Ornapaper

ANNUAL REPORT **2019**

Contents

Corporate Information

BOARD OF DIRECTORS	: Mr. Ang Kwee Teng (Executive Chairman) 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	Tricor Investor & Issuing House Services Sdn Bhd Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Wilayah Persekutuan, Malaysia. Tel: 603-2783 9299 Fax: 603-2783 9222 Email: is.enquiry@my.tricorglobal.com
AUDITORS	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	: 71
Nationality	: Malaysian
Gender	: Male
Designation/ Position in the Company	: Executive Director
Date of appointment	: 26 January 2010
Qualification	: Bachelor of Commerce Degree from Nanyang University Singapore
Work experience	: Managing in various industries
Directorship in other Public Companies & listed issuers	: None
Securities holding in the Company and its subsidiaries	: Direct – Nil
	: Indirect – 23,153,198 shares
Family relationship with any directors and/ or major shareholders of the Company	: Uncle of Sai Han Siong and brother of Sai Ah Sai
Conflict of interest with the Company	: None
List of conviction for offences within the past 5 years	: None

Mr Ang Kwee Teng

Age	: 70
Nationality	: Malaysian
Gender	: Male
Designation / Position in the Company	: Executive Chairman
Date of appointment	: 2 December 2002
Qualification	: -
Work experience	: Director of Ornapaper Industry (M) Sdn Bhd (since 1995)
Directorship in other Public Companies & listed issuers	: None
Securities holding in the Company and its subsidiaries	: Direct - 10,000 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

Profile of Directors

Mr Tan Chin Hwee

Age	: 54
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 Secretary Sdn Bhd (2015 - present)
Directorship in other Public Companies & listed issuers	: None
Securities holding in the Company and its subsidiaries	: Nil
Family relationship with any directors and / or major shareholders of the Company	: None
Conflict of interest with the Company	: None
List of conviction for offences within the past 5 years	: None

Mr Siow Kee Yen

Age	: 49
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)
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

Profile of Directors

Datuk Adillah binti Ahmad Nordin

Age	: 51
Nationality	: Malaysian
Gender	: Female
Designation/ Position in the Company	: Independent Non-Executive Director; Chairperson of Remuneration Committee; Member of Audit Committee, Remuneration Committee and Board Risk Management Committee
Date of appointment	: 2 December 2002
Qualification	: LL.B (Honours)
Work experience	: English Bar & Malaysian Bar (1993 &1994); Advocate & Solicitor with Adillah A. Nordin (present)
Directorship in other Public Companies & listed issuers	: None
Securities holding in the Company and its subsidiaries	: Direct - 34,000 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

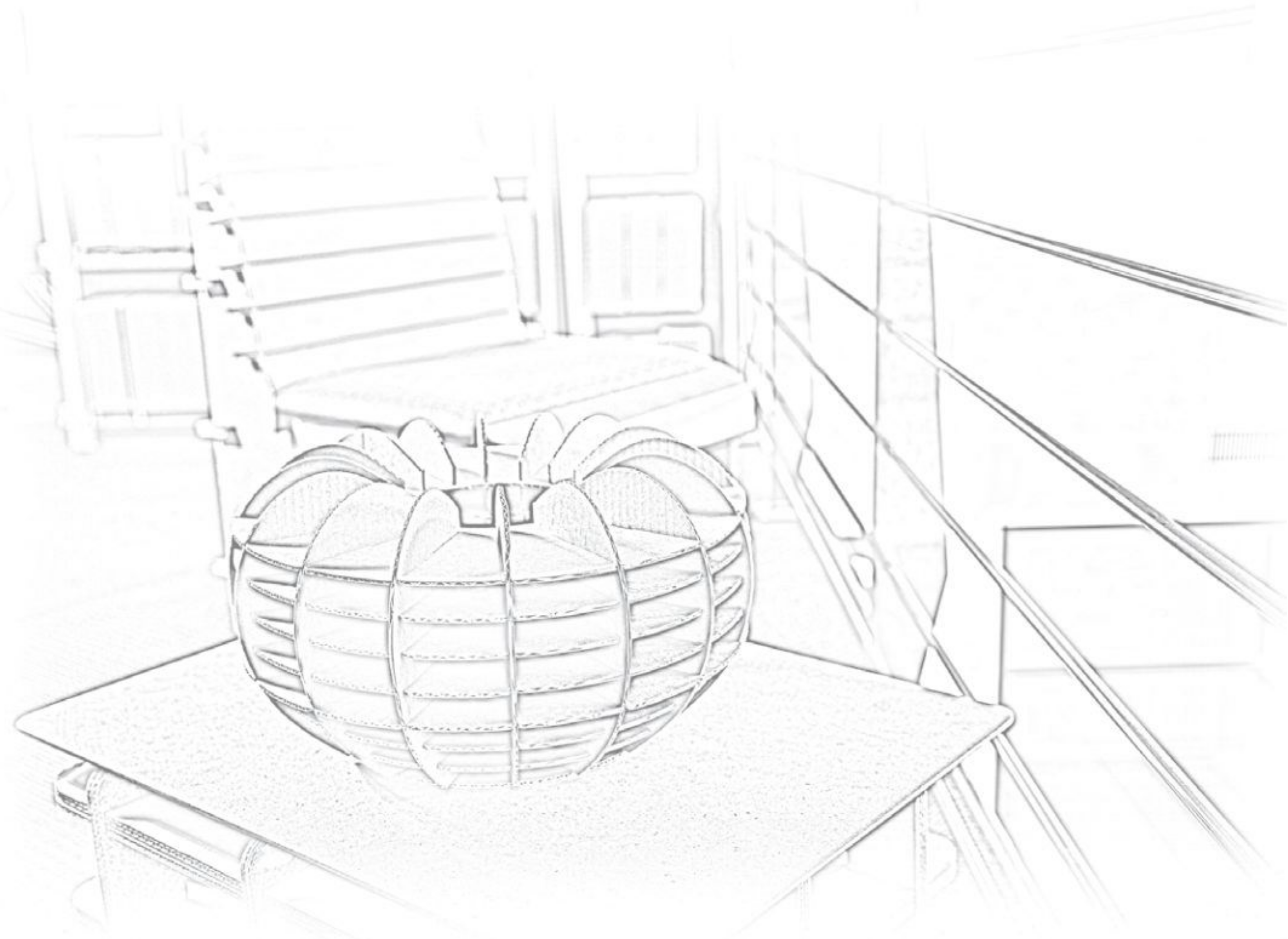
Mr Sai Han Siong

Age	: 50
Nationality	: Malaysian
Gender	: Male
Designation / Position in the Company	: Chief Executive Director
Date of appointment	: 27 May 2016
Qualification	: Singapore-Cambridge Certificate - GCE 0 Level Federal Institute of Technology - Civil Engineering Diploma; City and Guilds of London Institute - Certificate in Concrete practice
Work experience	: Supervisor in Sungai Way Construction Sdn Bhd (1995); Manager in Mega Quarry Products Sdn Bhd (1996-1999); Director of Mega Quarry Products Sdn Bhd (2000-present)
Directorship in other Public Companies & listed issuers	: None
Securities holding in the Company and its subsidiaries	: Direct – 15,000 shares : Indirect – 23,276,198 shares
Family relationship with any directors and / or major shareholders of the Company	: Nephew of Sai Chin Hock and son of Sai Ah Sai
Conflict of interest with the Company	: None
List of conviction for offences within the past 5 years	: None

Profile of Directors

Mr Sai Ah Sai

Age	: 83
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 – 24,340,698 shares
Family relationship with any directors and / or major shareholders of the Company	: Brother of Sai Chin Hock and father of Sai Han Siong
Conflict of interest with the Company	: None
List of conviction for offences within the past 5 years	: None



Profile of Key Management

Name	: Lim Joo Song
Age	: 49
Nationality	: Malaysian
Gender	: Male
Designation /Position in the Company	: General Manager
Date of appointment	: 31 Mar 2010
Qualification	: Degree Holder of Political Science In National Taiwan University
Working experience	: Sales Executive - Ornapaper Industry (Batu Pahat) Sdn Bhd (1998 - 2001) Sales Manager - Ornapaper Industry (Batu Pahat) Sdn Bhd (2001 - 2005) General Manager - Ornapaper Industry (Batu Pahat) Sdn Bhd (2005 - 2009) General Manager - Ornapaper Industry (M) Sdn Bhd (2010 - present)
Directorship in other Public Companies & listed issuers	: Nil
Family relationship with any directors and / or major shareholders of the Company	: Nil
Conflict of interest with the Company	: Nil
List of conviction for offences within the past 5 years	: Nil

Name	: Bung Choon Kong
Age	: 60
Nationality	: Malaysian
Gender	: Male
Designation /Position in the Company	: Senior Regional Manager
Date of appointment	: 1 Aug 2009
Qualification	: MCE
Working experience	: Sales Supervisor - Eng Shuen Paper Industrial Co. (M) Sdn Bhd (1991 - 1992) Sales Executive - Eng Shuen Paper Industrial Co. (M) Sdn Bhd (1992 - 1994) Sales Manager - Eng Shuen Paper Industrial Co. (M) Sdn Bhd (1994 - 1998) Sales Manager - Ornapaper Industry (Perak) Sdn Bhd (1998 - 2007) Regional Manager - Ornapaper Industry (Perak) Sdn Bhd (2007 - 2009) Senior Regional Manager - Ornapaper Industry (Perak) Sdn Bhd (1 Aug 2009 - present)
Directorship in other Public Companies & listed issuers	: Nil
Family relationship with any directors and / or major shareholders of the Company	: Nil
Conflict of interest with the Company	: Nil
List of conviction for offences within the past 5 years	: Nil

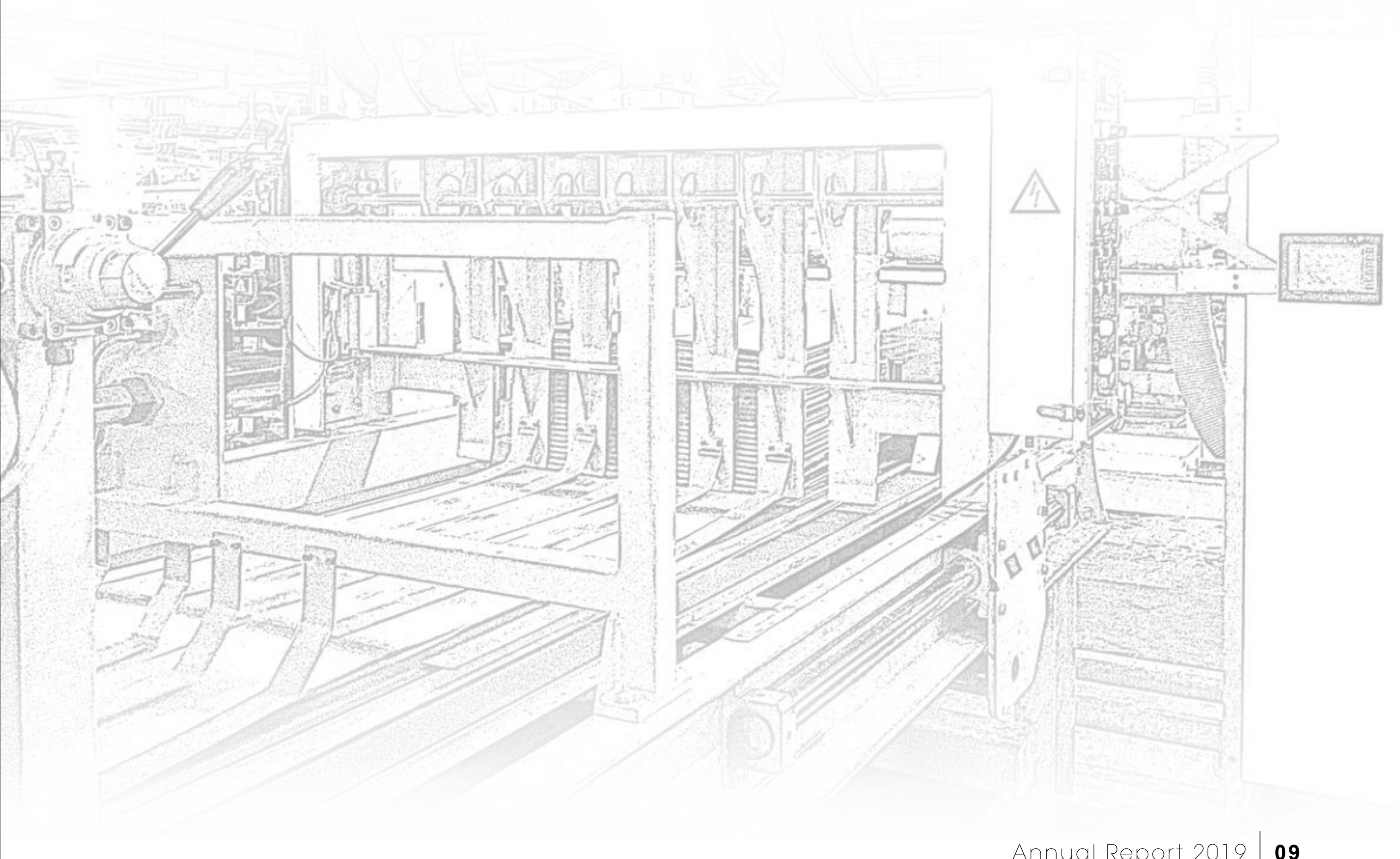
Profile of Key Management

Name	: Foo Chee Juin
Age	: 65
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 - Pl 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	: 47
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	: 53
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 its 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 90's 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 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 since August 2017 in order to fulfil internal transportation needs of the Group. Hence, the revenue contribution of the logistics company to the Group's revenue in 2019 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 6% of the Group's total revenue consistently for the past few years from both local (approximately 81% of Quantum Rhythm Sdn. Bhd.'s sales) and export (approximately 19% of Quantum Rhythm Sdn. Bhd.'s sales) markets. Whereas, the rest of the subsidiaries contributed to more than 90% of the Group's revenue are principally engaged in the design, manufacturing and sales of corrugated boards and carton boxes, serving the packaging needs of various industries in Malaysia, namely, electronics and electrical ("E&E"), foods and beverages ("F&B"), furniture, textile and garments, rubber and plastic, hardware and steel, chemical products, sports and agriculture industry as well as other stand-alone converters who do not own a corrugator plant.

