial reporting, compliance and other malpractices at the earliest opportunity. The Whistle-Blowing policy is established to facilitate the reporting of improper conduct and other offences to competent governance body with the Group, which is available for download from the "Corporate Governance" section under "Investor Relations" of the Company's website for ease of access.

Statement on Risk Management and Internal Control

Code of Conduct is monitored via control activity monitoring mechanism implemented with non-compliances are timely detected and investigated with appropriate corrective action, including but not limited to disciplinary actions, taken to rectify non-compliance.

- **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 is clearly defined in the respective policies and procedures and limit of authority matrix.

- **Risk Assessment and Control Activities**

Risk assessment is performed by Risk Owners annually or when there is a change in internal and/or business context in accordance with Group Risk Management Framework. Internal controls, as risk responses, are formulated and put in place to mitigate risks identified to a level acceptable by the Board.

Policies and standard operating procedures are regularly reviewed and updated to ensure it is relevance to support the Group's business activities in achieving the Group's business objectives.

- **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 Key Senior Management's attention are highlighted for review, deliberation and decision on a timely basis.

The Group puts in place effective and efficient information and communication infrastructures and communication channels (i.e., computerised system, secured intranet, electronic mail system and modern telecommunication and processing system) so that operational data and external data can be collected and processed into relevant management information and communicated in a timely and secure manner to dedicated personnel within the Group for decision making and for communication with relevant external stakeholders.

Communication of policies and procedures of the Group are conducted via written format, information boards, electronic mail system and in-house trainings by respective risk or control owners.

- **Monitoring and Review**

Key performance indicators are formulated on a yearly basis to monitor the performance of key divisions and departments against targets established for prompt management action to be addressed for on unsatisfactory performance. 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.

Statement on Risk Management and Internal Control

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 Key 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 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 audits, significant control issues highlighted by the external auditors as part of their statutory audits and the monitoring of compliance with ISO certification carried out by surveillance audit by independent consultants engaged by the Group serve as the Fourth-Line.

INTERNAL AUDIT FUNCTION

The Group relies on internal audit mechanisms to provide the Board and management with the required level of assurance that the governance, risk management and internal controls are adequate and effective in mitigating organisational risks so 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, to provide the Board with the assurance required regarding the adequacy and effectiveness of the Group's risk management and internal control system. To uphold the professional firm's independence and objectivity, the outsourced internal audit function is reporting directly to the AC.

The internal audits are carried out, in material aspect, in accordance with the International Professional Practices Framework ("IPPF"), i.e. Mission, Core Principles for the Professional Practice of Internal Auditing, Code of Ethics and the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors Global ("IIA Global"). The engagement director, Mr. Pang Nam Ming, is a Certified Internal Auditor ("CIA"), Certification in Risk Management Assurance ("CRMA") accredited by the IIA Global and a professional member of the Institute of Internal Auditors Malaysia ("IIAM"). As a CIA, the engagement director is required to declare the compliance of the Standards to Institute of Internal Auditors during his renewal as CIA. The audit engagement of the outsourced internal audit function is governed by the engagement letter with key terms include purpose and scope of works, accountability, independence, the outsourced internal audit function's responsibilities, the management's responsibilities, the authority accorded to the outsourced internal audit function, limitation of scope of works, confidentiality, proposed fees and engagement team. The audit engagement is also governed by the Group's Internal Audit Charter, which was established and approved by the Board on 29 November 2021. The appointment and resignation of the outsourced internal audit function as well as the proposed audit fees are subject to review by the AC and for its reporting to the Board for ultimate approval. During the financial year under review, the resources allocated to the fieldworks of the internal audit by the outsourced internal audit function were one (1) manager and assisted by at least one (1) senior consultant and one (1) consultant per one (1) engagement with oversight performed by the director.

Statement on Risk Management and Internal Control

To preserve the independence and objectivity, the outsourced internal audit function is not permitted to act on behalf of Management, decide and implement management action plan, perform on-going internal control monitoring activities (except for follow up on progress of action plan implementation), authorize and execute transactions, prepare source documents on transactions, have custody of assets or act in any capacity equivalent to a member of the Management or the employee.

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

- that the outsourced internal audit function is free from any relationships or conflicts of interest which could impair their objectivity and independence;
- with the scope of the outsourced internal audit function;
- that the outsourced internal audit function possesses relevant experience, knowledge, competency 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, the results of the internal audit and/or investigation undertaken (if any).

Risk-based internal audit plan in respect of the financial year ended and 31 December 2022 were drafted by the outsourced internal audit function, after taking into consideration existing and emerging key business risks identified in the Key Risk Registers, the opinions of the Executive Directors and Key Senior Management and previous internal audits performed, and was reviewed and approved by the AC prior to execution. Each internal audit cycle within the internal audit plan is specific with regards to audit objective, key risks to be assessed and scope of the internal control review.

As Third Line, the internal control review procedures performed by the outsourced internal audit function are designed to understand, document and evaluate risks and related controls to determine the adequacy and effectiveness of governance, risk structures, control structures and control processes. The recommendations from the outsourced internal audit function are formulated based on the root cause(s) of the internal audit observations. 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 2022, in accordance with the internal audit plan (and any amendments thereof) approved by AC, the outsourced internal audit function has conducted internal control review of sales and marketing as well as credit control management of two (2) of its key operating subsidiaries in Malaysia.

Statement on Risk Management and Internal Control

Upon the completion of the internal audit field works during the financial year, the internal audit reports were presented to AC during its scheduled meetings. During the presentation, the internal audit findings priority level, risk/potential implication, recommendations as well as management responses/action plans and person-in-charge together with date of implementation were presented and deliberated with AC. This is to enable the AC to form an opinion on the adequacy and/or effectiveness of the governance, risks and controls of the business processes under review. Progress follow ups were performed by the outsourced internal audit function on the management action plans that were not implemented in the previous internal audit fieldworks by way of verification via observation or through verification of sample provided by person-in-charge to substantiate the implementation of the management action plan. Together with the internal audit reports, the updates on the implementation progress of action plans formulated per previous internal audit reports via the Action Plan Progress Report were also presented to AC during the financial year for review and deliberation.

In addition, during the Audit Committee meeting, the outsourced internal audit function reported its staff strength, qualification and experience as well as continuous professional education for the Audit Committee's review.

In addition to the above, for the purpose of compliance with ISO 9001 and 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. In relation to compliance of Anti-Bribery and Corruption Framework, internal audits were performed by in-house independent personnel with such internal audit activities reported to the BRMC during the financial year under review.

The cost incurred in maintaining the outsourced internal audit function for the financial year ended 31 December 2022 was amounted to RM 42,814.

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 was reviewed and deliberated, including but not limited to, the adequacy and effectiveness of risk management and internal control system in relation to the business 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 results and process, results of the internal audit activities, 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 system 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 continues to take pertinent measures to sustain and, where required, to improve the Group's risk management and internal control system in meeting the Group's business objectives.

Statement on Risk Management and Internal Control

The Board is committed towards maintaining an effective risk management and internal control system throughout the Group and strives for continuous improvements to further enhance the Group's risk management and internal control system. Notwithstanding this, the Board will continue to evaluate and manage the significant business risks faced by the Group in order to achieve its mission, vision, core values, strategies and business objectives.

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 ("MIA"). 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 and Practice 10.1 and 10.2 of the MCCG 2021 to be set out, nor factually incorrect.



Sustainability Statement

Introduction

The Board of Directors (“the Board”) of Ornapaper Berhad (“Ornapaper”) acknowledges the significance of constantly developing and improving business operations in a sustainable and responsible manner. The Board believes and remains committed to creating sustainable value throughout its businesses’ value chain by improving the core business principles and operations. The continuous creation of sustainable value shall drive the long-term business growth of Ornapaper Berhad and its subsidiaries (“the Group”) as well as the establishment of mutually favourable relationships with its stakeholders.

Notwithstanding the swift changes in the business and operational landscapes, operating sustainably is an integral component of our business strategy that we continue to place great emphasis on in striving to attain the expectations of our customers while reducing the impact on the environment and producing a better life for present and future generations. Continuous efforts are dedicated by the Board to embrace and enhance the sustainable business practices of the Group by having its businesses’ operating strategies and corporate culture formulated and 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 encouraging good sustainability practices, updating the sustainability progress and engaging openly and responsively with the Group’s stakeholders through transparent sustainability reporting that captures the economic, environmental and social aspects of its business operations. The Board recognises that stakeholder engagement plays an important part to ensure the businesses pursued by the Group are sustainable in the long term. Through this Sustainability Statement, the Board provides the stakeholders with a better insight into its approach to creating sustainable long-term value for stakeholders as well as the progress in meeting these commitments. The Group is committed to conducting the businesses and operations in an equitable and accountable manner across the value chain to ultimately achieve results that are sustainable for future generations.

The Group remain dedicated to creating value by transforming and evolving with the market, the industry as well as the nation. The Board recognises that economic value is generated by maximising profits and shareholders’ value while holding on greater responsibility as a global citizen to create social value. Apart from strengthening the financial performances of the businesses the Group is operating in, the Board also recognises the importance of upholding great standards of business conducts in respect of governance, economic, environmental and social aspects, which are vital for the Group to endure in this competitive, challenging and evolving business environment, in which to generate value for a wide array of 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 to meet corporate objectives and stakeholders’ expectations.

Nevertheless, the Group is always committed to striving for excellence in sustainability and is mindful to be a responsible corporate citizen in securing a sustainable future for the Group and the communities it lives in and interacts within an era where social capitalism, climate change, ocean conservation, water scarcity, food insecurity, poverty and public health are ever-increasing global issues. The Board is dedicated to embracing good sustainability practices, by continuously integrating such practices into the working environment and culture, business processes and strategy-making processes in order to develop sustainable businesses that bring constructive impact to the economy, environment and greater community. Hence, the Group is committed to being accountable and transparent in sustainability performance.

Sustainability Statement

Major global crises, such as the COVID-19 pandemic that is in the transition towards the endemic stage, the war in Ukraine, the energy crisis and inflationary pressure have caused significant disruption affecting almost all sectors of economies across the globe and further exacerbated the interrelated challenges relating to poverty, inequality, carbon emissions, education, health, economic growth and finance. Despite the challenging business environment faced by the Group, we endeavour to conduct business operations according to pragmatic principles and sustainable practices with a long-term sustainability strategy that integrates economic, governance, environmental and social considerations. The Group remains steadfast and strives to adapt, innovate and take up the essential measures to navigate through this incredibly challenging time. We are dedicated to ensuring high standards of governance across our entire operations, promoting responsible business practices, managing the environmental impact, providing a safe and healthy workplace, as well as meet the social needs of our community.

The Board of Ornapaper Group is pleased to present the Sustainability Statement for the financial year ended 31 December 2022. The Sustainability Statement demonstrates our commitment towards sustainability by developing and implementing key sustainability matters that are pertinent to the Group's nature and business operations, with the ultimate aim of creating more value for our businesses, society and stakeholders. The Sustainability Statement is prepared pursuant to paragraphs 6.1, 6.2 and 6.3 of Practice Note 9 of the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Securities"). In particular, the management of material sustainability matters is disclosed, in all material aspects, in accordance with Part III of Practice Note 9 of MMLR and the Sustainability Reporting Guide issued by Bursa Securities ("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 2022 and up to the date of this Statement. This Statement covers the economic, environmental and social management and performance of the Group. The Board observes the sustainability requirements in which the Statement defines stakeholder engagement, materiality assessment, sustainability achievement, and the information of significant economic, environmental and social impacts 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 of Bursa Securities and Malaysia Code on Corporate Governance 2021 are made in the Corporate Governance Report and Corporate Governance Overview Statement in the Annual Report.

The Group is involved in the manufacturing of paper-based packaging and stationery products as well as the 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.

Sustainability Statement

As at the date of this Statement, information disclosed in this Statement involves the identification, management and reporting of sustainability matters and performances of five (5) of the subsidiaries, namely Ornapaper Industry (M) Sdn. Bhd. ("Ornapaper Melaka"), Ornapaper Industry (Batu Pahat) Sdn. Bhd. ("Ornapaper Batu Pahat"), Ornapaper Industry (Perak) Sdn. Bhd. ("Ornapaper Perak"), Ornapaper Industry (Johor) Sdn. Bhd. ("Ornapaper Johor") and Tripack Packaging (M) Sdn. Bhd. ("Tripack") (collectively referred to as "the Companies", individually referred to as "the Company"). These five (5) subsidiaries drive the paper packaging business segment of the Group which contributes the highest proportion of revenue to the Group throughout the years thus far.

Sustainability Principles

The Board, as the highest governance body within the Group, undertakes the ultimate accountability for the integration of sustainability in the Group, including sustainability-related strategy and performance. The Group is dedicated to promoting sustainability and continuously integrates it into its working environment, business processes and strategy-making process. The Group remains committed to meeting various stakeholders' interests while achieving its strategic objectives by upholding its accountability and transparency in its sustainability performance based on the following principles instilled by the Board:

- 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 a 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 intervals 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 time.

Sustainability Policy

The Board remains committed to the 2030 Agenda for Sustainable Development adopted by the United Nation. The Sustainability Policy established by the Board is guided by the 17 Sustainable Development Goals ("SDGs"), otherwise known as the Global Goals, which are established by the United Nations 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.

Sustainability Statement

The 17 SDGs are integrated, that is, they recognise that action in one area will affect outcomes in others, and that development must balance social, economic and environmental sustainability. The SDGs are a call for action by all countries to create a world that is comprehensively sustainable by 2030 to end poverty, improve health and education, reduce inequality and injustice while addressing the urgency of climate change and environmental protection.

The COVID-19 pandemic has unleashed an unprecedented crisis in health, economic and social, and undermined the progress made on sustainable development. While the world is yet to fully recuperate from the social and economic repercussions of COVID-19, the Russia–Ukraine war poses another major threat causing the achievement of the SDGs even more challenging. Nevertheless, the Group is still dedicated to driving accountable and sustainable business practices throughout the organisation by striking a balance between managing the financial performance and contributing to the social and environmental impacts in ensuring high standards of governance practised across the business operations.



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

- Compliance with high ethical standards of suppliers;
- Compliance with 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;

Sustainability Statement

- Commitment to ensuring a safe and healthy working environment;
- Fair treatment of employees;
- 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 suppliers at significant locations of operations to optimise cost and sales value;
- Customer profile diversification to ensure the economic interest of all relevant stakeholders are preserved and prevention from loss of key customers; and
- Compliance with better practices under the Malaysian Code of Corporate Governance 2021 (“MCCG”).

Governance Structure and Process

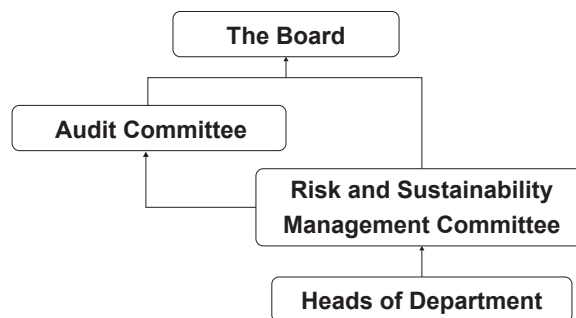
Good governance plays a key role for the Group to operate in an accountable and sustainable manner. The Board affirms its overall responsibility for the integration of the recommended sustainable economic, environmental and social practices throughout the Group to ensure business strategies of the Group are developed with regard to the sustainability consideration and to ensure sustainability performance is 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 Securities 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, environmental and social practices are comprehended and implemented by all levels of the organisation.

To ensure such commitment to good sustainable economic, environmental and social practices is embedded throughout the Group, the Board put in place a 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 respond timely to the sustainability risks and opportunities applicable to the Group. The responsibilities for identification, management and reporting of sustainability matters and performance are delegated to the Risk and Sustainability Management Committee.

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The Board has formalised the sustainability principles, policies and processes envisaged by the Board through the establishment of the Sustainability Policy. Furthermore, a formal governance structure, based on the existing geographical scope, scale and nature of the businesses 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:



The governance structure clearly defines the roles and responsibilities expected from the Board, the Audit Committee, Risk and Sustainability Management Committee, Heads of Department and the Key Risk and Sustainability Officer. In a nutshell, the Board assumes the ultimate responsibility for sustainability management and performance within the Group while the Audit Committee is tasked with the duties of overseeing the sustainability management and performance of the Group for reporting to the Board.

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

- Implement the sustainability strategy and management policy as approved by the Board;
- Lead and implement the process of sustainability matters identification, assessment and management and devising appropriate action plans in cases where sustainability issues are not adequately or effectively addressed and communicate proposed action plans to the Heads of Departments;
- To conduct a 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;
- To manage stakeholder engagement for input for assessment and communication of results of review and response;
- 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;
- To oversee the Heads of Departments in the implementation of systems of sustainability management;
- To update the Audit Committee on changes to the material sustainability matters on a periodical basis (at least on annual basis) respectively or when appropriate (due to changes in the external environment or internally) and the course of action to be taken by management in managing the changes; and
- To ensure relevant sustainability trainings are provided for the appropriate level of employees to cultivate a positive attitude and promote the correct approach toward sustainability management.

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As for the Heads of Department, their primary responsibilities are to manage sustainability matters of the business processes under his/her control and to assist the Risk and Sustainability 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 Securities 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, 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 their influence over and dependence on the Group so that the Group can put in more effort on stakeholder groups that have higher influence and/or dependency and the concerns of such stakeholders will carry greater weight. The prioritisation of the stakeholders is conducted by the Risk and Sustainability Management Committee by using Stakeholder Prioritisation Matrix, whereby each stakeholder identified is 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 collaborating/empowering to keeping 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 documentation as well as an information system and internal stakeholders' communication via engagement medium and direct communication) and from external sources (through internal documentation, management information system, trusted public domains, correspondences with external stakeholders and external stakeholders' communication via engagement medium and direct communication);
- Sustainability matters identified for each significant business segment and geographical segment via internal and external sources are refined, consolidated and categorised into respective sustainability categories determined by the Board and enlisted in the Sustainability Matters Listing, detailing the influential and dependent internal and external stakeholders;
- Sustainability matters categorised in the Sustainability Matters Listing are subjected to internal materiality assessment by the Risk and Sustainability Management Committee in order to prioritise the sustainability matters for assessment by internal and external stakeholders.

Sustainability issues are 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.

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

From internal and external stakeholders' perspectives, stakeholders' assessment of sustainability matters are based on the significance of such matters to influence the assessment and decision by respective stakeholders. The stakeholders' assessment of the sustainability matters is obtained during stakeholders' engagement, either through direct communication by the Risk and Sustainability 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 sustainability matters management, the current standing of sustainability matters is assessed for its adequacy and effectiveness by the Risk and Sustainability 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 on 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 Risk and Sustainability Management Committee is to develop a position and response with respect to each material sustainability matter 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; and
 - implementing new, or changing existing systems, to capture, report, analyse, and manage data requirements.

The Risk and Sustainability Management Committee is 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 for review and for their recommendation to the Board for review and approval.

Stakeholder Engagement

The Board recognises and admits that the contribution and support of the internal and external stakeholders are of utmost importance for the realisation of the Group's missions and long-term business sustainability and excellence. Therefore, a stakeholder-driven approach to sustainability serves as a foundation for developing our sustainability strategy and reporting. It is vital for us to maintain a good degree of communication, understanding and relationship with stakeholders through multiple communication platforms, continuous dialogue and sharing of information with the stakeholders to ensure the success and long-term growth of our businesses.

Sustainability Statement

The Group recognises and values each of the employees, customers, as well as other stakeholders, and believes by understanding their interests and needs, it fosters lasting and mutually beneficial relationships that enhance the morale, reputation and business performances while delivering sustainable value to the stakeholders. By establishing effective and transparent lines of communication with the stakeholders, the Group aims to address their concerns in a collaborative manner that meets both the stakeholders' interests and needs as well as the Group's vision for sustainable growth.

It is on this basis that the Board is pursuing the sustainable strategy of continuous engagement with internal and external stakeholders who are dependent on and/or 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 respond 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.

During the financial year under review and up to the date of this Statement, with regard to the sustainability assessment, management and monitoring process, the Risk and Sustainability Management Committee relied on the informal channels (such as, meetings and face-to-face communication) employed by the Heads of Department and Executive Directors, supported by formal channels of communication (such as, employees' performance appraisal) to engage with the stakeholders.

The Board acknowledges that the stakeholder engagement engaged by the Risk and Sustainability Management Committee can be further enhanced by employing a preferred level of engagement per stakeholders' profile at the 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 respond to such topics and concerns raised. The Group's stakeholder engagement process is guided by the Guide and Toolkit: Stakeholder Engagement issued by Bursa Securities with necessary adaption based on the nature and scale of the businesses of the Group.

For Ornapaper Melaka, Ornapaper Batu Pahat, Ornapaper Perak, Ornapaper Johor and Tripack with sustainability assessment performed, the Board had determined that, through stakeholder mapping and profiling exercise conducted by the Risk and Sustainability Management Committee and Heads of Department and reported to them subsequently, the following stakeholders are dependent on and have influence over Ornapaper Melaka, Ornapaper Batu Pahat, Ornapaper Perak, Ornapaper Johor and Tripack:

Sustainability Statement

| STAKEHOLDER GROUP | ENGAGEMENT OBJECTIVE(S) | PREFERRED ENGAGEMENT METHOD(S) | FREQUENCY OF ENGAGEMENT |
|-------------------------------|---|---|---|
| Employees | To ensure fair engagement of salary To establish career pathways for the 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 | Annually Ongoing |
| Board of Directors | To ensure business strategy takes into consideration of sustainable practices To convey accurate financial and non-financial information for decision making To comply with good corporate governance To ensure cyber security and continuous safety of organization data and assets (including suppliers and customers) | Committee meetings Board of Directors meeting | Annually Quarterly |
| Management | To ensure the sustainability of human resources in pursuit of the company's goals | Meetings Memorandum Electronic mail system | Annually Quarterly Monthly Ongoing |
| Financial Institutions | To demonstrate financial sustainability To understand and comply with laws | Annual report Public announcements Meetings | Annually Ongoing |
| Government | To ensure full compliance with all 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 | Ongoing |
| 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 | Ongoing |

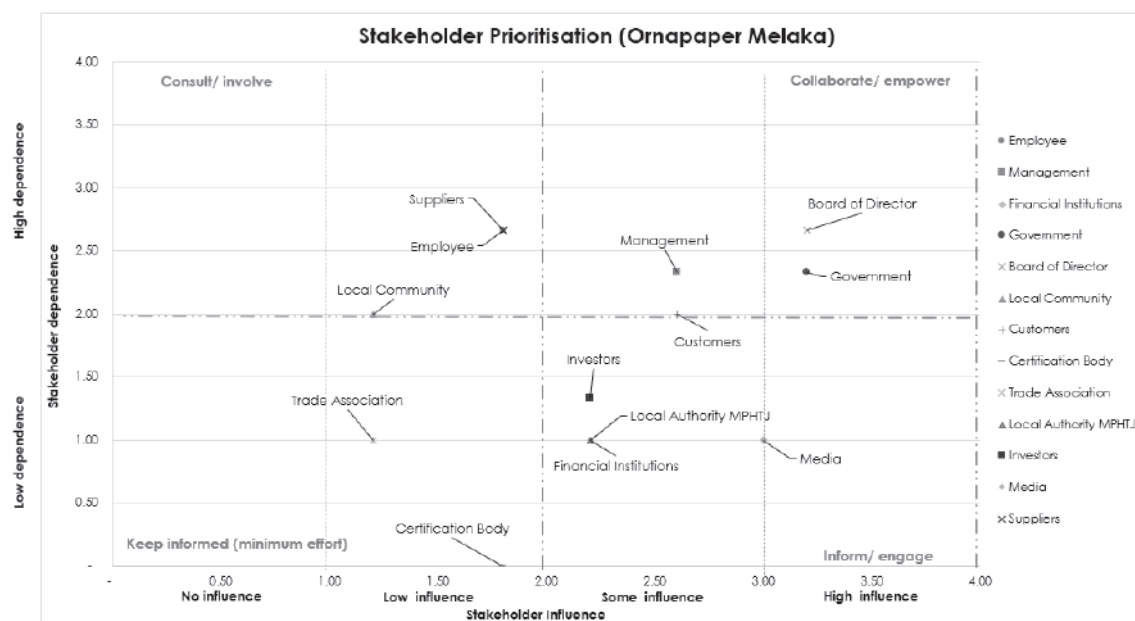
Sustainability Statement

| STAKEHOLDER GROUP | ENGAGEMENT OBJECTIVE(S) | PREFERRED ENGAGEMENT METHOD(S) | FREQUENCY OF ENGAGEMENT |
|---------------------------|---|--|----------------------------------|
| Customers | To improve customer satisfaction To meet potential customer's requirements To ensure sufficient and healthy manpower support To sustain good product quality even during COVID-19 endemic | Face-to-face meetings Electronic mail system Telephone conversation Customer audits Letter of complaint Official letter SCAR | Ongoing |
| Investors | To demonstrate financial sustainability | Annual report Annual general meeting Shareholders' communication Press releases and public announcements | Annually Quarterly Ongoing |
| Certification Body | To ensure compliance with ISO 9001: 2015 and 14001: 2015 standard | Audit Electronic mail system Telephone conversation Reports | Ongoing |
| Suppliers | To ensure all materials are RoHS compliance/ environmentally friendly To strive for reasonable price materials and services at an acceptable quality, consistent and on-time delivery To ensure safety and health during the loading and unloading process and delivery journey To ensure product quality and safety as well as services To ensure no disruption in the supply of materials | Supplier's evaluation and appraisal Meetings Conflict of Interest Policy Code of Conduct Electronic mail system Telephone conversation Official letter/ memorandum Supplier audit | Ongoing |
| 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 | Ongoing |

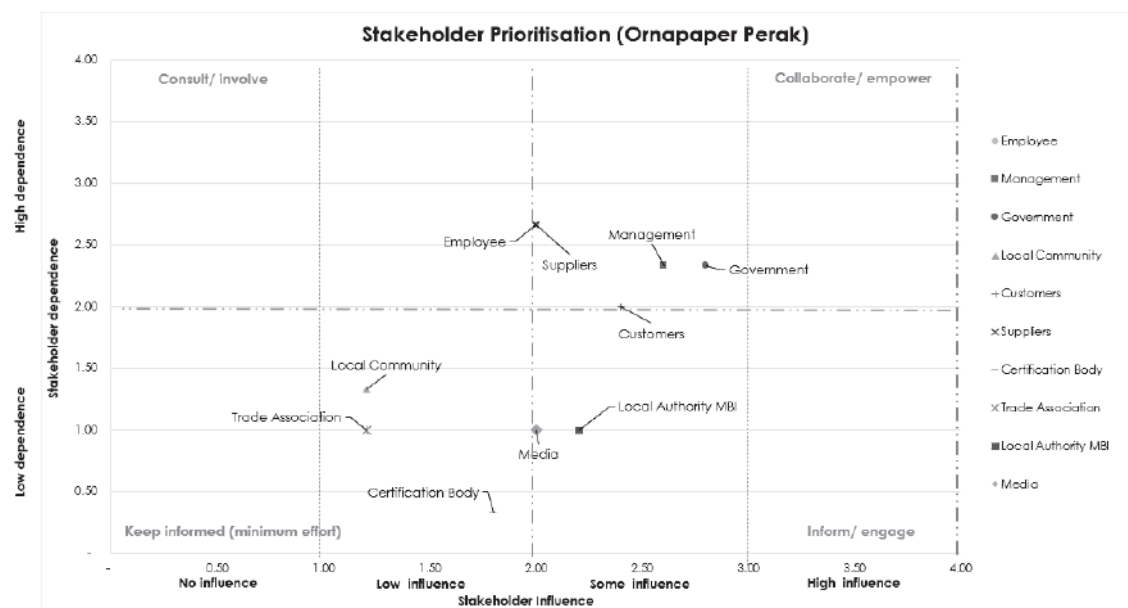
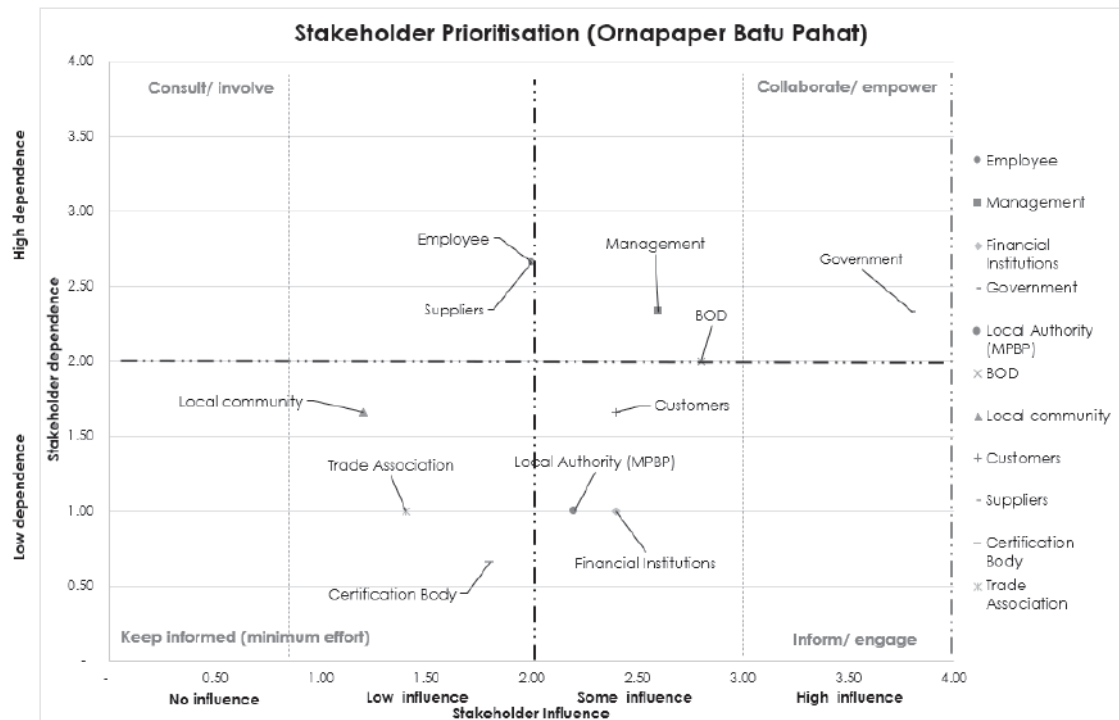
Sustainability Statement

| STAKEHOLDER GROUP | ENGAGEMENT OBJECTIVE(S) | PREFERRED ENGAGEMENT METHOD(S) | FREQUENCY OF ENGAGEMENT |
|--------------------------|--|---|-------------------------|
| Media | To minimize negative reporting and protect the company image To ensure reporting accuracy | Press release Telephone conversation | Ongoing |
| Trade Association | To seek for protection of employer's interests and opportunities in business trade Sharing of industrial update | Meetings Forums | Ongoing |

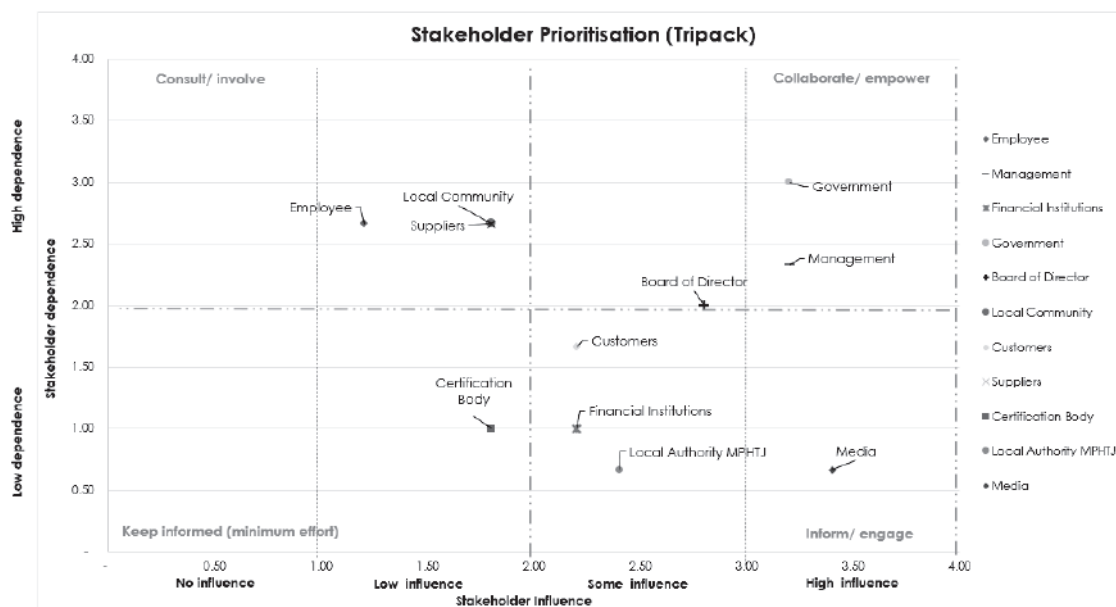
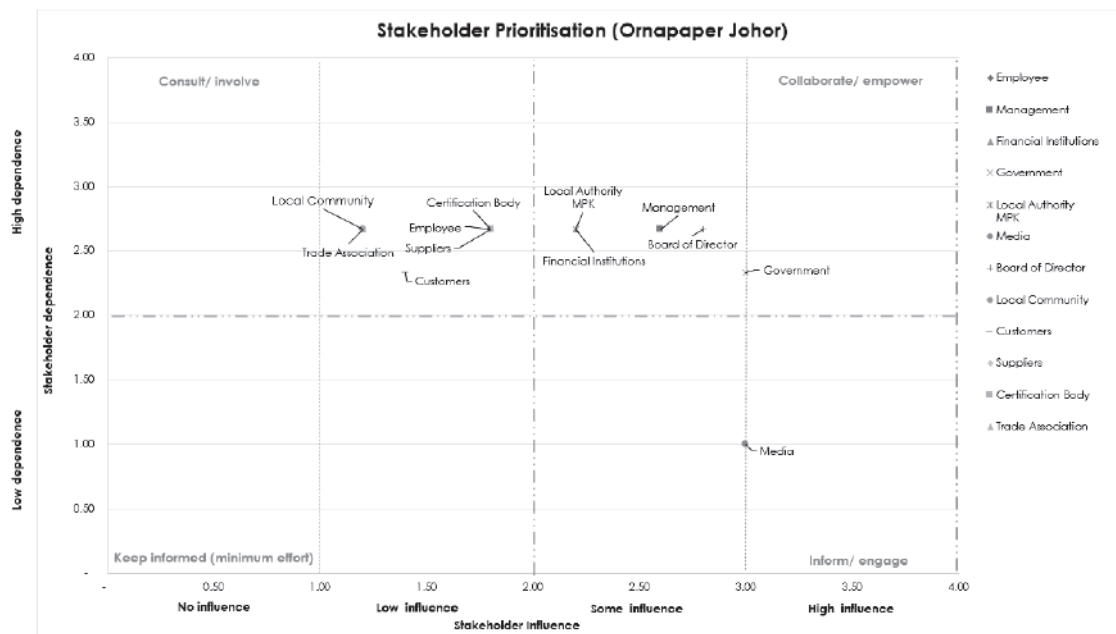
Subsequent to the stakeholder group's identification with the respective engagement methods proposed, a stakeholders' prioritisation exercise was conducted for Ornapaper Melaka, Ornapaper Batu Pahat, Ornapaper Perak, Ornapaper Johor and Tripack to rank respective stakeholder groups' influence over and/or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



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Sustainability Management Activity

Ornapaper Melaka, Ornapaper Batu Pahat, Ornapaper Perak, Ornapaper Johor and Tripack 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 of manufacturing activities that have influence over and dependence on Ornapaper Melaka, Ornapaper Batu Pahat, Ornapaper Perak, Ornapaper Johor and Tripack through Stakeholder Mapping and with individual Stakeholder Profiles established for each stakeholder identified.
- Internal and external stakeholders of manufacturing activities identified by the Risk and Sustainability Management Committee were assessed and prioritised for its degree of influence over and dependence on Ornapaper Melaka, Ornapaper Batu Pahat, Ornapaper Perak, Ornapaper Johor and Tripack based on the agreed upon criteria and rating scale ("Stakeholder Prioritisation Exercise").
- The Risk and Sustainability 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 Heads of Department.
- The Risk and Sustainability Management Committee performed the internal materiality assessment by using predetermined criteria and rating scales to prioritise the sustainability matters for assessment by internal and external stakeholders and to determine the significance of the sustainability matters from the Group's perspective ("Internal Materiality Assessment").
- The degree of significance of the sustainable matters to influence the assessment and decision by internal and external stakeholders were performed by the Risk and Sustainability Management Committee by using informal stakeholders' engagement through direct communication with relevant internal and external stakeholders by Heads of Department.
- 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 were used to prioritise sustainability matters and identification of material sustainable matters by the Risk and Sustainability Management Committee. An identified sustainability matter is considered as material if it is above the material threshold established by the Board.