A wide range of selection of corrugated box types are produced by the Company, such as, regular slotted cartons ("RSC"), top and bottom ("T&B"), five panel folder ("FPF"), half slotted carton ("HSC"), full overlap slotted carton ("FOL"), L shape, H shape, corrugated pads, and die-cut products. The Group also supplies measuring cardboard boxes and corrugated flutes comprising single face, single wall, double wall and triple wall corrugated fibreboard.

The Group is one of the top five (5) leaders in the corrugated boards and carton boxes manufacturing industry in Malaysia supplying corrugated boards and packaging products of superior quality through strict adherence to quality and environmental standards in compliance with ISO 9001:2015 and ISO 14001:2015 accreditations. The Quality Assurance laboratories of the Group are equipped with various precision test equipment and apparatus in facilitating the Quality Assurance team to ensure the quality standards are met at all stages of production for delivery to customers. The Group is working aggressively in exploiting all potential synergies to improve and maintain high product quality and service efficiency. Constant improvement to machinery and production technology has enhanced the Group's competitive edge over others in the industry.

Management Discussion and Analysis

The Group aims to be a leading provider of packaging and related solutions serving the packaging needs of the modern manufacturing sector, through improving and strengthening of the Group's operational core competency. Most of the Group's products are manufactured in accordance with customers' specifications and requirements. With the vision "To be the best business partner for its 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 local 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 and lifting the packaging standards within the industry in Malaysia. Its existing facilities throughout Malaysia enable the Group to produce approximately 115,060 metric tonnes of corrugated boards and cartons per annum. The Group also intended to co-exist with the society as a guardian of our environment in promoting the recycling program and practicing proper waste control management, which boost the long-term sustainability of the Group's businesses and operations. As the operating environment of the industry become increasingly complex, the Group is progressing towards leveraging on teamwork to attain astonishing results over the long term. Nonetheless, integrity, transparency, objectivity and accountability are essential to organisation's work culture in order to enhance the efficient and effective teamwork and communication amongst employees in driving the Group to grow beyond.

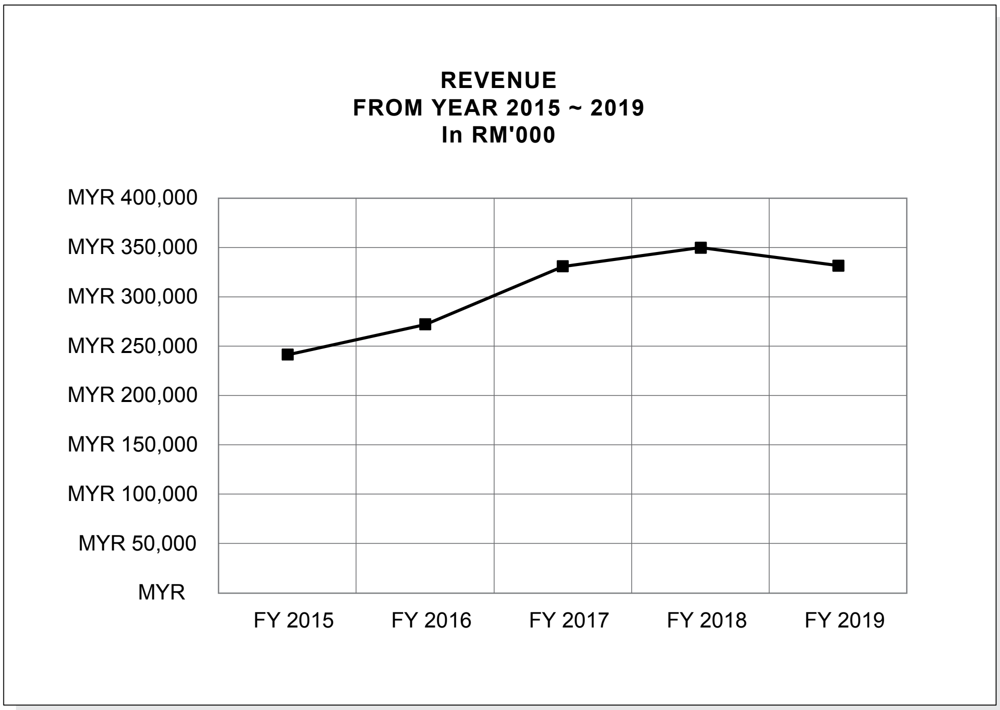
FINANCIAL REVIEW OPERATION REVIEW

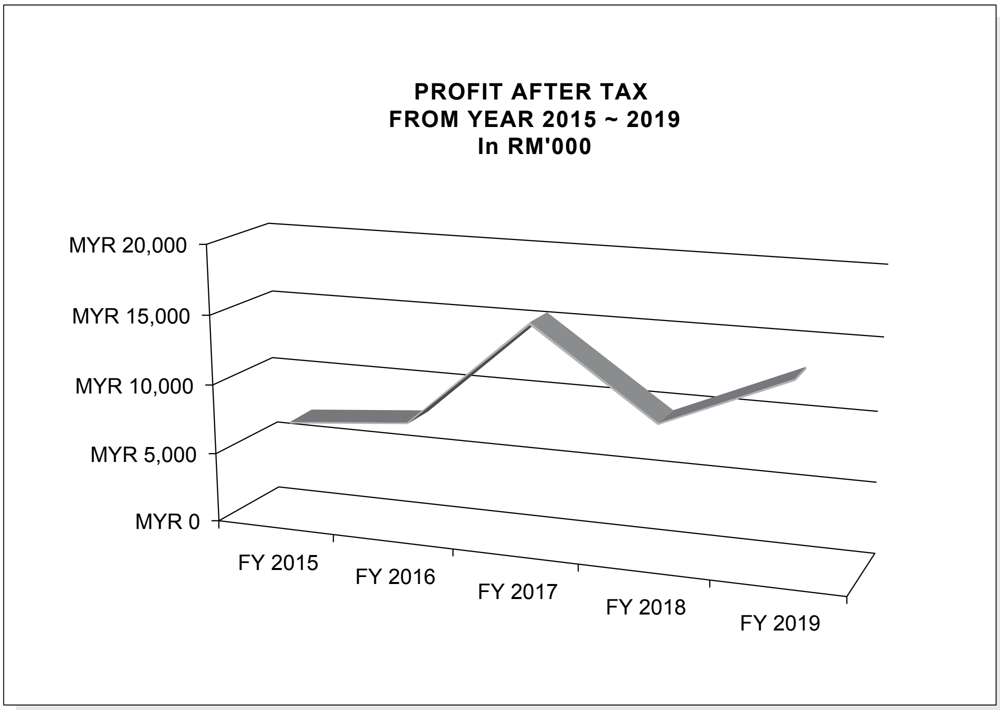
Financial Year Ended 31 December 2019 ("2019") compared with Financial Year Ended 31 December 2018 ("2018")

In RM'000 (unless otherwise stated)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
REVENUE	241,287	272,052	330,699	349,853	331,580
GROSS PROFIT	43,048	47,930	60,636	41,986	48,884
PROFIT AFTER TAX *	7,040	7,770	15,536	9,429	13,210
NET ASSET	138,215	143,773	157,642	165,501	176,988
NET ASSET PER SHARE (RM) **	1.86	1.94	2.13	2.23	2.39
EPS BASIC (SEN)	9.50	10.50	21.00	12.70	17.80
DIVIDEND PER SHARE (SEN)	2.5	3.0	2.5	2.5	3.0

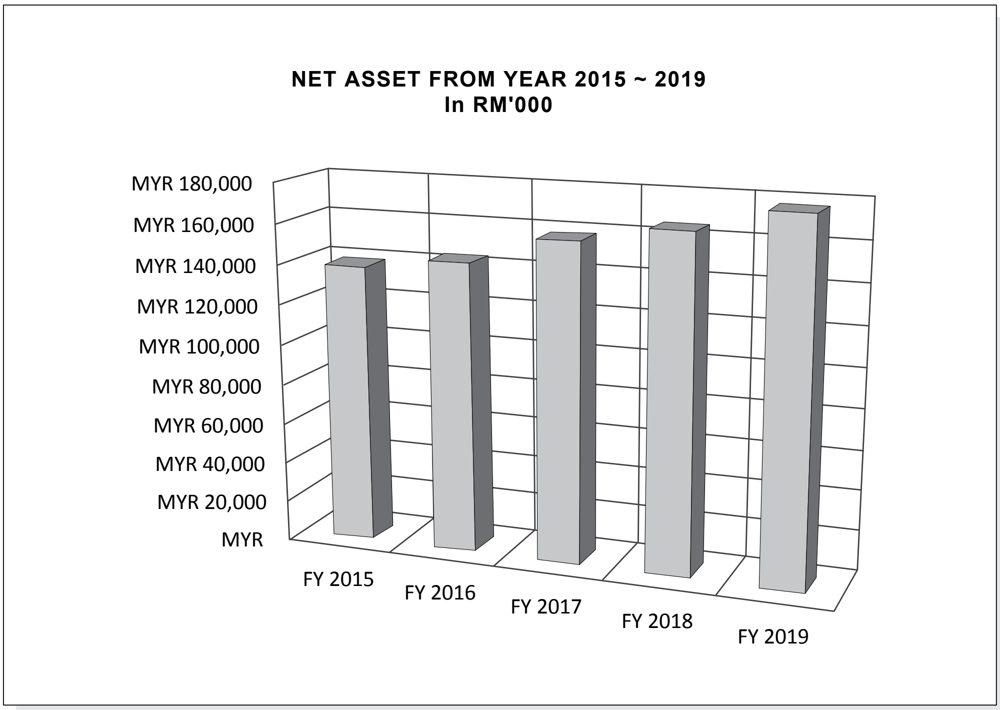
** Attributable to Owners of Parent.*
*** Exclude Treasury Shares.*