Material Sustainability Matters

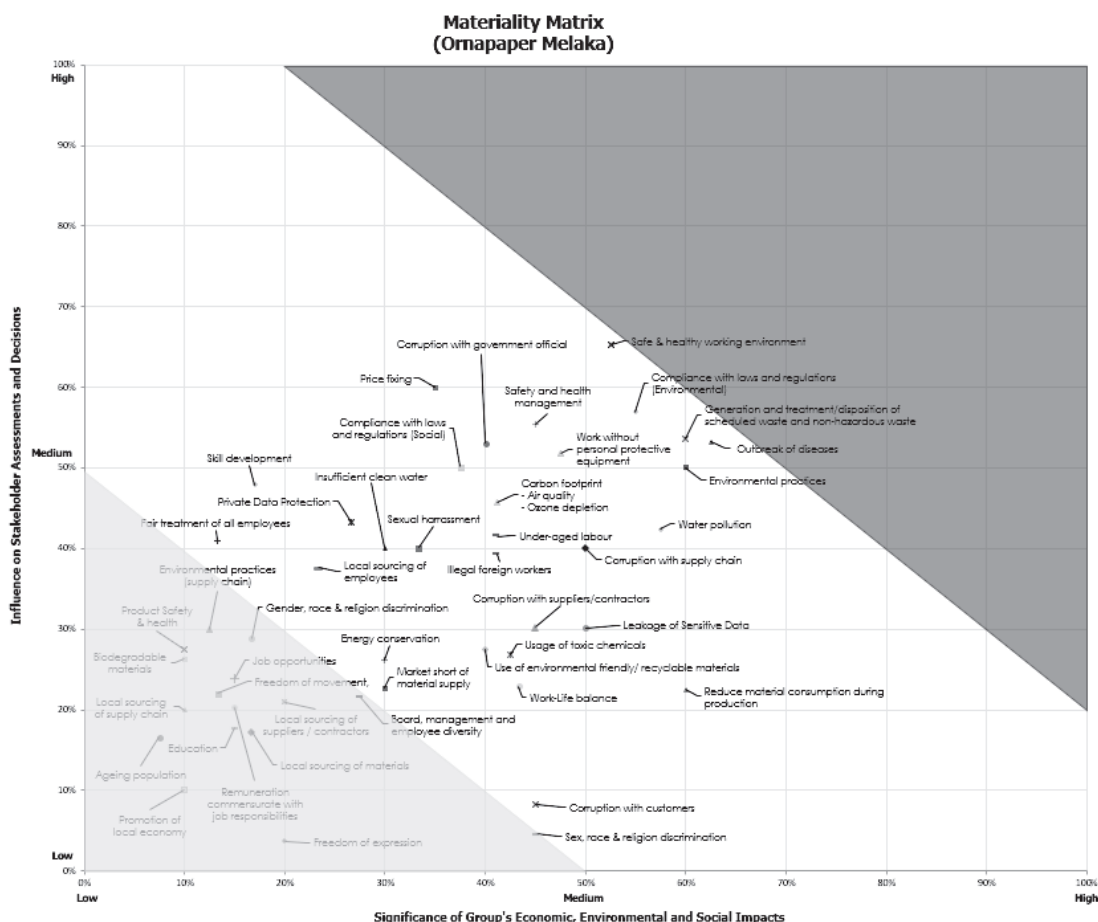
The Group focuses strongly on delivering value to shareholders, practising good governance, maximising contributions to stakeholders and minimising environmental footprint. The Group's material sustainability matters were identified through the materiality assessment process, whereby the Economic, Environmental and Social ("EES") matters relevant and important to the Group's long-term sustainability were identified and prioritised through a structured process and assessment mechanism as approved by the Board, guided by the Guide Toolkit: Materiality Assessment issued by Bursa Securities 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.

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A list of material sustainability issues was identified and determined by the sustainability matters assessment and prioritisation exercise of Ornapaper Melaka, Ornapaper Batu Pahat, Ornapaper Perak, Ornapaper Johor and Tripack undertaken by the Risk and Sustainability Management Committee that reflected the critical sustainable considerations expected of Ornapaper Melaka, Ornapaper Batu Pahat, Ornapaper Perak, Ornapaper Johor and Tripack in respect of the business and geographical extent Ornapaper Melaka, Ornapaper Batu Pahat, Ornapaper Perak, Ornapaper Johor and Tripack Pahat are 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 the 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.

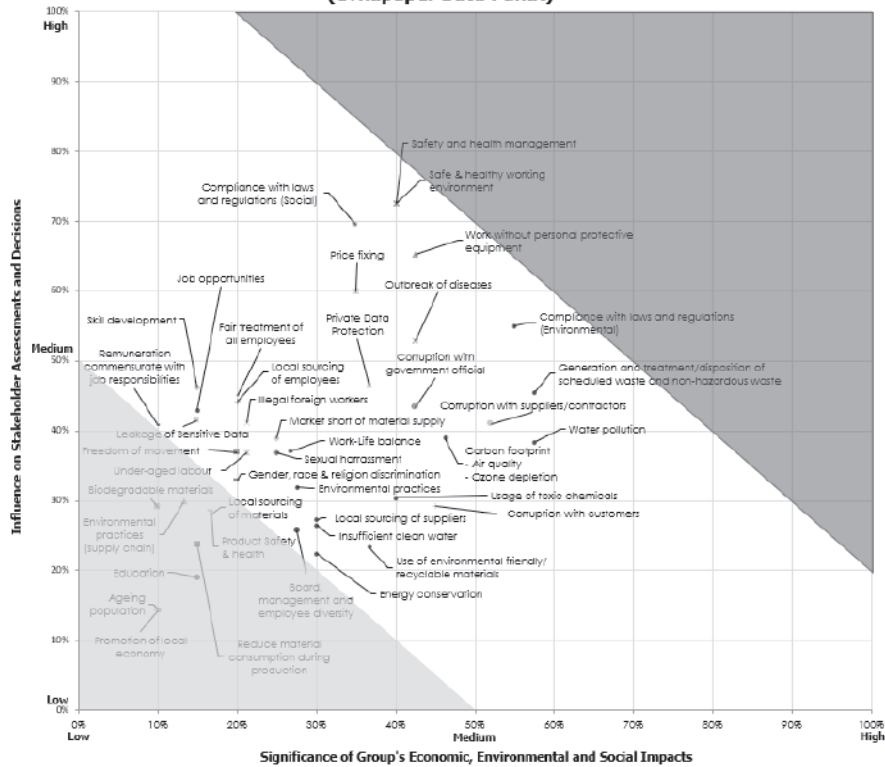
The final list of sustainability matters together with the details of identification and assessment of Ornapaper Melaka, Ornapaper Batu Pahat, Ornapaper Perak, Ornapaper Johor and Tripack were reviewed by the Audit Committee and reported to the Board for its approval to ensure effective sustainability management and monitoring.

The assessment results of material sustainability matters of Ornapaper Melaka, Ornapaper Batu Pahat, Ornapaper Perak, Ornapaper Johor and Tripack are tabulated in the following Materiality Matrices:

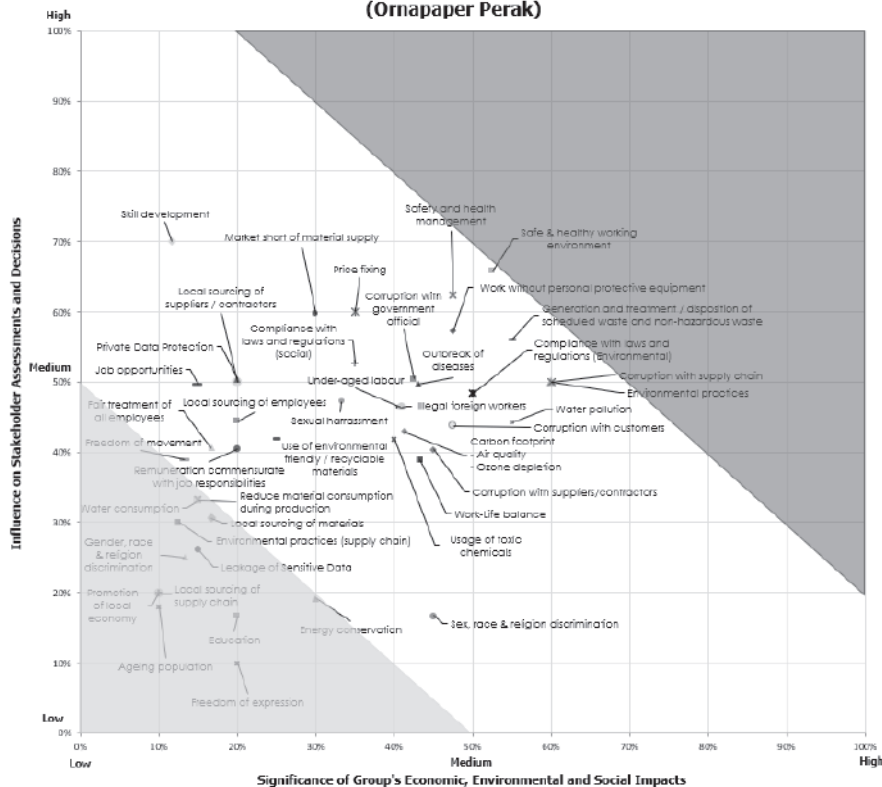


Sustainability Statement

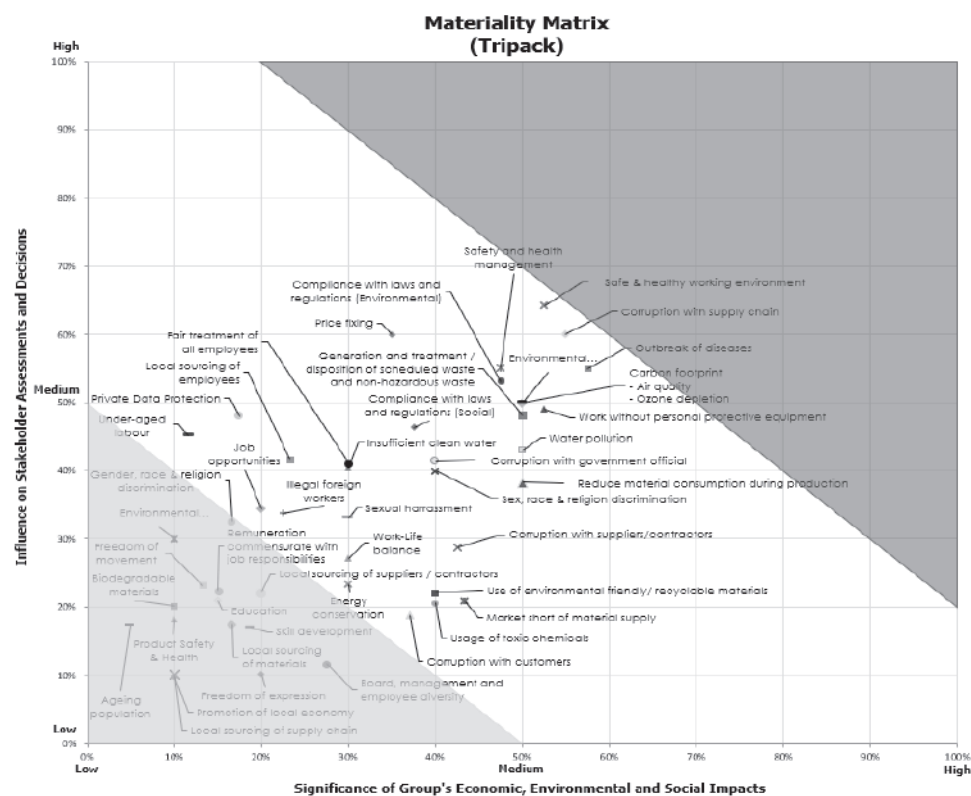
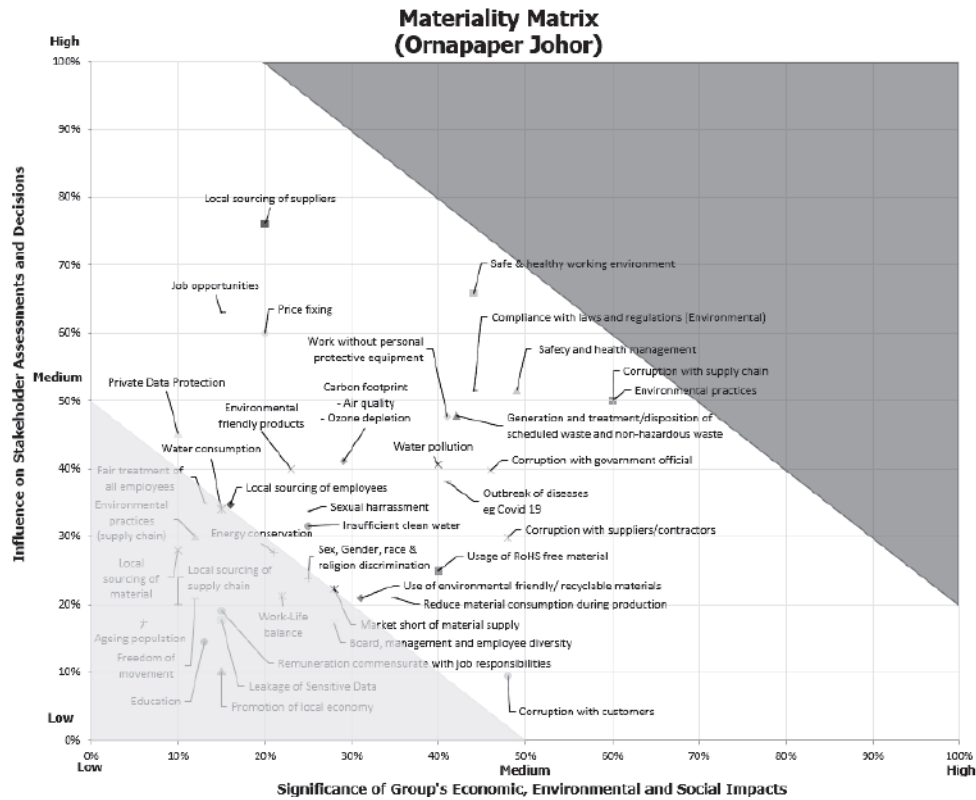
**Materiality Matrix
(Ornapaper Batu Pahat)**



**Materiality Matrix
(Ornapaper Perak)**







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Similar key material matters are identified and prioritised by the Management of Ornapaper Melaka, Ornapaper Batu Pahat, Ornapaper Perak, Ornapaper Johor and Tripack as well as the stakeholder groups, details as shown in the table below:

| Sustainability Matter | Definition | Aspect Boundary | | Relevant SDG Goals | Corresponding Risk Register |
|---|---|--|---|--|--|
| | | Internal Stakeholders | External Stakeholders | | |
| Safe and Healthy Working Environment (Social) Safety and Health Management | 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 | Management, Employee, Board of Directors | Government, Customer, Department Of Safety & Health, Certification Body |   | Compliance with Occupational Safety & Health Act |
| Outbreak of Diseases (Occupational Safety and Health – 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 | Management, Employee, Board of Directors | Customer, Supplier, Government, Department Of Safety & Health, Certification Body |   | Compliance with MITI Requirements |

Safe and Healthy Working Environment and Management (Social)

Health and safety are of utmost importance to the Group. As a socially responsible business, the Group's long-term sustainability hinged heavily on the safety and well-being of our 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 the relevant stakeholder groups, such as customers, suppliers and contractors. Hence, the Group is committed to providing and maintaining a productive, dynamic yet safe and healthy workplace and learning environment, as far as is reasonably practicable, to all employees and relevant stakeholders by minimising the risk of accidents, injury and exposure to health hazards.

In this respect, the Group places the utmost importance on strict and continuous compliance with all relevant safety and health laws and regulations, including but not limited to the following:

- 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
- Occupational Safety and Health (Classification, Labelling and Safety Data Sheet of Hazardous Chemicals) Regulations 2013
- Occupational Safety and Health (Noise Exposure) Regulations 2019
- Factories and Machinery Act 1967 (and its orders and regulations)

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The safety and health management at the workplace is managed by the Safety and Health Committee (made up of representatives from the Management and the employees) established by the respective subsidiaries of the Group. The safety and health management at the workplace is also guided by a Group Safety and Health Policy approved by the Chief Executive Director. Safety and health rules and regulations are established by the Safety and Health Committee and approved by the Management to ensure the operational activities are carried out in a proper and safe manner to minimise industrial accidents.

Emphasis on the importance of the safety and health of our employees and stakeholders remained to be one of the Group's top priorities throughout the COVID-19 pandemic and during the current transition to the endemic phase as we adapt to the new normal whilst providing uninterrupted supply and services to our customers and ensuring business continuity and resilience. In this respect, the Group implemented various COVID-19 preventive measures in compliance with the guidelines and Standard Operating Procedures ("SOPs") mandated by the Malaysian Government in curbing the spread of COVID-19 virus in the workplace to ensure business continuity while safeguarding the safety and health of employees, customers, suppliers, contractors, visitors and other relevant stakeholders.

A safe and healthy culture at the workplace has been embedded within our day-to-day business operation activities. To foster the desired safety and health objectives and outcomes with minimal industrial accidents and incidents occurring, the Safety and Health Committee shall oversee the due observance of safety and health rules and regulations established and practised at the workplace and to promote safe and healthy conducts and environment at the workplace. The Group strives to work towards its goals of achieving "A Zero Accident" workforce, meanwhile, creating "A Good, Safe and Pleasant" environment for the employees and relevant stakeholders in order to prevent unnecessary accidents and injuries at the workplace.

Safety and health audits are conducted by the Safety and Health Committee on all departments of the Companies to ensure that concerns or incidents of non-compliance with the safety and health rules and regulations 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 environments are performed by the Safety and Health Committee with planned controls formulated to eliminate hazards or control risks at regular intervals.

Furthermore, scheduled meetings of the Safety and Health Committee are held at a predetermined interval in accordance with the required safety and health-related rules and regulations. Such scheduled meetings are conducted to promote effective communication on ways to perform jobs/ tasks in a better and safer manner at the workplace, as well as to discuss and monitor the trend of accidents or incidents and immediately investigate near-miss accidents or incidents, dangerous occurrence, occupational poisoning or occupational disease that are occurred at workplace and to resolve with measurements proposed, with the aim of maintaining a hazard free workplace.

Awareness programmes for safety and health are established and implemented to ensure that all relevant stakeholders are competent to uphold 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 with necessary precautions to be taken in place to minimise accidents or incidents in the workplace. Workplace safety procedures and instructions for operating forklifts and various types of machines on the production floor are established too in guiding the employees to operate the forklift, production machines and equipment in a safe and sound manner.

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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 hazards to the employees, customers, suppliers, contractors and other visitors. Floor signages are placed at strategic and hazardous locations too within the premises of the Companies, including production floors and warehouses, as safety indicators and awareness to all employees, suppliers, customers, contractors and other visitors to adhere to in preventing the unnecessary incident from happening. Pedestrian safety walkways are created at designated areas in warehouses, factories and any other hazardous locations with safety signages placed to serve as the roadway for pedestrians and provide a safe workplace for employees, customers, suppliers, contractors and other visitors.

Relevant employees and other stakeholders with authorised access to our production facilities are provided with the required personal protective equipment per the Company's safety and health rules and regulations established. Besides, all visitors that have appointments with the Company's personnel are required to report to the security personnel for security clearance and visitor registration before they are permitted access to the Company's premises. Access to the manufacturing and storage area is also restricted to authorised personnel only with the required personal protective gear to be equipped. Strategic locations at our factories are also monitored through a closed-circuit television system while security guards are employed and deployed at important safety control points in the factories to ensure the general safety of our employees and other stakeholders within our premises.

As noise is inevitable in some of the Company's production processes, we have implemented measures to mitigate the impact on 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"). To better control noise levels, we deployed engineering controls as far as reasonably practicable, such as machineries constructed with noise reducing specifications.

Employee noise exposure is also mitigated by using personal protective equipment, such as hearing protection, especially in sections with higher noise exposure. Audiometry tests for machine operators are carried out periodically too to monitor employees' risk of detrimental exposure to noise. All plants and equipment used within the Companies are subject to service and maintenance at a predetermined interval to ensure their functionality with any defects or potential defects detected at the earliest opportunity to reduce the risk of unplanned machinery breakdown and risk of an industrial accident.

Moreover, chemical spillage handling procedures/ flow charts are established and placed at strategic and hazard-prone locations too in the production floor. Chemical spillage handling and awareness trainings are conducted too from time to time to enhance employees' responsiveness in the event of such an incident happens. First aid boxes are prepared and kept in designated prominent locations in the premises for easy access and prompt retrieval by employees in the event of the occurrence of any accidents. Inspection of first aid boxes is also performed regularly by the First Aid Team of the respective companies. First aid and CPR trainings are conducted too. Besides, blinking lights are installed at the weighbridge for the safety of the lorries during night vision.

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Further measures on proper labelling and secure storage of flammable materials/ chemicals in dedicated areas, regular safety inspection of electrical wiring and cables as well as the prohibition of smoking at the workplace (except at the dedicated smoking areas) are implemented too to reduce the likelihood of fire hazards. Additionally, fire preventive equipment and systems are installed and inspected at regular intervals to ensure their functionalities are not compromised over time and clear escape route plans are placed at strategic locations. The fire alarm system is installed too in alerting employees and visitors of any fire incidents.

To ensure our readiness in the event of an unfortunate incident, emergency preparedness and response programmes including fire drills are conducted by our fire and rescue team at regular intervals to ensure that such unlikely incidents can be handled satisfactorily and promptly to minimise damage to properties and people. The electrical safety programme is also arranged to be conducted on-site by a qualified external trainer to strengthen employees' awareness and response in relation to electrical safety at the workplace. Furthermore, a fire evacuation plan is established and disseminated through trainings and briefings given to employees, as well as being published at the strategic locations in the Companies' premises. Notwithstanding that, fire certificates issued by the Fire and Rescue Department of Malaysia for respective subsidiaries of different locations are obtained and renewed annually after inspections were performed by the authority bodies to ensure the Company's strict compliance with life safety, fire prevention, fire protection and fire-fighting requirements of the Fire Services Act 1988.

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 the workplace and the measures undertaken to address these issues. These are also discussed and reviewed by the Management annually during the Management Review Meeting. The Group strives to work towards a zero-injury (both minor and major) workforce. The figures below illustrate the incident records of Ornapaper Melaka, Ornapaper Batu Pahat, and Ornapaper Perak over the course of 5 years from the financial year end 2018 to 2022.

| ENTITY | YEAR | FYE 2022 | FYE 2021 | FYE 2020 | FYE 2019 | FYE 2018 |
|----------------------|-------|----------|----------|----------|----------|----------|
| Ornapaper Melaka | Major | 7 | 5 | 7 | 0 | 2 |
| | Minor | 0 | 4 | 2 | 1 | 2 |
| Ornapaper Batu Pahat | Major | 5 | 9 | 1 | 4 | 2 |
| | Minor | 1 | 2 | 4 | 0 | 0 |
| Ornapaper Perak | Major | 3 | 1 | 4 | 1 | 2 |
| | Minor | 0 | 0 | 0 | 2 | 2 |

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 |

Sustainability Statement

The incidents that occurred in Ornapaper Melaka and Ornapaper Perak recorded a slightly higher number of cases occurred during the financial year under review. The Management has been proactively discussing and implementing counter measures to reduce the incident rate to the extent possible in attaining the target of zero-injury set, including enhancing the workplace safety procedures and instructions in operating forklifts, machines and equipment with trainings provided to relevant employees, providing more comprehensive and targeted safety and health related trainings and awareness programmes to the employees apart from the on-the-job trainings provided. Besides, the Management is planning for investment in upgrading and fine-tuning some machines in production lines in order to minimise hazards and the risk of injury.

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

Outbreak of Diseases – COVID-19 (Social)

The unprecedented global outbreak of the COVID-19 pandemic that has been ongoing since the end of year 2019 has brought about substantial disruptions affecting almost all sectors of economies across the globe and ours are no exceptions too. Uncertainties with continuous fine-tuning and adaptation in business operations under the new normal, and even during the current transition towards the endemic, are needed during such challenging times. Nevertheless, we have responded quickly along the way to put in place measures that enhance the safeguarding of employees' health and safety during this extraordinary time meanwhile making sure that our business and production operations are able to be resumed and sustained with growth, without significantly affecting the supply to customers.

Notwithstanding that, the Group is committed to ensuring its adaptation and strict compliance with the SOPs stipulated as well as the regulations and guidelines on health precautions and movement control issued by the Ministry of Health Malaysia, Ministry of Defence Malaysia and other related regulatory bodies. In order to provide a safe and healthy working environment to employees, sufficient and appropriate briefings and awareness are always given to employees in relation to the pandemic and the preventive measures required to be taken. Employees are required to always comply strictly with the guidelines and preventive measures required by the authority bodies.

A formal memorandum in relation to COVID-19 prevention enhancement was issued and disseminated to employees in serving as a reminder of the precautions and safety measures exercised by the Group. The precaution steps are reviewed and improved from time to time with reference to the ongoing situation as well as the government's guidelines and SOPs to safeguard the safety and well-being of our employees, lorry drivers, suppliers, customers, contractors and visitors. Furthermore, the Group always ensure strict compliance with the minimum standard for space requirement for workers' accommodations in accordance with the Workers' Minimum Standards of Housing and Amenities Act 1990 (Act 446).

Sustainability Statement

Various COVID-19 safety and precaution signages are placed at key locations of the premises to create awareness to employees apart from providing related awareness trainings to the employees. Besides, despite the relaxation of COVID-19 related SOPs announced by the authority bodies, virtual meetings are still encouraged if possible. Necessary precaution steps are continued to be practised by the Group to allow early detection and avoid the widespread of this infectious disease, such as the following:

- Face masks are encouraged to be put on while inside the Companies' premises.
- Hand sanitisers are provided at the security guardhouses and the main entrance of the office premises.
- Employees are enquired to declare or report to Human Resources and Administration Department for any symptoms of COVID-19.
- Outsiders are encouraged to perform at least COVID-19 self-testing prior to going in the Companies.
- Disinfection or sanitisation process conducted at the Companies' premises/ factories are conducted before the shift or operation begins, especially the common spaces.
- The lunch and break times of employees are arranged in stages and partitions are installed on canteen tables to minimise the crowd as well as the interaction between employees during break time.

Other Major Environment and Social Activities Undertaken During Financial Year

A. Environment

The Group, as a responsible corporate citizen, is mindful of its commitment to driving long-term value for its stakeholders and its role in securing a sustainable future for the Group and the communities it is interacting with along with the environment that it subsists upon. The Group is dedicated to continuously improving environmental performance in order to exist in harmony with mother nature. Hence, the Group strives to conduct its business and operations in an environmentally responsible manner that leaves a positive impact on society and the environment. The Group's operations are built on governance procedures intended to ensure sound environmental practices in its daily operations.

The Group is committed wholeheartedly to ensuring that all relevant environmental laws and regulatory requirements, i.e. Environmental Quality Act 1974 and its regulations, are strictly adhered to and embedded into its operations. Other environmental related laws and regulations strictly complied with by the Group are Environmental Quality (Scheduled Wastes) Regulations 2005, Environmental Quality (Control of Petrol and Diesel Properties) Regulations 2007, Environmental Quality (Sewage) Regulations 2009, Environmental Quality (Industrial Effluent) Regulations 2009, Environmental Quality (Clean Air) Regulations 2014, Poison Act 1952 (Act 366), Poison (Sodium Hydroxide) Regulations 1962, Occupational Safety and Health (Noise Exposure) Regulations 2019, Environmental Quality (Refrigerant Management) Regulations 2020 and etc.

The Group's target is to sustainably maintain operational quality across the Group, which would promote the sensible use of natural resources. To enhance this, the Company has obtained ISO 14000:2015 certification which helps to improve the environmental performance and management control through more efficient use of resources and reduction of waste, hence, reducing the environmental impact. Furthermore, in order to contribute to the environmental pillar of sustainability, the Company has also obtained the Forest Stewardship Council ("FSC") Chain of Custody ("COC") certification and Programme for The Endorsement of Forest Certification ("PEFC") certification. These FSC certifications are credited following compliance with the required FSC principles and criteria which ensure that products used come from well-managed forests that provide environmental, social and economic benefits.

Sustainability Statement

Hence, the Company is committed to implementing and maintaining the chain of custody requirements of the FSC COC standards. We are committed to monitoring and ensuring that all our relevant suppliers and/or outsourcing contractors who manufacture products which have been certified on FSC and PEFC have been produced in accordance with the recognised sustainable forestry practices. An FSC-PEFC COC Policy has also been established and published on the corporate website of Ornapaper in providing awareness and understanding of the Company's commitments and principles involved in promoting sustainability in processes, activities, products and services based on three aspects, namely, Prosperity, Planet and People ("3Ps").

Apart from the above, given the nature and size of its operations, the Group's operating processes produce a significant amount of waste. The Group is subject to periodical assessments by the Department of Environment Malaysia ("DOE") to ensure that the Group operates its businesses in an environmentally responsible manner. Scheduled wastes generated from the Group'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 through the Electronic Scheduled Waste Information System under DOE. Besides, grease traps were installed too to prevent oil and waste from discharging to the drain.

As for non-scheduled waste generated, it is scrapped or collected by selected waste collectors to be recycled or disposed of at landfills. The nature of the industry the Group is involved in does not generate significant air emissions but that does not exclude the Group from meeting the regulatory standards set by DOE pursuant to Environmental Quality (Clean Air) Regulations 2014. The emissions to the atmosphere are channelled through chimneys, whereby regular air emissions monitoring was conducted through stack emission monitoring to ensure continuous compliance with DOE's limits. Besides, engineering controls were deployed on plants and machineries to the extent possible to reduce the wastages generated, improve air quality and minimise/ prevent depletion of natural resources.

To uphold its value on the environmental proposition, the Group practices the "Reduce, Reuse and Recycle" policy to reduce waste, reuse resources and recycle materials to the extent possible. Instances of the Group's initiatives in practising the "Reduce, Reuse and Recycle" policy are as follows: -

- Reuse and recycle 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 the supplier for refilling.
- Reduce electronic waste to be disposed of through landfill, which helps to conserve the environment by saving energy, water, and natural resources and reduces greenhouse gases caused by manufacturing new cartridges.
- Recycle trim waste, paper core and rejected cartons which help to conserve energy and natural resources and ultimately reduce pollution.
- Recycle stripping band and metal scrap.
- 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.
- Return reusable and returnable plastic containers to suppliers.

Sustainability Statement

The Group is committed to the protection of the environment at all locations where manufacturing and assembly activities are performed. As an environmentally conscious business entity by holding environmental preservation close to its heart, an Environmental Policy is established by the Group which is approved by the Chief Executive Director with strict compliance. The Environmental Policy established was advertised and announced to our customers and the public by uploading such policy on our corporate website and distributed upon request from customers and suppliers. The Environmental Policy was published at every department too, including the guardhouse, meeting rooms and receptionist counter, to bring awareness to every one of the Company's commitments to fulfilling the accountability of trustee of the environment for the benefit of all stakeholders including the future generations. The Group is committed to the following corporate environmental policy: -

- Fulfill the responsibility of the trustee of the environment for this and future generations.
- To the extent possible, apply practices and control technologies that minimise pollution.
- Be committed to fulfilling compliance obligations.
- Setting and reviewing appropriate environmental objectives and targets.
- Strive to minimize release to air, water and land.
- As appropriate, take corrective action where past practices have harmed the environment.
- Providing awareness training to our management and employees on the importance of the environmental issue.
- Strive for continual improvement of the environmental management system.
- To advertise and announce the environmental policy to our customers and the general public.
- Prevent pollution through reuse, recycling, and reduction.
- To establish and implement environmental quality assurance system by referring to Sony Technical Standards SS-00259 to control environment-related substances.

The Group has been mindful and remained committed to protecting and enhancing the environment surrounding the Group's operations by minimising the environmental footprint for the benefit of future generations. In demonstrating the Group's initiative in environmental preservation, roof thermal insulation painting in the production area was previously carried out in Ornapaper Melaka to improve the air quality and reduce temperature while providing a more comfortable and less heaty workplace to the employees in production areas. Besides, in striving for a sustainable environment and financial benefits through a reduction in energy consumption, the Group has invested in on-site solar energy generation, starting with Ornapaper Melaka. The Company has installed solar panels on the factory roof, in which the energy produced from the solar panels will be consumed first, and any excess will be exported and sold to Tenaga Nasional Berhad ("TNB"). Such initiative will help to reduce the temperature inside the workplace as well as reduce the electricity consumption and electricity costs incurred while reducing carbon emissions to fight climate change.