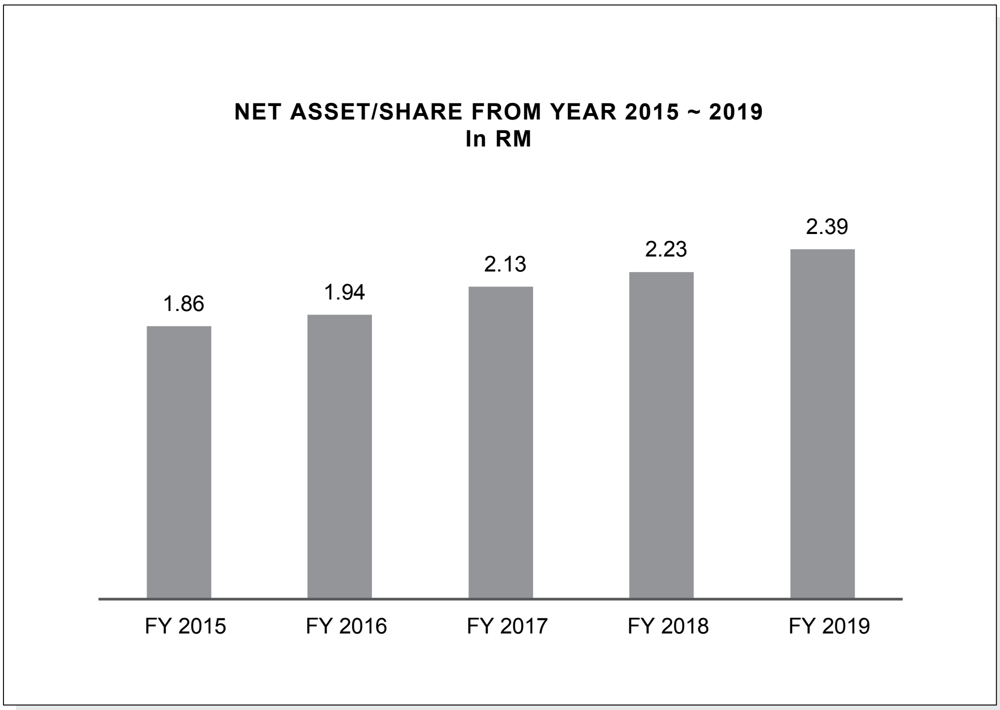
Management Discussion and Analysis



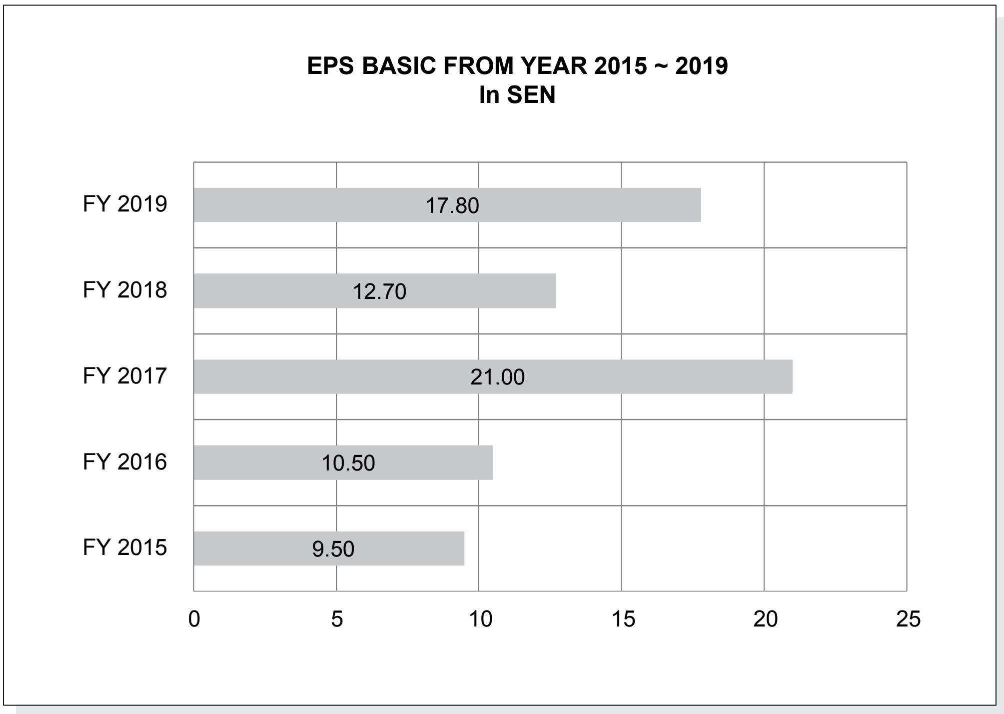


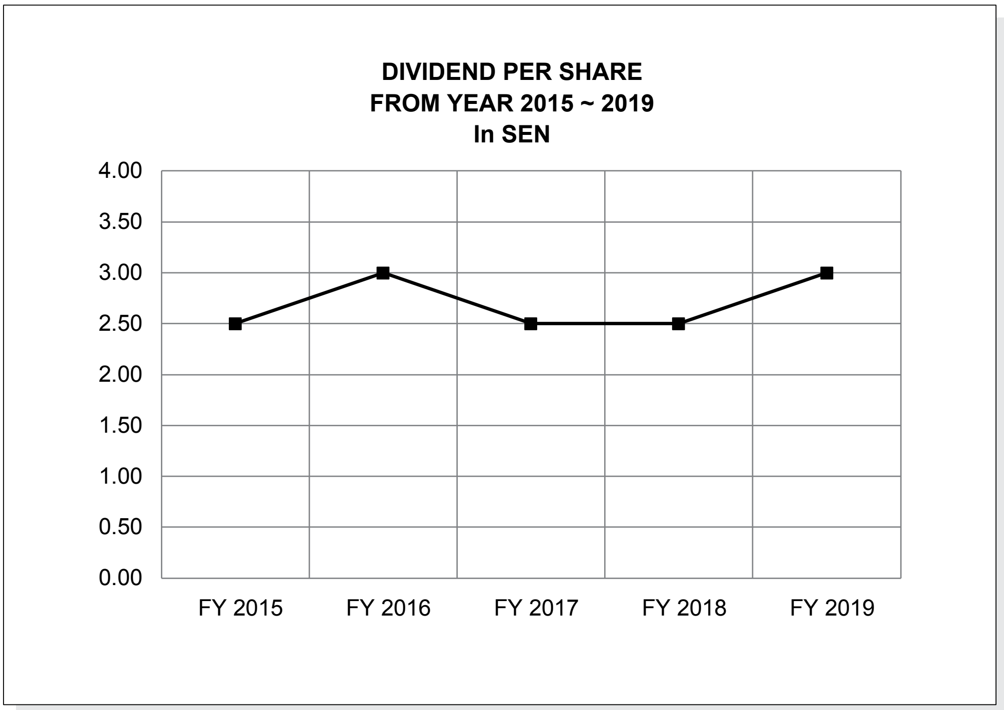
Management Discussion and Analysis





Management Discussion and Analysis





Management Discussion and Analysis

Revenue, Cost of Goods Sold and Gross Profit Margin

In an environment of rapidly challenging customer requirements and challenging market sentiment due to on-going trade spat between two major economic powerhouses in 2019, our Group's revenue decreased by approximately RM 18.273 million or 5% from 2018 to 2019, at revenue of RM 331,580 million for 2019 as compared to the preceding year's revenue of RM349,853 million. Albeit the slight drop which was primarily contributed by paper packaging division of the Group, the paper packaging division continued to form the mainstay of the Group's business, demonstrated by its sales contribution of more than 90% of the Group's total revenue in 2019. Consistent to 2018, F&B industry, E&E industry and furniture industry remained as the top three (3) sectors the Group was serving, accounted for 51% of the Group's sales in 2019.

The slight decrease in revenue for the year was mainly driven by the decrease in average selling price of both paper packaging product and paper based stationery product (while the sales volume remained relatively stable in 2019) by approximately 5% from 2018 to 2019, in tandem with the decrease in average purchase price of paper roll (per metric tonne ("MT")) from 2018 to 2019. Paper roll is the highest cost component of both the paper packaging and paper based stationery products. This is demonstrated by the decline in our Group's cost of goods sold by approximately RM 25.171 million or 8% from RM 307.867 million for 2018 to RM 282.696 million for 2019.

Despite the weak business climate, consistent sales volume of both corrugated boards and carton boxes were secured from existing customers from varied customer bases. On overall, the gross profit margin of the Group improved from 12% in 2018 to 15% in 2019, primarily due to the positive impact consequent to the greater reduction in costs of sales as compared to reduction in revenue generated by the Group from 2018 to 2019, as a result of leveraging on the arbitrage between the reduction in average purchase price of raw materials, i.e. paper rolls over the reduction in average selling price as explained above.

Costs and Expenses

(a) Administrative expenses increased slightly by approximately RM 0.188 million or 1%, from RM 15.076 million for 2018 to RM 15.264 million for 2019. The insignificant increase in administrative expenses was mainly due to the higher payroll related expenses incurred in 2019 in tandem with the expansion of our workforce from 962 employees in 2018 to 1,010 employees in 2019.

(b) Selling and marketing expenses increased by approximately RM 0.452 million or 9%, from RM 4.918 million for 2018 to RM 5.370 million for 2019, mainly due to more sales related expenses incurred to reduce the impact of weak market sentiment on sales.

(c) Other expenses increased from RM 6.784 million for 2018 to RM 7.248 million for 2019, representing an increase of approximately RM 0.464 million or 7%. The increase was mainly attributable to higher fixed assets written off in 2019 amounted to approximately RM 0.279 million as compared to the previous year of approximately RM 0.002 million.

Other Income

Other income decreased from RM 1.446 million for 2018 to RM 1.225 million for 2019 by approximately RM 0.221 million or 15%, mainly due to lower net realised foreign exchange gain in 2019 amounted to approximately RM 0.105 million compared to the previous year amounted to approximately RM 0.519 million.

Management Discussion and Analysis

Profit Attributable to Owners of the Company

Despite the challenging global economic conditions arising from the on-going trade war between United States ("US") and China, accompanied with the continual intense competition and pricing pressure from competitors within the same industry, the Group managed to deliver a better profitability in 2019, whereby profit attributable to owners of the Company increased by approximately RM 3.781 million or 40% from RM 9.429 million for 2018 to RM 13.210 million for 2019. This improvement was principally driven by lower cost of goods sold with higher gross profit margin attained compared to preceding year, as a result of lower costs of raw materials including paper rolls incurred by the Group during the year while the sales volume remained relatively stable.

Property, Plant and Equipment

Property, plant and equipment of the Group recorded a decrease of approximately RM 7.066 million or 7% from RM 96.848 million in 2018 to RM 89.782 million in 2019. The decrease was primarily due to accounting reclassification of assets under hire purchase to right-of-use assets amounted to approximately RM 12.371 million in 2019 following the application of MFRS16 *Leases* by the Group. However, such decrease was mitigated by investment in additional machineries and other production equipment in 2019.

Right-Of-Use Assets

Following the introduction and application of MFRS 16 *Leases* in 2019, the right-of-use assets is required to be separately disclosed in the financial statements of the Group. The right-of-use assets of the Group was recorded at RM 22.159 million in 2019, which consists of three (3) categories of assets further explained as below: -

(i) Land use rights for leasehold lands which was reclassified from the *Land Use Rights* in 2018;
(ii) Assets under hire purchase which was reclassified from the *Property, Plant and Equipment* in 2018; and
(iii) Rental of warehouse and hostel which was newly recognised and taken up in 2019 as a result of the recognition and disclosure requirement of MRFS 16 *Leases*.

Inventories

Inventories of the Group recorded an increase of approximately RM 6.796 million or 14% from RM 47.397 million in 2018 to RM 54.193 million in 2019, mainly contributed by the higher volume of paper rolls purchased in 2019 as a result of lower average purchase price of raw materials (especially paper roll which is the highest cost component in producing the paper packaging and paper based stationery products).

Nonetheless, the management has taken the initiative to stringent the procurement planning and inventory management process of the Group from time to time. Continuous strict monitoring of raw materials, i.e. paper rolls, is performed by the Management in order to be able to respond proactively for any adverse change of paper roll price, demand and supply in the global market.

Notwithstanding the revenue of the Group has slightly decreased from 2018 to 2019 as a result of lower average selling price offered to customers following the lower average purchase price of raw materials acquired during the year, the sales volume secured by the Group is relatively stable compared to the preceding year. Therefore, the inventory turnover days (average inventories divided by total costs of goods sold for the year) were relatively stable and manageable at average 66 days in 2019 as compared to average 60 days in 2018.

Management Discussion and Analysis

There was no write-down of inventories as the Group adopted First-In-First-Out approach for its inventory management and the inventory levels were closely monitored by the management.

Trade Receivables

Trade receivables of the Group recorded a decrease of approximately RM 6.860 million or 8% from RM 84.273 million in 2018 to RM 77.413 million in 2019, which is in line with the decrease in revenue generated during the year as a result of the lower average selling price offered to customers in 2019 albeit the sales volume remained constant as compared to the preceding year. Besides, the improved collections from customers was also one of the key contributors to the reduction of trade receivables in 2019 compared to 2018.

The trade receivables turnover days (average trade receivables divided by total sales for the year) were relatively constant for both financial years of 2018 and 2019 at average 89 days due to prudent and conservative business measures practiced by the management in view of the overall weak and challenging business and market sentiment worldwide. With such measures, the Group managed to ease the impact of the soft market sentiment on the delinquency of the customers, evidenced from the fact that bad debts written-off in 2019 was accounted for only 0.001% of the sales compared to 0.067% in 2018.

Other Receivables, Deposits and Prepayments

Other receivables, deposits and prepayments of the Group increased from RM 4.550 million in 2018 to RM 6.586 million in 2019, representing an increase of approximately RM 2.036 million or 45%. The increase was mainly contributed by the advance payments made by the Company to vendors in 2019 amounted to approximately RM 4.231 million compared to 2018 at approximately RM 1.861 million, for purchases of machineries for planned upgrade exercise.

Trade Payables

The trade payables recorded a decrease of approximately RM 4.532 million or 18% from RM 25.348 million in 2018 to RM 20.816 million in 2019. The decline was mainly contributed by the decreased average purchase price of raw materials during the year compared to the preceding year, by approximately 13%. Despite that, the trade payables turnover days (average trade payables divided by total purchases for the year) was relatively stable with marginal increase from average 29 days in 2018 to average 30 days in 2019. The Group maintained its prompt payment practice to suppliers in the effort of reducing the costs of raw materials by capitalising the discounts/ rebates for early payments offered by suppliers.

Loans and Borrowings

(i) The long-term loans and borrowings of the Group decreased by approximately RM 4.321 million from RM 6.628 million in 2018 to RM 2.307 million in 2019, mainly attributable to the accounting reclassification of assets under hire purchase to long-term lease liabilities amounted to approximately RM 4.427 million in 2019 following the application of MFRS 16 *Leases* by the Group.

(ii) The short-term loans and borrowings of the Group increased by approximately RM 5.352 million or 9% from RM 56.403 million in 2018 to RM 61.755 million in 2019, mainly contributed by the higher banker acceptance facilities utilised by the Group for purchases of paper rolls from approximately RM 54 million in 2018 to approximately RM 61 million in 2019, increased by approximately RM 7 million or 13%.

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 to be financed by long-term debt financing corresponding to the gestation period of the capital investment project.

Major capital expenditures incurred during the financial year were plant and machineries upgrade and capacity expansion projects to improve production capacity and efficiency, mainly for Ornapaper Industry (M) Sdn. Bhd., Ornapaper Industry (Perak) Sdn. Bhd. and Ornapaper Industry (Batu Pahat) Sdn. Bhd. 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 near future in order to maintain our competitiveness.

From 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 1.80 times in 2019 as compared to 1.79 times in the preceding financial year. Whereas, the acid test ratio of the Group was relatively stable with minimal decrease from 1.30 times in 2018 to 1.26 times in 2019.

Cash and cash equivalents increased from RM 29.747 million as at 31 December 2018 to RM 37.525 million as at 31 December 2019. The increase in cash and cash equivalents was mainly attributable to the reduction in net cash flows used in financing activities, which was recorded at RM 1.596 million in 2019 as compared to RM 12.236 million in the preceding financial year. The decrease in net cash outflow was primarily due to net cash outflow from short term borrowings during financial year ended 31 December 2018 in relation to higher repayment of borrowings drawn for purchases of paper rolls in 2017, while there was net cash inflow from short term borrowings in relation to higher amount drawdowns for short term borrowings utilised for purchases of raw materials during the financial year ended 31 December 2019, i.e. paper rolls, to capitalise on the discounts or rebates offered by suppliers.

Despite that, lower net cash inflow from operating activities was generated by the Group at RM 27.853 million in 2019 compared to RM 37.087 million in the preceding financial year. This was mainly attributable to the increase in inventories as a result of higher purchases of raw materials at a lower average purchase price and decrease in trade and other payables due to early payment to capitalise on cash discounts given by suppliers during the financial year ended 31 December 2019. On the other hand, the decrease in net cash flow generated from operating activities was mitigated by the decrease in trade and other receivables primarily due to improved collections from customers and the decrease in sales resulted from reduction in average selling price.

On the other hand, the net cash flows used in investing activities increased from RM 10.212 million in 2018 to RM 18.479 million in 2019. The upsurge in net cash outflow used in investing activities was mainly due to additional property, plant and equipment purchased by the Group for production capacity expansion during the year as compared to previous financial year, offset by the decrease in deposits placed with licensed banks in 2019.

Management Discussion and Analysis

Debt-to-Equity Ratio

The debt-to-equity ratio (net debt divided by shareholders' equity plus net debt) of the Group as at 31 December 2019 improved to 27% as compared to 28% as at 31 December 2018. Lower debt-to-equity ratio of the Group during the financial year of 2019 was mainly attributable to the higher shareholders' equity as at the end of the current financial year as compared to previous financial year as a result of higher Profit After Taxation Attributable to the Owners of the Company in 2019 recorded during current financial year.