Additionally, to play a part in maintaining environmental sustainability and strive to minimise releases to air, water and land, there are several environmental objectives and targets established by the Management of Ornapaper Melaka, Ornapaper Batu Pahat and Ornapaper Perak, whereby the actual performances are reviewed periodically with necessary corrective actions taken, shown as follows: -

Sustainability Statement

| ORNAPAPER MELAKA | |
|--|---|
| Environmental Objective(s) | Environmental Target(s) |
| 1. To control water consumption | To ensure the water consumption not exceeding an average of 0.7m ³ /MT for the next twelve months. |
| 2. To control electricity consumption | To ensure the electricity consumption not exceeding an average of 50 kwh/MT with a tolerance level of 10% for the next twelve months. |
| 3. To reduce the disposal of plant waste | To ensure disposal of plant waste not exceeding 11%/month. |
| 4. To control gas consumption | To ensure the gas consumption not exceeding an average of 1.10 GJ/MT for the next twelve months. |
| 5. To reduce the generation of glue sludge | To reduce the generation of glue sludge to 25MT/year. |
| 6. To reduce the generation of ink sludge | To reduce the generation of ink sludge to an average 10MT/month. |

➤ **Water and Electricity Consumption (For Ornapaper Melaka):**

| | FYE 2022 | FYE 2021 | FYE 2020 | FYE 2019 | FYE 2018 | TARGET |
|--|----------|----------|----------|----------|----------|--------|
| Average Water Consumed/MT (m ³ /MT) | 0.5 | 0.4 | 0.3 | 0.6 | 0.7 | 0.7 |
| Average Electricity Consumed/MT (kwh/MT) | 52 | 44 | 54 | 52 | 51 | 50 |

➤ **Gas Consumption (For Ornapaper Melaka):**

| | FYE 2022 | TARGET |
|---------------------------------|----------|--------|
| Average Gas Consumed/MT (GJ/MT) | 1.03 | 1.10 |

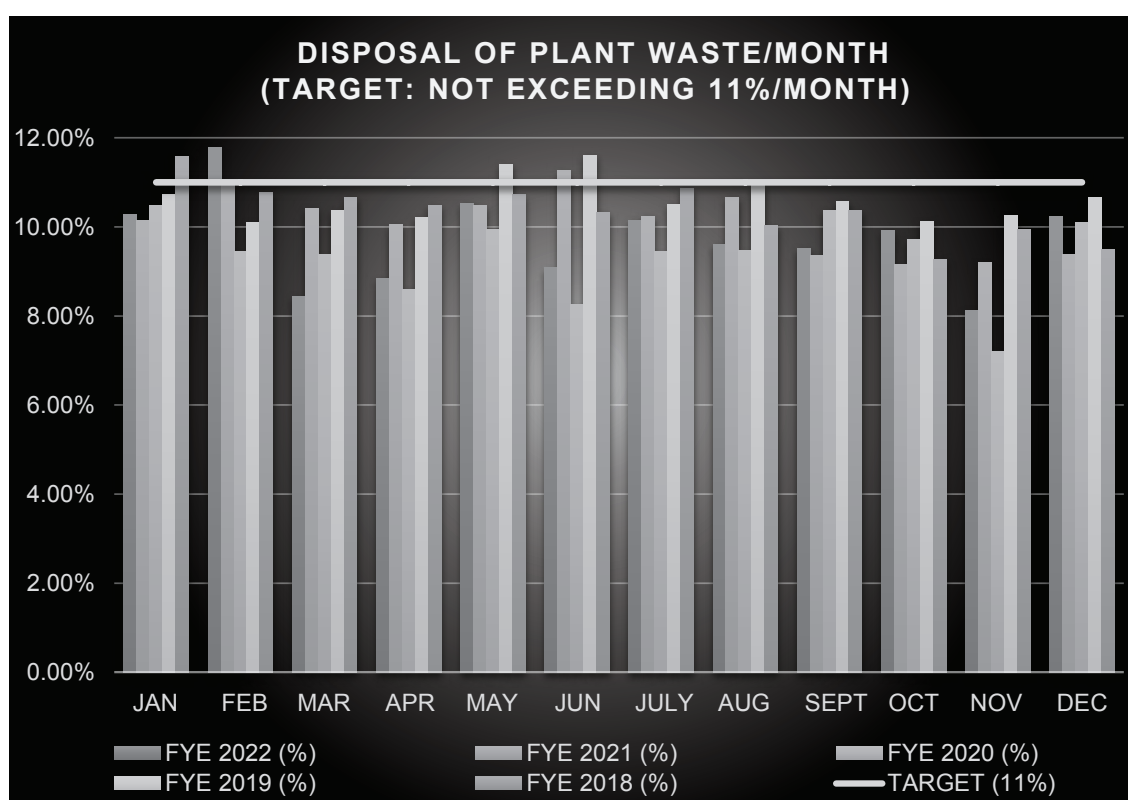
➤ **Generation of Glue Sludge and Ink Sludge (For Ornapaper Melaka):**

| | FYE 2022 | FYE 2021 | FYE 2020 | FYE 2019 | FYE 2018 | TARGET |
|---|----------|----------|----------|----------|----------|--------|
| Average Glue Sludge Generated/Year (MT/year) | 10.72 | 11.52 | 19.64 | 19.54 | 16.11 | 25 |
| Average Ink Sludge Generated/Month (MT/month) | 3.58 | 3.61 | 7.16 | 6.71 | 9.08 | 10 |

Sustainability Statement

Apart from the good management practised by the Management in working towards optimising operational efficiency and reducing the generation of scheduled wastes, the lower average monthly ink sludge and yearly glue sludge generated for the financial years of 2021 and 2022 were also partly due to the COVID-19 pandemic with limitation of production workforce capacity in the Company, as well as the lower production and sales volume as a result of the after-effect from the pandemic and Ukraine war with global economic recovery and supply chain being disrupted.

➤ Disposal of Plant Waste (For Ornapaper Melaka):



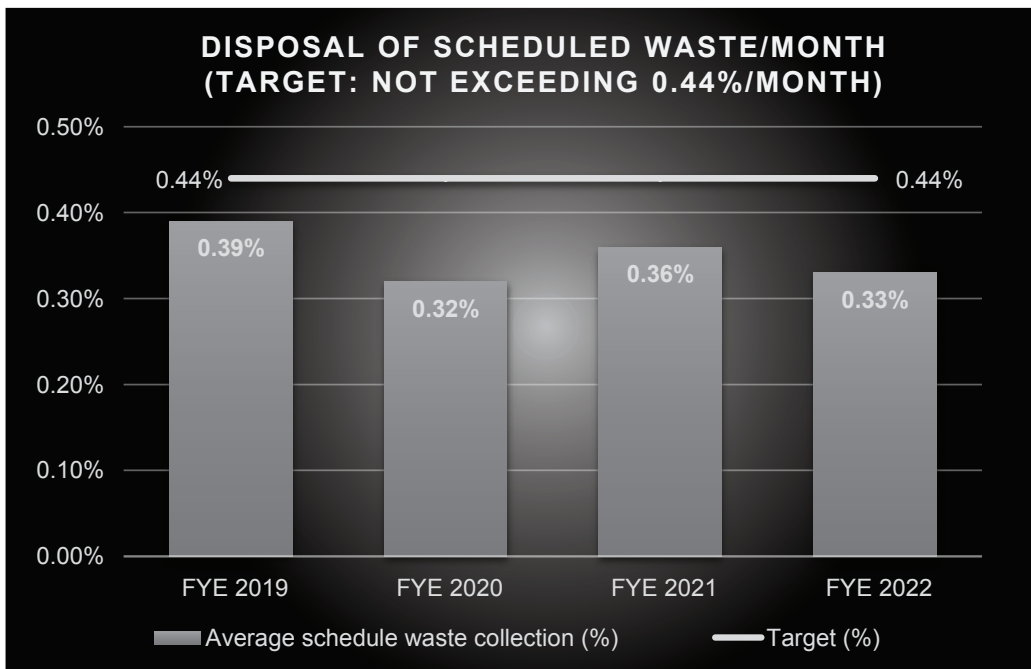
| ORNAPAPER BATU PAHAT | |
|---|--|
| Environmental Objective(s) | Environmental Target(s) |
| 1. To control water consumption | To control the average consumption of water not exceeding 1.06m³/MT. |
| 2. To control energy consumption | To ensure the average consumption of electricity not exceeding 75.20kwh/MT. |
| 3. To control the disposal of scheduled waste | To control the scheduled waste collection by 0.44% compared with the previous year. |
| 4. To control boiler emissions by 20% per day | To ensure smoke emissions shall not exceed 20% per day. If exceeded, less than 15 minutes per day. |

Sustainability Statement

➤ Water and Energy Consumption (For Ornapaper Batu Pahat):

| | FYE 2022 | FYE 2021 | FYE 2020 | FYE 2019 | TARGET |
|--|----------|----------|----------|----------|--------|
| Average Water Consumed/MT (m ³ /MT) | 1.04 | 0.92 | 0.90 | 1.43 | 1.06 |
| Average Energy Consumed/MT (kwh/MT) | 86.80 | 74.80 | 75.20 | 86.29 | 75.20 |

➤ Disposal of Scheduled Waste (For Ornapaper Batu Pahat):



➤ Boiler – Smoke Emission (For Ornapaper Batu Pahat):

| | FYE 2022 | FYE 2021 | FYE 2020 | FYE 2019 | TARGET |
|--|----------|----------|----------|----------|--------------|
| Smoke Emission Not Exceeded 15 Minutes/Day | Failed | Failed | Passed | Passed | < 15 minutes |

The results obtained in years 2019 and 2020 were based on the smoke emission control limit of 40% per day, and less than 15 minutes per day if it exceeds the limit of 40% per day. The smoke emission control limit was then changed to 20% per day effective from March 2021 per DOE's enforcement after the site inspection. However, the target was unable to be achieved in year 2021 after such changes in boiler smoke emission control, mainly due to the inconsistent performance during the change of materials (types of wood) used for the biomass process. Management has performed a thorough investigation, identified the possible root causes with corrective actions designed and implemented with close monitoring of the smoke emission readings during the change of materials used for the biomass process.

Sustainability Statement

Nevertheless, for the year 2022, the results from January 2022 till November 2022 were all passed, except for December 2022 in which the Management performed an immediate investigation and identified the root cause of such non-compliance whereby the panel board for the smoke detector was found faulty after calibration was performed by a consultant, hence, caused the device having detection problem with the smoke emission with the inconsistent reading of smoke emission recorded despite new panel board was changed. Corrective actions were identified in requiring the consultant to check and recalibrate the related device and to have Boilerman continue monitoring the performance of the smoke detector closely.

| ORNAPAPER PERAK | |
|--|---|
| Environmental Objective(s) | Environmental Target(s) |
| 1. To control energy consumption | To ensure the energy consumption not exceeding an average of 70.32 kwh/MT for the next twelve months. |
| 2. To control water consumption | To ensure the water consumption not exceeding an average of 0.9m ³ /MT for the next twelve months. |
| 3. To reduce the disposal of plant waste | To ensure disposal of plant waste not exceeding 9.5%/month. |
| 4. To control the disposal of ink sludge | To control the disposal of ink sludge collection to an average of 2,000 kgs/month. |

➤ **Energy and Water Consumption (For Ornapaper Perak):**

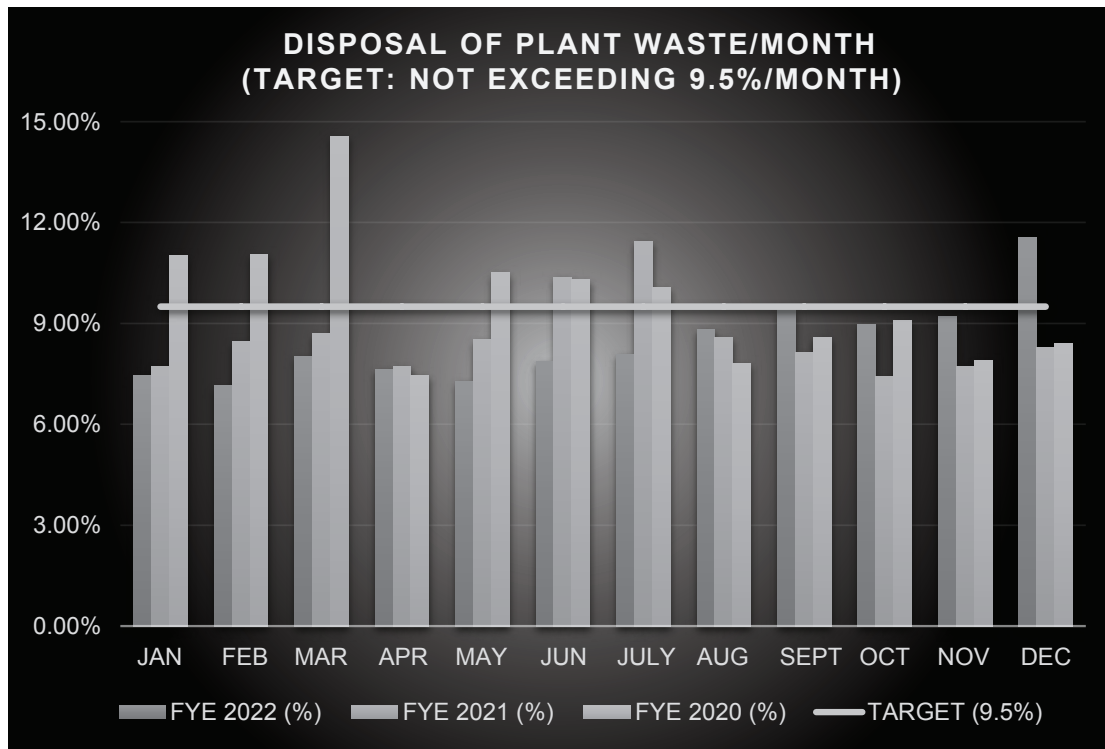
| | FYE 2022 | FYE 2021 | FYE 2020 | TARGET |
|--|----------|----------|----------|--------|
| Average Energy Consumed/MT (kwh/MT) | 50.36 | 53.85 | 59.79 | 70.32 |
| Average Water Consumed/MT (m ³ /MT) | 0.82 | 0.87 | 0.87 | 0.90 |

➤ **Disposal of Ink Sludge (For Ornapaper Perak):**

| | FYE 2022 | FYE 2021 | FYE 2020 | TARGET |
|---|----------|----------|----------|--------|
| Average Ink Sludge Disposed/Month (kgs/month) | 1,693 | 1,488 | 1,513 | 2,000 |

Sustainability Statement

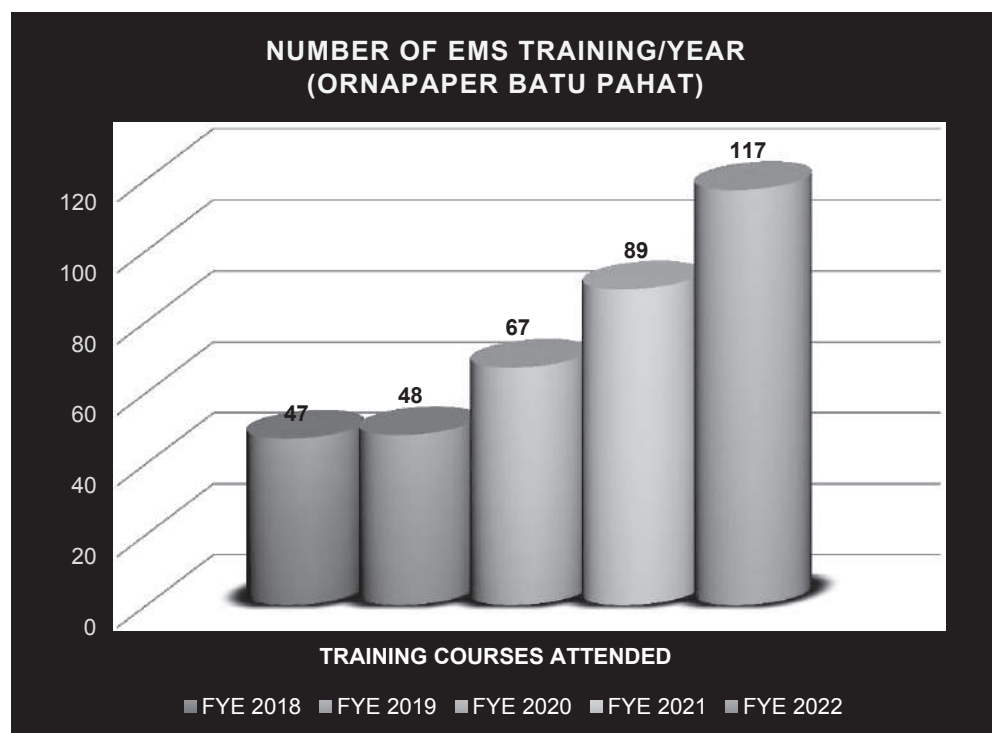
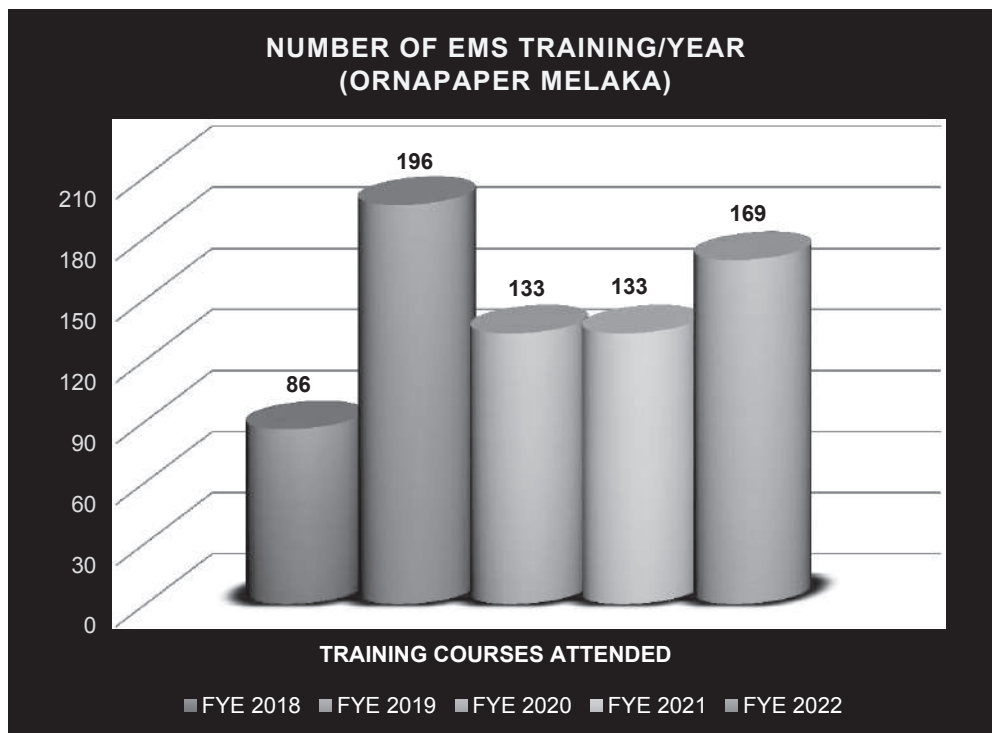
➤ Disposal of Plant Waste (For Ornapaper Perak):



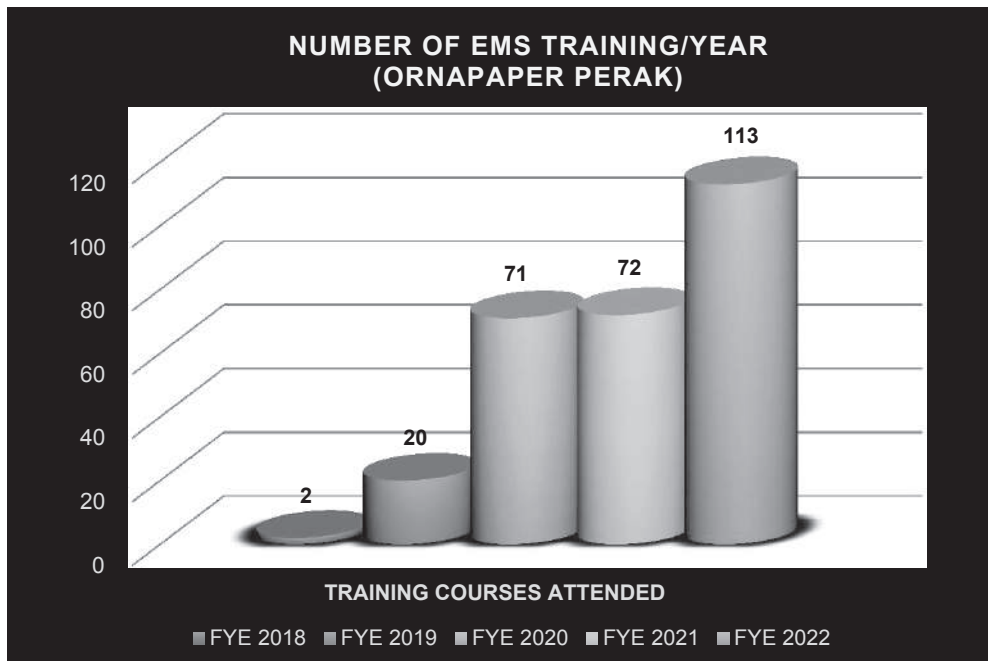
In order to instil an environmentally friendly mindset in all employees as well as the compliance requirements of the Environmental Quality Act and its regulations, continuous environmental preservation awareness trainings (i.e. environmental management system (“EMS”) trainings) are provided to employees on the environmental causes championed and the required conducts expected from the employees.

| TRAINING / YEAR | ENTITY | YEAR 2022 | YEAR 2021 | YEAR 2020 | YEAR 2019 | YEAR 2018 |
|---|----------------------|-----------|-----------|-----------|-----------|-----------|
| NO. OF ENVIRONMENTAL MANAGEMENT SYSTEM (“EMS”) RELATED TRAINING | ORNAPAPER MELAKA | 169 | 133 | 133 | 196 | 86 |
| | ORNAPAPER BATU PAHAT | 117 | 89 | 67 | 48 | 47 |
| | ORNAPAPER PERAK | 113 | 72 | 71 | 20 | 2 |

Sustainability Statement



Sustainability Statement



There was no legal action taken against the Group nor any fine or monetary sanction imposed in relation to the environmental related aspects during the financial year under review. Prompt actions and proactive steps were taken to ensure relevant environmental factors remained within the regulatory requirements of our operations.

B. Social

The Group acknowledges the importance to uphold social value along with its value chain to accommodate the needs of stakeholders affected by its activities undertaken. The Group is committed to conducting its business activities ethically and in a transparent manner in order to build an enduring and trusting business relationship with all its stakeholders.

The long-term business success and sustainability of the Group lie in every employee as employees are recognised as an important and valuable asset as well as a key business success factor for the Group. The Group strongly believes that human capital development and the availability of a highly resilient workforce are particularly important to support the continued expansion and growth of the businesses. Therefore, it is vital for the Group to value the employees and 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 its employees to further develop the skills, knowledge and talents of the employees. Hence, all employees have the opportunity to contribute to the Group while achieving their own career goals.

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

Sustainability Statement

The Board is committed to building performance-based culture by allowing employees to demonstrate their capabilities and recognising their potential to be leaders. The Group is mindful that fair compensation is vital in motivating and engaging the workforce to achieve its growth target in line with the strategic directions of the Group. Thus, employees are reasonably rewarded based on the competencies demonstrated and the efforts dedicated by them in delivering their duties and responsibilities.

The Group strives to create a positive and supportive workplace where employees are engaged through various avenues to ensure an effective flow of information and optimise operational performance. Annual performance appraisals are undertaken by the Management, not only for performance-based remuneration but also to have effective two-way communication with its people whereby the past performance and expectations for the future years by the Management on the employees are communicated while the employees' commitment and concerns are conveyed for future monitoring and sustainable development of the Group.

Making the Group a secure and comfortable workplace continues to be an important focus in its business strategy whereby health and safety improvement benefits will eventually be delivered to employees, suppliers, contractors, customers, investors and the public. The Board understands the inherent risk of the Group's operations, especially in the Production Department. While it takes every possible measure to safeguard the occupational safety and health of individuals involved in its operations, all employees possess general duties to comply with occupational safety and health related standard operating procedures in accordance with the Occupational Safety and Health Act 1994. The Group continuously aim to improve its safety culture through the renewal and deployment of occupational safety and health trainings and courses delivered to selected personnel.

The Group embraces diversity in the workplace and continues to advocate a culture that respects and leverages the diverse ethnicities and cultures of Malaysia, hence, recognising the needs of respective ethnic groups and accommodating their needs and requirements in the business and operations. The Group believes and practices fair treatment and equitable opportunities for all employees regardless of race or ethnicity, religion, nationality, age, marital status, gender or any other characteristics as protected by the local legislation and regulations. In addition, equal access and opportunities with fair treatment are provided to employees in terms of recruitment, salary increment, benefits and allowances, promotion, retention and training. Such beliefs and practices are vital in boosting employees' motivation for better performance achievement and continuous improvement.

The Group had developed Employee Handbook and Human Resource policies and procedures with respect to transparency in employee benefits and entitlements. The Group forbids all forms of discrimination in the workplace, such as race, religion, nationality, gender, colour, age, marital status, pregnancy status, sexual orientation and physical disability. The Group respects and embraces that every individual has an equal right and voice to make a difference in driving and strengthening the sustainable growth of the Group. All employees are allowed to receive fair treatment while working with the Group such as equality in terms of wages, work hours and overtime allowed, various types of leaves entitlements, medical benefits, terminations, non-discrimination, access to complaint mechanisms and other established protection policies. The Group also observes strict enforcement of no illegal employment in the workplace.

Sustainability Statement

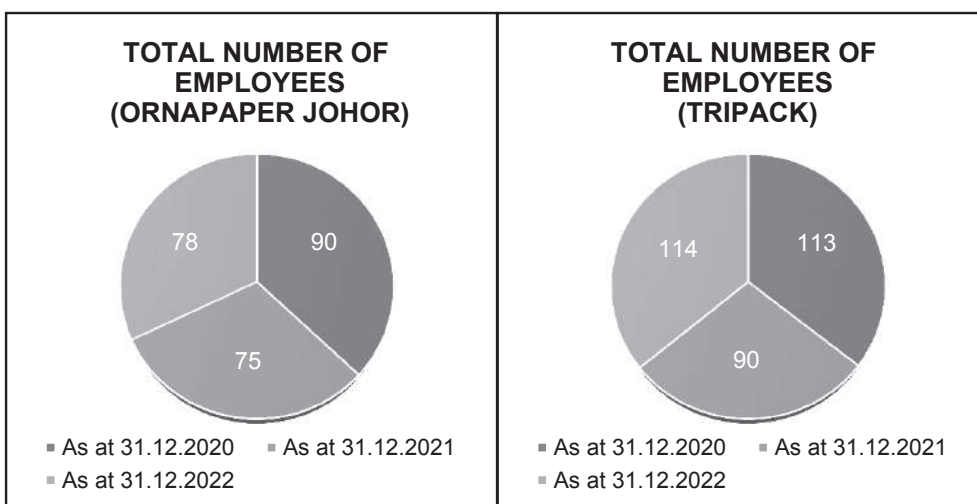
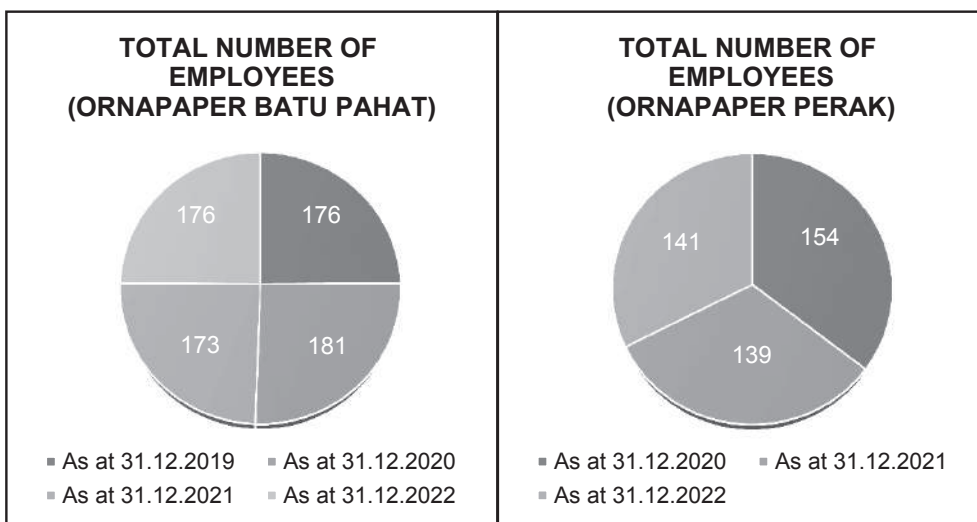
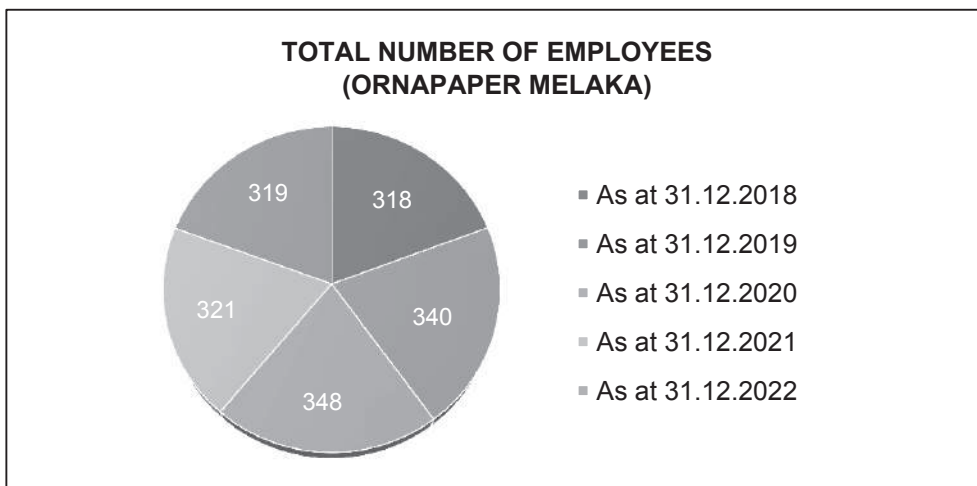
The Group is committed to providing a work environment which is conducive, safe and free from sexual harassment and sexual harassment is viewed as a serious violation of the Company's rules and regulations as well as work values. No employees, regardless of male or female, shall be treated with any unsolicited and/or unwelcome sexual conduct/ behaviours having the effect of verbal, non-verbal, visual, psychological or physical harassment. In this respect, the Company has established a Policy on the Prevention and Eradication of Sexual Harassment at the Workplace which is also being published on the respective departments' notice boards for the understanding and awareness of all employees, as well as on the corporate website of Ornapaper in signifying Ornapaper's effort and stern emphasis on prohibition and eradication of sexual harassment at workplace.

In addition, as the Company embraces sustainability of the 3Ps (prosperity, planet and people), we are committed to not being directly or indirectly involved in the violation of any of the International Labour Organisation ("ILO") Core Conventions as defined in the ILO Declaration on Fundamental Principles and Rights at Work, which are written in the FSC-PEFC COC Policy established by the Company and published in the corporate website of Ornapaper, shown as follows: -

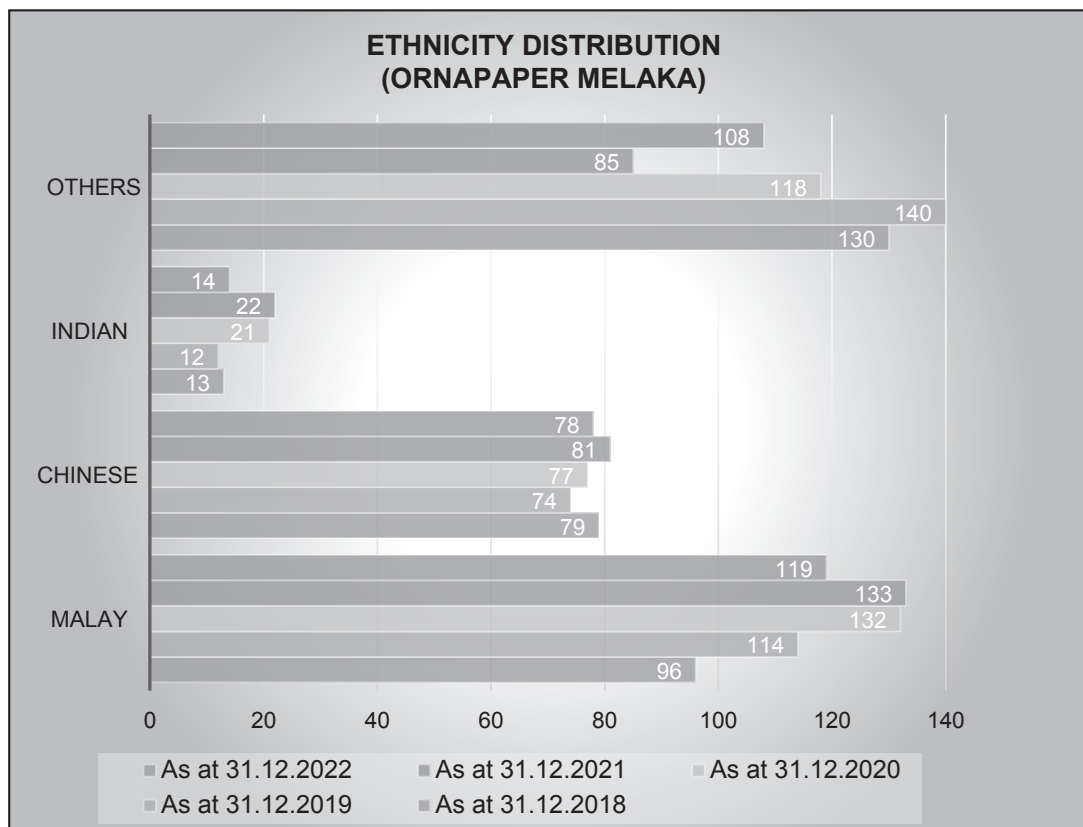
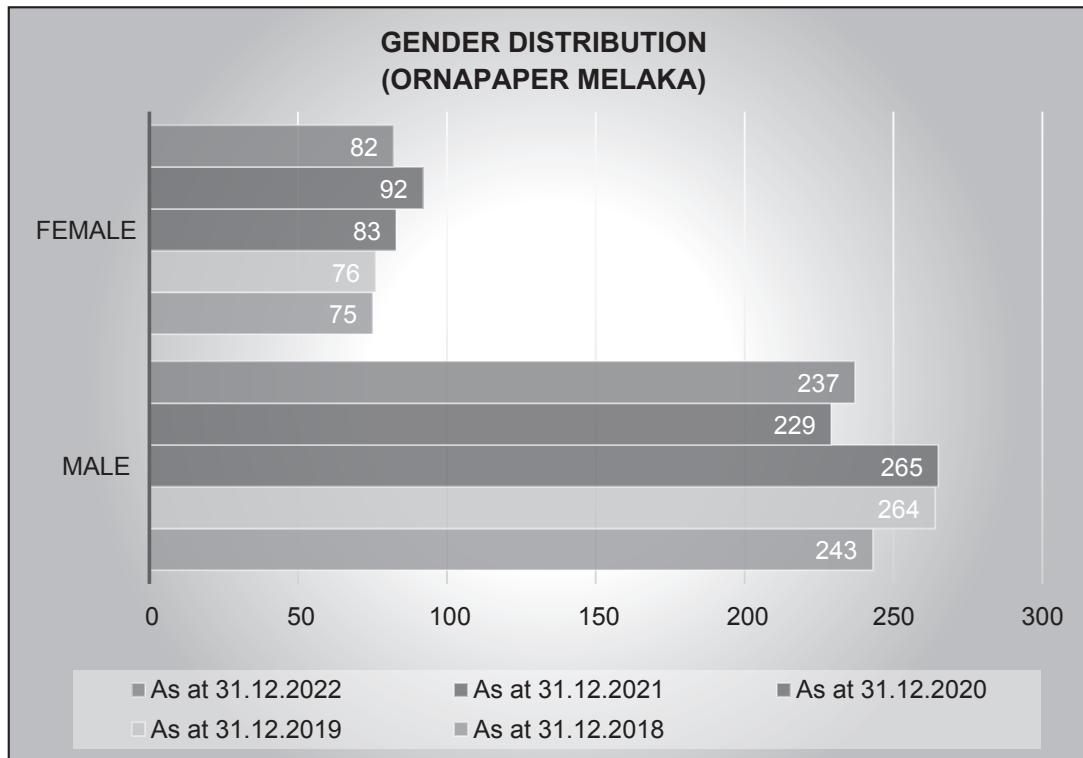
- (a) No forced, bonded and indentured labour.
 - Under no circumstances forced labour shall be used, whether in the form of compulsory or trafficked labour, indentured labour, bonded labour, or any other forms.
 - Mental and physical coercion, slavery and human trafficking are prohibited.
 - Workers are not required to work more than the regular hours, and all overtime works by workers are on a voluntary basis.
- (b) No child labours.
 - All workers employed shall be above 18 years old, or under the local legal minimum age for work or mandatory schooling, whichever is higher.
- (c) Freedom of association and the effective recognition of the right to collective bargaining.
 - Workers are not intimidated or harassed in the exercise of their rights to join or refrain from joining any organisation.
- (d) No discrimination, harassment and abuse.
 - Workers are not subject to any physical, sexual, psychological or verbal harassment, abuse, or other forms of intimidation.
 - Shall not engage in, support or tolerate discrimination in employment.
- (e) Safe and healthy working environment.
- (f) Consistent wages, benefits and terms of employment.
- (g) Complaints and grievances.
 - A proper channel is established and regular meetings are conducted for employees to raise their concerns.
- (h) Welfare of employees is taken care of.
 - All workers are provided with transparent, fair and confidential procedures that result in the swift, unbiased and fair resolution of difficulties that may arise as part of their working relationship.
 - All provisions of services and facilities for workers and their dependents are at, or above, the legally required minimum standards (if applicable).
- (i) Training and competency.
 - Training and development opportunities are provided equally to all employees.