REVIEW OF OPERATING ACTIVITIES

In RM'000 (unless otherwise stated)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
GROSS PROFIT MARGIN (%)	18%	18%	18%	12%	15%
EBITDA MARGIN (%)	10%	9%	11%	9%	11%
REVENUE PER AVERAGE EMPLOYEE	277	330	382	372	336
EBITDA PER AVERAGE EMPLOYEE	27	29	41	32	36
NUMBER OF AVERAGE EMPLOYEE (PAX)	871	825	865	940	986

There are two (2) core operating segments that the Group is involved in, i.e. paper packaging business and paper based stationery products. The gross profit margin of the Group was relatively stable throughout the financial years from 2015 to 2017 at approximately 18% with slight reduction in 2018 to approximately 12% and then increased to approximately 15% in 2019. The same for earnings before interest, taxes, depreciation and amortization ("EBITDA") margin of the Group which appeared to be relatively stable throughout the financial years from 2015 to 2019, at a range of 9% to 11%. Both increases in gross profit margin (from 12% in 2018 to 15% in 2019) and EBITDA margin (from 9% in 2018 to 11% in 2019) were principally due to leveraging on the arbitrage between the reduction in average purchase price of raw materials over the reduction in average selling price during 2019.

Amidst the overall sluggish global growth with continued uncertainties in global scene, the Group was still able to demonstrate healthy financial performance and position in order to support its business operations and maximise shareholder's value. The Group is developing its business growth through the organic growth strategy, which includes building its revenue and bottom line by increasing its customer base, reinvesting profits made and improving capacity utilisation and efficiency by enhancing the plants' capacity utilisation with dedicated and skilful workforce in reducing the unit manufacturing cost possible. Nevertheless, the Group will continue to look for and seize the opportunity to embark on mergers or acquisitions should the target company offers good income accretive potential, value added proposition and complement the existing products produced by the Group, justified by reasonable entry price.

(i) Paper Packaging

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

Management Discussion and Analysis

For the past five (5) financial years, the revenue (before intercompany sales elimination) generated by the paper packaging segment demonstrated consistent positive growth from 2015 to 2018, except for 2019 which posted slight reduction in revenue by approximately 6% from RM 368.498 million in 2018 to RM 347.289 million in 2019. Similarly, the costs of goods sold (before intercompany purchases elimination) also reported corresponding increase trend from 2015 to 2018, except for 2019 whereby it declined by approximately 9% from RM 328.946 million in 2018 to RM 300.211 million in 2019.

On the other hand, the gross profit margin of the Group's paper packaging segment recorded relatively consistent margin from 2015 to 2017 at approximately 16%, with reduction to 11% in 2018 and subsequently recovered to 14% in 2019. Despite decreases in both revenue and costs of goods sold in 2019, the main reason for such improvement in gross profit margin of the Group's paper packaging segment in 2019 was mainly due to leveraging on the arbitrage between the reduction in average purchase price of raw materials and the reduction in average selling price during 2019.

During the financial year, three (3) target industries served by the Group contributed approximately 51% to the Group of the total revenue in 2019, whereby approximately 21% of the revenue was generated from the F&B industry, 16% of the revenue was generated from the E&E industry and 14% of the revenue was generated from the furniture industry. The revenue contribution from these three (3) target industries for 2019 were relatively consistent as compared to the sales contribution in 2018.

On the other hand, the operating expenses which consist of the administrative expenses, selling and marketing expenses and other operating expenses recorded slight increase of approximately 5% from RM 24.564 million in 2018 to RM 25.721 million in 2019. It was primarily contributed by the increase in selling and marketing expenses during the financial year of 2019 as a result of more sales related expenses incurred to reduce the impact of weak market sentiment on sales .

For the past five (5) financial years from 2015 to 2019, profits before tax generated from the paper packaging segment presented growth trend with the exception for 2018 with a reduction of approximately 4% as compared to 2017. The profit before tax recorded an increase from RM 13.647 million in 2018 to RM 19.230 million in 2019, by approximately 41%, due to the explanations aforementioned despite challenging and volatile global market conditions and weak consumer sentiments during 2019.

(ii) Paper Based Stationery

The paper based stationery segment of the Group is served by Quantum Rhythm Sdn. Bhd. ("Quantum"). Quantum's generated its revenue from sales of manufacturing products which consist of office products, stationery paper products and trading items, with the revenue contributions of approximately 13%, 71% and 16% respectively to the total revenue of Quantum in 2019.

The revenue generated by Quantum recorded steady growth for the past four (4) financial years from 2015 to 2018. However, the revenue decreased in 2019 by approximately 28% from RM 30.613 million in 2018 to RM 22.128 million in 2019, partly contributed by the discontinuation of sales of trading of corrugated carton boxes in 2019, whereby such sales contributed an approximate amount of RM 4.754 million in 2018. The discontinuation of sales of trading of corrugated carton boxes was mainly due to the refinement of business strategy for Quantum to focus its efforts and resources on manufacturing and sales of office products and stationery paper products which is its core competency with the sales taken over by the subsidiaries involved in the paper packaging segment.

Management Discussion and Analysis

Consequent to the decrease in revenue generated by Quantum during the year, the costs of goods sold incurred by Quantum decreased by approximately 27% from RM 28.642 million in 2018 to RM 20.851 million in 2019.

On the other hand, the overall operating expenses (i.e. administrative expenses, selling and marketing expenses and other operating expenses) recorded a decrease of approximately 4% from RM 1.853 million in 2018 to RM 1.781 million in 2019. The major contributor of such reduction was due to the decrease in selling and marketing expenses from RM 0.951 million in 2018 to RM 0.737 million in 2019, by approximately 22%, mainly attributable to the decrease in sales related expenses, i.e. sales and marketing related payroll costs following the discontinuation of sales of trading of corrugated carton boxes during the year. Nonetheless, the reduction in operating expenses was offset marginally by the increase in other operating expenses during the year arising from shifting to new plant in order to cope well with the increase of projected sales, i.e. back-to-school sales, in coming year.

RISK FACTORS EXPOSURE

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

(i) Imminent Risk of Global Recession

Bring forward the uncertain global economic condition from the prior years resulted from tit-for-tat trade war situation between economy powerhouses and Brexit, the collapse of oil price and COVID-19 pandemic worldwide hasten the possibility of imminent global recession in 2020 which many economists foresee long overdue. With global recession a forgone conclusion, challenges are abound in such negative economic condition in the months ahead, which the recovery is expected toward the second half of 2020 at the earliest based on the current scenario. Such challenges include slower sales due to weakening demand and consumer sentiment, tightening of working capital availability due to delay in payment from or delinquency of customers (please refer to v below) and cost pressure due to lower permissible production volume consequent to Movement Control Order imposed in the Month of March and April 2020 to restrict movement in order to counter the COVID-19 pandemic in Malaysia.

The Management had undertook various measures, such as, proactive and prompt action taken to resume production at permissible level, closely follow up with the customers to preserve the existing sales by the Group arising from the triple headwinds, closed monitoring of the collections from the customers, prudent working capital planning and cash preservation measures, cost cutting measures, obtain financial assistance via the stimulus packages implemented by the Malaysian government, imposed strict safety and health measure of all production sites to prevent the spread of COVID-19 in the factory premises and proactive actions taken to reduce the impact of movement restriction on the supply chain.

(ii) Foreign Currency Risk

In the near foreseeable future, stemming from the imminent global recession as above, we expect the operating environment the Group is facing will be deteriorating further, especially in the context of the Ringgit Malaysia against United States Dollar (“USD”), Singapore Dollar (“SGD”) and Euro (“EUR”) and these developments may affect the Group’s profit margin.

Management Discussion and Analysis

The Group is exposed to foreign currency risk primarily through sales and purchases of raw materials, i.e. paper rolls and machineries that were transacted in USD, SGD and EUR, as a result of strengthening of USD, SGD and EUR against RM. The Group does not practice any active hedging of foreign currency due to unpredictable fluctuation of foreign currency. The management of foreign currency risk is performed through close monitoring of foreign currency movement with limited hedging through forward contracts and 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 import of paper rolls from overseas by substituting the consumption requirements through local sources.

(iii) 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. Price of paper rolls is subjected to price fluctuation based on the commodity price of wood pulp. Therefore, the price fluctuation may significantly affect the cost of corrugated boards, carton boxes and paper based stationery products produced. Nonetheless, such risk is reasonably reduced during the current financial year ending 31 December 2019 with paper rolls sourced from suppliers at a lower price following the depressed global demand that led to the falling of paper prices throughout the course of 2019, especially towards the end of the year.

On the other hand, 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 the production efficiency with production optimization and reduce wastage. Close communication are maintained with suppliers in order to ensure swift and efficient response to such volatility. Apart from that, continuous and reasonable cost pass-through through revised selling price is practiced by the Sales and Marketing Department of respective subsidiaries in order to remain sustainable. Likewise, the paper rolls sourced from suppliers at lower prices aided the management to reasonably adjust the selling price to a lower price offered to customers.

(iv) Competitive Risk

At present, bigger and established paper and packaging players shall predominate the weaker or smaller suppliers with the ability to maintain their position steadily in this rapidly changing marketplace and their controls on the upstream of the supply chain. The small-scale paper and packaging players will have difficulty to increase profit margin in the paper and packaging market due to insufficient capital in sourcing for better technologies and weaker bargaining power in procuring raw materials, which result in a higher production cost to be incurred and hence higher selling price offered to customers in order to sustain further. The small players with little to no profit margin are primed to be consolidated through mergers and acquisitions by the bigger players in expanding their market shares. Therefore, it is important for the Group to be competitive enough in securing and maintaining its position in the challenging market.

Management Discussion and Analysis

The Group has a diverse customer base in different industrial groups with different product mix structure to counteract the intense competition in local scene. Furthermore, by engaging and maintaining a competent workforce with proper trainings provided, the Group is able to ensure optimal productivity with minimal wastages and excellent quality's products and services. With the investments in the automation machines and plant expansion, machines capacity could be maximized and expanded which lead to cost efficiency and economy of scale in offering a more competitive pricing structure to customers.

(v) Credit risk

The credit risk of customers increased in response to the weak market sentiment in prior years and expected to heighten in coming months. While the Group had adopted a feasible sales and marketing approach balanced with prudent credit management and sustainable sales growth and had put in place comprehensive credit management policy and processes in that respect, the Management enhanced the credit management by employing proactive credit monitoring, negotiation of temporary measures for payment delay and tightening credit.

FUTURE OUTLOOK

Malaysia's estimated population in 2019 stands at 32.6 million, showing an increase from 32.4 million as compared to 2018, it implies that the rate of urbanisation will continue to expand steadily[1]. In other words, such trend is likely to lead to the increase in incomes level for spending on consumer goods and consequently enhances the consumer spending power on packaged goods. Hence, as one of the leading paper packaging companies, we expect growth in the demand for paper packaging products which is popularly used in the 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 line with the booming of e-commerce business in the 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. Therefore, packaging producers must concentrate on tapping the potential growth in the emerging markets as well as in the developed economies.

Aside from the growing demand for packaging, Malaysia's government has announced the desire to ban single-use plastic by year 2030. This ban on lightweight plastic bags may lead to potential positive prospects of paper packaging which has been seen as the most environment friendly packaging solution. This is evidenced by 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 economic forms of packaging. In addition, the ever-growing demand for flexible paper packaging, due to the rise in consumer awareness regarding sustainable packaging and harmful effects of plastic on the environment, is another driving factor for the global paper packaging market. Consumers and regulatory bodies nowadays have become more environmental conscious with more concerns raised towards the environment and sustainability. Hence, the ban on lightweight plastic bags is expected to drive the paper packaging market during the years ahead.

[1]*https://www.dosm.gov.my/v1/index.php?r=column/cthemeByCar&cat=155&bul_id=aWJZRkJ4UEdKcUZpT2tVT090Snpydz09&menu_id=L0pheU43NWJwRWVSZkl/WdzQ4TlhUUT09*

Management Discussion and Analysis

Just a few months ago, the International Monetary Fund ("IMF") was predicting that the global economy would grow by 3.3% in 2020 and 3.4% in 2021 despite the global economy was struggling to regain a broad-based recovery as a result of the lingering impact of growing trade protectionism, trade disputes among major trading partners, falling commodity and oil prices, wide-ranging policy uncertainties as well as geopolitical tensions[2]. However, the outbreak of COVID-19 pandemic that began in the Chinese city of Wuhan in January 2020 has disrupted the social and economic order at lighting speed and on a scale that we have not seen in living memory, to an extent where it may be the worst global economic crisis since 1930s. At present, there is still tremendous uncertainties around the economic outlook, in which it could get worse depending on many variable factors, including the duration of the pandemic. World trade is set to plummet by between 13% and 32% in 2020[3] as the COVID-19 pandemic disrupts normal economic activity and life around the world.

The IMF announced that the pandemic will cause a global recession in 2020 which could be worse than the one triggered by the subprime mortgage crisis of 2008. Studies by the Organisation for Economic Cooperation and Development and World Bank have projected a 2.4 percent contraction in Gross Domestic Product ("GDP") growth for the world. Meanwhile, Bloomberg reported zero percent or negative GDP growth in the worst-case scenario[4]. Overall, following the outbreak of the COVID-19 pandemic, the level of world GDP is expected to reduce by up to 1.75 percent (relative to baseline) at the peak of the shock in the latter half of 2020, with the full year impact on global GDP growth in 2020 being close to 1.5 percent. Initially, the adverse impact is concentrated in China, but the effects in the rest of Asia, Europe and North America gradually build up through 2020. The major part of the decline in GDP again stems from the direct effects of the reduction in demand, but the impact of heightened uncertainty accumulates gradually. World trade is substantially weaker, expected to decline by around 3.75 percent in 2020, hitting exports in all economies. The deflationary effects of the combined shocks are considerably huge with consumer price inflation expected to be pushed down by around 0.6 percentage point in 2020 in the OECD economies[5].

Critically, the COVID-19 pandemic will disproportionately impact smaller businesses and vulnerable groups such as lower-income individuals and workers as this category of workers face potential loss of jobs and incomes, being put on part-time work or asked to take leave without pay. The International Labour Organisation has predicted that 25 million workers throughout the world may lose their jobs following the negative impact of COVID-19 pandemic on the labour market. This is in line with the Malaysian Global Innovation and Creativity Centre prediction that about 40 percent of small and medium-sized enterprises will have to wind up their operations if the COVID-19 chain of infection persists for three to six months. The pandemic is disproportionately hurting millions of lower-wage workers, whereby the absence of adequate income support may cause many to fall into poverty, even in most developed economies, worsening already high levels of income inequality. As the COVID-19 pandemic worsens, deep-seated economic anxiety which is fuelled by slower growth and higher inequality is increasing. Even in many high-income countries, a significant proportion of the population do not have enough financial wealth to live beyond the national poverty line for three months. In hard-hit Italy and Spain, for instance, an estimated 27% and 40% of the population, respectively, do not have enough savings to allow themselves not to work for more than three months[6]. In the near term, given considerable uncertainty, businesses and households are unlikely to behave as if the future was known with certainty, even if policymakers take action to lower the chances of a prolonged downturn. This makes spending choices more heavily dependent on current conditions rather than future expectations.

[2] *https://www.imf.org/en/Publications/WEO/Issues/2020/01/20/weo-update-january2020*

[3] *https://www.wto.org/english/news_e/pres20_e/pr855_e.htm*

[4] *https://www.bernama.com/en/news.php?id=1829686*

[5] *https://www.oecd-ilibrary.org/docserver/7969896b-en.pdf?expires=1586860396&id=id&accname=guest&checksum=1303CBE616475CD3457DF797542435FE*

[6] *https://www.un.org/sustainabledevelopment/blog/2020/04/covid-19-likely-to-shrink-global-gdp-by-almost-one-per-cent-in-2020/*

Management Discussion and Analysis

The rising pandemic of COVID-19 will have devastating effects on Malaysia's economy from both external factors (global supply and demand shocks) and domestic factor (Movement Control Order ("MCO")). On a macro level, the closure of businesses and services, along with the travel and movement controls will have outsized impacts on private consumption and business investment. Its adverse effects on individual livelihoods and businesses will be even more pernicious. Individuals and businesses affected by the temporary closures will be at high risk of facing immediate cash flow constraints as their earnings dwindle. This can have knock-on effects on the entire economy, leaving businesses insolvent, individuals bankrupt, and the financial system saddled with non-performing loans.

The overall risks to the domestic growth outlook are tilted to the downside, mainly due to the risk of a prolonged and wider spread of the unprecedented COVID-19 pandemic and its significant effects on the global and domestic economy. Bank Negara Malaysia ("BNM"), which is the Central Bank of Malaysia, announced that the COVID-19 outbreak will affect Malaysia's economic growth in Q1 2020. BNM also announced that Malaysia's economic growth, as measured by Gross Domestic Product (GDP), is projected at between -2% to 0.5% in 2020 against a highly challenging global economic outlook, affected by weak global demand, supply chain disruptions, sharp decline and volatile shifts in crude oil prices as well as COVID-19 containment measures both abroad and domestic[7]. As such, the global economy is projected to register negative growth in 2020[8] in accordance with the BNM's Economic and Monetary Review 2019 subsequent to the significant economic repercussions arising from the pandemic, while Malaysia's MCO will dampen domestic economic activity.

Furthermore, following the significant increase in risks to the growth outlook since end-2019, especially arising from the COVID-19 pandemic, the overnight policy rate ("OPR") was reduced in January 2020 and March 2020 by a total of 50 basis points to 2.5%[9]. The bank also announced a cut in the Statutory Reserve Requirement ("SRR") ratio by 100 basis points to 2% in March 2020 and approximately RM 30 billion worth of liquidity was released into the banking system. Nevertheless, the World Bank has recently slashed its growth projection for Malaysia to -0.1% in 2020 from 4.5% previously[10]. The revised growth rate takes into account the slower growth momentum owing to the COVID-19 pandemic. The small and medium enterprises in the country have announced that they expect zero cashflow over the next three months due to the lock-down. Despite there remains significant uncertainties surrounding the growth outlook, the Government's economic stimulus package will help to cushion the economic fallout with considerable support to households and businesses through the Bank's financial measures. The restructuring and rescheduling of the six-month moratorium will ensure that the capital and financial market returns to stability. It will also help individuals and businesses facing financial problems and liquidity constraints.

All in all, the outbreak of Covid-19 pandemic has brought considerable human suffering and major economic disruption. 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. Consequently, a sharp slowdown in Malaysia as well as global economy is expected in the first six months of the year 2020. The Federation of Malaysian Manufacturers ("FMM") and the Malaysian Institute of Economic Research ("MIER") projected a gloomy sale during the first half of year 2020, with the outlook for business being generally lacklustre as a result of the continued uncertainties amid the Covid-19 pandemic[11].

[7] *https://www.bnm.gov.my/index.php?rp=ar2019_en*

[8] *https://www.theedgemarkets.com/article/bnm-annual-report-2019-malaysias-2020-gdp-growth-projected-between-2-and-05*

[9] *https://www.theedgemarkets.com/article/bnm-annual-report-2019-2020-monetary-policy-support-economic-growth-amid-subdued-inflation*

[10] *https://blogs.worldbank.org/eastasiapacific/malaysia-2020-navigating-overlapping-shocks*

[11] *https://www.fmm.org.my/FMM_In_The_News-@-FMM-;_Weak_sales_projections_in_first_half_of_2020.aspx*

Management Discussion and Analysis

The paper packaging and paper based stationery industry hinge heavily on the performance of the economies and relevant industries the Group is supplying to, not only in Malaysia but also regionally. On the other hand, the main raw material – paper rolls are still relying heavily on the availability of paper supply worldwide along with the volatility price of paper rolls in the global market.

With the imminent global recession to be unfolded in foreseeable future, the Group is expected to be affected by such developments, similar to majority of the businesses worldwide. Therefore, it is paramount for the Group to act very prudently in the conduct in the businesses of the Group by preserving the sales, prudent capital management and pursuing cost cutting measures while maintaining adequate and skill workforce in order to ride through such challenging time. However, it poses challenges to the Group quantify the exact financial impacts on the Group at this juncture as it is unclear on how the pandemic is going to unfold in coming weeks and months, same hold true with regard to the economic impacts of triple headwinds, and therefore, additional risk mitigation measures will be taken by the Management in the future to ride through this headwinds shall the conditions worsen in future. Nonetheless, a few of the subsidiaries of the Group have obtained approval from the Ministry of International Trade and Industry to resume operation at 50% of its workforce during the MCO period.

In the medium term, it is also important for the Group to continue its strategy of not 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 in the aftermath of 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 days) and to provide value-added services to its customer, rather than just pure packaging material supplier.

With the above developments in the economic and market conditions in the near future, 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 in the current year with counter measures implemented in response to the triple headwinds as well as in years to come, with the business strategies implemented to navigate in the challenging and intense competition market environment.

DIVIDEND

A final single tier dividend of 2.5 sen per ordinary share (net of treasury shares) was distributed to the shareholders on 16 July 2019 in respect of the financial year ended 31 December 2018, amounting to approximately RM 1.854 million.

The Group adopts 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 to consider distribute excess profits generated after taking into consideration of the cash reserve requirements for black swan event, planned capital expenditures and working capital requirements in current and coming years.

Corporate Governance Overview Statement

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

The Board is pleased to provide the following overview statement, which sets out the manner in which the Company has applied the 3 principles set out in the MCCG and the extent of compliance with principles of the MCCG advocated therein in accordance with Paragraph 15.25 and Practice Note 9 of the Main Market Listing Requirements ("**MMLR**") of Bursa Malaysia Securities Berhad ("**Bursa Securities**") that has been in place throughout the financial year ended 31 December 2019, 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 respective financial year are available for download from the Company's website at www.ornapaper.com.

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

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

  - Setting the key values, corporate objectives, and ethos of the company
  - Reviewing and adopting a strategic plan that are consistent with corporate objectives and supports long-term value creation
  - Overseeing the conduct of the business and evaluate whether the business is being properly managed
  - Deliberating, approving and monitoring progress of the Company's strategy, budgets, plans, policies and proposal by management
  - To promote good corporate governance culture and practices throughout the Group and to review the corporate governance standing of the company
  - Identifying principal risks and ensuring the implementation of appropriate internal controls and mitigation measures
  - To ensure the establishment of Risk Management Framework

- To ensure adequate trainings are provided to the Board's members and senior management
- Succession planning
- Overseeing the development and implementation of a shareholder communications policy
- Reviewing the adequacy and the integrity of the management information and internal controls system
- To ensure the integrity of the company's financial and non-financial reporting
- To establish sustainability policy and to review the management of material sustainability matters on frequent interval
- To promote good sustainability practice throughout the Group
- To review the division of responsibilities among the Board, Board Committees, Chairman, Chief Executive Director ("**CED**") and authorities delegated to management through the CED

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

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

On the other hand, the business operations of the Group were overseen by the CED whose responsibilities are disclosed in Practice 1.3 of the CG Report.

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

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

The Board Members, in carrying out their duties and responsibilities, are firmly committed to ensuring that the highest standards of corporate governance and corporate conduct are adhered to, in order for the Company to achieve strong financial performance for each financial year, and more importantly to deliver long-term and sustainable value to stakeholders.

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

Corporate Governance Overview Statement

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

In turn, the Board and Executive Directors provide guidance and oversight to the Management Committee ("**MC**") that comprises Heads of Department, who are responsible for the day-to-day operational efficiency and effectiveness, compliance with relevant laws and regulations and in accordance to the procedures and authorities granted in the Group's operating procedures & 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 1.4 of the CG Report.

- **Board Charter**

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

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

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

The Board Charter is available for reference at "Corporate Info" section of the Company's website www.ornapaper.com. The Board Charter was last reviewed and updated on 19 August 2019.

- **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 19 August 2019 to govern the standards of ethics and good conduct expected for the Directors, Management and employees of the Group.

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

Corporate Governance Overview Statement

To foster an environment where integrity and ethical behavior are maintained and any illegal or improper action and/or wrong doing in the Group, the Board established a whistleblowing policy to enable the employees and other interested party to confidentially report any concerns related to matters covered by the Group's Code of Conduct, legal issues and accounting or audit matters.

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

The Code of Conduct and Whistle Blowing policy once approved and adopted is available for download from 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 2019, five (5) meetings have been held and attendance of each of the Directors are as follows: -

Names of Directors	Number of Meetings Attended
Ang Kwee Teng	5/5
Sai Chin Hock	4/5
Sai Han Siong	5/5
Tan Chin Hwee	5/5
Siow Kee Yen	5/5
Datuk Adillah binti Ahmad Nordin	4/5
Sai Ah Sai	4/5

All meetings of the Board are duly recorded in the Board minutes by the Company Secretaries who attended all the Board meetings of the Company. The Company Secretaries 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.

- **Supply of Information**

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.

Corporate Governance Overview Statement

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

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

- **Composition of the Board**

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

At present, the Board comprises of seven (7) members of which includes three (3) Executive Directors, one (1) Non-Independent and Non-Executive Director and three (3) Independent Non-Executive Directors. With the present composition of the Board, the Company complies with the MMLR with regard to the constitution of the Board and the required ratio of Independent Directors.

The present composition is a departure from Practice 4.1 of the MCCG which requires that at least half of the Directors of the Board should be Independent Directors. However, the Board is in the opinion that, through formal assessments conducted to the Board and Nomination Committee and the independence of the Independent Directors, the Independent Directors are professionals with diverse range of skills, knowledge and experiences in relevant fields and independent directors had demonstrated their independence and objectivity during the Board and Board Committees' proceedings. Therefore, adequate degree of independence is maintained notwithstanding the fact that only 42.9% of the Board is Independent Directors. Therefore, there is no disproportionate imbalance of power and authority on the Board between the Non-Independent and Independent Directors. The Board will continue to monitor and review the adequacy and effectiveness of the independence and objectivity element within the Board from time to time to ensure its adequacy and effectiveness. Further explanation on the departure are provided in Practice 4.1 of the CG Report.

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

- **Board Diversity**

The Board recognizes the importance of diversity in the boardroom and senior level management, and the requirement on boardroom diversity was evident in the Board Charter and "Policy and Procedure on Nomination and Selection of Director & Senior Management". The boardroom diversity (including gender diversity) is part of the criteria in proposing of the appointment of new director. Furthermore, the Board Charter & the Policy and Procedure on Nomination and Selection of Director & Senior Management specify the target of having one (1) female representation at the Board. Presently, there is one (1) female Director on the Board of the Company and the Company continues to promote the representation of women in the composition of the Board and senior level of management. Practice 4.4 and Practice 4.5 of the CG Report detailed the disclosure on Boardroom Diversity and gender diversity respectively.

Corporate Governance Overview Statement

- **Independence of Independent Directors**

  In order for the Independent Directors to present the independent and objective judgement to the Board's for deliberation, and to ensure that conflict of interest or undue influence from interested parties is well taken care of, the Board is committed to ensure that the independence of the Independent Directors whom will be preserved via independent assessment by Nomination Committee prior to their appointment based on formal nomination and selection process with the results of the review are reported to the Board for consideration and decision.

  All Independent Non-Executive Directors are subjected to independence assessment by the Nomination Committee and to be recommended to the Board to form an opinion on the independency of the Independent Non-Executive Directors. Based on the independence declaration obtained from Independent Director during the financial year ended under review, the Board is satisfied with the level of independence demonstrated by all the Independent Non-Executive Directors, and their ability to bring independent and objective judgement to board deliberations.

  The tenure of an Independent Director, as stated in the MCCG and Board Charter, shall not exceed a cumulative term of nine (9) years. In the event that such Director is to be remained as Independent Director, the Board shall first justify and obtain annual shareholders' approval. If the Board continues to retain the Independent Director after the 12^{th} years, the Board should seek annual shareholders' approval through a two-tier voting process.

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

- **Time Commitment**

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

  The Directors are required to notify the Board before accepting any new directorship and to indicate the time expected to be spent on the new appointment.

- **Board Committees**

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

Corporate Governance Overview Statement

◦ **Audit Committee**

The composition and the Terms of Reference Audit Committee, the number of meetings held, attendance, and activities carried out during the financial year are available in the Audit Committee Report on page 44 to 49 of this Annual Report.