Sustainability Statement

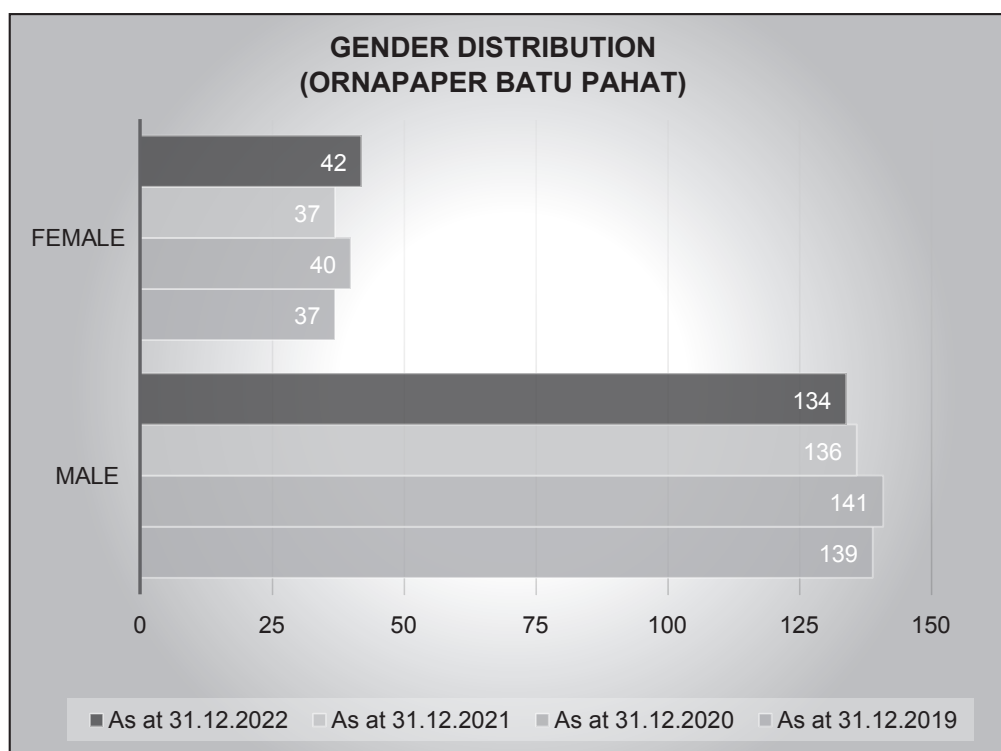
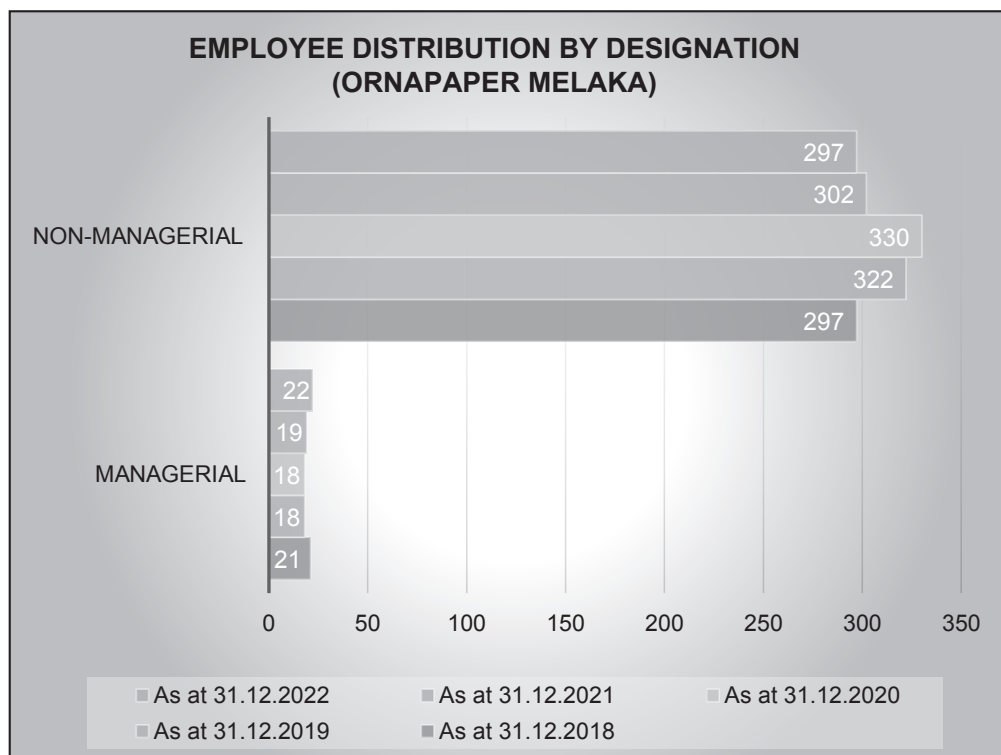
A full breakdown of our workforce in Ornapaper Melaka, Ornapaper Batu Pahat, Ornapaper Perak, Ornapaper Johor and Tripack is illustrated below.



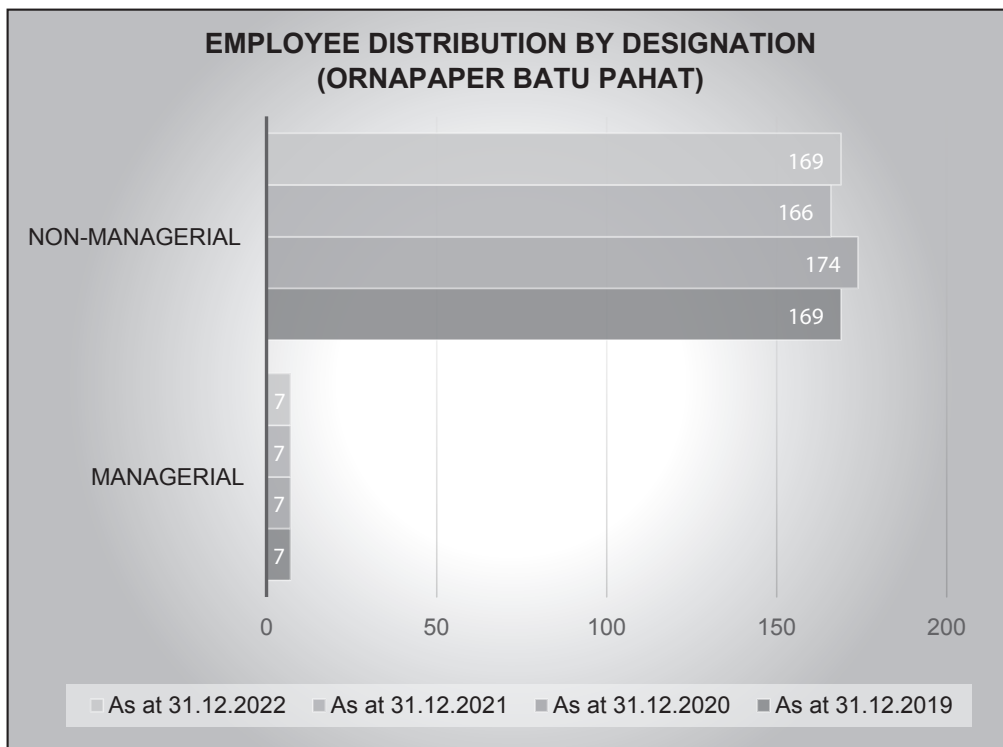
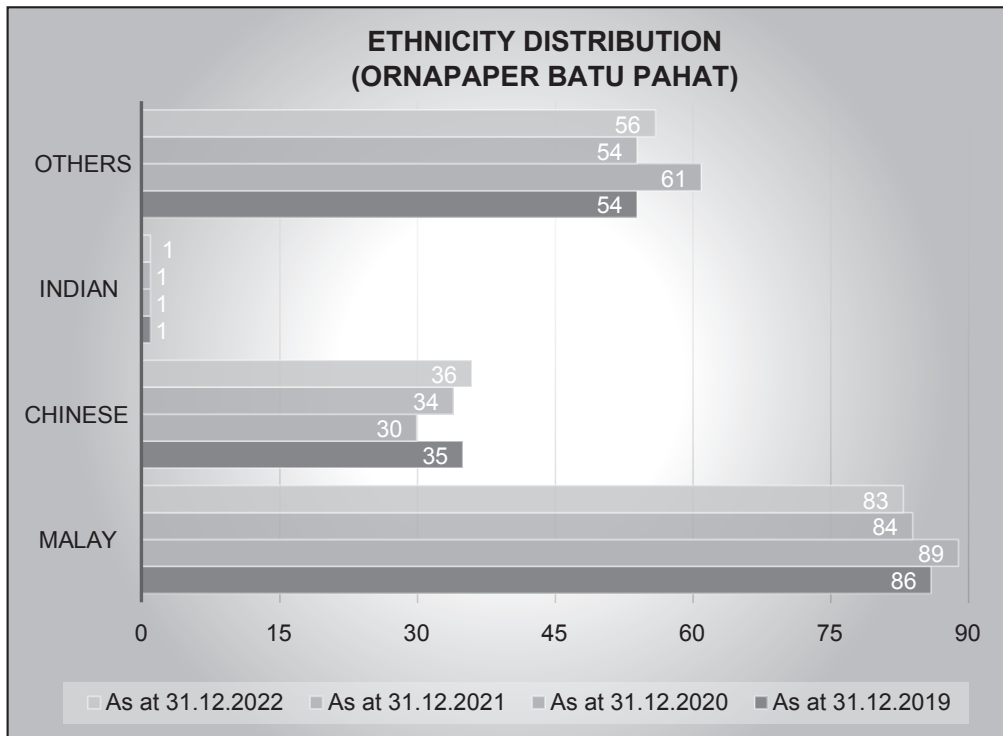
Sustainability Statement



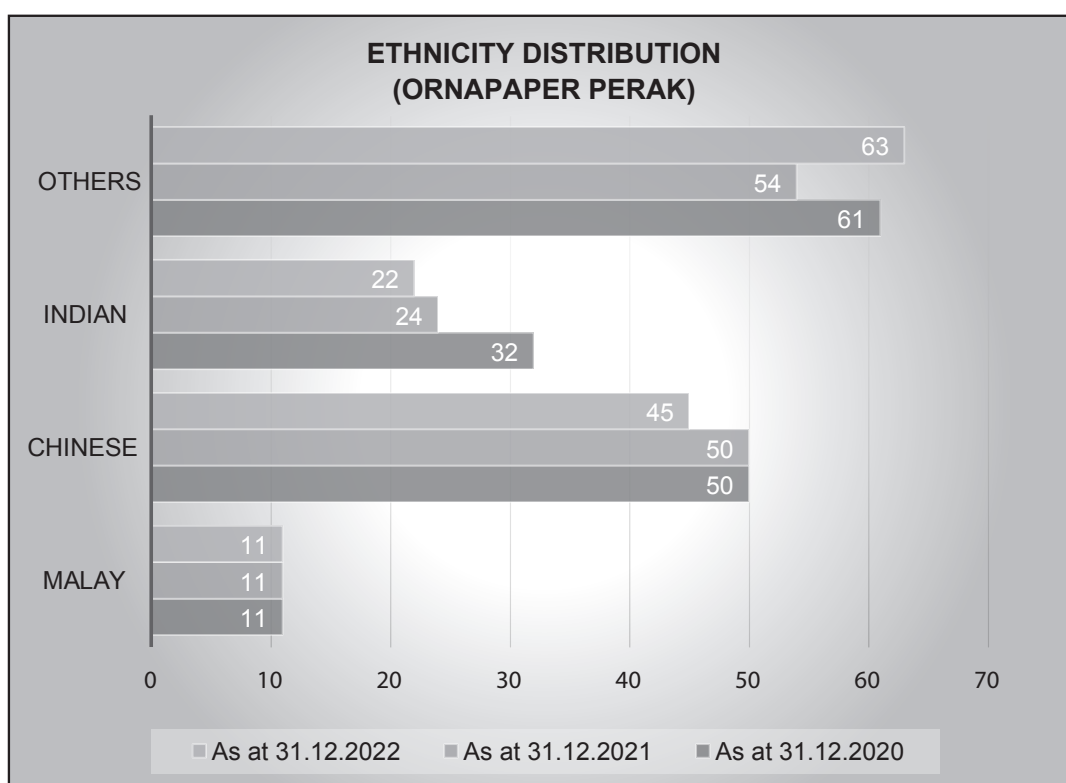
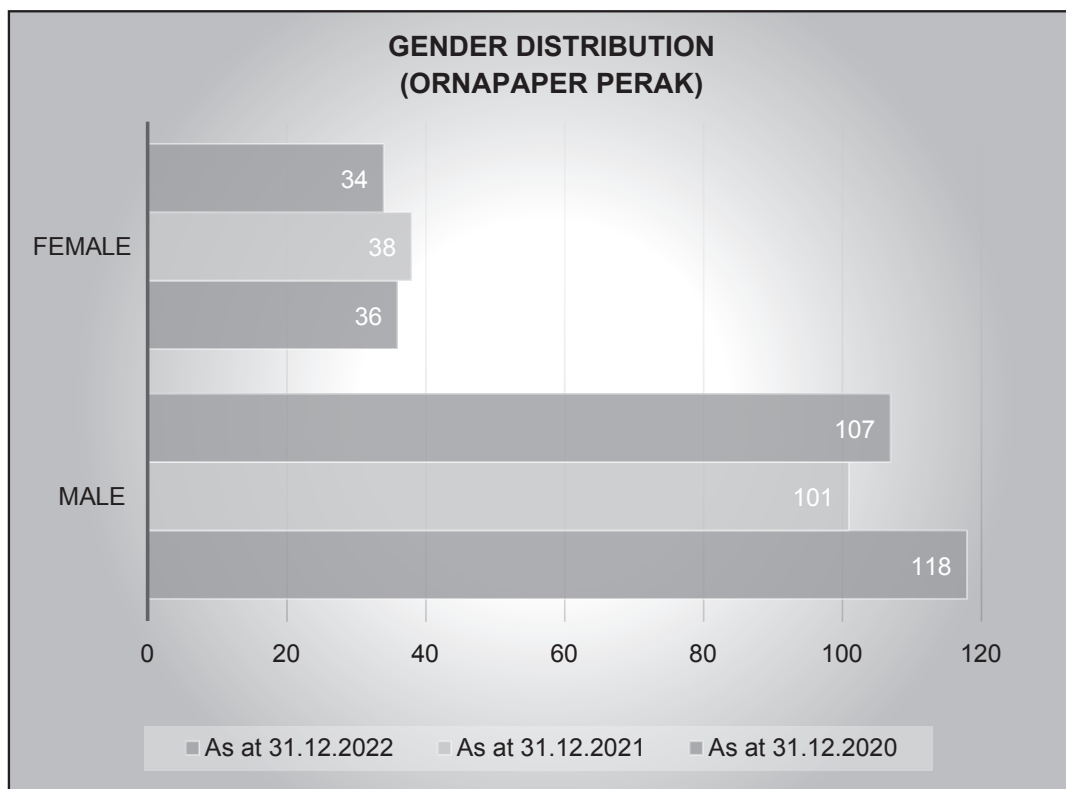
Sustainability Statement



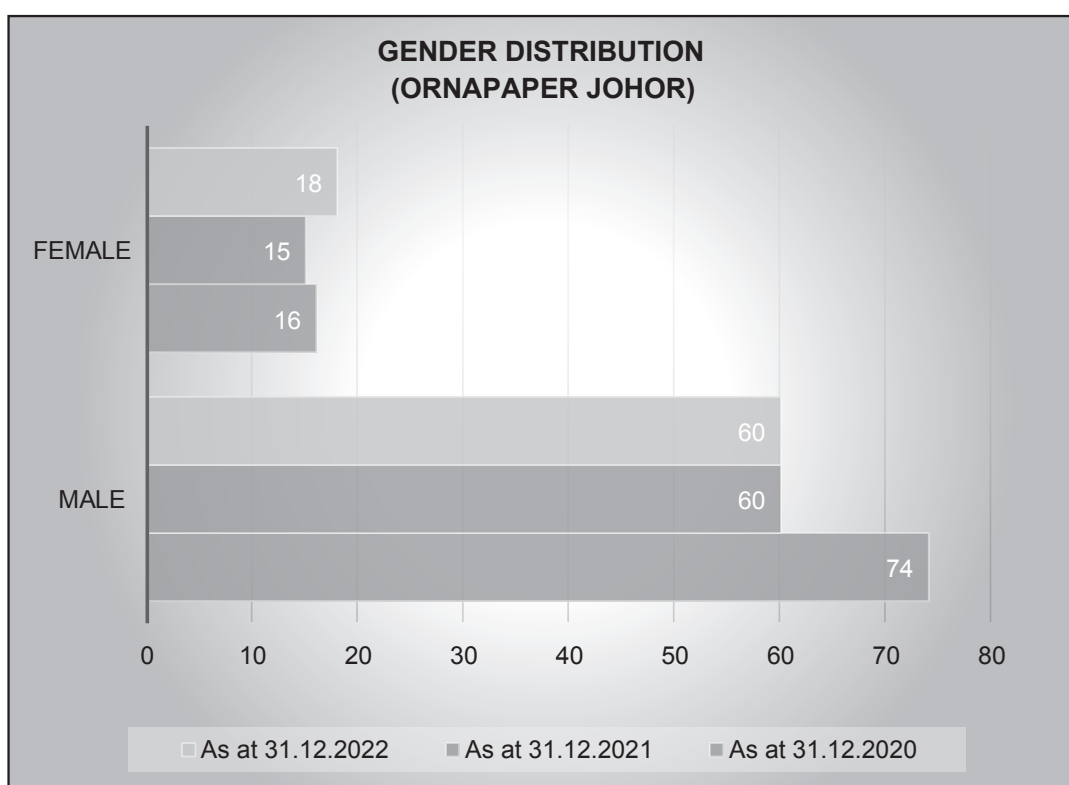
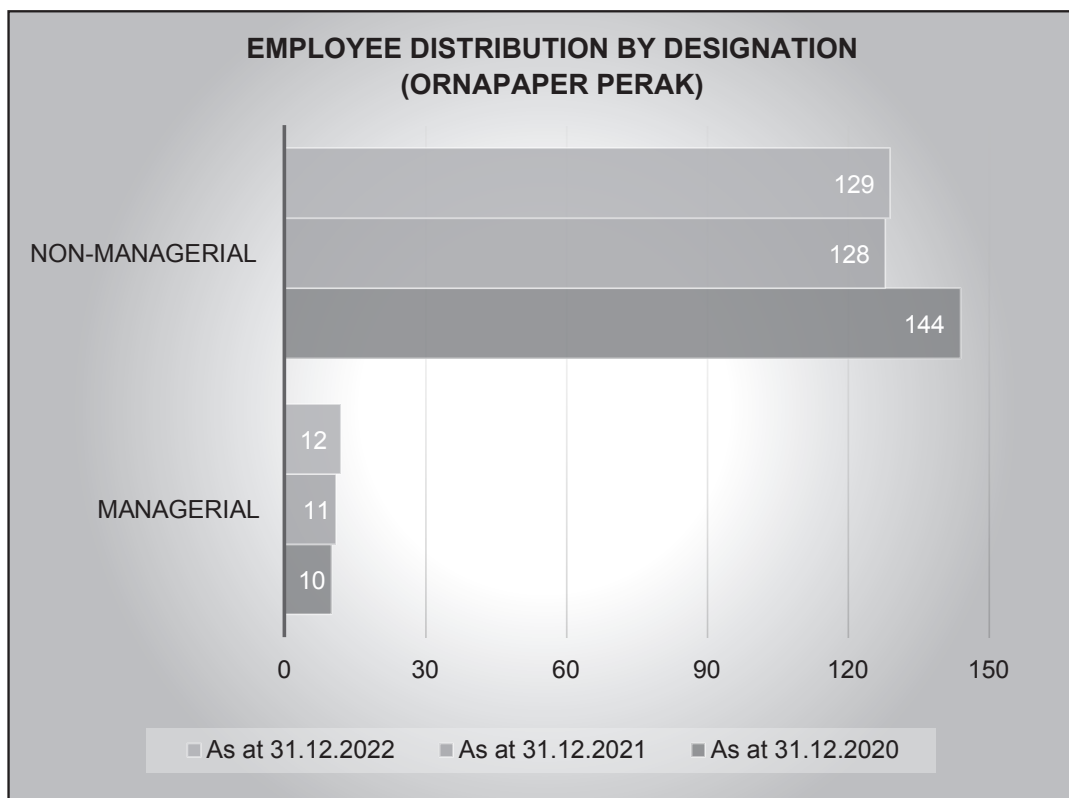
Sustainability Statement



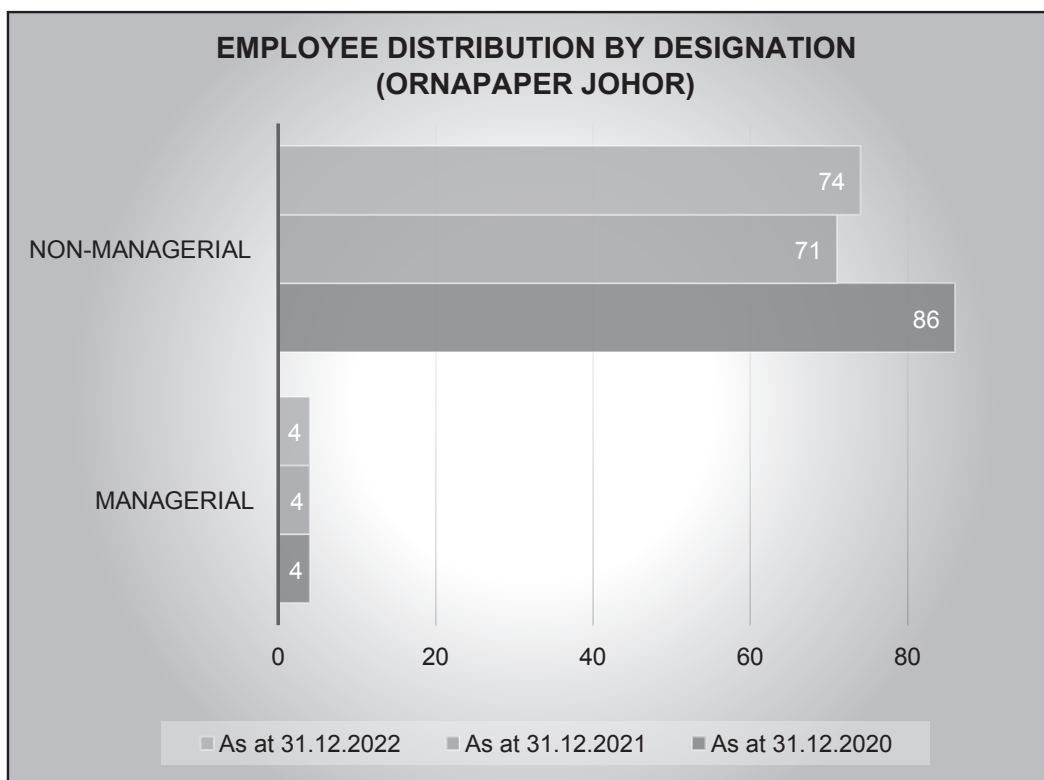
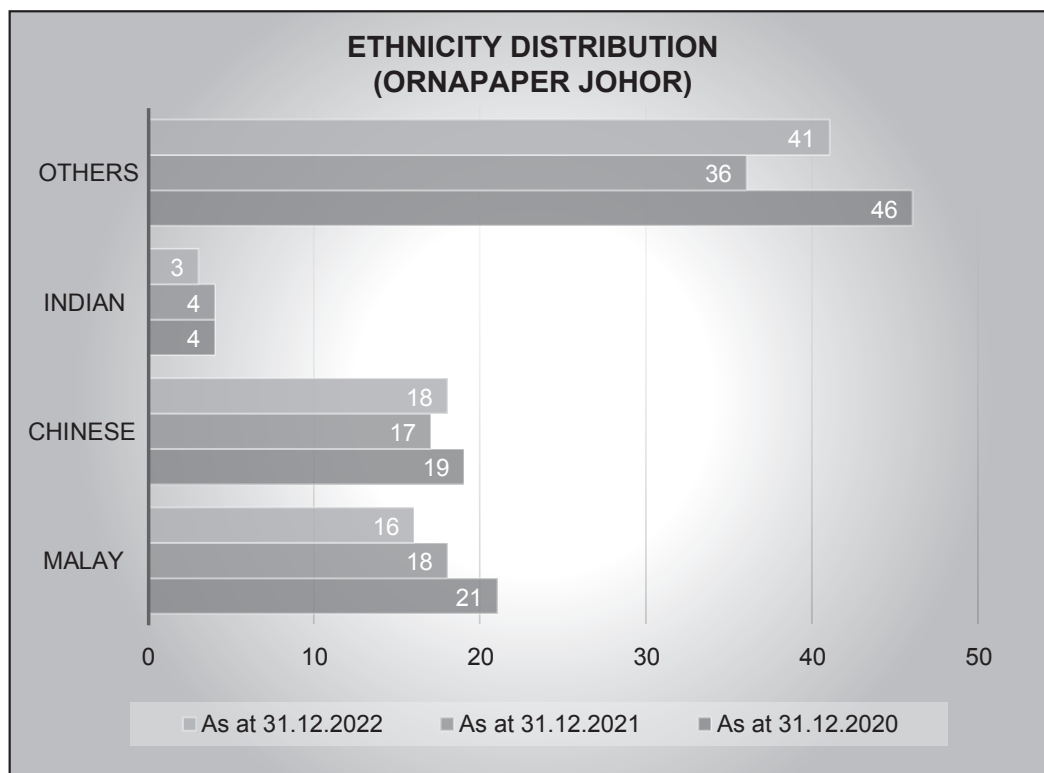
Sustainability Statement



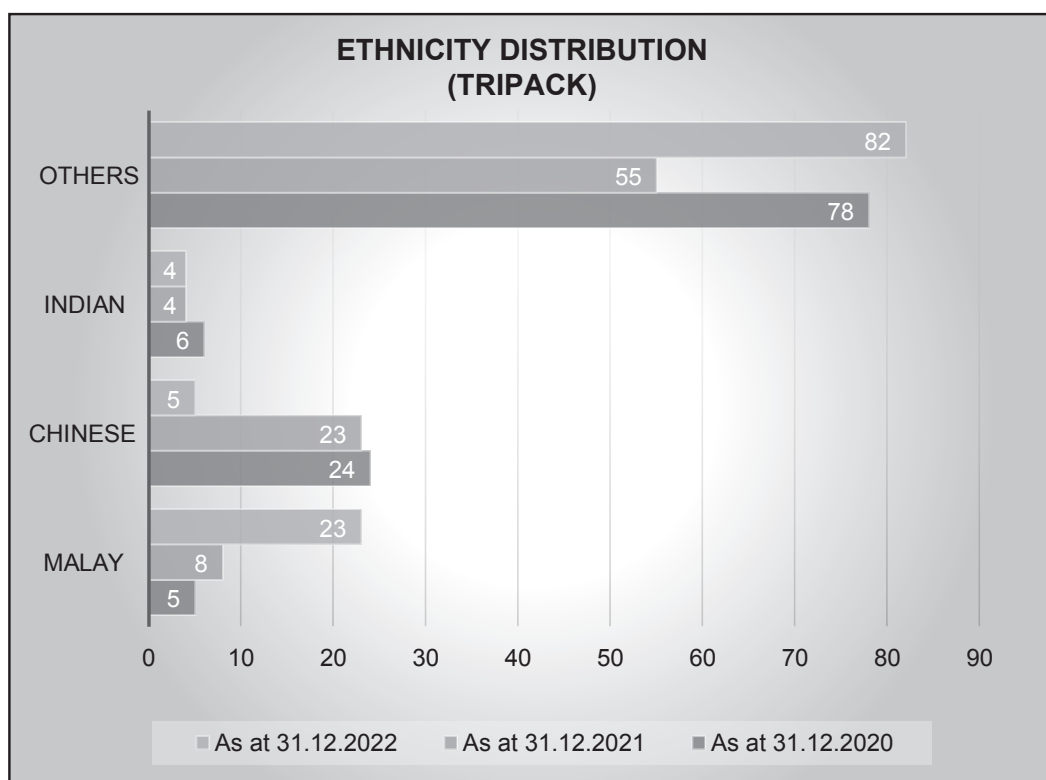
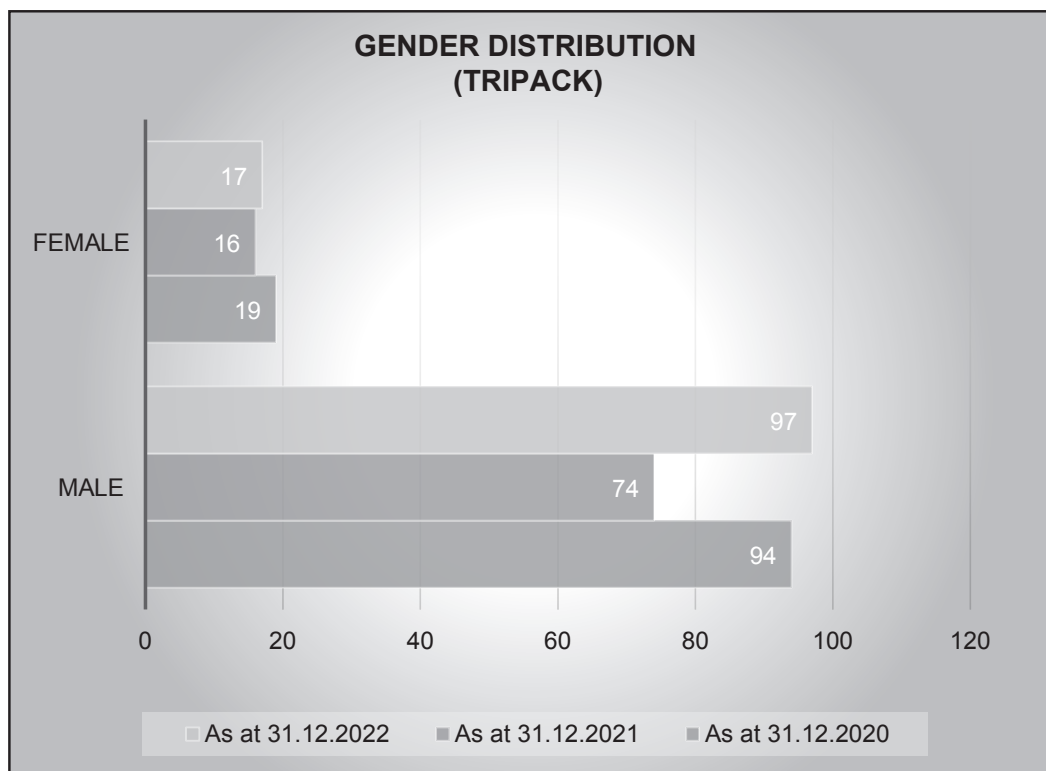
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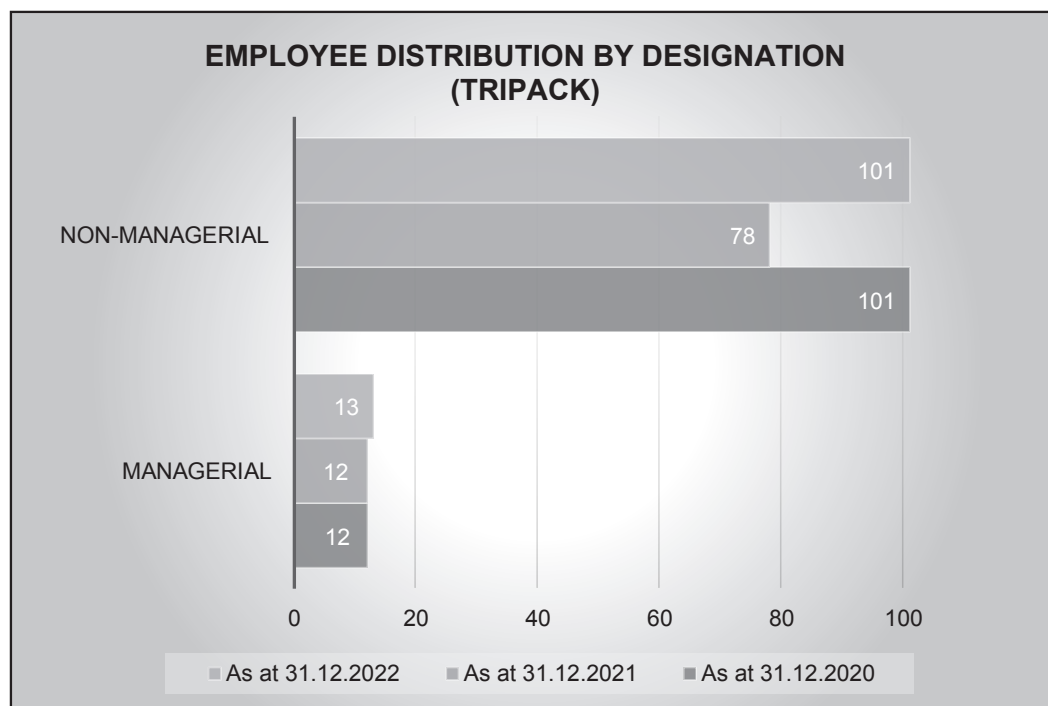
Sustainability Statement



Sustainability Statement



Sustainability Statement



As a responsible corporate citizen, the Group strives to undertake sustainable and responsible practices to add value to sustainable business growth, environmental stewardship and social responsibility. In fostering the aspect of social responsibility, in order to accord our people their rights as an employee of the Group, the Group observes strict compliance with all applicable prevailing human resource and social related laws and regulations, such as The Federal Constitution of Malaysia, Employment Act and its regulations, Minimum Wages Order, Competition Act, Personal Data Protection Act, Minimum Retirement Age Act, Children and Young Persons Act, Workers' Minimum Standards of Housing and Amenities Act, Temporary Measures for Reducing The Impact of Coronavirus Disease 2019 (COVID-19) Act 2020, just to name a few important ones.

The Group is holding the integrity value close to its heart and walks the extra mile to combat corruption and bribery practices throughout the Group and along the value chain. The Group is mindful of the importance of conducting business in a responsible and transparent manner and is committed to behaving professionally and with integrity in our business dealings with our business associates which include but are not limited to the customers, suppliers, agents and consultants. Pursuant to the enforcement of Section 17A of the Malaysian Anti-Corruption Commission Act 2009 effective from 1 June 2020, the Group is continuously embarking on initiatives to ensure that adequate measures are in place as a defence mechanism based on the TRUST principle under the Guidelines on Adequate Procedures issued by the Prime Minister's Department.

To demonstrate an adequate level of top-level commitment, the Group's Anti Bribery and Corruption Framework is established to ensure the Group's compliance with the principle of zero-tolerance on any and all forms of gratification as well as applicable anti-bribery and corruption laws and regulations. The said approved Group's Anti Bribery and Corruption Framework is published on the corporate website of Ornapaper too. The Group upholds the highest standards of integrity in all business interactions and adopts a strict zero tolerance on any forms of bribery and corruption whereby all business dealings should be transparently performed and accurately reflected on records with monitoring and enforcement procedures being implemented to ensure the related compliance. Officers and employees who refuse to pay bribes or participate in acts of corruption will not be penalised even if such refusal may result in losing business.