◦ **Nomination Committee**

The Nomination Committee comprises three (3) Independent Non-Executive Directors which is in compliance with the MMLR and chaired by Independent Non-Executive Director. During the financial year ended 31 December 2019 under review, the Nomination Committee met three (3) times and the members of the committee and their attendance are as follow:

Name	**Position**	**Number of Meetings Attended**
Siow Kee Yen	(Chairman)	3/3
Datuk Adillah Binti Ahmad Nordin	(Member)	2/3
Tan Chin Hwee	(Member)	3/3

The Nomination Committee is guided by written Terms of Reference duly approved by the Board which states the authority, duties and responsibilities. A copy of the Terms of Reference of the Nomination Committee is available at "Investor Relation" section of the Company's website at www.ornapaper.com.

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

During financial year ended 31 December 2019, there was no new directorship or new member of senior management appointed.

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

- **Recommendation of the Re-Election of Retiring Directors**

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

  The Directors who are standing for re-election at the forthcoming Eighteenth Annual General Meeting ("**18th AGM**") of the Company to be held on 27 Aug 2020 are as stated in the Notice of the 18th AGM.

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

  The Nomination Committees reviews the required mix of skills and experience and other qualities including core competencies which the Directors are expected to bring to the Board on an annual basic. The Nomination Committee undertakes an annual assessment of the Independent Directors' independence and consider if they can continue to bring independent and objective judgment to board deliberations. The Board had implemented a process to be carried out by the Nomination Committee 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 further improvement.

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

  Based on the Board and Board Committee, Audit Committee, Audit Committee Members' Peer Performance Evaluation and Directors' Self-Evaluation for individual Directors conducted for the financial year 31 December 2019, the Nomination Committee and the Board were satisfied with the composition and competency of the present Board, Audit Committee and Directors. The summary results of the assessments were presented by the Nomination Committee to the Board for review and deliberation.

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

- **Assessment of Independence**

  The Board, through the Nomination Committee, assessed the independence of the Independent Non-Executive Directors. The assessment of the independence of the independent Non-Executive Directors includes the use of Annual Self-Assessment of the Independence of Independent Director form with prescribed criteria adapted from the Corporate Governance Guide issued by Bursa Malaysia Berhad concentrating on independence and objectivity criteria. In addition, written independence declaration which is consistent with the definition of Independent Director defined in Practice 1.01 and Practice Note 13 of the MMLR for the individual Independent Directors were obtained annually.

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

Corporate Governance Overview Statement

- **Review and Assessment of the Tenure of Independent Directors who had Served the Board Over a Tenure of Nine (9) Years**

  The tenure of an independent director should not exceed a cumulative of nine (9) years with intervals, and upon the completion of the nine (9) years, an Independent Director may continue to serve the Board subject to such Director's re-designation as a Non-Independent Director. In the event that such Director is to remain as an Independent Director, the Board shall first justify and obtain annual shareholders' approval and if the Board continues to retain the Independent Director after the twelfth (12^{th}) year, the Board should seek shareholders' approval through a two-tier voting process.

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

- **Remuneration Committee**

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

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

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

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

Corporate Governance Overview Statement

During the financial ended 31 December 2019, the Remuneration Committee met a total of two (2) times and the attendance of individual committee members are as follows:

Name	Number of Meetings Attended
Datuk Adillah Binti Ahmad Nordin	1/2
Siow Kee Yen	2/2
Tan Chin Hwee	2/2

The meetings were held to review on the remuneration package of Executive Directors, and Directors' fees for Non-Executive Directors and to recommend to the Board and shareholders (if required) for approval.

Please refer to Practice 7.1 and 7.2 of the CG Report for the details on the disclosure on named basis for the remuneration of individual Directors and disclosure on a named basis the top five Senior Management's remuneration in bands of RM50,000.

- **Director's Training**

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

During the financial year ended 31 December 2019, all members of the Board have attended training(s) that were organized by regulatory bodies or professional organizations. The following are training programs, seminars and conferences attended by all Directors of the Company during the financial year ended 31 December 2019:

Corporate Governance Overview Statement

No.	Director	Date	Topics	Organiser
1	Tan Chin Hwee	29.11.2019	2020 Budget Seminar Share Prosperity: Sustainable and Inclusive Growth Towards High Income Economy	Malaysian Institute of Accountants
		26.11.2019	Continuing Professional Development Seminar - Anti -Money Laundering & Counter Financing of Terrorism (AML/CFT) Compliances - Budget 2020 Updates	Institute of Approved Company Secretaries
		04.10.2019	Continuing Professional Development Seminar - Corporate Insolvency Framework & Striking-off Under Companies Act 2016	Institute of Approved Company Secretaries
		28.08.2019	New Company Act 2016: Major Changes Every Director Should Know	3ntity Sdn. Bhd.
2	Siow Kee Yen	05.08.2019 & 06.08.2019	National Tax Conference 2019	Lembaga Hasil Dalam Negeri Malaysia & Chartered Tax Institute of Malaysia
		13.05.2019	The Art of Taxation and Staying Relevant in Changing Times	Chartered Tax Institute of Malaysia
		17.04.2019	Quarterly Tax Updates 2019	Chartered Tax Institute of Malaysia
		23.10.2019	Seminar Percukaian Kebangsaan 2019	Lembaga Hasil Dalam Negeri Malaysia
		26.06.2019 & 27.06.2019	Financial Risk Evaluation and Review-Issues Relating to Specific Items of Financial Statements	Malaysian Institute of Accountants
		31.05.2019	Topical Tax Issues for SMEs	CPA Australia
3	Sai Chin Hock	27.06.2019	Effective Safety & Health Committee	ITS Management Sdn. Bhd.
		28.06.2019	Occupational Safety & Health Awareness	ITS Management Sdn. Bhd.
4	Sai Ah Sai	28.08.2019	New Company Act 2016: Major Changes Every Director Should Know	3ntity Sdn. Bhd.
5	Sai Han Siong	28.08.2019	New Company Act 2016: Major Changes Every Director Should Know	3ntity Sdn. Bhd.
6	Ang Kwee Teng	27.06.2019	Effective Safety & Health Committee	ITS Management Sdn. Bhd.
		28.06.2019	Occupational Safety & Health Awareness	ITS Management Sdn. Bhd.
7	Datuk Adillah binti Ahmad Nordin	27.06.2019	Effective Safety & Health Committee	ITS Management Sdn. Bhd.
		28.06.2019	Occupational Safety & Health Awareness	ITS Management Sdn. Bhd.

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

- **Economic, Environment and Social**

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

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

Principle B – Effective Audit and Risk Management

The Audit Committee is also tasked to oversight the role on the effectiveness of audit and risk management of the Group. The composition, activities carried out during the financial year under review, including the number of meetings held and attendance are disclosed in the Audit Committee Report on page 44 to 49 of this Annual Report and Practice 8.1 to 8.5 of CG Report.

- **Relationship with External Auditors**

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

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

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

  It is the policy of the Audit Committee to meet with the external auditors to discuss their audit plan, audit findings and the Group's financial statements. In addition, the external auditors are invited to attend the Annual General Meeting of the Company and are available to answer shareholders' questions on the conduct of the statutory audit and the preparation and contents of their audit report.

Corporate Governance Overview Statement

During the financial year, the Audit Committee undertook an annual assessment of the suitability and independence of the existing external auditors in accordance to the "Policies and Procedures to Assess the Suitability and Independence of and the Provision of Non-Audit Service by the External Auditor". The criteria used for the annual assessment on the suitability of the external auditors for appointment and reappointment are disclosed in Practice 8.3 of the CG Report. Additionally, through the Audit Plan and Audit Result submitted by the external auditors and written confirmation provided during the Audit Committee meetings, the external auditors of the Company confirmed in writing on their independence and objectivity for the audit engagement for the financial year ended 31 December 2019 in accordance with the By-Laws of the Malaysian Institute of Accountants.

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

The summary of Audit Committees' activities and oversights of external and internal auditors during the financial year under review is available in Audit Committee report presented from page 44 to 49.

- **Compliance with Applicable Financial Reporting Standards**

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

The quarterly results and annual financial statements are reviewed by the Audit Committee and recommended to the Board for approval before releasing to the public, via Bursa Listing Information Network ("**Bursa LINK**"). The Audit Committee also reviews the appropriateness of the Company's and Group's accounting policies and the changes to these policies as well as ensuring that the financial statements are drawn up in accordance with the provisions of the Companies Act, 2016 and applicable accounting standards.

A summary of the functions and duties of Audit Committee in the oversight of financial reporting for the financial year are available in the Audit Committee Report on page 44 to 49 of this Annual Report.

- **Risk Management**

The Board affirm its overall responsibility for maintaining a sound risk management and internal control system in pursuing the Company's objectives. During the financial year under review, the Board has established a formal Group Risk Management Framework. The details of the Group Risk Management Framework and risk management process are disclosed in Practice 9.1 of the CG Report and Statement on Risk Management and Internal Control of this Annual Report.

Corporate Governance Overview Statement

- **Internal Control**

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

- **Internal Audit Function**

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

  The internal audit function of the Group is explained in greater detail in Practice 10.1 and 10.2 of 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 pages 50 to 58 of this Annual Report. The statements provide a further in depth in the Group's policies and activities undertaken to ensure the adequacy and effectiveness of governance, risk and control structures and processes.

Directors' Responsibility Statement

The Directors are required under the provisions of the Companies Act 2016 to prepare financial statements as at the end of each financial year in accordance with applicable approved accounting standards and which gives a true and fair view of the state of affairs of the Group and the Company and their 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 the 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 are guided by a formal Corporate Disclosure Policy.

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

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

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

  The contents of the Corporate Disclosure Policy, channel of communications and processes used by the Company for stakeholders' communications are further discussed in Practice 11.1 of the CG Report.

- **Encouragement of Shareholders' Participation at General Meetings**

  The Company's General Meetings also serves as one of the key avenue of communication with its shareholders, which provides a useful forum for shareholders to engage directly with the Company's Directors. During the General Meeting, shareholders are at liberty to raise questions or seek clarification on the agenda items of the General Meeting from the Company's Directors. The agenda of the meeting and its proposed resolutions are 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 12.1 of the CG Report on further disclosure on the distribution and content of the Notice.

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

  To further promote participation of members through proxy(ies), the Company's Constitution has provided for explicit right of proxies to speak at General Meetings, to allow a member who is an exempt authorised nominee to appoint multiple proxies for each omnibus account it holds and expressly disallow any restriction on a proxy's qualifications.

Corporate Governance Overview Statement

In order to facilitate and provide meaningful responses to questions raise by shareholders, all Directors have attended the Seventeenth Annual General Meeting ("**17th AGM**").

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

- **Poll Voting**

  In compliance with the MMLR, all resolutions put forth for shareholders' approval at the 18th AGM to be held on 27 Aug 2020 are to be voted by way of poll.

Key Focus Areas and Future Priorities

One of the key focus areas of the Board on corporate governance practices during the financial year were to align the Group's corporate governance practices and disclosure requirement with the MCCG. During the financial year and up to the date of this report, the Board had updated and enhanced relevant charter, policies and terms of reference, namely, the Board Charter, Terms of Reference of Audit Committee, Nomination Committee, Remuneration Committee and Board Risk Management Committee, Code of Conduct, Whistle-Blowing Policy, Remuneration Policy, Policy and Procedure on Nomination and Selection of Director and Senior Management as well as Policy on Independence Assessment of Independent Director. During the financial year under review, the Board has also established a Board Risk Management Committee and put in place a formal Risk Management Framework and Policy. An update of the risk registers was undertaken during the financial year and reported to Board Risk Management Committee and the Board for structured risk management and monitoring.

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

Additional Disclosure under the MMLR

- **Utilisation of Proceeds**
  The Company did not implement any fund-raising exercise during the financial year ended 31 December 2019.

- **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 2019.

- **Audit and Non-Audit Fees**
  The audit and non-audit fees incurred for services rendered by the external auditors and their affiliated firms and companies to the Company and its subsidiaries for the financial year ended 31 December 2019 are as follows:

Corporate Governance Overview Statement

	Company	Group	Details on Non-Audit Fees
Audit Fees (RM)	40,000	187,500	Nil
Non-Audit Fees (RM)	5,000	5,000	Review of Statement of Risk Management and Internal Control

- **Material Contracts**
  During the financial year, except for the recurrent related party transaction disclosed below, there was no other material contracts and loans entered into by the Company or its subsidiaries involving the interests of Directors, CED and major shareholders.

- **Recurrent Related Party Transactions of a Revenue or Trading Nature ("RRPT")**
  Save as disclosed in Note 32 to the Audited Financial Statements for the financial year ended 31 December 2019, the breakdown of the aggregate value of the Company's RRPT during the financial year ended 31 December 2019 are as follows:

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**")	0
		Sales of stationery product by Quantum Rhythm Sdn. Bhd. ("**QR**")	0
Julie's Manufacturing Sdn. Bhd. ("**JM**")	Sai Chin Hock^, Sai Ah Sai# and Sai Han Siong*	Sales of corrugated carton boxes by OISB	10,690,741
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	61,905
		Sales of stationery products by QR	1,333
		Purchase of stitching wire by Group	497,500

NOTES:

^ *Sai Chin Hock is a Director and a Major Shareholder of ORNA. Sai Chin Hock is also a Director and substantial shareholder of PFM and JM, by virtue of his substantial shareholdings in Julie's Corporation Sdn. Bhd., the holding company of PFM & JM.*

Sai Ah Sai is a Director and a Major Shareholder of ORNA. Sai Ah Sai is also a Director of JM and Julie's Corporation Sdn. Bhd., the holding company of JM.

* *Sai Han Siong is the son of Sai Ah Sai and the nephew of Sai Chin Hock. Sai Han Siong is a Director and a Major Shareholder of ORNA. Sai Han Siong is also a Director of JM and Julie's Corporation Sdn. Bhd., the holding company of JM., and substantial shareholder of JM, by virtue of his substantial shareholdings in Julie's Corporation Sdn. Bhd., the holding company of JM.*

This statement is made in accordance with a resolution of the Board dated 19 May 2020.

Audit Committee Report

COMPOSITION OF THE AUDIT COMMITTEE

The members of the Audit Committee are as follows:-

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

The composition of the Audit Committee is in compliance with the Paragraph 15.09 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 which fulfills the requirements under Paragraph 15.09(1)(c)(i) and Paragraph 7.1 of Practice Note 13 of the MMLR.