Sustainability Statement

The core principle in relation to anti-bribery and corruption of the Group is enshrined in the Code of Conduct approved by the Board as well as the misconduct and conflicts of interest requirements as specified in the Employee Handbook and related human resources policies and procedures. Therefore, these have explicitly defined the expectations of the Board on each officer, employee as well as a business associate to strictly comply with the terms of good business practices and to uphold high personal conduct and integrity. Besides, the Group continuously conducts awareness programs for all new and existing employees to refresh awareness of anti-bribery and anti-corruption measures and to continuously promote integrity and ethics.

Furthermore, the Group recognises the importance of practising lawful and ethical conduct in its business activities and is committed to complying with the ethical principles of transparency, integrity, objectivity and accountability in the conduct of its businesses and affairs at the workplace. The Anti Bribery and Corruption Framework put in place enables stakeholders to report any concerns in relation to bribery and corruption confidently to the designated Compliance Officer through the anti-bribery and corruption management's incident reporting channel.

The Group has also put in place a Whistleblowing Policy which is approved by the Board and administered by the Audit Committee to support the Group's principles and code of conduct. Such approved Whistleblowing Policy is also published on the corporate website of Ornapaper. A proper channel for whistleblowing is established to encourage whistle-blowers (including anonymous disclosure) to report any inappropriate ethical behaviours and workplace grievances to the appropriate level of authority. The confidentiality of the identification of the whistle-blowers is to be strictly maintained and protected against reprisal unless prohibited by law. This is part of the Group's efforts to establish and uphold impartiality in the workplace. There was zero incident of whistle-blowing reported through the established whistle-blowing channel and anti-bribery and corruption management's incident reporting channel during the financial year under review.

Last but not least, the Group greatly emphasizes being a responsible corporate citizen by giving back and investing in the community in which the Group operates to show its gratitude and appreciation for its success and growth. Its strategy is to generate sustainable value for both the community and economic growth through the effective use of the Group's capabilities and resources as well as sharing of financial resources with the local community for their development. During the financial year, the Group have supported various community causes through corporate donations and community events. The Group is committed to continuing investing in community programmes and other corporate social responsibility initiatives to contribute towards the betterment of local communities.

Beyond building sustainability in business operations, we also recognise the importance of being responsible to society by not only providing financial and non-financial support to the local communities and those in need but also sharing our knowledge base for the next generation of community development. We do offer an internship programme to provide students with opportunities to work with us during their semester breaks and at the same time fulfilling their internship requirements. Such an internship programme is not only aimed to develop the confidence and skill sets of the undergraduates for future job requirements but also to present the Group with a ready source of new recruits for its business operations and business expansion.

During the financial year, the Group has contributed to the development of education of the young children in order to promote education and literacy in the next generations which enable the next generations to be well-educated and armed with relevant knowledge so that people's quality of life is improved, and sustainable development is enhanced. Our donations are not limited to only education but also to non-profit associations for social and economic development initiatives. The Group respects and values long-term beneficial relationships with the communities where we operate and in the wider society in order to achieve sustainable business growth.

Financial Statements

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Directors' Report

Directors' report

The directors hereby submit their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2022.

Principal activities

The Company is principally engaged in the business of investment holding. The principal activities of the subsidiaries are set out in Note 14 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

Results

| | The Group RM'000 | The Company RM'000 |
|--|---------------------|-----------------------|
| Profit after taxation for the financial year | 2,607 | 49 |
| Attributable to: | | |
| Owners of the Company | 2,476 | 49 |
| Non-controlling interest | 131 | - |
| | 2,607 | 49 |

There were no material transfers to or from reserves or provisions during the financial year other than those 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 other than an impairment loss on property, plant and equipment and impairment loss on investment in a subsidiary as disclosed in Notes 12 and 14 to the financial statements respectively.

Dividends

Dividends paid or declared by the Company since 31 December 2021 was as follows:

| | RM'000 |
|---|--------|
| <u>In respect of the financial year ended 31 December 2021</u> | |
| Final single-tier dividend of 2 sen per ordinary share, declared on 9 March 2022 and paid on 20 May 2022 | 1,483 |

The Company declared a final single-tier dividend of 1 sen per ordinary share in respect of the current financial year 31 December 2022 to be paid on 19 May 2023 to shareholders whose names appeared in the records of depositors on 5 May 2023. The financial statements for the current financial year do not reflect this dividend. Such dividend will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2023.

Directors' Report

Directors

The names of directors of the Company who served during the financial year and up to the date of this report are as follows:-

Sai Han Siong
Sai Chin Hock
Sai Ah Sai
Datuk Adillah binti Ahmad Nordin
Siow Kee Yen
Tan Chin Hwee

The names of directors of the Company's subsidiaries who served during the financial year and up to the date of this report, not including those directors mentioned above, are as follows:-

Ang Kwee Teng
Fong Yew Teck
Pong Hee Kit
Foo Chee Juin

Directors' interests

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

| | Number of ordinary shares | | | |
|----------------------------------|---------------------------|------------|------|------------------|
| | At 1.1.2022 | Bought | Sold | At 31.12.2022 |
| The Company | | | | |
| <i>Direct interest</i> | | | | |
| Sai Han Siong | 15,000 | - | - | 15,000 |
| Siow Kee Yen | 30,500 | - | - | 30,500 |
| Datuk Adillah binti Ahmad Nordin | 34,000 | - | - | 34,000 |
| Sai Ah Sai | 120,000 | - | - | 120,000 |
| <i>Indirect interest</i> | | | | |
| Sai Chin Hock # | 22,693,874 | 15,191,345 | - | 37,885,219 |
| Sai Han Siong # | 23,276,198 | 15,191,345 | - | 38,467,543 |
| Sai Ah Sai # | 24,340,698 | 15,191,345 | - | 39,532,043 |

Deemed interested by virtue of shares held by companies in which the respective directors have significant influence and by virtue of the respective directors' spouse, son's and father's shareholdings in the Company.

By virtue of their shareholdings in the Company, Sai Chin Hock, Sai Han Siong and Sai Ah Sai are deemed to have interests in shares in its related corporations during the financial year to the extent of the Company's interests, in accordance with Section 8 of the Companies Act 2016.

The other director holding office at the end of the financial year had no interest in shares of the Company or its related corporations during the financial year.

Directors' Report

Directors' benefits

Since the end of the previous financial year, no director has received or become entitled to receive any benefit (other than directors' remuneration as disclosed in "Directors' Remuneration" of this report) by reason of a contract made by the Company or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest other than any benefits which may be deemed to arise from transactions entered into the ordinary course of business with companies in which certain directors have substantial financial interests as disclosed in Note 31(b) to the financial statements.

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.

Directors' remuneration

The details of the directors' remuneration paid or payable to the directors of the Company during the financial year are as follows:-

| | The Group RM'000 | The Company RM'000 |
|--------------------------------------|------------------------|--------------------------|
| Fees | 180 | 180 |
| Salaries, bonuses and other benefits | 1,968 | 18 |
| Defined contribution benefits | 168 | - |
| | <u>2,316</u> | <u>198</u> |

The estimated monetary value of benefits-in-kind provided by the Group to the directors of the Company was approximately RM46,000.

Indemnity and insurance cost

The Company maintains a Directors' and Officers' Liability Insurance Policy on a group basis. During the financial year, the amount of indemnity coverage and insurance premium paid for the directors and certain officers of the Group were RM500,000 and RM2,544 respectively.

Issues of shares and debentures

During the financial year:-

- (a) there were no changes in the issued and paid-up share capital of the Company; and
- (b) there were no issues of debentures by the Company.

Directors' Report

Treasury shares

As at 31 December 2022, the Company held as treasury shares a total of 1,098,445 of its 75,250,601 issued and fully paid-up ordinary shares. The treasury shares are held at a carrying amount of RM540,700. The details of the treasury shares are disclosed in Note 22(b) to the financial statements.

Options granted over unissued shares

During the financial year, no options were granted by the Company to any person to take up any unissued shares in the Company.

Subsidiaries

The details of the Company's subsidiaries are disclosed in Note 14 to the financial statements.

Other statutory information

- (a) Before the financial statement of the Group and of the Company were made out, the directors took reasonable steps:
- (i) to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowances for impairment losses on receivables and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for impairment losses on receivables; 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 further writing off of bad debts or the additional allowance for impairment losses on receivables in the financial statements of the Group and of the Company are required; and
 - (ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which 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.

Directors' Report

Other statutory information (continued)

(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 that 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 substantially 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, Crowe Malaysia PLT have expressed their willingness to continue in office.

The details of the auditors' remuneration of the Group and of the Company for the financial year were as follows:-

| | The Group RM'000 | The Company RM'000 |
|----------------|---------------------------------|-----------------------------------|
| Audit fees | 153 | 45 |
| Non-audit fees | 5 | 5 |
| | <u>158</u> | <u>50</u> |

Signed in accordance with a resolution of the directors dated 7 April 2023.

Sai Chin Hock

Sai Han Siong

Statement by Directors

Statement by directors

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

We, Sai Han Siong and Sai Chin Hock, being two of the directors of Ornapaper Berhad, state that, in the opinion of the directors, the financial statements set out on pages 121 to 187 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 of 31 December 2022 and of their financial performance and cash flows for the financial year ended on that date.

Signed in accordance with a resolution of the directors dated 7 April 2023.

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 121 to 187 are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act 1960.

Subscribed and solemnly declared by the abovementioned
Sai Han Siong, NRIC Number: 700507-71-5425
at Melaka
in the State of Melaka
on this 7 April 2023

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 2022 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 121 to 187.

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 2022, and of their financial performance and their cash flows for the financial 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 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' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key audit matters

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

Independent Auditors' Report

Key audit matters (continued)

We have determined the matters described below to be the key audit matters to be communicated in our report.

| Key Audit Matter | How our audit addressed the key audit matter |
|---|---|
| Revenue Recognition (Refer to Page 147, Note 4 to the financial statements) | |
| Consolidated revenue recorded by the Group during the year amounted to approximately RM329 million. We consider revenue recognition for sale of goods to be a potential cause for higher risk of material misstatement from the perspective of timing of recognition and the amount of revenue recognised. Accordingly, we regard revenue recognition to be a key audit matter. | <p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • testing the operating effectiveness of internal control over the completeness, accuracy, and timing of revenue recognised in the financial statements; • reviewing the terms of material sales contracts and purchase order to determine the point of control transfer to the customers on a sampling basis; • testing the recording of sales transactions, revenue cut-off and review of credit notes after year end; and • obtaining confirmations from trade receivables as at the financial year end on sampling basis and reviewing collections relating to material trade receivables during and after the financial year end. |

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.

Independent Auditors' Report

Responsibilities of the directors for the financial statements

The directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

Independent Auditors' Report

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

- 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.

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, actions taken to eliminate threats or safeguards applied.

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 financial 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors, are disclosed in Note 14 to the financial statements.

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.

Crowe Malaysia PLT
201906000005 (LLP0018817-LCA) & AF 1018
Chartered Accountants

Piong Yew Peng
03070/06/2023 J
Chartered Accountant

Statements of Profit or Loss and other Comprehensive Income

For the financial year ended 31 December 2022

| | | Group | | Company | |
|---|------|----------------|----------------|----------------|----------------|
| | Note | 2022 RM'000 | 2021 RM'000 | 2022 RM'000 | 2021 RM'000 |
| Revenue | 4 | 328,925 | 316,354 | 1,718 | 3,950 |
| Cost of goods sold | | (295,340) | (279,899) | - | - |
| Gross profit | | 33,585 | 36,455 | 1,718 | 3,950 |
| Other income | 5 | 2,884 | 3,056 | 51 | 48 |
| Administrative expenses | | (16,774) | (16,372) | (471) | (334) |
| Selling and marketing expenses | | (4,358) | (4,640) | - | - |
| Other expenses | | (780) | (2,325) | (1,239) | (3,646) |
| Other general expenses | | (6,684) | (6,605) | - | - |
| Operating profit | | 7,873 | 9,569 | 59 | 18 |
| Finance costs | 6 | (2,822) | (2,503) | - | - |
| (Net impairment losses)/Net reversal of impairment losses on financial assets | 7 | (796) | 440 | - | - |
| Profit before taxation | 8 | 4,255 | 7,506 | 59 | 18 |
| Income tax expense | 10 | (1,648) | (2,324) | (10) | (10) |
| Profit after taxation | | 2,607 | 5,182 | 49 | 8 |
| Other comprehensive income | | - | - | - | - |
| Total comprehensive income | | 2,607 | 5,182 | 49 | 8 |
| Profit after taxation attributable to: | | | | | |
| Owners of the Company | | 2,476 | 5,050 | 49 | 8 |
| Non-controlling interest | | 131 | 132 | - | - |
| | | 2,607 | 5,182 | 49 | 8 |
| Total comprehensive income attributable to: | | | | | |
| Owners of the Company | | 2,476 | 5,050 | 49 | 8 |
| Non-controlling interest | | 131 | 132 | - | - |
| | | 2,607 | 5,182 | 49 | 8 |
| Earnings per share attributable to owners of the Company (sen) | | | | | |
| Basic | 11 | 3.3 | 6.8 | | |
| Diluted | 11 | 3.3 | 6.8 | | |

The annexed notes form an integral part of these financial statements.

Statements of Financial Position

As at 31 December 2022

| | | Group | | Company | |
|--|-------|----------------|------------------------------|----------------|----------------|
| | Note | 2022 RM'000 | 2021 RM'000 (Restated) | 2022 RM'000 | 2021 RM'000 |
| Assets | | | | | |
| Non-current assets | | | | | |
| Property, plant and equipment | 12 | 105,262 | 88,834 | - | - |
| Right-of-use assets | 13 | 17,977 | 15,910 | - | - |
| Investment in subsidiaries | 14 | - | - | 96,708 | 97,849 |
| Goodwill | 15 | 1,633 | 1,633 | - | - |
| | | <u>124,872</u> | <u>106,377</u> | <u>96,708</u> | <u>97,849</u> |
| Current assets | | | | | |
| Inventories | 16 | 60,348 | 67,779 | - | - |
| Right of return assets | 17 | 195 | 195 | - | - |
| Trade receivables | 18 | 66,760 | 78,430 | - | - |
| Other receivables, deposits and prepayments | 19 | 5,412 | 8,123 | 955 | 1,147 |
| Current tax assets | | 2,728 | 1,522 | 3 | 3 |
| Derivative assets | 20 | - | 3 | - | - |
| Deposits with licensed banks | 21 | 4,542 | 4,475 | 3,328 | 3,284 |
| Cash and bank balances | | 46,896 | 54,095 | 448 | 588 |
| | | <u>186,881</u> | <u>214,622</u> | <u>4,734</u> | <u>5,022</u> |
| Total assets | | <u>311,753</u> | <u>320,999</u> | <u>101,442</u> | <u>102,871</u> |
| Equity and liabilities | | | | | |
| Equity attributable to owners of the parent | | | | | |
| Share capital | 22(a) | 86,407 | 86,407 | 86,407 | 86,407 |
| Treasury shares | 22(b) | (541) | (541) | (541) | (541) |
| Retained earnings | | 105,294 | 104,301 | 15,526 | 16,960 |
| | | <u>191,160</u> | <u>190,167</u> | <u>101,392</u> | <u>102,826</u> |
| Non-controlling interest | 14 | 1,804 | 1,741 | - | - |
| Total equity | | <u>192,964</u> | <u>191,908</u> | <u>101,392</u> | <u>102,826</u> |
| Non-current liabilities | | | | | |
| Loans and borrowings | 23 | 14,297 | 4,444 | - | - |
| Lease liabilities | 24 | 831 | 1,395 | - | - |
| Deferred tax liabilities | 25 | 10,645 | 10,448 | - | - |
| | | <u>25,773</u> | <u>16,287</u> | <u>-</u> | <u>-</u> |

The annexed notes form an integral part of these financial statements.

Statements of Financial Position

As at 31 December 2022 (Continued)

| | | Group | | Company | |
|-------------------------------------|------|----------------|----------------|----------------|----------------|
| | Note | 2022 | 2021 | 2022 | 2021 |
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| | | | (Restated) | | |
| Current liabilities | | | | | |
| Trade payables | 26 | 15,180 | 28,959 | - | - |
| Other payables and accruals | 27 | 12,300 | 13,116 | 50 | 45 |
| Refund liabilities | 17 | 570 | 602 | - | - |
| Loans and borrowings | 23 | 62,488 | 67,637 | - | - |
| Bank overdrafts | 28 | 1,554 | 1,087 | - | - |
| Lease liabilities | 24 | 918 | 1,374 | - | - |
| Derivative liabilities | 20 | 6 | - | - | - |
| Current tax liabilities | | - | 29 | - | - |
| | | <u>93,016</u> | <u>112,804</u> | <u>50</u> | <u>45</u> |
| Total liabilities | | <u>118,789</u> | <u>129,091</u> | <u>50</u> | <u>45</u> |
| Total equity and liabilities | | <u>311,753</u> | <u>320,999</u> | <u>101,442</u> | <u>102,871</u> |

The annexed notes form an integral part of these financial statements.

Statements of Changes in Equity

For the financial year ended 31 December 2022

| Group | Note | I-- Share capital RM'000 | Non-distributable --I 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 |
|--|------|--------------------------|--|--|--|---------------------------------|---------------------|
| Balance at 1 January 2021 | | 86,407 | (541) | 101,661 | 187,527 | 1,677 | 189,204 |
| Profit after taxation representing total comprehensive income for the financial year | | - | - | 5,050 | 5,050 | 132 | 5,182 |
| Contributions by and distributions to owners of the Company: | | | | | | | |
| - Dividends: | | | | | | | |
| - by the Company | 29 | - | - | (2,410) | (2,410) | - | (2,410) |
| - by subsidiary to non-controlling interest | | - | - | - | - | (68) | (68) |
| | | - | - | (2,410) | (2,410) | (68) | (2,478) |
| Balance at 31 December 2021 / 1 January 2022 | | 86,407 | (541) | 104,301 | 190,167 | 1,741 | 191,908 |
| Profit after taxation representing total comprehensive income for the financial year | | - | - | 2,476 | 2,476 | 131 | 2,607 |
| Contributions by and distributions to owners of the Company: | | | | | | | |
| - Dividends: | | | | | | | |
| - by the Company | 29 | - | - | (1,483) | (1,483) | - | (1,483) |
| - by subsidiary to non-controlling interest | | - | - | - | - | (68) | (68) |
| | | - | - | (1,483) | (1,483) | (68) | (1,551) |
| Balance at 31 December 2022 | | 86,407 | (541) | 105,294 | 191,160 | 1,804 | 192,964 |

The annexed notes form an integral part of these financial statements.

Statements of Changes in Equity

For the financial year ended 31 December 2022 (continued)

| Company | Note | Non-distributable | Distributable | Total equity |
|--|------|-------------------------|---------------------------|--------------|
| | | Share capital RM'000 | Treasury shares RM'000 | |
| Balance at 1 January 2021 | | 86,407 | (541) | 19,362 |
| Profit after taxation representing total comprehensive income for the financial year | | - | - | 8 |
| Dividend | 29 | - | - | (2,410) |
| Balance at 31 December 2021/1 January 2022 | | 86,407 | (541) | 16,960 |
| Profit after taxation representing total comprehensive expenses for the financial year | | - | - | 49 |
| Dividend | 29 | - | - | (1,483) |
| Balance at 31 December 2022 | | 86,407 | (541) | 15,526 |

The annexed notes form an integral part of these financial statements.

Statements of Cash Flows

For the financial year ended 31 December 2022

| | Group | | Company | |
|---|-------------------|---------------|----------------|---------------|
| | 2022 | 2021 | 2022 | 2021 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| | (Restated) | | | |
| Operating activities | | | | |
| Profit before taxation | 4,255 | 7,506 | 59 | 18 |
| Adjustments for: | | | | |
| Bad debts written off | 18 | - | - | - |
| Deposit written off | 10 | - | - | - |
| Depreciation and amortisation: | | | | |
| - Property, plant and equipment | 14,533 | 15,015 | - | - |
| - Right-of-use assets | 1,872 | 1,470 | - | - |
| Effect of changes on lease termination | (15) | (27) | - | - |
| Fair value changes on derivatives | 9 | (12) | - | - |
| Gain on disposal of plant and equipment | (330) | (157) | - | - |
| Property, plant and equipment written off | 9 | 4 | - | - |
| Inventories written down | 2 | - | - | - |
| Impairment losses on investment in a subsidiary | - | - | 1,141 | 3,582 |
| Impairment losses on plant and equipment | 760 | 2,244 | - | - |
| Impairment losses on trade receivables | 964 | 26 | - | - |
| Reversal of impairment losses on: | | | | |
| - Trade receivables | (56) | (358) | - | - |
| - Other receivables | (112) | (108) | - | - |
| Reversal of inventories previously written down | - | (165) | - | - |
| Unrealised loss on foreign exchange | 14 | 5 | - | - |
| Other interest expense | 2,187 | 1,803 | - | - |
| Interest expense on lease liabilities | 85 | 127 | - | - |
| Interest income | (834) | (960) | (51) | (48) |
| | 19,116 | 18,907 | 1,090 | 3,534 |
| Operating cash flows before changes in working capital | 23,371 | 26,413 | 1,149 | 3,552 |
| Decrease/(Increase) in inventories and right of return assets | 7,429 | (15,053) | - | - |
| Decrease/(Increase) in trade and other receivables | 10,982 | 1,950 | 192 | (856) |
| Decrease in refund liabilities | (32) | (156) | - | - |
| (Decrease)/Increase in trade and other payables | (15,534) | 2,295 | 5 | - |
| | 2,845 | (10,964) | 197 | (856) |
| Cash from operations | 26,216 | 15,449 | 1,346 | 2,696 |
| Income tax paid | (2,686) | (4,778) | (10) | (15) |
| Net cash from operating activities | 23,530 | 10,671 | 1,336 | 2,681 |

The annexed notes form an integral part of these financial statements.

Statements of Cash Flows

For the financial year ended 31 December 2022 (continued)

| | | Group | | Company | |
|---|-------|-----------------|------------------------------|----------------|----------------|
| | Note | 2022 RM'000 | 2021 RM'000 (Restated) | 2022 RM'000 | 2021 RM'000 |
| Cash flows (for)/from investing activities | | | | | |
| Purchase of property, plant and equipment | 30(a) | (27,707) | (13,778) | - | - |
| Purchase of right-of-use asset | 30(b) | (3,555) | - | - | - |
| Interest received | | 834 | 960 | 51 | 48 |
| Proceeds from disposal of property, plant and equipment | | 500 | 561 | - | - |
| (Placement)/Withdrawal of fixed deposits with tenure more than 3 months | | (15) | 2,414 | (15) | (14) |
| Increase in pledged fixed deposits with licensed banks | | (52) | (66) | (29) | (42) |
| Net cash (for)/from investing activities | | (29,995) | (9,909) | 7 | (8) |
| Cash flow for financing activities | | | | | |
| Interest paid | 30(e) | (2,272) | (1,930) | - | - |
| Dividends paid | | (1,483) | (2,410) | (1,483) | (2,410) |
| Dividend paid to non-controlling interest | | (68) | (68) | - | - |
| Drawdown of term loans | 30(e) | 12,237 | - | - | - |
| Net drawdown of bankers' acceptances | 30(e) | (4,742) | 3,438 | - | - |
| Repayment of term loans | 30(e) | (1,343) | (1,132) | - | - |
| Repayment of lease liabilities | 30(e) | (1,389) | (1,482) | - | - |
| Net repayment of charge card | 30(e) | (23) | (6) | - | - |
| Repayment of hire purchase payables | 30(e) | (2,104) | (2,352) | - | - |
| Net cash for financing activities | | (1,187) | (5,942) | (1,483) | (2,410) |
| Net (decrease)/increase in cash and cash equivalents | | (7,652) | (5,180) | (140) | 263 |
| Effect of exchange rate changes on cash and cash equivalents | | (14) | (5) | - | - |
| Cash and cash equivalents at beginning of the financial year | | 53,008 | 58,193 | 588 | 325 |
| Cash and cash equivalents at end of the financial year | 30(c) | 45,342 | 53,008 | 448 | 588 |

The annexed notes form an integral part of these financial statements.

Notes to the Financial Statements

For the financial year ended 31 December 2022

1. Corporate information

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

The Company is principally engaged in the business of investment holding. The principal activities of the subsidiaries are set out in Note 14 to the financial statements. There have been no significant changes in the nature of these activities during the financial year.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors dated 7 April 2023.

2. Basis of preparation

The financial statements of the Group are prepared under the historical cost convention and modified to include other bases of valuation as disclosed in other sections under significant accounting policies, and in compliance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

- 2.1 During the current financial year, the Group has adopted the following new accounting standards and/or interpretations (including the consequential amendments, if any):-

MFRS and/or IC Interpretation (Including The Consequential Amendments)

Amendments to MFRS 3: Reference to the Conceptual Framework
Amendments to MFRS 116: Property, Plant and Equipment - Proceeds before Intended Use
Amendments to MFRS 137: Onerous Contracts - Cost of Fulfilling a Contract
Annual Improvements to MFRS Standards 2018 - 2020

The adoption of the above accounting standards and/or interpretations (including the consequential amendments, if any) did not have any material impact on the Company's financial statements.

- 2.2 The Group has not applied in advance the following accounting standards and/or interpretations (including the consequential amendments, if any) that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective for the current financial year:-

MFRSs and/or IC Interpretations (Including The Consequential Amendments)

Effective Date

| | |
|---|----------------|
| Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | Deferred |
| Amendments to MFRS 16: Lease Liability in a Sale and Leaseback | 1 January 2024 |
| Amendments to MFRS 112: Deferred Tax related to Assets and Liabilities arising from a Single Transaction | 1 January 2023 |

Notes to the Financial Statements

For the financial year ended 31 December 2022

2. Basis of preparation (continued)

- 2.2 The Group has not applied in advance the following accounting standards and/or interpretations (including the consequential amendments, if any) that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective for the current financial year (continued):-

| | |
|---|----------------|
| Amendments to MFRS 101: Disclosure of Accounting Policies | 1 January 2023 |
| Amendments to MFRS 101: Classification of Liabilities as Current or Non-current | 1 January 2024 |
| Amendments to MFRS 101: Non-current Liabilities with Covenants | 1 January 2024 |
| Amendments to MFRS 108: Definition of Accounting Estimates | 1 January 2023 |

The adoption of the above accounting standards and/or interpretations (including the consequential amendments, if any) is expected to have no material impact on the financial statements of the Group upon their initial application.

3. Significant accounting policies

3.1 Critical accounting estimates and judgements

Key sources of estimation uncertainty

Management believes that there are no key assumptions made 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 other than as disclosed below:-

(a) Depreciation of property, plant and equipment

The estimates for the residual values, useful lives and related depreciation charges for the property, plant and equipment are based on commercial factors which could change significantly as a result of technical innovations and competitors' actions in response to the market conditions. The Group anticipates that the residual values of its property, plant and equipment will be insignificant. As a result, residual values are not being taken into consideration for the computation of the depreciable amount. Changes in the expected level of usage and technological development could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

(b) Impairment of goodwill

The assessment of whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Notes to the Financial Statements

For the financial year ended 31 December 2022

3. Significant accounting policies (continued)

3.1 Critical accounting estimates and judgements (continued)

Key sources of estimation uncertainty (continued)

(c) Write-down of inventories

Reviews are made periodically by management on damaged, obsolete and slow-moving inventories. These reviews require judgement and estimates. Possible changes in these estimates could result in revisions to the valuation of inventories.

(d) Impairment of trade receivable

The Group uses the simplified approach to estimate a lifetime expected credit loss allowance for all trade receivables. The Group develops the expected loss rates based on the payment profiles of past sales and the corresponding historical credit losses, and adjusts for qualitative and quantitative reasonable and supportable forward-looking information. If the expectation is different from the estimation, such difference will impact the carrying value of trade receivables.

(e) Impairment of property, plant and equipment and right-of-use assets

The Group determines whether an item of its property, plant and equipment and right-of-use assets is impaired by evaluating the extent to which the recoverable amount of the asset is less than its carrying amount. This evaluation is subject to changes such as market performance, economic and political situation of the country. A variety of methods is used to determine the recoverable amount, such as valuation reports and discounted cash flows. For discounted cash flows, significant judgement is required in the estimation of the present value of future cash flows generated by the assets, which involve uncertainties and are significantly affected by assumptions used and judgements made regarding estimates of future cash flows and discount rates.

(f) Income taxes

There are certain transactions and computations for which the ultimate tax determination may be different from the initial estimate. The Group recognises tax liabilities based on its understanding of the prevailing tax laws and estimates of whether such taxes will be due in the ordinary course of business. Where the final outcome of these matters is different from the amounts that were initially recognised, such difference will impact the income tax expense and deferred tax balances in the period in which such determination is made.

Notes to the Financial Statements

For the financial year ended 31 December 2022

3. Significant accounting policies (continued)

3.1 Critical accounting estimates and judgements (continued)

Key sources of estimation uncertainty (continued)

(g) 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 right of returns 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.

Critical judgements made in applying accounting policies

Management believes that there are no instances of application of critical judgement in applying the Group's accounting policies which will have a significant effect on the amounts recognised in the financial statements other than as disclosed below:-

(a) Lease terms

Some leases contain extension options exercisable by the Group before the end of the non-cancellable contract period. In determining the lease term, management considers all facts and circumstances including the past practice and any cost that will be incurred to change the asset if an option to extend is not taken. An extension option is only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

3.2 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to the end of the reporting period.

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group also considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

Notes to the Financial Statements

For the financial year ended 31 December 2022

3. Significant accounting policies (continued)

3.2 Basis of consolidation (continued)

Subsidiaries are consolidated from the date on which control is transferred to the Group up to the effective date on which control ceases, as appropriate.

Intragroup transactions, balances, income and expenses are eliminated on consolidation. Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

(a) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Under the acquisition method, the consideration transferred for acquisition of a subsidiary is the fair value of the assets transferred, liabilities incurred and the equity interests issued by the Group at the acquisition date. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs, other than the costs to issue debt or equity securities, are recognised in profit or loss when incurred.

In a business combination achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

Non-controlling interests in the acquiree may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets at the date of acquisition. The choice of measurement basis is made on a transaction-by-transaction basis.

(b) Non-controlling interests

Non-controlling interests are presented within equity in the consolidated statement of financial position, separately from the equity attributable to owners of the Company. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(c) Changes in ownership interests in subsidiaries without change of control

All changes in the parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in the equity of the Group.

Notes to the Financial Statements

For the financial year ended 31 December 2022

3. Significant accounting policies (continued)

3.2 Basis of consolidation (continued)

(d) Loss of control

Upon the loss of control of a subsidiary, the Group recognises any gain or loss on disposal in profit or loss which is calculated as the difference between:-

- (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest in the former subsidiary; and
- (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the former subsidiary and any non-controlling interests.

Amounts previously recognised in other comprehensive income in relation to the former subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of (i.e. reclassified to profit or loss or transferred directly to retained profits). The fair value of any investments retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under MFRS 9 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3.3 Goodwill

Goodwill is measured at cost less accumulated impairment losses, if any. The carrying value of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. The impairment value of goodwill is recognised immediately in profit or loss. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Under the acquisition method, any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interests recognised and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities at the date of acquisition is recorded as goodwill.

Where the latter amount exceeds the former, after reassessment, the excess represents a bargain purchase gain and is recognised in profit or loss immediately.

3.4 Functional and foreign currencies

(a) Functional and presentation currency

The individual financial statements of each entity in the Group are presented in the currency of the primary economic environment in which the entity operates, which is the functional currency.

The consolidated financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional and presentation currency and has been rounded to the nearest thousand.

Notes to the Financial Statements

For the financial year ended 31 December 2022

3. Significant accounting policies (continued)

3.4 Functional and foreign currencies (continued)

(b) Foreign currency transactions and balances

Transactions in foreign currencies are converted into RM on initial recognition, using the exchange rates at the transaction dates. Monetary assets and liabilities at the end of the reporting period are translated at the exchange rates ruling as of that date. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. All exchange differences are recognised in profit or loss.

3.5 Financial instruments

Financial assets and financial liabilities are recognised in the statements of financial position when the Group has become a party to the contractual provisions of the instruments.

Financial instruments are classified as financial assets, financial liabilities or equity instruments in accordance with the substance of the contractual arrangement and their definitions in MFRS 132. Interest, dividends, gains and losses relating to a financial instrument classified as a liability are reported as an expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

A financial instrument is recognised initially at its fair value (other than trade receivables without significant financing component which are measured at transaction price as defined in MFRS 15 at inception). Transaction costs that are directly attributable to the acquisition or issue of the financial instrument (other than a financial instrument at fair value through profit or loss) are added to/deducted from the fair value on initial recognition, as appropriate. Transaction costs on the financial instrument at fair value through profit or loss are recognised immediately in profit or loss.

Financial instruments recognised in the statements of financial position are disclosed in the individual policy statement associated with each item.

(a) Financial assets

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value (through profit or loss, or other comprehensive income), depending on the classification of the financial assets.

Debt instruments

(i) Amortised cost

The financial asset is held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. Interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset. When the asset has subsequently become credit-impaired, the interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset.

Notes to the Financial Statements

For the financial year ended 31 December 2022

3. Significant accounting policies (continued)

3.5 Financial instruments (continued)

(a) Financial assets (continued)

Debt instruments (continued)

(i) Amortised cost (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts), excluding expected credit losses, through the expected life of the financial asset or a shorter period (where appropriate).

(ii) Fair value through other comprehensive income

The financial asset is held for both collecting contractual cash flows and selling the financial asset, where the asset's cash flows represent solely payments of principal and interest. Movements in the carrying amount are taken through other comprehensive income and accumulated in the fair value reserve, except for the recognition of impairment, interest income and foreign exchange difference which are recognised directly in profit or loss. Interest income is calculated using the effective interest rate method.

(iii) Fair value through profit or loss

All other financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss.

The Group reclassifies debt instruments when and only when its business model for managing those assets change.

Equity instruments

All equity investments are subsequently measured at fair value with gains and losses recognised in profit or loss except where the Group has elected to present the subsequent changes in fair value in other comprehensive income and accumulated in the fair value reserve at initial recognition.

The designation at fair value through other comprehensive income is not permitted if the equity investment is either held for trading or is designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise.

Dividend income from this category of financial assets is recognised in profit or loss when the Group's right to receive payment is established unless the dividends clearly represent a recovery of part of the cost of the equity investments.

Notes to the Financial Statements

For the financial year ended 31 December 2022

3. Significant accounting policies (continued)

3.5 Financial instruments (continued)

(b) Financial liabilities

(i) Financial liabilities at fair value through profit or loss

Fair value through profit or loss category comprises financial liabilities that are either held for trading or are designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise. The changes in fair value of these financial liabilities are recognised in profit or loss.

(ii) Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts), through the expected life of the financial liability or a shorter period (where appropriate).

(c) Equity instruments

Equity instruments classified as equity are measured initially at cost and are not remeasured subsequently.

(i) Ordinary shares

Ordinary shares are classified as equity and recorded at the proceeds received, net of directly attributable transaction costs.

Dividends on ordinary shares are recognised as liabilities when approved for appropriation.

(ii) Treasury shares

When the Company's own shares recognised as equity are bought back, the amount of the consideration paid, including all costs directly attributable, are recognised as a deduction from equity. Own shares purchased that are not subsequently cancelled are classified as treasury shares and are presented as a deduction from total equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of treasury shares.

Where treasury shares are reissued by resale, the difference between the sales consideration received and the carrying amount of the treasury shares is recognised in equity.