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

In compliance with the Malaysian Code on Corporate Governance ("**MCCG**"), the Chairman of the Audit Committee is not the chairman of the Board of Directors during the financial year ended 31 December 2019 and up to the date of this Report.

The profile of the members can be found on page 3 to 6 of this Annual Report.

TERMS OF REFERENCE

The Terms of Reference of the Audit Committee is published in the Group's corporate website (www.ornapaper.com) under "Investor Relations – Corporate Governance".

MEETINGS OF THE AUDIT COMMITTEE

For the financial year ended 31 December 2019, 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	4/5
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 Audit Committee 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 Audit Committee, to issue and circulate the agenda, supported by relevant meeting papers prior to each meeting. The Company Secretary had attended all the meetings during the financial year. The Head of Accounts Department and representatives from the Company's external and internal auditors were also invited to attend the Audit Committee 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 2019:-

a) Review of the Quarterly Financial Reports

During the scheduled quarterly meetings, the Head of Accounts Department presented the draft unaudited quarterly financial results including the notes to the accounts for the Audit Committee's review and answered all queries raised and clarifications sought by the Audit Committee. 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, future prospects of the Group provided by the Management with regards to the Group's performance for the coming quarter and year were also presented to the Audit Committee for discussion.

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

b) Review of the External Auditors' Scope of Work and Audit Plans for the Year

During the financial year, the external auditors presented their audit strategy and audit plan to the Audit Committee for review and comments prior to the commencement of the audit engagement to ensure that the scope of audit is adequate and reasonable time was allowed for the audit to be carried out effectively and not under undue time pressure. The audit plan presented by the external auditors stated the audit objectives, independence declaration, responsibilities of each parties, audit approach, areas of audit emphasis, fraud considerations and the risk of management override, internal control considerations, involvement of internal audit and others, audit timeline and deliverables, revised engagement letter, proposed audit fees, digital audit strategy and updates on the financial reporting developments, changes in regulatory environment and revised auditor reporting standards. The audit plan for the financial year was discussed and clarifications were sought from the external auditors prior to approval of the said plan by the Audit Committee. During the same meeting, the audit fees and non-audit fees were also presented by the external auditors for review by Audit Committee, which was then recommended to the Board for approval.

Audit Committee Report

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

Prior to the announcement of final quarterly 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, expected opinion on the financial statements was sought from the external auditors. The report on the audit results provides the status of the audit, significant accounting and auditing issues, corrected misstatements and summary of audit differences. Through the audited financial statements, the Audit Committee noted that the profit variance between the audited financial statements and the announced final quarterly financial results was less than 10%.

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

d) Review of the Independence and Objectivity of the External Auditors

During the financial year under review, the Audit Committee conducted evaluation of performance, independence and objectivity of external auditors via the External Auditors Evaluation Form with prescribed criteria per the Corporate Governance Guide issued by Bursa Malaysia Securities Berhad such as, caliber of the firm, quality processes and performance, knowledge and skill sets of audit team as well as independence and objectivity. In addition, during the meetings with the external auditors, the external auditors confirmed with the Audit Committee on their independence in relation to the audit works performed. The Audit Committee have also reviewed the non-audit services provided by external auditors to the Group during the year in accordance with the independence requirements and were not aware of any non-audit services that have compromised their independence as external auditors of the Group and the Company.

The Audit Committee was satisfied with the performance, independence and objectivity of the external auditors of the Company and recommended to the Board for recommendation to the shareholders for re-appointment of the external auditors of the Company.

e) Review of the Adequacy of the Scope, Functions and Resources, Internal Audit Plan and Internal Audit Report with the Group's Internal Auditor

During the financial year, the Audit Committee received internal audit reports presented by the outsourced internal auditor that contain the findings, recommendations and agreed 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 agreed management action plans for previous internal audit findings, the resources, experience, competency and continuous professional development of the outsourced internal audit function were also reported to the Audit Committee for their review and assessment on the adequacy and effectiveness of the outsourced internal audit function.

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

Audit Committee Report

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 on page 50 to 58 of this Annual Report.

f) **Review of the Related Party Transactions and Any Conflict of Interest Situation and Transactions which may have an Impact on Management Integrity**

During the scheduled quarterly meetings, updates on the value of transactions (from date of shareholders' mandate to the end of financial period) of recurrent related party transactions ("**RRPT**") as compared to the estimated mandate amount approved by shareholders were provided by the Head of Accounts Department to the Audit Committee for review to enable the Audit Committee to take prompt actions in the event that the RRPT exceed 10% of the mandated amount.

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

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

g) **Review of the Latest Changes and Development in Regulatory, Statutory and Accounting Standards**

During the Audit Committee meetings, the Audit Committee was kept informed of new and revised accounting standards through the disclosures in the quarterly report announcements and through briefings provided by the external auditors. In addition, briefings on the updates and changes to the MCCG, MMLR and other legal and regulatory requirements were provided to the Audit Committee members and the Board members by professionals.

h) **Review of the Draft Circular to Shareholders on the Proposed Renewal of Existing Shareholders' Mandate for RRPTs of a Revenue or Trading Nature and Share Buy-Back Statement in relation to the Proposed Renewal of Authority for the Company to Purchase its Own Shares**

Based on the review of the draft circulars and relevant procedures set out in the draft circular in relation to the proposed renewal of shareholders' mandate for RRPTs, the Audit Committee was of the opinion that the procedures were sufficient to ensure 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 share buy-back statement was in compliance with relevant laws and regulations.

Audit Committee Report

i) Review of the Statements and Reports Disclosed in Annual Report

The Audit Committee had reviewed the Corporate Governance Report, Corporate Governance Overview Statement, Audit Committee Report, Statement on Risk Management and Internal Control, Management Discussion and Analysis, Sustainability Statement and other information required for disclosure (such as profile of directors and key management, Share Buy-Back Statement, RRPT and etc.) as well as the audited financial statement of the Company to ensure compliance with MMLR, MCCG and other guidelines and forthwith recommended to the Board for approval and publication in the Company's Annual Report.

j) Others

- The Audit Committee had reviewed the proposed revised Terms of Reference of Audit Committee which was in line with the guidance promulgated by the MCCG and the updated MMLR of Bursa Malaysia Securities Berhad and recommended to the Board for approval.

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

SUMMARY OF WORK OF THE INTERNAL AUDIT FUNCTION

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

The scope of review by the outsourced internal audit function is determined through the internal audit plan approved by the Audit Committee with feedbacks from the Senior Management. During the financial year ended 31 December 2019, the outsourced internal audit function conducted internal audit reviews in accordance with the internal audit plan 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. During the same meeting, the status of the management action plans through follow up review conducted by outsourced internal audit function was also reported to the Audit Committee.

Audit Committee Report

The areas covered by the internal audit function during the financial year under review for two (2) of the operating subsidiaries in Malaysia were as follows:-

- Governance
- Procurement management
- Inventory management
- Fixed assets management

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

Further details on outsourced internal audit function and activities are disclosed in the Statement of Risk Management and Internal Control set out on page 50 to 58 of this Annual Report.

Statement on Risk Management and Internal Control

INTRODUCTION

Pursuant to Paragraph 15.26(b) and Practice Note 9 of the Bursa Malaysia Securities Berhad's ("**Bursa Securities**") Main Market Listing Requirements ("**MMLR**") in relation to requirement to prepare statement about the state of internal control of the listed issuer as a group, and as guided by the Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers ("**the Guidelines**"), the Board of Directors ("**the Board**") of Ornapaper Berhad ("**the Company**") (collectively with its subsidiaries, "**the Group**") is pleased to present the statement on the state of the internal controls of the Group for the financial year under review and up to the date of approval of this statement. The scope of this Statement covers the Company and its subsidiaries.

BOARD RESPONSIBILITY

The Board affirms its overall responsibility for maintaining a sound risk management and internal control system which are an essential part of the process of pursuing the Group's corporate objectives, and for reviewing its adequacy and effectiveness so as to safeguard all its stakeholders' interests and to protect the Group's assets as well as to establish the risk appetite of the Board. The Board is committed to the establishment and maintenance of an appropriate control environment and framework that is embedded into the corporate culture, processes and strategies of the Group. The Board delegates the duty of identification, assessment and management of key business risks to the Risk and Sustainability Management Committee ("**RSMC**") while the oversight roles are delegated to the Board Risk Management Committee (for risk management) and the Audit Committee (for internal controls) whereby Board Risk Management Committee and Audit Committee are assigned with the duty, vide Risk Management Policy and Terms of Reference respectively as approved by the Board, to provide assurance to the Board on the adequacy and effectiveness of risk management and internal control systems of the Group respectively. Through Board Risk Management Committee and Audit Committee, the Board is kept informed on all significant control issues brought to the attention of Board Risk Management Committee and Audit Committee by the Management, the internal audit function and the external auditors, and the Board are provided with reasonable assurance that any impact arising from foreseeable future events or situations are properly managed and/or mitigated.

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

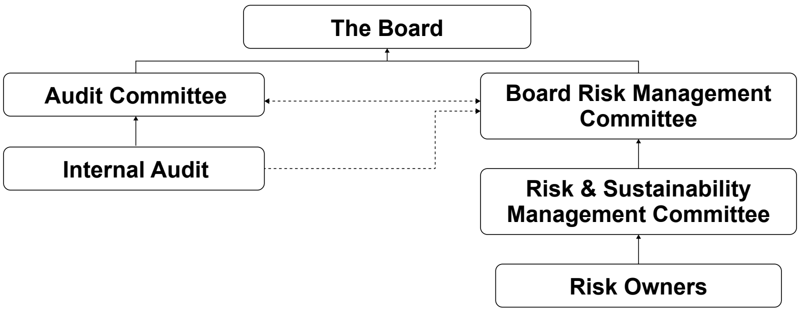
RISK MANAGEMENT

The Board maintains an on-going commitment for identifying, evaluating and managing significant risks faced by the Group during the financial year under review. As the second-line-of-defense, the Board has put in place a structured Risk Management Policy that are integrated, as the governance structure and processes for the risk management on enterprise wide, in order to embed the risk management practice into all level of the Group and to manage key business risks faced by the Group as well as to optimize key business opportunities available to the Group adequately and effectively. The duties for the identification, evaluation and management of the key business risks are delegated to 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 aspects guided by the ISO 31000:2018 – Risk Management Guidelines

The Group Risk Management Framework lays down the risk management objectives and processes established by the Board with formalised governance structure of the risk management activities of the Group established as follows:



Clear roles and responsibilities of the Board, the Board Risk Management Committee, the Audit Committee, 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 Board Risk Management Committee and RSMC are listed below.

The Board Risk Management Committee is made up of all Independent Non-Executive Directors and its roles and responsibilities as follows:

(a) Review, assess, formulate and recommend risk management strategies, framework, policies, processes, tolerance and risk appetite limits to the Board;
(b) Monitoring of Group risk exposures to ensure implementation and compliance with approved risk policies and processes of the Group, and to ensure that significant risks identified are being responded to appropriately;
(c) Review status of management action in mitigating significant risks identified;
(d) Review and assess the adequacy and effectiveness of the risk management structure, approved risk policies, processes and support system and to recommend such changes as may be deemed necessary to the Board;
(e) Review and assess the risks associated with all proposed strategic transactions of the Group and report the same to the Board for its deliberation of the transaction;
(f) Review the adequacy and effectiveness of the Group's system of internal controls established by the Management to manage key business risks through internal audit reports from internal audit function; and
(g) To coordinate with 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 Heads of Department) and is chaired by CED and the General Manager as the KRSO. The roles and responsibilities of RSMC are as follows:

(a) Implement the risk management policy as approved by the Board;
(b) Lead and implement the process of sustainability matters identification, assessment and management as well as devising appropriate action plan in cases where sustainability issues are not adequately or effectively addressed and communicate proposed action plans to the Heads of Department/Division;
(c) Conduct periodic review of all sustainability matters of the Group (at least on an annual basis) and determine the adequacy of the response and the current standing of the sustainability matters and to report the review results (including material sustainability matters) and recommendations to the Audit Committee;
(d) Manage stakeholder engagement for input for assessment and communication of results of review and response;
(e) Implement the material sustainability matters' indicator and the target and monitoring thereof and the preparation of sustainability disclosures as required by laws and/or rules, and to report to the Audit Committee for review;
(f) Oversee the Heads of Department/Division in the implementation of systems of sustainability management;
(g) Update the Audit Committee on changes to the material sustainability matters on periodical basis (at least on annual basis) respectively or when appropriate (due to change in external environment or internally) and the course of action to be taken by management in managing the changes; and
(h) Ensure relevant sustainability trainings are provided for appropriate level of employees to cultivate a positive attitude and promote correct approach toward sustainability management.

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

(a) Manage sustainability matters of the business processes under his/her control on day-to-day basis and to report changes in sustainability matters or new sustainability matters to RSMC for prompt actions to be taken;
(b) Continuous monitoring of sustainability matters for its risk and opportunity and to evaluate existing controls. If controls deemed ineffective, inadequate or non-existent, to report to the RSMC and assist the RSMC with the development of the management action plans and implement these action plans;
(c) Assist the RSMC with the implementation of the process of sustainability matters identification, assessment and management and periodic review of all sustainability matters of the Group to determine the adequacy of the response and the current standing of the sustainability matters (at least on an annual basis);
(d) Assist the RSMC to implement the material sustainability matters' indicator and the target and monitoring thereof with reporting to RSMC on scheduled basis and to assist in the preparation of sustainability disclosures as required by laws and/or rules; and
(e) Ensure that the staff working under the Heads of Department/Division understand the sustainability matters and issues 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 reporting to the 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 Board Risk Management Committee on the results of the review and assessment.

The Group has adopted risk-based quality management system and environmental management system in line with ISO 9001:2015 and ISO 14001:2015 certification for its key subsidiary. The risk and opportunity management process, consistent with 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 Risk and Opportunity Registers (including the action plans to address such risk and/or opportunity). The results of the risk assessment process were fed to the 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 the RSMC.

As at the date of this report, RSMC had conducted assessment exercise whereby existing strategic, governance and operational risks (in addition to risk identified per the 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 the 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.