Where treasury shares are cancelled, their costs are transferred to retained profits.

Notes to the Financial Statements

For the financial year ended 31 December 2022

3. Significant accounting policies (continued)

3.5 Financial instruments (continued)

(d) Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives during the reporting period, other than those accounted for under hedge accounting, are recognised directly in profit or loss.

Any derivative embedded in a financial asset is not accounted for separately. Instead, the entire hybrid contract is classified and subsequently measured as either amortised cost or fair value as appropriate.

An embedded derivative is recognised separately from the host contract which is a financial liability as a derivative if, and only if, its risk and characteristics are not closely related to those of the host contract and the host contract is not measured at fair value through profit or loss.

(e) Derecognition

A financial asset or part of it is derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset measured at amortised cost, the difference between the carrying amount of the asset and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of a debt instrument classified as fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified from equity to profit or loss. In contrast, there is no subsequent reclassification of the fair value reserve to profit or loss following the derecognition of an equity investment.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(f) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Notes to the Financial Statements

For the financial year ended 31 December 2022

3. Significant accounting policies (continued)

3.5 Financial instruments (continued)

(f) Financial guarantee contracts (continued)

Financial guarantee contracts are recognised initially as liabilities at fair value, net of transaction costs. Subsequent to initial recognition, financial guarantee contracts are recognised as income in profit or loss over the period of the guarantee or, when there is no specific contractual period, recognised in profit or loss upon discharge of the guarantee. If the debtor fails to make payment relating to a financial guarantee contract when it is due and the Group, as the issuer, is required to reimburse the holder for the associated loss, the liability is measured at the higher of the amount of the credit loss determined in accordance with the expected credit loss model and the amount initially recognised less cumulative amortisation.

3.6 Investments in subsidiaries

Investments in subsidiaries are stated at cost in the statement of financial position of the Company, and are reviewed for impairment at the end of the reporting period if events or changes in circumstances indicate that the carrying values may not be recoverable. The cost of the investments includes transaction costs.

On the disposal of the investments in subsidiaries, the difference between the net disposal proceeds and the carrying amount of the investments is recognised in profit or loss.

3.7 Property, plant and equipment

All items of property, plant and equipment are initially measured at cost. Cost includes expenditure that are directly attributable to the acquisition of the asset and other costs directly attributable to bringing the asset to working condition for its intended use.

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation on property, plant and equipment is charged to profit or loss (unless it is included in the carrying amount of another asset) on a straight-line method to write off the depreciable amount of the assets over their estimated useful lives. Depreciation of an asset does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. The principal annual rates used for this purpose are:-

| | |
|---------------------|----------------|
| Factory buildings | 20 to 60 years |
| Plant and machinery | 5 to 20 years |
| Other assets | 5 to 10 years |

Notes to the Financial Statements

For the financial year ended 31 December 2022

3. Significant accounting policies (continued)

3.7 Property, plant and equipment (continued)

Asset-in-progress included in property, plant and equipment are not depreciated as these assets are not yet available for use.

The depreciation method, useful lives and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period to ensure that the amounts, method and periods of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of the property, plant and equipment. Any changes are accounted for as a change in estimate.

When significant parts of an item of property, plant and equipment have different useful life, they are accounted for as separate items (major components) of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising from derecognition of the asset, being the difference between the net disposal proceeds and the carrying amount, is recognised in profit or loss.

3.8 Leases

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for low-value assets and short-term leases with 12 months or less. For these leases, the Group recognises the lease payments as an operating expense on a straight-line method over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use assets and the associated lease liabilities are presented as a separate line item in the statements of financial position.

The right-of-use asset is initially measured at cost. Cost includes the initial amount of the corresponding lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred.

The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses, and adjustment for any remeasurement of the lease liability. The depreciation starts from the commencement date of the lease. If the lease transfers ownership of the underlying asset to the Group or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Otherwise, the Group depreciates the right-of-use asset to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of the right-of-use assets are determined as follows:-

| | |
|-------------------|---|
| Leasehold land | Over the lease period of 35 to 99 years |
| Factory buildings | 2 to 4 years |
| Hostels | 1 to 7 years |

Notes to the Financial Statements

For the financial year ended 31 December 2022

3. Significant accounting policies (continued)

3.8 Leases (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

The lease liability is subsequently measured at amortised cost using the effective interest method. It is remeasured when there is a change in the future lease payments (other than lease modification that is not accounted for as a separate lease) with the corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognised in profit or loss if the carrying amount has been reduced to zero.

3.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average cost method and comprises the purchase price, production costs and incidentals incurred in bringing the inventories to their present location and condition. The cost of conversion includes cost directly related to the units of production, and a proportion of fixed production overheads based on the normal capacity of the production facilities.

Net realisable value represents the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale.

3.10 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and bank balances that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value with original maturity periods of three months or less. For the purpose of the statements of cash flows, cash and cash equivalents are presented net of bank overdrafts.

3.11 Impairment

(a) Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost, trade receivables and financial guarantee contracts.

The expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The Group always recognises lifetime expected credit losses for trade receivables using the simplified approach. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience and are adjusted for forward-looking information (including time value of money where appropriate).

Notes to the Financial Statements

For the financial year ended 31 December 2022

3. Significant accounting policies (continued)

3.11 Impairment (continued)

(a) Impairment of financial assets (continued)

For all other financial instruments, the Group recognises lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at fair value through other comprehensive income, for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve, and does not reduce the carrying amount of the financial asset in the statements of financial position.

(b) Impairment of non-financial assets

The carrying values of assets, other than those to which MFRS 136 - Impairment of Assets does not apply, are reviewed at the end of each reporting period for impairment when an annual impairment assessment is compulsory or there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. When the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount and an impairment loss shall be recognised. The recoverable amount of an asset is the higher of the asset's fair value less costs to sell and its value-in-use, which is measured by reference to discounted future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group determines the recoverable amount of the cash-generating unit to which the asset belongs.

An impairment loss is recognised in profit or loss immediately. Any impairment loss recognised in respect of a cash-generating unit is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to reduce the carrying amounts of the other assets in the cash-generating unit on a pro rata basis.

In respect of assets other than goodwill, and when there is a change in the estimates used to determine the recoverable amount, a subsequent increase in the recoverable amount of an asset is treated as a reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in profit or loss immediately.

Notes to the Financial Statements

For the financial year ended 31 December 2022

3. Significant accounting policies (continued)

3.12 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount can be made. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the provision is the present value of the estimated expenditure required to settle the obligation. The discount rate shall be a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as interest expense in profit or loss.

3.13 Employee benefits

(a) Short-term benefits

Wages, salaries, paid annual leave and bonuses are measured on an undiscounted basis and are recognised in profit or loss in the period in which the associated services are rendered by employees of the Group.

(b) Defined contribution plans

The Group's contributions to defined contribution plans are recognised in profit or loss in the period to which they relate. Once the contributions have been paid, the Group has no further liability in respect of the defined contribution plans.

3.14 Income taxes

(a) Current tax

Current tax assets and liabilities are the expected amount of income tax recoverable or payable to the taxation authorities.

Current taxes are measured using tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period and are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss (either in other comprehensive income or directly in equity).

(b) Deferred tax

Deferred tax is recognised using the liability method for all temporary differences other than those that arise from goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

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

Notes to the Financial Statements

For the financial year ended 31 December 2022

3. Significant accounting policies (continued)

3.14 Income taxes (continued)

(b) Deferred tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. The carrying amounts of deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Current and deferred tax items are recognised in correlation to the underlying transactions either in profit or loss, other comprehensive income or directly in equity. Deferred tax arising from a business combination is adjusted against goodwill or negative goodwill.

Current tax assets and liabilities or deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same taxable entity (or on different tax entities but they intend to settle current tax assets and liabilities on a net basis) and the same taxation authority.

3.15 Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

3.16 Earnings per ordinary share

Basic earnings per ordinary share is calculated by dividing the consolidated profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the reporting period, adjusted for own shares held.

Diluted earnings per ordinary share is determined by adjusting the consolidated profit or loss attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares outstanding, adjusted for own shares held.

3.17 Borrowing costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Notes to the Financial Statements

For the financial year ended 31 December 2022

3. Significant accounting policies (continued)

3.18 Fair value measurements

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, regardless of whether that price is directly observable or estimated using a valuation technique. The measurement assumes that the transaction takes place either in the principal market or in the absence of a principal market, in the most advantageous market. For non-financial asset, the fair value measurement 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.

For financial reporting purposes, the fair value measurements are analysed into level 1 to level 3 as follows:-

- Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liability that the entity can access at the measurement date;
- Level 2: Inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Inputs are unobservable inputs for the asset or liability.

The transfer of fair value between levels is determined as of the date of the event or change in circumstances that caused the transfer.

3.19 Revenue from contracts with customers

Revenue is recognised by reference to each distinct performance obligation in the contract with customer and is measured at consideration specified in the contract of which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, net of sales and service tax, returns, rebates and discounts.

The Group recognises revenue when (or as) it transfers control over a product or service to customer. An asset is transferred when (or as) the customer obtains control of that asset.

The Group transfers control of a good or service at a point in time unless one of the following overtime criteria is met:-

- The customer simultaneously receives and consumes the benefits provided as the Group performs.
- The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
- The Group's performance does not create an asset with an alternative use and the Group has an enforceable right to payment for performance completed to date.

Notes to the Financial Statements

For the financial year ended 31 December 2022

3. Significant accounting policies (continued)

3.19 Revenue from contracts with customers (continued)

(a) Sale of goods

Revenue is recognised when the Group has transferred control of the goods to the customer, being when the goods have been delivered to the customer and upon its acceptance. Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, and bears the risks of obsolescence and loss in relation to the goods.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Variable consideration

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.

Right of return

Certain sales of goods include a right of return. Revenue from these sales is recognised based on the price specified in the contract, net of estimated return. Past experience is used to estimate and provide for the return, using expected value method and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability is recognised for the expected return payable to customers in relation to sales made until the end of the reporting period.

Volume and cash discounts

The Group provided 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. Discount 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 recognised a refund liability for the expected future rebates.

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.

Notes to the Financial Statements

For the financial year ended 31 December 2022

3. Significant accounting policies (continued)

3.19 Revenue from contracts with customers (continued)

(a) Sale of goods (continued)

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 updated its estimated of refund liabilities (and the corresponding change in the transaction price) at the end of the financial year.

(b) Transportation fees

Transportation fees are recognised when services are rendered.

3.20 Revenue from other sources

(a) Dividend Income

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

(b) Interest Income

Interest income is recognised on an accrual basis using the effective interest method.

(c) Rental Income

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

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Notes to the Financial Statements

For the financial year ended 31 December 2022

4. Revenue

| | Group | | Company | |
|---|----------------|----------------|--------------|--------------|
| | 2022 | 2021 | 2022 | 2021 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue from contracts with customers: | | | | |
| <u>Recognised at a point in time</u> | | | | |
| Sale of goods | 328,262 | 315,875 | - | - |
| Transportation fees | 663 | 479 | - | - |
| Revenue from other sources: | | | | |
| Dividend income from subsidiaries | - | - | 1,718 | 3,950 |
| | <u>328,925</u> | <u>316,354</u> | <u>1,718</u> | <u>3,950</u> |

The information on the disaggregation of revenue from contracts with customers are disclosed below:

| | Group | | | |
|--|-----------------------------|--------------------------|------------------------|----------------|
| | Corrugated board and carton | Paper stationery product | Transportation service | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| 2022 | | | | |
| <u>Revenue recognised at a point in time</u> | | | | |
| Paper industry | 71,261 | 19,967 | - | 91,228 |
| Furniture, rubber, hardware and steel | 85,677 | - | - | 85,677 |
| Food based and beverage | 76,675 | - | - | 76,675 |
| Electronic and electrical | 36,655 | - | - | 36,655 |
| Others | 38,027 | - | 663 | 38,690 |
| | <u>308,295</u> | <u>19,967</u> | <u>663</u> | <u>328,925</u> |
| 2021 | | | | |
| <u>Revenue recognised at a point in time</u> | | | | |
| Paper industry | 69,922 | 15,388 | - | 85,310 |
| Furniture, rubber, hardware and steel | 80,512 | - | - | 80,512 |
| Food based and beverage | 67,485 | - | - | 67,485 |
| Electronic and electrical | 44,909 | - | - | 44,909 |
| Others | 37,659 | - | 479 | 38,138 |
| | <u>300,487</u> | <u>15,388</u> | <u>479</u> | <u>316,354</u> |

The information on the disaggregation of revenue by geographical market is disclosed in Note 34 to the financial statements.

Notes to the Financial Statements

For the financial year ended 31 December 2022

5. Other income

| | Group | | Company | |
|---|--------------|--------------|-----------|-----------|
| | 2022 | 2021 | 2022 | 2021 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| | (Restated) | | | |
| Gain on disposal of plant and equipment | 330 | 174 | - | - |
| Effect of changes on lease termination | 15 | 27 | - | - |
| Fair value gain on derivatives | - | 12 | - | - |
| Insurance claims | 150 | 50 | - | - |
| Interest income measured at amortised cost: | | | | |
| - bank balances | 782 | 910 | 51 | 48 |
| - deposits with licensed banks | 52 | 50 | - | - |
| Realised gain on foreign exchange | 334 | 234 | - | - |
| Unrealised gain on foreign exchange | 2 | - | - | - |
| Sales of scrap materials | 500 | 316 | - | - |
| Lease income: | | | | |
| - right-of-use assets | 112 | 41 | - | - |
| Wages subsidy received | 433 | 1,032 | - | - |
| Miscellaneous | 174 | 210 | - | - |
| | <u>2,884</u> | <u>3,056</u> | <u>51</u> | <u>48</u> |

6. Finance costs

| | Group | |
|--|--------------|--------------|
| | 2022 | 2021 |
| | RM'000 | RM'000 |
| | (Restated) | |
| Bankers' acceptances commission | 549 | 572 |
| Commitment fee | 1 | 1 |
| Interest expense on financial liabilities that are not at fair value through profit or loss: | | |
| - bank overdrafts interest | 48 | 52 |
| - bankers' acceptances interest | 1,543 | 1,233 |
| - term loans interest | 310 | 124 |
| - hire purchase interest | 286 | 394 |
| Interest expense on lease liabilities (Note 24) | 85 | 127 |
| | <u>2,822</u> | <u>2,503</u> |

Notes to the Financial Statements

For the financial year ended 31 December 2022

7. Net impairment losses/(Net reversal of impairment losses) on financial assets

| | Group | |
|-----------------------------------|----------------|----------------|
| | 2022 RM'000 | 2021 RM'000 |
| Impairment losses on: | | |
| - trade receivables (Note 18) | 964 | 26 |
| Reversal of impairment losses on: | | |
| - trade receivables (Note 18) | (56) | (358) |
| - other receivables (Note 19) | (112) | (108) |
| | <u>796</u> | <u>(440)</u> |

8. Profit before taxation

| | Group | | Company | |
|--|----------------|------------------------------|----------------|----------------|
| | 2022 RM'000 | 2021 RM'000 (Restated) | 2022 RM'000 | 2021 RM'000 |
| Profit before taxation is arrived at after charging/(crediting):- | | | | |
| Auditors' remuneration: | | | | |
| - Audit fees | | | | |
| - auditor of the Company | | | | |
| - Current year | 153 | 135 | 45 | 40 |
| - other auditors | | | | |
| - Current year | 61 | 61 | - | - |
| - Underprovision in prior year | 1 | 4 | - | - |
| - Non-audit fees | | | | |
| - auditor of the Company | 5 | 5 | 5 | 5 |
| - member firm of auditors of the Company | 36 | 35 | - | - |
| - other auditors | 18 | 18 | - | - |
| Bad debts written off | 18 | - | - | - |
| Carriage inwards and outwards | 12,921 | 13,024 | - | - |
| Depreciation: | | | | |
| - Property, plant and equipment (Note 12) | 14,533 | 15,015 | - | - |
| - Right-of-use assets (Note 13) | 1,872 | 1,470 | - | - |
| Deposit written off | 10 | - | - | - |
| Directors' remuneration (Note 32(a)) | 3,332 | 3,282 | 198 | 203 |
| Employee benefits expense (Note 9) | 34,882 | 33,306 | - | - |
| Fair value changes on derivatives | 9 | - | - | - |

Notes to the Financial Statements

For the financial year ended 31 December 2022

8. Profit before taxation (continued)

| | Group | | Company | |
|--|--------|------------|---------|--------|
| | 2022 | 2021 | 2022 | 2021 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| | | (Restated) | | |
| Profit before taxation is arrived | | | | |
| at after charging/(crediting) (continued):- | | | | |
| Impairment losses: | | | | |
| - investment in a subsidiary | - | - | 1,141 | 3,582 |
| - property, plant and equipment (Note 12) | 760 | 2,244 | - | - |
| Inventories written down/(Reversal of inventories previously written down) | 2 | (165) | - | - |
| Lease expense: | | | | |
| - Short-term lease | 578 | 503 | - | - |
| - Low-value assets | 31 | 24 | - | - |
| Property, plant and equipment written off | 9 | 4 | - | - |
| Loss on disposal of property, plant and equipment | - | 17 | - | - |
| Realised loss on foreign exchange | 4 | 41 | - | - |
| Unrealised loss on foreign exchange | 16 | 5 | - | - |

9. Employee benefits expense

| | Group | |
|--|--------|--------|
| | 2022 | 2021 |
| | RM'000 | RM'000 |
| Short-term employee benefits | 31,665 | 30,138 |
| Defined contributions benefits | 2,706 | 2,629 |
| Other benefits | 511 | 539 |
| Total employee benefits expense (Note 8) | 34,882 | 33,306 |

Included in employee benefits expense of the Group are key management personnel compensation amounting to RM1,318,000 (2021: RM1,303,000) as further disclosed in Note 32(b) to the financial statements.

Notes to the Financial Statements

For the financial year ended 31 December 2022

10. Income tax expense

| | Group | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2022 RM'000 | 2021 RM'000 | 2022 RM'000 | 2021 RM'000 |
| Income tax: | | | | |
| - Current year | 1,543 | 2,330 | 10 | 11 |
| - Over provision in previous financial year | (92) | (1,703) | - | (1) |
| | <u>1,451</u> | <u>627</u> | <u>10</u> | <u>10</u> |
| Deferred tax (Note 25): | | | | |
| - Origination and reversal of temporary differences | 137 | 706 | - | - |
| - Under provision in previous financial year | 60 | 991 | - | - |
| | <u>197</u> | <u>1,697</u> | <u>-</u> | <u>-</u> |
| Total income tax expense | <u>1,648</u> | <u>2,324</u> | <u>10</u> | <u>10</u> |

A reconciliation of income tax expense applicable to the profit before taxation at the statutory tax rate to income tax expense at the effective tax rate of the Group and of the Company is as follows:-

| | Group | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2022 RM'000 | 2021 RM'000 | 2022 RM'000 | 2021 RM'000 |
| Profit before tax | <u>4,255</u> | <u>7,506</u> | <u>59</u> | <u>18</u> |
| Taxation at 24% (2021: 24%) | 1,021 | 1,801 | 14 | 4 |
| Tax effect of: | | | | |
| - Non-deductible expenses | 397 | 351 | 408 | 955 |
| - Non-taxable income | - | (5) | (412) | (948) |
| Deferred tax assets not recognised during the financial year | 262 | 889 | - | - |
| (Over)/Under provision in previous financial year | (92) | (1,703) | - | (1) |
| - Income tax | 60 | 991 | - | - |
| - Deferred tax | | | | |
| Income tax expense recognised in profit or loss | <u>1,648</u> | <u>2,324</u> | <u>10</u> | <u>10</u> |

Notes to the Financial Statements

For the financial year ended 31 December 2022

10. Income tax expense (continued)

At the end of the reporting period, the Group has unutilised capital allowances and unused tax losses as following amounts which are available for offset against future taxable income:

| | Group | |
|-----------------------------------|----------------|----------------|
| | 2022 RM'000 | 2021 RM'000 |
| Unused tax losses | | |
| - expires year of assessment 2028 | 147 | 367 |
| - expires year of assessment 2029 | 483 | 483 |
| - expires year of assessment 2030 | 1,190 | 1,048 |
| Unutilised capital allowances | 2,375 | 2,381 |
| | <u>4,195</u> | <u>4,279</u> |

At the end of the reporting period, the amounts of deferred tax assets not recognised (stated at gross) due to uncertainty of their realisation are as follows:-

| | Group | |
|-------------------------------|----------------|----------------|
| | 2022 RM'000 | 2021 RM'000 |
| Unutilised capital allowances | 787 | 418 |
| Unused tax losses | 1,820 | 1,583 |
| Other temporary differences | 3,529 | 3,075 |
| | <u>6,136</u> | <u>5,076</u> |

Based on current legislation, the unused tax losses up to the year of assessment 2018 can be carried forward until year of assessment 2028 and the unused tax losses for 2019 onwards are allowed to be utilised for 10 consecutive years of assessment immediately following the year of assessment. The unutilised capital allowances do not expire and can be utilised against income from the same business source, subject to no substantial change in shareholders of the subsidiaries.

11. Earnings per share

| | Group | |
|---|---------------|---------------|
| | 2022 | 2021 |
| Profit attributable to owners of the parent (RM'000) | <u>2,476</u> | <u>5,050</u> |
| Weighted average number of ordinary shares in issue ('000)* | <u>74,153</u> | <u>74,153</u> |
| Basic earnings per share (sen) | <u>3.3</u> | <u>6.8</u> |
| Diluted earnings per share (sen) # | <u>3.3</u> | <u>6.8</u> |

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

The Company has not issued any dilutive potential ordinary shares and hence, the diluted earnings per share is equal to the basic earnings per share.

Notes to the Financial Statements

For the financial year ended 31 December 2022

12. Property, plant and equipment

| The Group 2022 | | | | | | | | |
|------------------------------|---------|--------|-------|-----|---------|---------|----------|---------|
| Carrying amount | | | | | | | | |
| Freehold land | - | 2,712 | - | - | - | - | - | 2,712 |
| Factory buildings | 27,907 | 7,804 | - | - | 515 | - | (1,410) | 34,816 |
| Plant and machinery | 51,751 | 6,659 | (149) | (9) | 3,714 | (760) | (11,507) | 49,699 |
| Other assets | 4,946 | 3,066 | (21) | - | - | - | (1,616) | 6,375 |
| Assets in progress | 4,230 | 11,659 | - | - | (4,229) | - | - | 11,660 |
| | 88,834 | 31,900 | (170) | (9) | - | (760) | (14,533) | 105,262 |
| | | | | | | | | |
| The Group (Restated) 2021 | | | | | | | | |
| Carrying amount | | | | | | | | |
| Factory buildings | 28,494 | 666 | - | - | - | - | (1,253) | 27,907 |
| Plant and machinery | 59,087 | 4,520 | (324) | - | 2,555 | (2,244) | (11,843) | 51,751 |
| Other assets | 6,088 | 861 | (80) | (4) | - | - | (1,919) | 4,946 |
| Assets in progress | 6,429 | 356 | - | - | (2,555) | - | - | 4,230 |
| | 100,098 | 6,403 | (404) | (4) | - | (2,244) | (15,015) | 88,834 |

Notes to the Financial Statements

For the financial year ended 31 December 2022

12. Property, plant and equipment (continued)

| | At cost RM'000 | Accumulated depreciation RM'000 | Accumulated impairment losses RM'000 | Carrying amount RM'000 |
|---------------------------|-------------------|---------------------------------------|---|------------------------------|
| The Group 2022 | | | | |
| Freehold land | 2,712 | - | - | 2,712 |
| Factory buildings | 58,795 | (23,979) | - | 34,816 |
| Plant and machinery | 174,219 | (120,716) | (3,804) | 49,699 |
| Other assets | 19,913 | (13,538) | - | 6,375 |
| Assets in progress | 11,660 | - | - | 11,660 |
| | <u>267,299</u> | <u>(158,233)</u> | <u>(3,804)</u> | <u>105,262</u> |

| | At cost RM'000 | Accumulated depreciation RM'000 | Accumulated impairment losses RM'000 | Carrying amount RM'000 |
|--------------------------------------|-------------------|---------------------------------------|---|------------------------------|
| The Group 2021 (Restated) | | | | |
| Factory buildings | 50,475 | (22,568) | - | 27,907 |
| Plant and machinery | 169,215 | (114,420) | (3,044) | 51,751 |
| Other assets | 17,250 | (12,304) | - | 4,946 |
| Assets in progress | 4,230 | - | - | 4,230 |
| | <u>241,170</u> | <u>(149,292)</u> | <u>(3,044)</u> | <u>88,834</u> |

- The freehold land, factory buildings and certain plant and machinery are pledged as securities for bank borrowings as disclosed in Note 23 to the financial statements.
- Included in the property, plant and equipment of the Group were plant and machinery and motor vehicles with a total carrying amount of RM7,331,000 and RM1,585,000 (2021 - RM8,864,000 and RM1,251,000) respectively held under hire purchase arrangements. These assets have had been pledged as security for the hire purchase payables of the Group as disclosed in Note 23 to the financial statements.
- Other assets comprise motor vehicles, office equipment, furniture and fittings, electrical installations, fire fighting equipment, signboard, tools and utensils, office renovation, waste water treatment equipment, staff quarter and solar photovoltaic system.
- During the financial year, the Group has reassessed its estimated recoverable amount of its production equipment and there is an additional impairment loss of RM760,000 (2021: RM2,244,000), representing the write-down of the equipment to the recoverable amount was recognised in "Other Expenses" line item of the consolidated statement of profit or loss and other comprehensive income as disclosed in Note 8 to the financial statements. The recoverable amount was based on its value in use and the pre-tax discount rate used was 8.03% (2021: 12.63%).
- Property, plant and equipment of certain subsidiaries are subject to negative pledge to certain financial institutions.

Notes to the Financial Statements

For the financial year ended 31 December 2022

13. Right-of-use assets

| Group | At 1.1.2022 RM'000 | Additions (Note 30(b)) RM'000 | Derecognition due to lease termination RM'000 | Reassessment /Modification of lease liabilities RM'000 | Depreciation charges (Note 8) RM'000 | At 31.12.2022 RM'000 |
|------------------------|--------------------------|-------------------------------------|---|--|---|----------------------------|
| <i>Carrying amount</i> | | | | | | |
| Leasehold land | 12,993 | 3,555 | - | - | (301) | 16,247 |
| Hostels | 2,917 | 166 | (593) | 811 | (1,571) | 1,730 |
| | 15,910 | 3,721 | (593) | 811 | (1,872) | 17,977 |

| Group (Restated) | At 1.1.2021 RM'000 | Additions (Note 30(b)) RM'000 | Derecognition due to lease termination RM'000 | Reassessment /Modification of lease liabilities RM'000 | Depreciation charges (Note 8) RM'000 | At 31.12.2021 RM'000 |
|------------------------|--------------------------|-------------------------------------|---|--|---|----------------------------|
| <i>Carrying amount</i> | | | | | | |
| Leasehold land | 13,200 | - | - | - | (207) | 12,993 |
| Factory buildings | 614 | - | (411) | - | (203) | - |
| Hostels | 1,644 | 1,609 | (131) | 855 | (1,060) | 2,917 |
| | 15,458 | 1,609 | (542) | 855 | (1,470) | 15,910 |

Notes to the Financial Statements

For the financial year ended 31 December 2022

13. Right-of-use assets (continued)

(a) The Group leases certain leasehold land, factory buildings and hostels of which the leasing activities are summarised as below:-

- | | | |
|-------|-------------------|---|
| (i) | Leasehold land | The Group has entered into a number of non-cancellable operating lease agreement for the use of land. The leases are for a period ranges between 60 to 99 (2021: 60 to 99) years. |
| (ii) | Factory buildings | The Group has leased a number of factory buildings that runs for 1 (2021: 5) year, with an option to renew the lease after that date. |
| (iii) | Hostels | The Group has leased a number of hostels that run between 1 to 7 (2021: 1 to 3) years, with an option to renew the lease after that date. |

(b) The leasehold land are pledged to secure bank borrowings as disclosed in Note 23 to the financial statements.

(c) The Group also has leases with term of 12 months or less and leases of office equipment with low value. The Group has applied the 'short-term lease' and 'lease of low-value assets' recognition exemption for these assets.

14. Investment in subsidiaries

| | Company | |
|-------------------------------|----------------|----------------|
| | 2022 RM'000 | 2021 RM'000 |
| Unquoted shares, at cost | 103,659 | 103,659 |
| Accumulated impairment losses | (6,951) | (5,810) |
| | <u>96,708</u> | <u>97,849</u> |

The details of the subsidiaries are as follows:-

| Name of subsidiary | Principal place of business /Country of incorporation | Percentage of issued shares capital held by parent | | Principal activities |
|---|---|--|------|--|
| | | 2022 | 2021 | |
| Ornapaper Industry (M) Sdn. Bhd. | Malaysia | 100 | 100 | Manufacturing and sale of corrugated boards and carton boxes |
| Ornapaper Industry (Batu Pahat) Sdn. Bhd. | Malaysia | 100 | 100 | Manufacturing and sale of corrugated boards and carton boxes |
| Ornapaper Industry (Perak) Sdn. Bhd. | Malaysia | 100 | 100 | Manufacturing and sale of corrugated boards and carton boxes |

Notes to the Financial Statements

For the financial year ended 31 December 2022

14. Investment in subsidiaries (continued)

The details of the subsidiaries are as follows (continued):-

| Name of subsidiary | Principal place of business /Country of incorporation | Percentage of issued shares capital held by parent | | Principal activities |
|---|---|--|------|--|
| | | 2022 | 2021 | |
| Quantum Rhythm Sdn. Bhd. ¹ | Malaysia | 100 | 100 | Manufacturing of paper based stationery products |
| Tripack Packaging (M) Sdn. Bhd. ¹ | Malaysia | 100 | 100 | Manufacturing and sale of carton boxes |
| Ornapaper Industry (Johor) Sdn. Bhd. ¹ | Malaysia | 80 | 80 | Manufacturing and sale of carton boxes |

Subsidiary of Ornapaper Industry (M) Sdn. Bhd.

| | | | | |
|--|----------|-----|-----|------------------------|
| Ornapaper Logistics Sdn. Bhd. ¹ | Malaysia | 100 | 100 | Transportation service |
|--|----------|-----|-----|------------------------|

¹ These subsidiaries were audited by another firm of chartered accountants.

(a) During the financial year, the Company has reassessed its estimated recoverable amount of its investment in a subsidiary as it had been making losses in recent years. An additional impairment loss of RM1,140,000 (2021 : RM3,582,000), representing the write-down of the investments to its recoverable amounts was recognised in "Other Expenses" line item of statement of profit or loss and other comprehensive income.

(b) The non-controlling interest at the end of the reporting period comprises the following:-

| | Effective equity interest | | Group | |
|--------------------------------------|---------------------------|-----------|----------------|----------------|
| | 2022 % | 2021 % | 2022 RM'000 | 2021 RM'000 |
| Ornapaper Industry (Johor) Sdn. Bhd. | 20 | 20 | 1,804 | 1,741 |

(c) Summarised financial information of non-controlling interests has not been presented as the non-controlling interest of the subsidiary is not individually material to the Group.

Notes to the Financial Statements

For the financial year ended 31 December 2022

15. Goodwill

| | Group | |
|----------|----------------|----------------|
| | 2022 RM'000 | 2021 RM'000 |
| Goodwill | 1,633 | 1,633 |

The carrying amount of goodwill allocated to each cash-generating unit are as follows:-

| | Group | |
|--|----------------|----------------|
| | 2022 RM'000 | 2021 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 Group has assessed the recoverable amounts of goodwill allocated and determined that no impairment is required. The recoverable amounts of the cash-generating units are determined using the value in use approach, and this is derived from the present value of the future cash flows from each cash-generating unit computed based on the projections of financial budgets approved by management covering a period of 5 years. The key assumptions used in the determination of the recoverable amounts are as follows:-

| | OIP | | OIJ | |
|--------------------------|------|------|------|------|
| | 2022 | 2021 | 2022 | 2021 |
| Budgeted gross margins | 11% | 12% | 12% | 12% |
| Discount rates (pre-tax) | 8% | 13% | 8% | 13% |

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

Discount rates (pre-tax) - Reflects specific risks relating to the relevant cash-generating unit.

The values assigned to the key assumptions represent management's assessment of future trends in the cash-generating units and are based on both external sources and internal historical data.

The directors believe 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.

Notes to the Financial Statements

For the financial year ended 31 December 2022

16. Inventories

| | Group | |
|---|----------------|----------------|
| | 2022 RM'000 | 2021 RM'000 |
| Raw materials and consumables | 49,438 | 53,191 |
| Work-in-progress | 1,854 | 2,403 |
| Finished goods | 8,055 | 8,283 |
| Goods-in-transit | 1,001 | 3,902 |
| | <u>60,348</u> | <u>67,779</u> |
| Recognised in profit or loss:- | | |
| Inventories recognised as cost of sales | 272,076 | 258,738 |
| Amount written down | 2 | - |
| Reversal of inventories previously written down | - | (165) |

17. Right of return assets/(Refund liabilities)

| | Group | |
|---------------------------------------|----------------|----------------|
| | 2022 RM'000 | 2021 RM'000 |
| Right of return assets | <u>195</u> | <u>195</u> |
| Refund liabilities | | |
| - arising from right of return assets | (324) | (311) |
| - arising from discounts | (246) | (291) |
| | <u>(570)</u> | <u>(602)</u> |

A right of return assets and the corresponding refund liabilities are recognised in relation to finished goods sold. These are measured by reference to the carrying amounts of finished goods sold less any expected costs to recover those inventories and any potential decrease in value.

18. Trade receivables

| | Group | |
|---|----------------|----------------|
| | 2022 RM'000 | 2021 RM'000 |
| Third parties | 64,300 | 74,646 |
| Companies in which a director has substantial financial interest | 4,021 | 4,601 |
| Company in which close family members of certain directors have significant influence | 102 | - |
| | <u>68,423</u> | <u>79,247</u> |
| Allowance for impairment losses:- | | |
| At 1 January | 817 | 1,149 |
| Addition during the financial year (Note 7) | 964 | 26 |
| Reversal during the financial year (Note 7) | (56) | (358) |
| Written off during the financial year | (62) | - |
| | <u>1,663</u> | <u>817</u> |
| At 31 December | <u>66,760</u> | <u>78,430</u> |

The Group's normal trade credit terms range from 30 to 150 (2021 - 30 to 150) days.

Notes to the Financial Statements

For the financial year ended 31 December 2022

19. Other receivables, deposits and prepayments

| | Group | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2022 RM'000 | 2021 RM'000 | 2022 RM'000 | 2021 RM'000 |
| Other receivables:- | | | | |
| Third parties | 113 | 290 | 13 | 6 |
| Payments to supplier of property, plant and equipment | 3,271 | 5,846 | - | - |
| Payments to suppliers | 215 | 14 | - | - |
| Dividend receivables | - | - | 938 | 1,135 |
| GST receivables | 3 | 3 | 2 | 2 |
| Interest receivable | 1 | 1 | - | - |
| | 3,603 | 6,154 | 953 | 1,143 |
| Allowance for impairment losses | - | (112) | - | - |
| | 3,603 | 6,042 | 953 | 1,143 |
| Sundry deposits | 367 | 432 | 2 | 3 |
| Prepayments | 1,442 | 1,649 | - | 1 |
| | 5,412 | 8,123 | 955 | 1,147 |

| | Group | |
|---|----------------|----------------|
| | 2022 RM'000 | 2021 RM'000 |
| Allowance for impairment losses:- | | |
| At 1 January | 112 | 220 |
| Reversal during the financial year (Note 7) | (112) | (108) |
| At 31 December | - | 112 |

The payments to suppliers are unsecured and interest-free. The amount owing will be offset against future purchase from the suppliers.

20. Derivative assets/(liabilities)

| | Contract/Notional Amount | | Group | |
|-------------------------------|--------------------------|----------------|----------------|----------------|
| | 2022 RM'000 | 2021 RM'000 | 2022 RM'000 | 2021 RM'000 |
| Derivative Assets | | | | |
| Forward currency contracts | - | 420 | - | 3 |
| Derivative Liabilities | | | | |
| Forward currency contracts | 1,106 | - | (6) | - |

The Group does not apply hedge accounting.

Forward currency contracts are used to hedge the Group's purchases denominated in United States Dollar (USD) for which firm commitments existed at the end of the reporting period. The settlement dates of the forward currency contracts range between 2 to 3 (2021: 1 to 5) months after the end of the reporting period.

Notes to the Financial Statements

For the financial year ended 31 December 2022

21. Deposits with licensed banks

- (a) The deposits with licensed banks of the Group and of the Company at the end of the reporting period bore weighted average effective interest rates of 1.46% to 2.35% and 1.25% to 2.20% (2021: 1.46% to 1.85% and 1.25% to 1.70%) per annum respectively. The deposits of the Group and of the Company have maturity periods range from 5 to 12 (2021: 5 to 12) months.
- (b) Included in the deposits with licensed banks of the Group and of the Company at the end of the reporting period was an amount of RM3,336,000 and RM2,122,000 (2021: RM3,284,000 and RM2,093,000) respectively, which have been pledged to licensed banks as security for banking facilities granted to the Group as disclosed in Note 23 to the financial statements.

22. Share capital and treasury shares

(a) Share capital

| | Group/Company | | | |
|---------------------------------|---------------------------|--------|--------|--------|
| | 2022 | 2021 | 2022 | 2021 |
| | Number of ordinary shares | | Amount | |
| | '000 | '000 | RM'000 | RM'000 |
| Issued and fully paid-up | | | | |
| Ordinary shares | | | | |
| At 1 January/31 December | 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, and are entitled to one vote per ordinary share at meetings of the Company. The ordinary shares have no par value.

(b) Treasury shares

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

Of the total 75,250,601 issued and fully paid-up ordinary shares as at the end of the reporting period, 1,098,445 (2021 - 1,098,445) ordinary shares are held as treasury shares by the Company. None of the treasury shares were resold during the financial year.

Notes to the Financial Statements

For the financial year ended 31 December 2022

23. Loans and borrowings

| | Group | |
|-----------------------------------|----------------|------------------------------|
| | 2022 RM'000 | 2021 RM'000 (Restated) |
| Current | | |
| Secured: | | |
| Bankers' acceptances | 59,628 | 64,370 |
| Charge card | 116 | 139 |
| Term loans | 1,400 | 1,116 |
| Hire purchase payables | 1,344 | 2,012 |
| | <u>62,488</u> | <u>67,637</u> |
| Non-current | | |
| Secured: | | |
| Term loans | 11,430 | 820 |
| Hire purchase payables | 2,867 | 3,624 |
| | <u>14,297</u> | <u>4,444</u> |
| Total loans and borrowings | <u>76,785</u> | <u>72,081</u> |

The weighted average effective interest rates per annum at the end of the reporting period of loans and borrowings except for finance lease payables, were as follows:-

| | | Group | |
|------------------------|----------------|-------------|-------------------------|
| | | 2022 % | 2021 % (Restated) |
| Bankers' acceptances | Fixed/Floating | 2.45 | 1.99 |
| Term loans | Floating | 4.96 | 4.78 |
| Hire purchase payables | Fixed | <u>4.29</u> | <u>4.12</u> |

Charge card

Late interest is charged at RM50 or 2% (2021 - RM50 or 2%) per month on the overdue balance, whichever is higher.

The term loans and bankers' acceptances were secured by way of the following:-

- legal charge of the Group's leasehold land and factory buildings as disclosed in Notes 12 and 13 to the financial statements;
- pledged of the fixed deposits of the Group and of the Company as disclosed in Note 21 to the financial statements;
- negative pledge on certain property, plant and equipment of the Group as disclosed in Note 12 to the financial statements;
- specific debenture for RM2,700,000 over the Group's certain machinery as disclosed in Note 12 to the financial statements;

Notes to the Financial Statements

For the financial year ended 31 December 2022

23. Loans and borrowings (continued)

The term loans and bankers' acceptances were secured by way of the following (continued):-

- (v) registered debenture for RM9,000,000 over the Group's fixed and floating assets both present and future;
- (vi) assignment of life assurance policy by a key management personnel of the Group; and
- (vii) corporate guarantee by the Company.

24. Lease liabilities

| | Group | |
|---|---------|------------|
| | 2022 | 2021 |
| | RM'000 | RM'000 |
| | | (Restated) |
| At 1 January | 2,769 | 2,356 |
| Additions during the year (Note 30(b)) | 166 | 1,609 |
| Interest expense recognised in profit or loss (Note 6) | 85 | 127 |
| Repayment of principal | (1,389) | (1,482) |
| Repayment of interest expenses | (85) | (127) |
| Reassessment/Modification of lease liabilities (Note 30(e)) | 811 | 855 |
| Derecognition due to lease termination (Note 30(e)) | (608) | (569) |
| At 31 December | 1,749 | 2,769 |
| Analysed by:- | | |
| Current liabilities | 918 | 1,374 |
| Non-current liabilities | 831 | 1,395 |
| | 1,749 | 2,769 |

25. Deferred tax liabilities

| Group | At 1.1.2022 RM'000 | Recognised in profit or loss (Note 10) RM'000 | At 31.12.2022 RM'000 |
|---------------------------------|--------------------------|--|----------------------------|
| 2022 | | | |
| <i>Deferred tax liabilities</i> | | | |
| Property, plant and equipment | 10,734 | 275 | 11,009 |
| Right-of-use assets | 423 | (268) | 155 |
| | 11,157 | 7 | 11,164 |
| <i>Deferred tax assets</i> | | | |
| Lease liabilities | (395) | 271 | (124) |
| Provisions | (137) | (20) | (157) |
| Allowance for impairment losses | (78) | (48) | (126) |
| Inventories written down | (82) | (1) | (83) |
| Unutilised capital allowances | (17) | (12) | (29) |
| | (709) | 190 | (519) |
| | 10,448 | 197 | 10,645 |

Notes to the Financial Statements

For the financial year ended 31 December 2022

25. Deferred tax liabilities (continued)

| Group | At 1.1.2021 RM'000 | Recognised in profit or loss (Note 10) RM'000 | At 31.12.2021 RM'000 |
|---------------------------------|--------------------------|--|----------------------------|
| 2021 (Restated) | | | |
| <i>Deferred tax liabilities</i> | | | |
| Property, plant and equipment | 9,220 | 1,514 | 10,734 |
| Right-of-use assets | 292 | 131 | 423 |
| | <u>9,512</u> | <u>1,645</u> | <u>11,157</u> |
| <i>Deferred tax assets</i> | | | |
| Lease liabilities | (283) | (112) | (395) |
| Provisions | (156) | 19 | (137) |
| Allowance for impairment losses | (184) | 106 | (78) |
| Inventories written down | (121) | 39 | (82) |
| Unutilised capital allowances | (17) | - | (17) |
| | <u>(761)</u> | <u>52</u> | <u>(709)</u> |
| | <u>8,751</u> | <u>1,697</u> | <u>10,448</u> |

26. Trade payables

| | Group | |
|---|----------------|----------------|
| | 2022 RM'000 | 2021 RM'000 |
| Third parties | 12,954 | 28,591 |
| Companies in which a director has substantial financial interest | 632 | 309 |
| Company in which close family members of certain directors have significant influence | 1,594 | 59 |
| | <u>15,180</u> | <u>28,959</u> |

The normal trade credit terms granted to the Group range from 30 to 120 (2021 - 30 to 120) days.

27. Other payables and accruals

| | Group | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2022 RM'000 | 2021 RM'000 | 2022 RM'000 | 2021 RM'000 |
| Accrued operating expenses | 6,402 | 7,884 | 50 | 45 |
| Other payables | 2,800 | 3,099 | - | - |
| Sales tax payables | 573 | 547 | - | - |
| Amount payable to property, plant and equipment suppliers | 2,525 | 1,586 | - | - |
| | <u>12,300</u> | <u>13,116</u> | <u>50</u> | <u>45</u> |

Notes to the Financial Statements

For the financial year ended 31 December 2022

28. Bank overdrafts

- (a) The bank overdrafts of the Group are secured by corporate guarantee of the Company and deposits with licensed banks as disclosed in Note 21 to the financial statements.
- (b) The bank overdrafts of the Group at the end of the reporting period bore weighted average effective interest rate of 6.78% (2021: 6.35%) per annum.

29. Dividends

| | Group/Company | |
|---|----------------------|---------------|
| | 2022 | 2021 |
| | RM'000 | RM'000 |
| Final single tier dividend of approximately 2 sen (2021: 3.25 sen) per ordinary share in respect of the previous financial year | 1,483 | 2,410 |

The Company declared a final single tier dividend of 1 sen per ordinary share in respect of the current financial year 31 December 2022 to be paid on 19 May 2023 to shareholders whose names appeared in the records of depositors on 5 May 2023. The financial statements for the current financial year do not reflect this dividend. Such dividend will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2023.

30. Cash flow information

- (a) The cash disbursed for the purchase of property, plant and equipment is as follows:-

| | Group | |
|--|---------------|---------------|
| | 2022 | 2021 |
| | RM'000 | RM'000 |
| Cost of property, plant and equipment purchased (Note 12) | 31,900 | 6,403 |
| Advanced payment to suppliers | (2,575) | 5,047 |
| Under payables for purchase of plant and equipment | (939) | 2,328 |
| Amount financed under hire purchase payables (Note 30(e)) | (679) | - |
| Cash disbursed for purchase of property, plant and equipment | 27,707 | 13,778 |

- (b) The cash disbursed for addition of right-of-use assets is as follows:-

| | Group | |
|--|---------------|---------------|
| | 2022 | 2021 |
| | RM'000 | RM'000 |
| Cost of right-of-use assets purchased (Note 13) | 3,721 | 1,609 |
| Amount under new lease acquired (Note 30(e)) | (166) | (1,609) |
| Cash disbursed for addition of right-of-use assets | 3,555 | - |

Notes to the Financial Statements

For the financial year ended 31 December 2022

30. Cash flow information (continued)

(c) The cash and cash equivalents comprise the following:-

| | Group | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2022 RM'000 | 2021 RM'000 | 2022 RM'000 | 2021 RM'000 |
| Deposits with licensed banks | 4,542 | 4,475 | 3,328 | 3,284 |
| Cash and bank balances | 46,896 | 54,095 | 448 | 588 |
| Bank overdrafts | (1,554) | (1,087) | - | - |
| | <u>49,884</u> | <u>57,483</u> | <u>3,776</u> | <u>3,872</u> |
| Less: Deposits pledged to licensed banks (Note 21) | (3,336) | (3,284) | (2,122) | (2,093) |
| Deposits with tenure more than 3 months | (1,206) | (1,191) | (1,206) | (1,191) |
| | <u>45,342</u> | <u>53,008</u> | <u>448</u> | <u>588</u> |

(d) The total cash outflows for leases as a lessee are as follows:-

| | Group | |
|------------------------------------|----------------|------------------------------|
| | 2022 RM'000 | 2021 RM'000 (Restated) |
| Payment of short-term leases | 578 | 503 |
| Payment of low-value assets | 31 | 24 |
| Interest paid on lease liabilities | 85 | 127 |
| Payment of lease liabilities | <u>1,389</u> | <u>1,482</u> |
| | <u>2,083</u> | <u>2,136</u> |

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Notes to the Financial Statements

For the financial year ended 31 December 2022

30. Cash flow information (continued)

(e) The reconciliations of liabilities arising from financing activities are as follows:-

| Group | Bank overdrafts RM'000 | Bankers' acceptances RM'000 | Charge card RM'000 | Term loans RM'000 | Lease liabilities RM'000 | Hire purchase payables RM'000 | Total RM'000 |
|--|------------------------|-----------------------------|--------------------|-------------------|--------------------------|-------------------------------|--------------|
| 2022 | | | | | | | |
| At 1 January | * | 64,370 | 139 | 1,936 | 2,769 | 5,636 | 74,850 |
| Changes in financing cash flows | | | | | | | |
| Proceeds from drawdown | - | - | - | 12,237 | - | - | 12,237 |
| Net repayment of principal | * | (4,742) | (23) | - | - | - | (4,765) |
| Repayment of principal | * | - | - | (1,343) | (1,389) | (2,104) | (4,836) |
| Repayment of interests | (48) | (1,543) | - | (310) | (85) | (286) | (2,272) |
| | (48) | (6,285) | (23) | 10,584 | (1,474) | (2,390) | 364 |
| Non-cash changes | | | | | | | |
| Acquisition of new lease (Notes 24 and 30(b)) | - | - | - | - | 166 | - | 166 |
| Acquired under hire purchase (Note 30(a)) | - | - | - | - | - | 679 | 679 |
| Interest expenses recognised in profit or loss | 48 | 1,543 | - | 310 | 85 | 286 | 2,272 |
| Reassessment/Modification of lease (Note 24) | - | - | - | - | 811 | - | 811 |
| Derecognition due to lease termination (Note 24) | - | - | - | - | (608) | - | (608) |
| | 48 | 1,543 | - | 310 | 454 | 965 | 3,320 |
| At 31 December | * | 59,628 | 116 | 12,830 | 1,749 | 4,211 | 78,534 |

* Bank overdrafts have formed part of the cash and cash equivalents, therefore no movement is presented.

Notes to the Financial Statements

For the financial year ended 31 December 2022

30. Cash flow information (continued)

(e) The reconciliations of liabilities arising from financing activities are as follows (continued):-

| Group | Bank overdrafts RM'000 | Bankers' acceptances RM'000 | Charge card RM'000 | Term loans RM'000 | Lease liabilities RM'000 | Hire purchase payable RM'000 | Total RM'000 |
|--|------------------------------|-----------------------------------|--------------------------|-------------------------|--------------------------------|---------------------------------------|-----------------|
| 2021 (Restated) | | | | | | | |
| At 1 January | * | 60,932 | 145 | 3,068 | 2,356 | 7,988 | 74,489 |
| Changes in financing cash flows | | | | | | | |
| Net proceeds from drawdown | * | 3,438 | - | - | - | - | 3,438 |
| Net repayment of principal | - | - | (6) | - | - | - | (6) |
| Repayment of principal | * | - | - | (1,132) | (1,482) | (2,352) | (4,966) |
| Repayment of interests | (52) | (1,233) | - | (124) | (127) | (394) | (1,930) |
| | (52) | 2,205 | (6) | (1,256) | (1,609) | (2,746) | (3,464) |
| Non-cash changes | | | | | | | |
| Acquisition of new lease (Notes 24 and 30(b)) | - | - | - | - | 1,609 | - | 1,609 |
| Interest expenses recognised in profit or loss | 52 | 1,233 | - | 124 | 127 | 394 | 1,930 |
| Reassessment/Modification of lease (Note 24) | - | - | - | - | 855 | - | 855 |
| Derecognition due to lease termination (Note 24) | - | - | - | - | (569) | - | (569) |
| | 52 | 1,233 | - | 124 | 2,022 | 394 | 3,825 |
| At 31 December | * | 64,370 | 139 | 1,936 | 2,769 | 5,636 | 74,850 |

* Bank overdrafts have formed part of the cash and cash equivalents, therefore no movement is presented.

Notes to the Financial Statements

For the financial year ended 31 December 2022

31. Related party disclosures

(a) Identities of related parties

Parties are considered to be related to the Group if the Group or the Company has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group or the Company and the party are subject to common control.

In addition to the information detailed elsewhere in the financial statements, the Group has related party relationships with its directors, key management personnel, subsidiaries and entities related to directors or close family members of directors.

(b) Significant related party transactions and balances

Other than those disclosed elsewhere in the financial statements, the Group and the Company also carried out the following significant transactions with the related parties during the financial year:-

| | Group | | Company | |
|--|----------|---------|---------|---------|
| | 2022 | 2021 | 2022 | 2021 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Subsidiaries | | | | |
| Dividends received from subsidiaries | - | - | (1,718) | (3,950) |
| Companies in which certain directors have substantial financial interests | | | | |
| Lease expenses | 636 | 649 | - | - |
| Sales of goods | (10,467) | (9,532) | - | - |
| Purchase of goods | 455 | 532 | - | - |
| A company in which close family members of certain directors have substantial interest | | | | |
| Repair and maintenance | 855 | 371 | - | - |
| Purchase of goods | 1 | 4 | - | - |
| Purchase of property, plant and equipment | 197 | 445 | - | - |
| Companies in which close family members of certain directors have significant influence | | | | |
| Sales of goods | (183) | (350) | - | - |
| Transportation fees | - | (2) | - | - |
| Purchase of goods | 13,350 | 5,594 | - | - |

Notes to the Financial Statements

For the financial year ended 31 December 2022

31. Related party disclosures (continued)

(b) Significant related party transactions and balances (continued)

The significant outstanding balances of the related parties together with their terms and conditions are disclosed in the respective notes to the financial statements.

The related party transactions described above were entered into the normal course of business carried out based on negotiated terms and conditions and are mutually agreed with respective parties.

32. Key management personnel compensation

The key management personnel of the Group and of the Company include executive directors and non-executive directors of the Company and certain members of senior management of the Group and of the Company.

The key management personnel compensation during the financial year are as follows:-

| | Group | | Company | |
|--|--------------|--------------|------------|------------|
| | 2022 | 2021 | 2022 | 2021 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| (a) Directors | | | | |
| <u>Directors of the Company</u> | | | | |
| Short-term employee benefits: | | | | |
| - fees | 180 | 471 | 180 | 183 |
| - salaries, bonuses and other benefits | 1,968 | 1,922 | 18 | 20 |
| Defined contribution benefits | 168 | 158 | - | - |
| | <u>2,316</u> | <u>2,551</u> | <u>198</u> | <u>203</u> |
| <u>Directors of the Subsidiaries</u> | | | | |
| Short-term employee benefits: | | | | |
| - salaries, bonuses and other benefits | 925 | 653 | - | - |
| Defined contribution benefits | 91 | 78 | - | - |
| | <u>1,016</u> | <u>731</u> | <u>-</u> | <u>-</u> |
| Total directors' remuneration (Note 8) | <u>3,332</u> | <u>3,282</u> | <u>198</u> | <u>203</u> |

The estimated monetary value of benefits-in-kind provided by the Group to the directors of the Company was approximately RM46,000 (2021: RM62,000).

Notes to the Financial Statements

For the financial year ended 31 December 2022

32. Key management personnel compensation (continued)

(b) Other key management personnel

| | Group | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2022 RM'000 | 2021 RM'000 | 2022 RM'000 | 2021 RM'000 |
| Short-term employee benefits | 1,191 | 1,187 | - | - |
| Defined contribution benefits | 127 | 116 | - | - |
| Total compensation for other key management personnel (Note 9) | 1,318 | 1,303 | - | - |

33. Capital commitments

| | Group | |
|---|----------------|----------------|
| | 2022 RM'000 | 2021 RM'000 |
| Purchase of property, plant and equipment | 3,198 | 12,834 |

34. Operating segments

In determining the geographical segments of the Group, sales are based on the country in which the customers are located.

Non-current assets are determined according to the country where these assets are located. The amounts of non-current assets do not include financial instruments and deferred tax assets.

| Group | Revenue | | Non-current Assets | |
|--------------------------|----------------|----------------|--------------------|----------------|
| | 2022 RM'000 | 2021 RM'000 | 2022 RM'000 | 2021 RM'000 |
| Malaysia | 321,375 | 310,562 | 124,872 | 106,377 |
| Asia | 2,010 | 1,073 | - | - |
| United States of America | 5,540 | 4,719 | - | - |
| | 328,925 | 316,354 | 124,872 | 106,377 |

No other segmental information such as segment assets, liabilities and results is presented as the Group is principally engaged in the manufacturing and sale of corrugated boards and carton boxes and operates in Malaysia only.

There is no single customer that contributed 10% or more to the Group's revenue.

Notes to the Financial Statements

For the financial year ended 31 December 2022

35. Financial instruments

The Group's activities are exposed to a variety of market risk (including foreign currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. The Group's overall financial risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

35.1 Financial risk management policies

The Group's policies in respect of the major areas of treasury activity are as follows:-

(a) Market risk

(i) Foreign currency risk

The Group is exposed to foreign currency risk on transactions and balances that are denominated in currencies other than Ringgit Malaysia. The currencies giving rise to this risk are primarily United States Dollar ("USD"). Foreign currency risk is monitored closely on an ongoing basis to ensure that the net exposure is at an acceptable level. On occasion, the Group enters into forward foreign currency contracts to hedge against its foreign currency risk. The Group also holds cash and cash equivalents denominated in foreign currencies for working capital purposes.

The Group's exposure to foreign currency risk (a currency which is other than the functional currency of the entities within the Group) based on the carrying amounts of the financial instruments at the end of the reporting period is summarised below:-

Foreign currency exposure

| | Group | |
|------------------------------|--------------|--------------|
| | 2022 | 2021 |
| | RM'000 | RM'000 |
| United States Dollar | | |
| <u>Financial assets</u> | | |
| Trade receivables | 3,158 | 1,507 |
| Cash and bank balances | 7 | 8 |
| <u>Financial liabilities</u> | | |
| Trade payables | (223) | (233) |
| Other payables and accruals | (1,526) | (1,539) |
| Currency Exposure | <u>1,416</u> | <u>(257)</u> |

Notes to the Financial Statements

For the financial year ended 31 December 2022

35. Financial instruments (continued)

35.1 Financial risk management policies (continued)

(a) Market risk (continued)

(i) Foreign currency risk (continued)

Foreign Currency Risk Sensitivity Analysis

The following table details the sensitivity analysis to a reasonably possible change in the foreign currencies at the end of the reporting period, with all other variables held constant:-

| | Group | |
|---|--------------|-----------|
| | 2022 | 2021 |
| | RM'000 | RM'000 |
| Effects on Profit After Taxation | | |
| USD/RM – strengthened by 14% (2021: 6%) | 151 | (12) |
| – weakened by 14% (2021: 6%) | <u>(151)</u> | <u>12</u> |

(ii) 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 exposure to interest rate risk arises mainly from interest-bearing borrowings. The Group's policy is to obtain the most favourable interest rates available and by maintaining a balanced portfolio mix of fixed and floating rate borrowings.

The Group's fixed rate receivables and borrowings are carried at amortised cost. Therefore, they are not subject to interest rate risk as in defined MFRS 7 since neither carrying amounts nor the future cash flows will fluctuate because of a change in market interest rates.

The Group's exposure to interest rate risk based on the carrying amounts of the financial instruments at the end of the reporting period is disclosed in Note 23 to the financial statements.

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Notes to the Financial Statements

For the financial year ended 31 December 2022

35. Financial instruments (continued)

35.1 Financial risk management policies (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

Interest Rate Risk Sensitivity Analysis

The following table details the sensitivity analysis to a reasonably possible change in the interest rates at the end of the reporting period, with all other variables held constant:-

| | Group | |
|---|------------|------------|
| | 2022 | 2021 |
| | RM'000 | RM'000 |
| Effects on Profit After Taxation | | |
| Increase of 93 basis points (2021: 122 basis points) | (532) | (613) |
| Decrease of 93 basis points (2021: 122 basis points) | <u>532</u> | <u>613</u> |

(iii) Equity price risk

The Group does not have any quoted investments and hence, is not exposed to equity price risk.

(b) Credit risk

The Group's exposure to credit risk, or the risk of counterparties defaulting, arises mainly from trade and other receivables. The Group manages its exposure to credit risk by the application of credit approvals, credit limits and monitoring procedures on an ongoing basis. For other financial assets (including cash and bank balances and derivatives), the Group minimises credit risk by dealing exclusively with high credit and derivatives rating counterparties.

The Company's exposure to credit risk arises principally from corporate guarantee given to financial institutions for credit facilities granted to certain subsidiaries. The Company monitors the results of these subsidiaries regularly and repayments made by the subsidiaries.

(i) Credit risk concentration profile

The Group does not have any major concentration of credit risk related to any individual customer or counterparty.

Notes to the Financial Statements

For the financial year ended 31 December 2022

35. Financial instruments (continued)

35.1 Financial risk management policies (continued)

(b) Credit risk (continued)

(i) Credit risk concentration profile (continued)

The Group determines the concentration of credit risk by monitoring the geographical region of its trade receivables on an ongoing basis. The credit risk concentration profile of trade receivables (including related parties) at the end of the reporting period is as follows:-

| | Group | |
|---------|----------------|----------------|
| | 2022 RM'000 | 2021 RM'000 |
| Local | 64,118 | 78,209 |
| Foreign | 2,642 | 221 |
| | <u>66,760</u> | <u>78,430</u> |

(ii) Maximum exposure to credit risk

At the end of the reporting period, the maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statement of financial position of the Group after deducting any allowance for impairment losses (where applicable).

In addition, the Company's maximum exposure to credit risk also includes corporate guarantees provided to subsidiaries as disclosed under the 'Maturity Analysis' of item (c) below, representing the outstanding banking facilities of the subsidiaries as at the end of the reporting period. These corporate guarantees have not been recognised in the Company's financial statements since their fair value on initial recognition were not material.

(iii) Assessment of impairment losses

The Group has a formal credit policy in place and the exposure to credit risk is monitored on an on-going basis through periodic review of the ageing of the trade receivables. The Group closely monitors the trade receivables' financial strength to reduce the risk of loss.

At each reporting date, the Group assesses whether any of the financial assets at amortised cost are credit impaired.

The gross carrying amounts of financial assets are written off against the associated impairment, if any, when there is no reasonable expectation of recovery- despite the fact that they are still subject to enforcement activities.

Notes to the Financial Statements

For the financial year ended 31 December 2022

35. Financial instruments (continued)

35.1 Financial risk management policies (continued)

(b) Credit risk (continued)

(iii) Assessment of impairment losses (continued)

A financial asset is credit impaired when any of the following events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred:

- Significant financial difficulty of the receivable;
- A breach of contract, such as a default or past due event;
- Restructuring of a debt in relation to the receivable's financial difficulty;
- It is becoming probable that the receivable will enter bankruptcy or other financial reorganisation.

The Group considers a receivable to be in default when the receivable is unlikely to repay its debt to the Group in full or is more than 90 days past due.

Trade receivables

The Group applies the simplified approach to measure expected credit losses using a lifetime expected credit loss allowance for all trade receivables.

Inputs, Assumptions and Techniques used for Estimating Impairment Losses

To measure the expected credit losses, trade receivables (including related parties) have been grouped based on shared credit risk characteristics and the days past due.

The Group measures the expected credit losses of certain major customers, trade receivables that are credit impaired and trade receivables with a high risk of default on individual basis.

The expected loss rate are based on the payment profiles of sales over 12 months before the reporting date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the trade receivables to settle their debts using the linear regressive analysis. The Group has identified the Consumer Price Index or inflation as the key macroeconomic factors of the forward-looking information.

There are no significant changes in the estimation techniques and assumptions as compared to the previous financial year.

Notes to the Financial Statements

For the financial year ended 31 December 2022

35. Financial instruments (continued)

35.1 Financial risk management policies (continued)

(b) Credit risk (continued)

(iii) Assessment of impairment losses (continued)

Allowance for Impairment Losses

| The Group | Gross Amount RM'000 | Individual Impairment RM'000 | Collective Impairment RM'000 | Carrying Amount RM'000 |
|------------------------|------------------------|---------------------------------|---------------------------------|---------------------------|
| 2022 | | | | |
| Current | | | | |
| (not past due) | 46,476 | - | (508) | 45,968 |
| 1 to 30 days past due | 14,995 | - | (167) | 14,828 |
| 31 to 60 days past due | 5,061 | - | (70) | 4,991 |
| 61 to 90 days past due | 1,043 | - | (70) | 973 |
| Credit impaired | 848 | (731) | (117) | - |
| | <u>68,423</u> | <u>(731)</u> | <u>(932)</u> | <u>66,760</u> |

| The Group | Gross Amount RM'000 | Individual Impairment RM'000 | Collective Impairment RM'000 | Carrying Amount RM'000 |
|------------------------|------------------------|---------------------------------|---------------------------------|---------------------------|
| 2021 | | | | |
| Current | | | | |
| (not past due) | 62,132 | - | (121) | 62,011 |
| 1 to 30 days past due | 13,253 | - | (18) | 13,235 |
| 31 to 60 days past due | 2,018 | - | (6) | 2,012 |
| 61 to 90 days past due | 1,173 | - | (1) | 1,172 |
| Credit impaired | 671 | (646) | (25) | - |
| | <u>79,247</u> | <u>(646)</u> | <u>(171)</u> | <u>78,430</u> |

The movements in the loss allowances in respect of trade receivables are disclosed in Note 18 to the financial statements.

Notes to the Financial Statements

For the financial year ended 31 December 2022

35. Financial instruments (continued)

35.1 Financial risk management policies (continued)

(b) Credit risk (continued)

(iii) Assessment of impairment losses (continued)

Other receivables

The Group applies the 3-stage general approach to measuring expected credit losses for other receivables. At the end of the reporting period, there was no indication that the amount owing is not recoverable other than those which had already impaired in the previous financial year.

Deposits with Licensed Banks, Cash and Bank Balances

The Group considers the licensed banks have low credit risks. In addition, some of the bank balances are insured by Government agencies. Therefore, the Group is of the view that the loss allowance is immaterial and hence, it is not provided for.

Financial Guarantee Contracts

All of the financial guarantee contracts are considered to be performing, have low risks of default and historically there were no instances where these financial guarantee contracts were called upon by the parties of which the financial guarantee contracts were issued to. Accordingly, no loss allowances were identified based on 12-month expected credit losses.

(c) Liquidity risk

Liquidity risk arises mainly from general funding and business activities. The Group practises prudent risk management by maintaining sufficient cash balances and the availability of funding through certain committed credit facilities.

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Notes to the Financial Statements

For the financial year ended 31 December 2022

35. Financial instruments (continued)

35.1 Financial risk management policies (continued)

(c) Liquidity risk (continued)

Maturity Analysis (continued)

The following table sets out the maturity profile of the financial liabilities at the end of the reporting period based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates at the end of the reporting period)(continued):-

| The Group | Contractual Interest Rate % | Carrying Amount RM'000 | Contractual Undiscounted Cash Flow RM'000 | Within 1 Year RM'000 | 1-5 Years RM'000 | Over 5 Years RM'000 |
|---|-----------------------------|------------------------|---|----------------------|------------------|---------------------|
| 2022 | | | | | | |
| Non-derivative Financial Liabilities | | | | | | |
| Trade payables | - | 15,180 | 15,180 | 15,180 | - | - |
| Other payables and accruals | - | 11,727 | 11,727 | 11,727 | - | - |
| Bank overdrafts | 6.72 to 11.82 | 1,554 | 1,554 | 1,554 | - | - |
| Bankers' acceptances | 2.27 to 4.11 | 59,628 | 59,628 | 59,628 | - | - |
| Charge card | 2.00 | 116 | 116 | 116 | - | - |
| Term loans | 3.77 to 5.85 | 12,830 | 17,426 | 1,703 | 4,478 | 11,245 |
| Lease liabilities | 1.75 to 5.75 | 1,749 | 1,818 | 969 | 849 | - |
| Hire purchase payables | 2.98 to 7.50 | 4,211 | 4,651 | 1,539 | 3,112 | - |
| Balance carried forward | | 106,995 | 112,100 | 92,416 | 8,439 | 11,245 |

Notes to the Financial Statements

For the financial year ended 31 December 2022

35. Financial instruments (continued)

35.1 Financial risk management policies (continued)

(c) Liquidity risk (continued)

Maturity Analysis (continued)

The following table sets out the maturity profile of the financial liabilities at the end of the reporting period based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates at the end of the reporting period) (continued):-

| The Group | Contractual Interest Rate % | Carrying Amount RM'000 | Contractual Undiscounted Cash Flow RM'000 | | | Over 5 Years RM'000 |
|--|-----------------------------|------------------------|---|------------------|---|---------------------|
| | | | Within 1 Year RM'000 | 1-5 Years RM'000 | | |
| 2022 | | | | | | |
| Balance brought forward | | 106,995 | 92,416 | 8,439 | | 11,245 |
| Derivative Financial Liabilities | | | | | | |
| Forward currency contracts (gross settled) : | | | | | | |
| - gross payments | | | | | | |
| | | 6 | 1,106 | - | - | - |
| | | 107,001 | 93,522 | 8,439 | | 11,245 |

Notes to the Financial Statements

For the financial year ended 31 December 2022

35. Financial instruments (continued)

35.1 Financial risk management policies (continued)

(c) Liquidity risk (continued)

Maturity Analysis (continued)

The following table sets out the maturity profile of the financial liabilities at the end of the reporting period based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates at the end of the reporting period) (continued):-

| The Group | Contractual Interest Rate % | Carrying Amount RM'000 | Contractual Undiscounted Cash Flows RM'000 | Within 1 Year RM'000 | 1 – 5 Years RM'000 |
|---|-----------------------------|------------------------|--|----------------------|--------------------|
| 2021 (Restated) | | | | | |
| <u>Non-derivative Financial Liabilities</u> | | | | | |
| Trade payables | - | 28,959 | 28,959 | 28,959 | - |
| Other payables and accruals | - | 12,569 | 12,569 | 12,569 | - |
| Bank overdrafts | 6.35 | 1,087 | 1,087 | 1,087 | - |
| Bankers' acceptances | 1.59 to 3.47 | 64,370 | 64,370 | 64,370 | - |
| Charge card | 2.00 | 139 | 139 | 139 | - |
| Term loans | 3.45 to 5.61 | 1,936 | 2,040 | 1,191 | 849 |
| Lease liabilities | 1.93 to 5.75 | 2,769 | 3,033 | 1,450 | 1,583 |
| Hire purchase payables | 2.98 to 7.52 | 5,636 | 6,109 | 2,273 | 3,836 |
| | | 117,465 | 118,306 | 112,038 | 6,268 |

Notes to the Financial Statements

For the financial year ended 31 December 2022

35. Financial instruments (continued)

35.1 Financial risk management policies (continued)

(c) Liquidity risk (continued)

Maturity Analysis (continued)

The following table sets out the maturity profile of the financial liabilities at the end of the reporting period based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates at the end of the reporting period) (continued):-

| | Contractual Interest Rate % | Carrying Amount RM'000 | Contractual Undiscounted Cash Flows RM'000 | Within 1 Year RM'000 | 1 – 5 Years RM'000 |
|--|-----------------------------|------------------------|--|----------------------|--------------------|
| The Company | | | | | |
| 2022 | | | | | |
| <u>Non-derivative Financial Liability</u> | | | | | |
| Other payables and accruals | - | 50 | 50 | 50 | - |
| Financial guarantee contracts in relation to corporate guarantee given to certain subsidiaries | - | - | 76,300 | 76,300 | - |
| | | 50 | 76,350 | 76,350 | - |
| 2021 | | | | | |
| <u>Non-derivative Financial Liability</u> | | | | | |
| Other payables and accruals | - | 45 | 45 | 45 | - |
| Financial guarantee contracts in relation to corporate guarantee given to certain subsidiaries | - | - | 69,561 | 69,561 | - |
| | | 45 | 69,606 | 69,606 | - |

The contractual undiscounted cash flows represent the outstanding credit facilities of the subsidiaries at the end of the reporting period. The financial guarantees have not been recognised in the financial statements since their fair value on initial recognition were not material.

Notes to the Financial Statements

For the financial year ended 31 December 2022

35. Financial instruments (continued)

35.2 Capital risk management

The Group manages its capital to ensure that entities within the Group will be able to maintain an optimal capital structure so as to support its businesses and maximise shareholder(s) value. To achieve this objective, the Group may make adjustments to the capital structure in view of changes in economic conditions, such as adjusting the amount of dividend payment, returning of capital to shareholders or issuing new shares.

The Group manages its capital based on debt-to-equity ratio that complies with debt covenants. The debt-to-equity ratio is calculated as net debt divided by total capital plus net debt. The Group includes within net debt, loans and borrowings, trade and other payables less cash and bank balances and deposits with licensed banks. Capital includes equity attributable to the owners of the parent. The debt-to-equity ratio of the Group at the end of the reporting period was as follows:-

| | Group | |
|------------------------------------|--------------------|--------------------|
| | 2022 | 2021 |
| | RM'000 | RM'000 |
| | | (Restated) |
| Trade payables | 15,180 | 28,959 |
| Other payables and accruals | 12,300 | 13,116 |
| Bank overdrafts | 1,554 | 1,087 |
| Charge card | 116 | 139 |
| Lease liabilities | 1,749 | 2,769 |
| Term loans | 12,830 | 1,936 |
| Bankers' acceptances | 59,628 | 64,370 |
| Hire purchase payables | 4,211 | 5,636 |
| | <u>107,568</u> | <u>118,012</u> |
| Less: Cash and bank balances | (46,896) | (54,095) |
| Less: Deposits with licensed banks | (4,542) | (4,475) |
| Net debt | <u>56,130</u> | <u>59,442</u> |
| Total equity | <u>191,160</u> | <u>190,167</u> |
| Capital and net debt | <u>247,290</u> | <u>249,609</u> |
| Debt-to-equity ratio | <u>0.23</u> | <u>0.24</u> |

There was no change in the Group's approach to capital management during the financial year.

Notes to the Financial Statements

For the financial year ended 31 December 2022

35. Financial instruments (continued)

35.4 Gains or Losses Arising From Financial Instruments

| | Group | | Company | |
|---|---------|---------|---------|--------|
| | 2022 | 2021 | 2022 | 2021 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Financial Assets | | | | |
| <u>Amortised Cost</u> | | | | |
| Net gains recognised in profit or loss | 12 | 1,400 | 51 | 48 |
| Financial Liabilities | | | | |
| <u>Fair Value Through Profit or Loss</u> | | | | |
| Net (losses)/gains recognised in profit or loss | (9) | 12 | - | - |
| <u>Amortised Cost</u> | | | | |
| Net losses recognised in profit or loss | (2,493) | (2,288) | - | - |

35.5 Fair Value Information

The fair values of the financial assets and financial liabilities of the Group and of the Company which are maturing within the next 12 months approximated their carrying amounts due to the relatively short-term maturity of the financial instruments or repayable on demand terms.

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Notes to the Financial Statements

For the financial year ended 31 December 2022

35. Financial instruments (continued)

35.5 Fair Value Information (continued)

The following table sets out the fair value profile of financial instruments that are carried at fair value and those not carried at fair value at the end of the reporting period:-

| Group | Fair Value of Financial Instruments Carried at Fair Value | | | | Fair Value of Financial Instruments not Carried at Fair Value | | | Total Fair Value RM'000 | Carrying Amount RM'000 |
|------------------------------|---|----------------|----------------|--|---|----------------|----------------|-------------------------|------------------------|
| | Level 1 RM'000 | Level 2 RM'000 | Level 3 RM'000 | | Level 1 RM'000 | Level 2 RM'000 | Level 3 RM'000 | | |
| 2022 | | | | | | | | | |
| <u>Financial Liabilities</u> | | | | | | | | | |
| Term loans: | | | | | | | | | |
| - floating rate | - | - | - | | - | 12,830 | - | 12,830 | 12,830 |
| Derivative liabilities: | | | | | | | | | |
| - forward currency contract | - | 6 | - | | - | - | - | 6 | 6 |
| 2021 | | | | | | | | | |
| <u>Financial Assets</u> | | | | | | | | | |
| Derivative assets: | | | | | | | | | |
| - forward currency contract | - | 3 | - | | - | - | - | 3 | 3 |
| <u>Financial Liabilities</u> | | | | | | | | | |
| Term loans: | | | | | | | | | |
| - floating rate | - | - | - | | - | 1,936 | - | 1,936 | 1,936 |

Notes to the Financial Statements

For the financial year ended 31 December 2022

35. Financial instruments (continued)

35.5 Fair Value Information (continued)

(a) Fair Value of Financial Instruments Carried at Fair Value

(i) The fair values above have been determined using the following basis:-

(aa) The fair values of forward currency contracts are determined by discounting the difference between the contractual forward prices and the current forward prices for the residual maturity of the contracts using a risk-free interest rate (government bonds).

(ii) There were no transfers between level 1 and level 2 during the financial year.

(b) Fair Value of Financial Instruments Not Carried at Fair Value

The fair values, which are for disclosure purposes, have been determined using the following basis:-

(i) The fair value of the Group's term loan that carry floating interest rates approximated their carrying amounts as they are repriced to market interest rates on or near the reporting date.

36. Comparative figures

The following figures have been reclassified to conform with the presentation of the current financial year :-

| | As Previously Reported RM'000 | As Restated RM'000 |
|---|--|-----------------------|
| <u>Consolidated Statement of Financial Position (Extract):-</u> | | |
| Property, plant and equipment | 78,352 | 88,834 |
| Right-of-use assets | 26,392 | 15,910 |
| Loans and borrowings | 66,445 | 72,081 |
| Lease liabilities | 8,405 | 2,769 |
| <u>Consolidated Statement of Cash Flows (Extract):-</u> | | |
| Depreciation and amortisation: | | |
| - Property, plant and equipment | 13,356 | 15,015 |
| - Right-of-use assets | 3,129 | 1,470 |
| Gain on disposal of plant and equipment | (153) | (157) |
| Gain on disposal of right-of-use assets | (4) | - |
| Impairment losses on plant and equipment | 1,244 | 2,244 |
| Impairment losses on right-of-use assets | 1,000 | - |
| Other interest expense | 1,409 | 1,803 |
| Interest expense on lease liabilities | 521 | 127 |
| Proceeds from disposal of property, plant and equipment | 523 | 561 |
| Proceeds from disposal of right-of-use assets | 38 | - |
| Repayment of lease liabilities | (3,834) | (1,482) |
| Repayment of hire purchase payables | - | (2,352) |

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 31/12/2022 (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 & Office | | 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 & Office | 26 | 04-Mar-02 | 27,102 |
| 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 (Service Road) | | 01-Aug-03 | |
| OISB(BP) | H. S. (D) 43098 Lot No. PLO 271 (PTD 39208) Mukim of Simpang Kanan, District of Batu Pahat, Johor Darul Takzim | 13,067 | Leasehold 60 Years Expiring On 10/07/2060 | Industrial & Office | 25 | 27-Oct-97 | |
| OISB(BP) | H. S. (D) 38426 Lot No. PLO 333, (PTD 35123) Mukim of Simpang Kanan, District of Batu Pahat, Johor Darul Takzim. | 4,047 | Leasehold 60 Years Expiring On 04/02/2058 | Industrial & Office | 25 | 27-Dec-11 | 14,630 |
| OISB(BP) | H.S. (D) 38298 Lot No.PLO 273, (PTD 39025) Mukim of Simpang Kanan, District of Batu Pahat, Johor Darul Takzim. | 6,287 | Leasehold 60 years Expiring On 05/10/2057 | Industrial & Office | 26 | 25-Jan-22 | |
| OISB(PERAK) | 424165, 424166, 424167, 424168, 424169, 424170 Mukim of Hulu Kinta, District of Kinta, State of Perak | 42,811 | Leasehold 99 Years Expiring On 05/12/2117 | Industrial & Office | 32 | 25-May-90 | 6,729 |
| | 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 & Office | 16 | 14-Mar-02 | 7,686 |
| OISB(JOHOR) | Lot No.39337, Title No. GRN 395596 No.305, Jalan Iaman 1/15, Taman Perindustrian Senai, 81400 Senai, Johor | 5,494 | Freehold | Industrial & Office | 25 | 08-Jun-22 | |

Notes:- OISB(M) - Omapaper Industry (M) Sdn. Bhd.
OISB(BP) - Omapaper Industry (Batu Pahat) Sdn. Bhd.
OISB(JOHOR) - Omapaper Industry (Johor) Sdn. Bhd.
OISB(PERAK) - Omapaper 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 20 March 2023

| | | |
|---------------------------------|---|----------------------------|
| Total Number of Issued Shares | : | 75,250,601 ordinary shares |
| Total Number of Treasury Shares | : | 1,098,445 treasury shares |
| Issued and Paid-up Capital | : | RM74,152,156.00 |
| Class of Shares | : | Ordinary Shares |
| Voting Rights | : | 1 Vote per Ordinary Shares |

DISTRIBUTION OF SHAREHOLDERS

| Size of Shareholdings | No. of Shareholders | % | No. of Shares | % |
|--------------------------|---------------------|---------------|-------------------|---------------|
| 1 – 99 | 16 | 1.00 | 458 | 0.01 |
| 100 – 1,000 | 315 | 19.84 | 248,251 | 0.33 |
| 1,001 – 10,000 | 803 | 50.57 | 3,944,900 | 5.32 |
| 10,001 – 100,000 | 383 | 24.12 | 12,607,104 | 17.00 |
| 100,001 – 3,707,606 (*) | 70 | 4.41 | 19,466,224 | 26.25 |
| 3,707,607 and above (**) | 1 | 0.06 | 37,885,219 | 51.09 |
| TOTAL | 1,588 | 100.00 | 74,152,156 | 100.00 |

Remarks: * Less than 5% of issued shares
** 5% and above of issued shares

SUBSTANTIAL SHAREHOLDERS

| Name | Direct No. of Shares | % | Indirect No. of Shares | % |
|---------------------------|-------------------------|-------|---------------------------|-------|
| Intisari Delima Sdn. Bhd. | 37,885,219 | 51.09 | - | - |
| Sai Ah Sai | 120,000 | 0.16 | ⁽¹⁾ 39,532,043 | 53.31 |
| Sai Chin Hock | - | - | ⁽²⁾ 37,885,219 | 51.09 |
| Sai Han Siong | 15,000 | 0.02 | ⁽³⁾ 38,467,543 | 51.88 |

DIRECTORS' SHAREHOLDINGS

(Based on the Register of Directors' Shareholdings)

| Name | Direct No. of Shares | % | Indirect No. of Shares | % |
|----------------------------------|-------------------------|------|---------------------------|-------|
| Sai Ah Sai | 120,000 | 0.16 | ⁽¹⁾ 39,532,043 | 53.31 |
| Sai Chin Hock | - | - | ⁽²⁾ 37,885,219 | 51.09 |
| Sai Han Siong | 15,000 | 0.02 | ⁽³⁾ 38,467,543 | 51.88 |
| Siow Kee Yen | 30,500 | 0.04 | - | - |
| Datuk Adillah Binti Ahmad Nordin | - | - | - | - |
| Tan Chin Hwee | - | - | - | - |

Notes:

- (1) Deemed interest pursuant to Section 8 of the Companies Act 2016 ("the Act") by virtue of shares held through Intisari Delima Sdn. Bhd. ("IDSB") and his sons, Sai Han Siong's shares held in ORNA and shares held through Pilihan Sistemik Sdn. Bhd. ("PSSB"), and Sai Swee Seong's indirect shareholding held through Uptrend Performer Sdn. Bhd. ("UPSB") and disclosure made pursuant to Section 59(11)(c) of the Act on shares held through his son, Sai Swee Seong.
- (2) Deemed interest pursuant to Section 8 of the Act by virtue of shares held through IDSB.
- (3) Deemed interest pursuant to Section 8 of the Act by virtue of shares held through PSSB, IDSB and his father, Sai Ah Sai's shares held in ORNA and disclosure made pursuant to Section 59(11)(c) of the Act on shares held through his spouse, Chua Mei Yin.

Analysis of Shareholdings

As at 20 March 2023

THIRTY (30) LARGEST SECURITIES ACCOUNT HOLDERS

| No. | Shareholders | No. of shares | % |
|-----|--|---------------|-------|
| 1 | Maybank Nominees (Tempatan) Sdn. Bhd. <i>Pledged Securities Account for Intisari Delima Sdn. Bhd. (554062354767)</i> | 37,885,219 | 51.09 |
| 2 | Cemerlang Muhibbah Sdn. Bhd. | 1,110,500 | 1.50 |
| 3 | Uptrend Performer Sdn. Bhd. | 1,000,000 | 1.35 |
| 4 | Teu Chee Chai | 836,900 | 1.13 |
| 5 | Maybank Nominees (Tempatan) Sdn. Bhd. <i>Pledged Securities Account for Lim Hock Leong</i> | 812,900 | 1.10 |
| 6 | HLB Nominees (Tempatan) Sdn. Bhd. <i>Pledged Securities Account for Teh Ai Lee</i> | 801,800 | 1.08 |
| 7 | Lim Hong Liang | 745,000 | 1.00 |
| 8 | Chen Fook Wah | 540,000 | 0.73 |
| 9 | Ling Eng Kheat | 470,100 | 0.63 |
| 10 | Maybank Nominees (Tempatan) Sdn. Bhd. <i>Pledged Securities Account for Pilihan SistematiK Sdn. Bhd. (55406235476A)</i> | 459,324 | 0.62 |
| 11 | Chen Foong Szeen | 447,200 | 0.60 |
| 12 | Chong Nyok Moey | 425,000 | 0.57 |
| 13 | Yeo Ser Ken | 410,000 | 0.55 |
| 14 | Wong Lai Han | 399,500 | 0.54 |
| 15 | Chen Fook Wah | 390,500 | 0.53 |
| 16 | Khoo Yew Nean | 361,000 | 0.49 |
| 17 | Lim Hong Liang | 319,200 | 0.43 |
| 18 | Heng Chin Hin | 314,600 | 0.42 |
| 19 | Ong Teck Peow | 312,100 | 0.42 |
| 20 | Seet Wan Cheng | 300,000 | 0.40 |
| 21 | Kenanga Nominees (Tempatan) Sdn. Bhd. <i>Tang Khai Yew (PCS)</i> | 298,200 | 0.40 |
| 22 | Sook Chok Chin | 298,000 | 0.40 |
| 23 | Lim Huey Tien | 292,000 | 0.39 |
| 24 | Maybank Nominees (Tempatan) Sdn. Bhd. <i>Pledged Securities Account for Gan Hai Toh</i> | 265,800 | 0.36 |
| 25 | Lim Ah Lam | 264,000 | 0.36 |
| 26 | Wong Sik Wan | 251,700 | 0.34 |
| 27 | Chen Foong Szeen | 250,900 | 0.34 |
| 28 | Khoo Beng Chuan | 250,000 | 0.34 |
| 29 | Maybank Nominees (Tempatan) Sdn. Bhd. <i>Pledged Securities Account for Goh Chu Leong</i> | 240,500 | 0.32 |
| 30 | Lim Gaik Bway @ Lim Chiew Ah | 230,000 | 0.31 |

Notice of the Twenty-First Annual General Meeting

NOTICE IS HEREBY GIVEN that the Twenty-First Annual General Meeting (“**21st AGM**”) of the Company will be held at the Function Room 2, Level 2, Holiday Inn Melaka, Jalan Syed Abdul Aziz, 75000 Melaka, Malaysia on **Wednesday, 31 May 2023** at 10:30 a.m. for the following purposes:-

AGENDA

- | | | |
|----|--|--|
| 1. | To receive the Audited Financial Statements for the financial year ended 31 December 2022 together with the Reports of the Directors and the Auditors thereon. | (Please refer to Note 12) |
| 2. | To approve the payment of Directors’ fees up to an amount of RM255,000/- from 1 June 2023 until the Twenty-Second AGM of the Company. | (Resolution 1) |
| 3. | To approve the payment of Directors’ benefits payable up to an amount of RM24,000/-, from 1 June 2023 until the Twenty-Second AGM of the Company. | (Resolution 2) |
| 4. | To re-elect Mr. Tan Chin Hwee who is retiring in accordance with Clause 120 of the Company’s Constitution and being eligible, has offered himself for re-election. | (Resolution 3) |
| | Mr. Siow Kee Yen who is retiring in accordance with Clause 120 of the Company’s Constitution, has expressed his intention not to seek for re-election. Hence, he will retain office until the close of the 21 st AGM. | (Please refer to Explanatory Notes (ii)) |
| 5. | To re-appoint Crowe Malaysia PLT as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration. | (Resolution 4) |

As Special Business

To consider and if thought fit, with or without any modification, to pass the following Ordinary Resolutions:-

- | | | |
|----|--|----------------|
| 6. | Ordinary Resolution Authority to Issue Shares pursuant to Sections 75 and 76 of the Companies Act 2016 and Waiver of Pre-Emptive Rights | (Resolution 5) |
|----|--|----------------|

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

AND THAT approval be and is hereby given for the pre-emptive rights of the shareholders of the Company under Section 85 of the Act read together with Clause 14 of the Constitution, over all the new shares to be issued pursuant to and/or arising from the General Mandate ranking equally to the existing issued shares, being in proportion as nearly as the circumstances admit, to the amount of the existing shares held by the shareholders of the Company as at the date of issuance and allotment of such new shares (“**Pre-emptive Rights**”), be irrevocably and unconditionally waived (“**Waiver of Pre-emptive Rights**”).

Notice of the Twenty-First Annual General Meeting

AND THAT the Company be exempted from the obligation to offer such new shares to be issued and allotted pursuant to the General Mandate to the shareholders of the Company in accordance with the Pre-emptive Rights.

AND THAT the Directors and/or the Company Secretary be hereby authorised to take all steps as are necessary and expedient in order to implement, finalise and give full effect to the Waiver of Pre-emptive Rights for and on behalf of the Company.

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.

7. **Ordinary Resolution** (Resolution 6)
Retention of Mr. Tan Chin Hwee as an Independent Non-Executive Director

THAT subject to Resolution 3, approval be and is hereby given to Mr. Tan Chin Hwee, who has served as an Independent Non-Executive Director for a cumulative term of more than nine (9) years, retain as an Independent Non-Executive Director of the Company.

8. **Ordinary Resolution** (Resolution 7)
Proposed New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature ("Proposed New Shareholders' Mandate")

THAT subject to the provisions of the Bursa Securities Main Market Listing Requirements, approval be and is hereby given to the Company and/or its subsidiaries ("**ORNA Group**") to enter into recurrent related party transactions of a revenue or trading nature with the Related Party as specified in Section 1.4 of Part A of the Circular/Statement to Shareholders dated 28 April 2023, which are necessary for the day-to-day operations of ORNA Group to be entered into by ORNA Group provided that such transactions are in the ordinary course of business and are on terms not more favourable to the related parties than those generally available to the public and are not detrimental to the minority shareholders of the Company.

THAT the Proposed New Shareholders' Mandate is subject to annual review. In this respect, any authority conferred by the Proposed New Shareholders' Mandate, shall only continue to be in force until:-

- (i) the conclusion of the next AGM of the Company, at which time it will lapse, unless by a resolution passed at the next AGM, the authority is renewed; or
- (ii) the expiration of the period within which the next AGM of the Company is required to be held pursuant to Section 340(2) of the Act but shall not extend to such extension as may be allowed pursuant to Section 340(4) of the Act; or
- (iii) revoked or varied by resolution passed by the shareholders of the Company in a general meeting,

whichever is the earlier,

Notice of the Twenty-First Annual General Meeting

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 this resolution.

9. **Ordinary Resolution**

(Resolution 8)

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 renewal of the existing shareholders' mandate for ORNA Group to enter into recurrent related party transactions of a revenue or trading nature with the Related Party as specified in Section 1.4 of Part A of the Circular to Shareholders dated 28 April 2023 which are necessary for the day-to-day operations of the ORNA Group, to be entered by the ORNA Group in the ordinary course of business and are on terms which are not more favourable to the parties with which such recurrent transactions to be entered into than those generally available to the public and are not detrimental to the minority shareholders of the Company.

THAT such approval shall continue to be in force until the earlier of:-

- (i) the conclusion of the next AGM of the Company at which time it will lapse unless the authority is renewed by a resolution passed at the next AGM; or
- (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 this resolution.

10. **Ordinary Resolution**

(Resolution 9)

Proposed Renewal of Authority for the Company to Purchase Its Own Shares ("Proposed Renewal of Share Buy-Back Authority")

THAT subject to the Act, the Constitution of the Company, the 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 fit, necessary 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.

Notice of the Twenty-First Annual General Meeting

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

- (i) to cancel all the shares so purchased; and/or
- (ii) to retain the ordinary shares so purchased as treasury shares for distribution as dividend to the shareholders and/or resell on the market of Bursa Securities and/or transfer under an employees' share scheme and/or transfer as purchase consideration; and/or
- (iii) to retain part thereof as treasury shares and cancel the remainder; or
- (iv) 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:-

- (a) the conclusion of the next AGM of the Company following this AGM at which this resolution was passed at which time the said authority shall 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 is required by law to be held; or
- (c) the authority is revoked or varied by ordinary resolution passed by the shareholders in a general meeting, whichever, occurs first, but not so as to prejudice the completion of the purchase(s) by the Company before the aforesaid expiry date and in any event, in accordance with the provisions of the guidelines issued by Bursa Securities and/or any other relevant governmental and/or regulatory authorities (if any).

AND THAT the Directors of the Company be and are hereby 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 Share Buy-Back Authority 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.

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

By Order of the Board

CHUA SIEW CHUAN (MAICSA 0777689) / SSM PC NO.: 201908002648
YAU JYE YEE (MAICSA 7059233) / SSM PC NO.: 202008000733
Company Secretaries

Melaka
Dated: 28 April 2023

Notice of the Twenty-First Annual General Meeting

IMPORTANT NOTICE

1. A member of a Company shall be entitled to appoint another person as his proxy to exercise all or any of his rights to attend, participate, speak and vote at meeting of members of the Company. A member may appoint more than one (1) proxy in relation to a meeting, provided that the member specifies the proportion of the member's shareholdings to be represented by each proxy. A proxy may but need not be a member of the Company.
2. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 ("**SICDA**"), it may appoint not more than two (2) proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
3. Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) 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. An exempt authorised nominee refers to an authorised nominee defined under SICDA which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.
4. Where a member or the authorised nominee appoints more than two (2) proxies, or where an exempt authorised nominee appoints more than one (1) proxy in respect of each omnibus account to attend and vote at the same meeting, the appointments shall be invalid unless the proportion of shareholdings to be represented by each proxy is specified in the instrument appointing the proxies.
5. The instrument appointing a proxy shall be in writing and signed by the appointor or by his attorney who is authorised in writing. In the case of a corporation, the instrument appointing proxy(ies) must be made either under its common seal or signed by an officer or an attorney duly authorised.
6. The Form of Proxy duly completed must be deposited at the Company's Share Registrar at Aldpro Corporate Services Sdn. Bhd., B-21-1, Level 21, Tower B, Northpoint Mid Valley City, No. 1, Medan Syed Putra Utara, 59200 Kuala Lumpur, Wilayah Persekutuan, Malaysia not less than forty-eight (48) hours before the time appointed for holding the 21st AGM or adjourned general meeting at which the person named in the appointment proposes to vote.
7. Please ensure ALL the particulars as required in the Form of Proxy are completed, signed and dated accordingly.
8. Last date and time for lodging the Form of Proxy is **Monday, 29 May 2023 at 10:30 a.m.**
9. Any authority pursuant to which such an appointment is made by a power of attorney must be deposited with the Company's Share Registrar at Aldpro Corporate Services Sdn. Bhd., B-21-1, Level 21, Tower B, Northpoint Mid Valley City, No. 1, Medan Syed Putra Utara, 59200 Kuala Lumpur, Wilayah Persekutuan, Malaysia not less than forty-eight (48) hours before the time appointed for holding the 21st AGM or adjourned general meeting at which the person named in the appointment proposes to vote. A copy of the power of attorney may be accepted provided that it is certified notarially and/or in accordance with the applicable legal requirements in the relevant jurisdiction in which it is executed.
10. For a corporate member who has appointed an authorised representative, please deposit the **ORIGINAL/DULY CERTIFIED** certificate of appointment of authorised representative with the Company's Share Registrar at Aldpro Corporate Services Sdn. Bhd., B-21-1, Level 21, Tower B, Northpoint Mid Valley City, No. 1, Medan Syed Putra Utara, 59200 Kuala Lumpur, Wilayah Persekutuan, Malaysia. The certificate of appointment of authorised representative should be executed in the following manner:
 - (i) If the corporate member has a common seal, the certificate of appointment should be executed under seal in accordance with the constitution of the corporate member.

Notice of the Twenty-First Annual General Meeting

- (ii) If the corporate member does not have a common seal, the certificate of appointment should be affixed with the rubber stamp of the corporate member (if any) and executed by:
- (a) at least two (2) authorised officers, of whom one shall be a director; or
 - (b) any director and/or authorised officers in accordance with the laws of the country under which the corporate member is incorporated.
11. For the purpose of determining who shall be entitled to participate in this AGM, the Company shall be requesting Bursa Malaysia Depository Sdn. Bhd. to make available to the Company, the **Record of Depositors as at 23 May 2023**. Only a member whose name appears on this Record of Depositors shall be entitled to participate in this 21st AGM or appoint proxies to attend and vote in his stead.
12. **Publication of Notice of 21st AGM and Form of Proxy on Corporate Website**
- Pursuant to Section 320(2) of the Act, a copy of this Notice together with the Proxy Form are available at the corporate website of Ornapaper Berhad at <https://ornapaper.com/annual-general-meeting/>.
13. **Audited Financial Statements for the financial year ended 31 December 2022**
- 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:-

(i) Payment of Directors' Fees and Benefits Payable

Section 230(1) of the Act provides amongst others, that "the fees" of the directors and "any benefits" payable to the directors of a listed company and its subsidiaries shall be approved at a general meeting.

The proposed Resolution 1, if approved, will authorise the payment of Directors' fees to the Non-Executive Directors ("**NEDs**") by the Company for the period from 1 June 2023 to the Twenty-Second AGM of the Company and to be payable on a monthly basis in arrears after each month of completed service of the Directors. This resolution is to facilitate payment of Directors' fees on current financial year basis.

The proposed Resolution 2, if approved, will authorise the payment of Directors' benefits to the Directors by the Company. The proposed Directors' benefits payable is for the period from 1 June 2023 to the Twenty-Second AGM of the Company and the estimated amount is derived from the estimated meeting allowance based on the number of scheduled meetings. The Directors' benefits comprised of meeting allowance only.

(ii) **Re-election of Director who is retiring in accordance with Clause 120 of the Company's Constitution**

Pursuant to Clause 120 of the Company's Constitution, both Mr. Tan Chin Hwee and Mr. Siow Kee Yen are to retire at the forthcoming 21st AGM of the Company. Mr. Tan Chin Hwee being eligible, has offered himself for re-election at the 21st AGM while Mr. Siow Kee Yen has expressed his intention not to seek re-election. Therefore, Mr. Siow Kee Yen shall retire upon the conclusion of the 21st AGM of the Company.

The Board of Directors has through the Nomination Committee carried out the necessary assessment of Mr. Tan Chin Hwee and concluded that he met the criteria as prescribed under Paragraph 2.20A of the Main Market Listing Requirements on character, experience, integrity, competence and time commitment to effectively discharge his roles as Director.

Notice of the Twenty-First Annual General Meeting

The profile of the Director standing for re-election are provided on page 3 of this 2022 Annual Report.

(iii) **Authority to Issue Shares pursuant to Sections 75 and 76 of the Companies Act 2016 and Waiver of Pre-Emptive Rights**

The proposed Resolution 5 is intended to renew the authority granted to the Directors of the Company at the Twentieth AGM of the Company held on 10 June 2022 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 ("**General Mandate**").

The General Mandate granted by the shareholders at the 20th 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 the allotment of shares for any possible fundraising 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.

Subsection 85(1) of the Act states that "Subject to the Constitution, where a company issue shares which rank equally to existing shares as to voting or distribution rights, those shares shall first be offered to the holders of existing shares in a manner which would, if the offer were accepted, maintain the relative voting and distribution rights of those shareholders".

It is also provided under Clause 14 of the Constitution of the Company that subject to any direction to the contrary that may be given by the Company in general meeting and subject always to the Constitution and the Act, all new shares or other securities shall, before issue, be offered to Members who at the date of the offer are entitled to receive notices from the Company of general meetings in proportion as nearly as the circumstances admit, to the amount of the existing shares or securities to which they are entitled.

Accordingly, the Company wishes to seek approval from the shareholders of the Company to waive their pre-emptive rights under Section 85 of the Act read together with Clause 14 of the Constitution insofar as the exercise by the Company of the General Mandate to issue and allot new shares is concerned, for the Company to issue new shares to any person, whether is a member or not, in such numbers or proportions as the Directors may determine under the General Mandate. As such, by approving Ordinary Resolution 5, the shareholders have and shall be deemed to have irrevocably and unconditionally waived their Pre-Emptive Rights.

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

Mr. Tan Chin Hwee was appointed as an Independent Non-Executive Director of the Company on 22 January 2014 and has served on the Board of Directors ("**the Board**") for a cumulative term of more than nine (9) years. In accordance with the Malaysian Code on Corporate Governance, the Board, after having assessed the independence of Mr. Tan Chin Hwee, regarded him to be independent based amongst others, the following justifications and recommends that Mr. Tan Chin Hwee be retained as Independent Non-Executive Director of the Company:

- a. He has met the independence guidelines as set out in Chapter 1 of Bursa Securities Main Market Listing Requirements;
- b. He does not have any conflict of interest with the Company and has not been entering/is 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 Mr. Tan Chin Hwee is an important Independent Non-Executive Director of the Board in view of his many years on the Board with incumbent knowledge of the Company and the Group's activities and corporate history and has provided invaluable contributions to the Board in his role as Independent Non-Executive Director.

Notice of the Twenty-First Annual General Meeting

(v) Proposed New Shareholders' Mandate and Proposed Renewal of Shareholders' Mandate for Existing Recurrent Related Party Transactions of a Revenue or Trading Nature

The proposed Resolutions 7 and 8, if approved, will enable the Company and/or its subsidiaries 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 favourable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company.

Please refer to the Circular/Statement to Shareholders dated 28 April 2023 for detailed information.

(vi) Proposed Renewal of Share Buy-Back Authority

The proposed Resolution 9, if passed, will renew the authority given to the Company to purchase its own shares of up to ten per centum (10%) of the total number of issued shares of the Company at any time within the time period stipulated in the Main Market Listing Requirements of Bursa Securities. This authority will, unless revoked or varied at a general meeting, expire at the conclusion of the next AGM of the Company.

For further information on the Proposed Renewal of Share Buy-Back Authority, please refer to the Circular/Statement to Shareholders dated 28 April 2023.

Personal Data Privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, participate, speak and vote at the 21st AGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

CDS ACCOUNT NO.

NUMBER OF SHARES HELD

FORM OF PROXY

*I/We (full name), _____
bearing *NRIC No./Passport No./ Company No. _____
of (full address) _____

being a *member/members of ORNAPAPER BERHAD (the "**Company**") hereby appoint:-

First Proxy "A"

| FULL NAME (IN BLOCK) | NRIC/PASSPORT NO. | PROPORTION OF SHAREHOLDINGS | |
|----------------------|-------------------|-----------------------------|---|
| | | NO. OF SHARES | % |
| FULL ADDRESS | | | |

and/or failing *him/her,

Second proxy "B"

| FULL NAME (IN BLOCK) | NRIC/PASSPORT NO. | PROPORTION OF SHAREHOLDINGS | |
|----------------------|-------------------|-----------------------------|---|
| | | NO. OF SHARES | % |
| FULL ADDRESS | | | |

#to put on a separate sheet where there are more than two (2) proxies.

100%

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 Twenty-First Annual General Meeting ("**21st AGM**") of the Company to be held at the Function Room 2, Level 2, Holiday Inn Melaka, Jalan Syed Abdul Aziz, 75000 Melaka, Malaysia on **Wednesday, 31 May 2023** at 10:30 a.m. and at any adjournment thereof.

Please indicate with an "X" in the spaces provided below how you wish your votes to be cast. If no specific direction as to voting is given, the proxy will vote or abstain from voting at *his/her discretion.

| Resolution | Agenda | For | Against |
|------------|---|-----|---------|
| 1. | To approve the payment of Directors' fees up to an amount of RM255,000/- from 1 June 2023 until the Twenty-Second AGM of the Company. | | |
| 2. | To approve the payment of Directors' benefits payable up to an amount of RM24,000/-, from 1 June 2023 until the Twenty-Second AGM of the Company. | | |
| 3. | To re-elect Mr. Tan Chin Hwee in accordance with Clause 120 of the Company's Constitution. | | |
| 4. | To re-appoint Crowe Malaysia PLT as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration. | | |
| 5. | Authority to Issue Shares pursuant to Sections 75 and 76 of the Companies Act 2016 and Waiver of Pre-Emptive Rights. | | |
| 6. | Retention of Mr. Tan Chin Hwee as an Independent Non-Executive Director of the Company. | | |
| 7. | Proposed New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature. | | |
| 8. | Proposed Renewal of Shareholders' Mandate for Existing Recurrent Related Party Transactions of a Revenue or Trading Nature. | | |
| 9. | Proposed Renewal of Authority for the Company to Purchase Its Own Shares. | | |

As witness my/our hand(s) this day _____ of _____, 2023.

Contact Number: _____

*Signature(s)/Common Seal of Member

* Strike out whichever is not applicable.

IMPORTANT NOTICE

1. A member of a Company shall be entitled to appoint another person as his proxy to exercise all or any of his rights to attend, participate, speak and vote at meeting of members of the Company. A member may appoint more than one (1) proxy in relation to a meeting, provided that the member specifies the proportion of the member's shareholdings to be represented by each proxy. A proxy may but need not be a member of the Company.
2. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act, 1991 ("**SICDA**"), it may appoint not more than two (2) proxies in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
3. Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) 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. An exempt authorised nominee refers to an authorised nominee defined under SICDA which is exempted from compliance with the provisions of subsection 25A(1) of SICDA.
4. Where a member or the authorised nominee appoints more than two (2) proxies, or where an exempt authorised nominee appoints more than one (1) proxy in respect of each omnibus account to attend and vote at the same meeting, the appointments shall be invalid unless the proportion of shareholdings to be represented by each proxy is specified in the instrument appointing the proxies.
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 - (ii) If the corporate member does not have a common seal, the certificate of appointment should be affixed with the rubber stamp of the corporate member (if any) and executed by:
 - (a) at least two (2) authorised officers, of whom one shall be a director; or
 - (b) any director and/or authorised officers in accordance with the laws of the country under which the corporate member is incorporated.
11. For the purpose of determining who shall be entitled to participate in this AGM, the Company shall be requesting Bursa Malaysia Depository Sdn. Bhd. to make available to the Company, the **Record of Depositors as at 23 May 2023**. Only a member whose name appears on this Record of Depositors shall be entitled to participate in this 21st AGM or appoint proxies to attend and vote in his stead.

Personal Data Privacy:

By submitting an instrument appointing a proxy(ies) and /or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 28 April 2023.

fold here

Affix
Stamp
Here

The Company's Share Registrar
ORNAPAPER BERHAD [200201006032 (573695-W)]
Aldpro Corporate Services Sdn. Bhd.
202101043817 (1444117-M)
B-21-1, Level 21, Tower B, Northpoint Mid Valley City,
No. 1, Medan Syed Putra Utara,
59200 Kuala Lumpur, Wilayah Persekutuan.

fold here

Ornapaper BERHAD 200201006032 (573695-W)

No. 8998, Kawasan Perindustrian
Batu Berendam Peringkat IV,
75350 Melaka, Malaysia.

Tel: 06-3355 888 Fax: 06-3355 999

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