During the financial year under review, the Board Risk Management Committee met once to review and discuss about the Terms of Reference and assess the risks associated with all proposed strategic transactions of the Group and reported to the Board on the results of its review. During the meeting, the Group's Key Risk Profile (included but not limited to, Risk and Opportunity Registers per the ISO 9001:2015 and ISO 14001:2015, Consolidated Risk Registers (consisted of strategic, financial and operational risks, likelihood and impact rating used and risk management process employed for assessment exercise by RSMC) compiled by RSMC was tabled to Board Risk Management Committee 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-of-defense. 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 Directors during the weekly Executive Committee ("**EXCO**") meetings or monthly management review meetings for discussion and formulation of effective internal control measures to manage such new, and changes to the financial and operational risks. The CED and Executive Directors 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 Board Risk Management Committee, Audit Committee and the Board by the CED and Executive Directors 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 Directors and presented to the Board for review and deliberation to ensure proposed plans and strategies are in line with the Group's risk tolerance. In addition, specific strategic and key operational risks are highlighted and deliberated by Audit Committee and/or the Board during the review of the financial performance of the Group in the scheduled meetings.

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

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

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

INTERNAL CONTROL SYSTEM

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

- **Board of Directors & Board Committees**

  The role, functions, composition, operations and processes of the Board are guided by a formal Board Charter whereby the roles and responsibilities of the Board, the Chairman and the CED are specified to preserve the independence of the Board from the Management.

  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.

Statement on Risk Management and Internal Control

Meetings of the Board and respective Board Committees are carried out on scheduled basis to review the performance of the Group, from financial and operational perspective, and to carry out its fiduciary duties and responsibilities. Potential business strategies are proposed by the Executive Directors for the Board's 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. Suitably qualified staffs 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.

- **Integrity and Ethical Value**

  The tone from the top on integrity and ethical value are enshrined in formalising the Code of Conduct, which was established and approved by the Board on 19 August 2019. This formal code forms the foundation of integrity and ethical value for the Group.

  Integrity and ethical value expected from the employees are incorporated in the Employees Handbook whereby ethical behaviours expected with customers, suppliers, employees, society and environment are stated.

  Codes of conduct expected from employees in exercising their duties and responsibilities assigned are also established and formalised in the Employees Handbook.

  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.

- **Policies, Procedures and Authorisation Requirements**

  Policies and standard operating procedures for the Group are established to regulate key processes in compliance with International Organisation for Standardisation ("ISO") certifications. Authorisation requirement for key processes are clearly defined in the respective policies and procedures and limit of authority matrix.

- **Information and Communication**

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

Statement on Risk Management and Internal Control

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

- **Monitoring and Review**

At the operational level, key performance indicators are formulated on a yearly basis to monitor the performance of key divisions and departments. During the monthly management review meetings, comprehensive operational reports are prepared by respective departments to assess the Group's performance against the performance indicators established and to discuss on current or new operational risks in order to formulate and implement mitigating controls.

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

Apart from the Weekly EXCO meetings and monthly management review meetings, annual management review meetings for Environmental (ISO 14001) and Quality Management System (ISO 9001) are also held to review and discuss on the Group's performance in relation to the quality and environmental standards established and to identify areas for improvement in order to achieve the Group's quality and environmental objectives.

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

INTERNAL AUDIT FUNCTION

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

The Group's internal audit function is outsourced to an independent professional firm, namely, NeedsBridge Advisory Sdn. Bhd., which reports directly to the Audit Committee to provide the Audit Committee with the assurance required regarding the adequacy and integrity of the Group's system of internal control. The engagement director of the outsourced internal auditors, namely, Mr. Pang Nam Ming, is a Certified Internal Auditor accredited by the Institute of Internal Auditors Global and a professional member of the Institute of Internal Auditors Malaysia. The internal audits are carried out, in material aspects, in accordance with the International Professional Practices Framework established by the Institute of Internal Auditors Global. The outsourced internal audit function is manned by one (1) engagement director, three (3) senior manager/managers and eight (8) senior consultants/consultants as at the date of this Report.

Statement on Risk Management and Internal Control

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

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

Risk-based internal audit plan in respect of the financial year ended 31 December 2019 was drafted, after taking into consideration existing and emergent key business risks identified by the Executive Directors and/or the Senior Management and previous internal audits performed, and was reviewed and approved by the Audit Committee prior to execution. Each internal audit cycle within the internal audit plan is specific with regard to audit objective, key risks to be assessed and scope of the internal control review.

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

During the financial year ended 31 December 2019, in accordance with the internal audit plan approved by Audit Committee, the internal audit function had conducted review for governance, procurement management, inventory management and fixed assets management for two (2) major operating subsidiaries (i.e. Ornapaper Industry (Johor) Sdn. Bhd. and Ornapaper Industry (M) Sdn. Bhd.).

Upon the completion of the internal audit field works during the financial year, the internal audit reports were presented to Audit Committee during its scheduled meetings. During the presentation, the internal audit findings and recommendations as well as management response and action plans were presented and deliberated with Audit Committee. Apart from the internal audit reports, updates on the implementation progress of action plans formulated per previous internal audit reports were presented to Audit Committee during the financial year for review and deliberation. In addition, during Audit Committee meeting, the outsourced internal audit function reported its staff strength, qualification and experience as well as continuous professional education for the Audit Committee's review.

In addition to the above, for the purpose of compliance with ISO 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.

Statement on Risk Management and Internal Control

The cost incurred in maintaining the outsourced internal audit function for the financial year ended 31 December 2019 was amounted to RM 34,628**.**

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

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

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

OPINION AND CONCLUSION

Based on the review of the risk management process and internal control system by the Board and the monitoring and review mechanism stipulated above coupled with the written assurance provided by the CED, the Board is of the opinion that the risk management and internal control systems are satisfactory based on the existing nature of business and scale of operations of the Group, to safeguard the interest of the stakeholders and the Group's assets, and there had been no material losses, contingencies or uncertainties that would require disclosure in the Group's Annual Report.

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

ASSURANCE PROVIDED BY EXTERNAL AUDITORS

Pursuant to Paragraph 15.23 of the MMLR, the external auditors have reviewed this Statement on Risk Management and Internal Control. Their review was performed in accordance with Audit and Assurance Practice Guides ("**AAPG 3**"): *Guidance for Auditors on Engagements to Report on the Statement on Risk Management and Internal Control* included in the Annual Report, issued by the Malaysian Institute of Accountants. Based on their review, nothing has come to their attention that causes them to believe that this Statement is neither prepared, in all material aspects, in accordance with the disclosures required by Paragraphs 41 and 42 of the Guidelines, nor factually incorrect.

Sustainability Statement

Introduction

The Board of Directors ("the Board") of Ornapaper Berhad ("Ornapaper") recognises the importance of continuously developing and improving the business operations in a sustainable and responsible manner. The Board believes and remains committed to create 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. The sustainable business practices of the Group can be enhanced 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 encourage good sustainability practices, update the sustainability progress and engage openly and responsively with the Group's stakeholders through transparent sustainability reporting that captures the economic, environmental and social aspects of its businesses' operations. The Board recognises that stakeholder engagement plays a vital role to ensure the businesses pursued by the Group is sustainable in the long term. Through Sustainability Statement, the Board provides the stakeholders a better insight on its approach to create sustainable long-term value for stakeholders as well as the progress in meeting these commitments. The Group is committed to conduct the businesses and operations in an equitable and accountable manner across the value chain.

The Board of Ornapaper Berhad acknowledges that businesses are not solely judged by its financial performance but also, not to a lesser extent, on its conducts in respect of governance, economic, environment and social aspects in order to endure in this challenging environment and 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. The Group remain dedicated to create value by transforming and evolving with the market, the industry as well as the nation.

The Board is mindful of the Group's role as a responsible citizen in securing a sustainable future for the Group and the communities it lives in and interacts with in 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 towards embracing good sustainability practices, by continuously integrated such practices into the working environment and culture, business processes and strategy making process in order to develop sustainable businesses that bring constructive impact to the economy, environment and greater community. Hence, the Group is committed to be accountable and transparent in the sustainability performance and exercises.

The Board of Ornapaper Group is pleased to present the Sustainability Statement for the financial year ended 31 December 2019 which is prepared pursuant to paragraph 6.1, 6.2 and 6.3 of Practice Note 9 of the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Securities"). In particular, the management of material sustainability matters is disclosed in accordance with Part III of Practice Note 9 of MMLR and Sustainability Reporting Guide issued by Bursa Securities ("the Guide") on the content of the Sustainability Statement.

Sustainability Statement

Scope of the Statement

The contents of this Sustainability Statement primarily include activities carried out during the financial year ended 31 December 2019 and up to the date of this Statement. This Statement covers the Group's economic, environmental and social management and performance. 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 management and performance.

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

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

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

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

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

Sustainability Principles

As the highest governance body within the Group, the Board undertakes the ultimate accountability for the integration of sustainability in the Group, including sustainability-related strategy and performance. The sustainability principles developed by the Board are:

- To observe and comply with all relevant legislation, regulations, recommended trade practice and code of practice applicable and relevant to the Group;
- To consider sustainability matters and integrate these considerations into the Group's business operations and when making and implementing business strategies;

Sustainability Statement

- To manage sustainability matters in structured and systematic manner, whereby sustainability matters are embedded throughout the Group and to be documented, continuously assessed and managed with reporting to the Board on scheduled interval or as and when the materiality of the sustainability matters requires such reporting;
- To continuously promote, train and communicate with all employees, suppliers, business partners and other relevant stakeholders to ensure that they are aware of, and are committed to, implementing and measuring sustainability activities as part of the Group's or their strategy, taking into consideration economic, environment, social and governance aspects;
- To continuously engage and communicate with all relevant stakeholders for the identification, assessment and management of material sustainable issues; and
- To strive to improve the Group's sustainability performance over times.

Sustainability Policy

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

Sustainability Statement

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 of high ethical standards of suppliers;
- Compliance to Environmental and Occupational Safety and Health regulations;
- Adoption of "Green" principles in procurement and manufacturing practices;
- Reduction of material consumption through recycling of waste materials;
- Management and disposal of waste in a responsible manner;
- Commitment to ensure a safe and healthy working environment;
- Fair treatment of employees;
- Continuous training and development of employees;
- Contributions towards local authorities and communities;
- Uphold business excellence and continuity;
- Commitment to continual research & development in achieving product innovation and enhancing product quality;
- Continuous selection of potential supplier at significant location of operations to optimise cost and sales value;
- Customer profile diversification to ensure economic interest of all relevant stakeholders are preserved and prevention from loss of key customers; and
- Compliance to better practices under the Malaysian Code of Corporate Governance 2017 ("MCCG").

Sustainability Statement

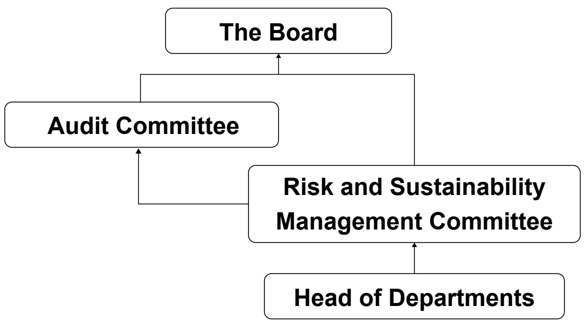
Governance Structure and Process

The Board affirms its overall responsibility for integration of the recommended sustainable economic, environment and social practices throughout the Group to ensure business strategies of the Group are developed with regards to the sustainability consideration and to ensure sustainability performance are monitored for its accomplishment from time to time. The governance structure in relation to the Group's sustainability management is guided by the Guide and Toolkit: Governance issued by Bursa 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, environment and social practices are comprehended and implemented by all levels of organisation.

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

The Board has formalised the sustainability principles, policies and processes envisaged by the Board through the establishment of Sustainability Policy. Furthermore, formal governance structure, based on the existing geographical scope, scale and nature of the 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 defines clearly on the roles and responsibilities expected of the Board, the Audit Committee, Risk and Sustainability Management Committee, Head of Departments and 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 to oversee the sustainability management and performance of the Group for reporting to the Board.

Sustainability Statement

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

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

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

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

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

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

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

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

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

As for the Heads of Departments, their primary responsibilities are to manage sustainability matters of the business processes under his/her control and to assist the 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, is as follows:-

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

Sustainability Statement

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

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

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

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

  Sustainability issues considered material if:

  - it has significant economic, environmental and social impacts on the Group from the organisation's point of view;

  - substantively influence the assessments and decisions of stakeholders from the stakeholders' point of view; and

  - it has significant economic, environmental and social impacts that affect the ability to meet the needs of the present and future generations.

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

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

Sustainability Statement

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

  In the context of the sustainability matters management, the current standing of sustainability matters is assessed for its adequacy and effectiveness by the 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 to develop position and response with respect to each material sustainability matters in the following manners:

  - developing policies and procedures
  - implementing various initiatives, measures or action plans
  - to comply with applicable laws and regulations
  - setting indicators, goals, targets and timeframe in line with the strategic objectives
  - implementing new, or changing existing systems, to capture, report, analyse, and manage data requirements

  The Risk and Sustainability Management Committee to monitor the current standing (including but not limited to, indicators, target and actual performance) and responses of the material sustainability matters and actual performance and to report to the Audit Committee on yearly basis for review and for their recommendation to the Board for review and approval.

Stakeholders' Engagement

The Board recognises and admits that contribution and support of the internal and external stakeholders are utmost important for realisation of the Group's missions and long-term business sustainability and excellence. Therefore, a stakeholder-driven approach to sustainability serves as a foundation in developing our sustainability strategy and reporting. It is vital for us to maintain a good relationship with stakeholders to ensure our business success and long-term growth. The Group recognises and values each of its employees, customers, as well as other stakeholders, and believes by understanding their interests and needs, it fosters lasting and mutually beneficial relationships that enhances its morale, reputation and business performances. By establishing effective and transparent lines of communication with its 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.

Sustainability Statement

It is on this basis that the Board is pursuing the sustainable strategy of continuous engagement with internal and external stakeholders who is dependent on and/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 response proactively, via formal and informal channels, to the concerns and views of respective stakeholder groups. By actively engaging with all stakeholders, the Board is able to identify risks and opportunities in the way the businesses of the Group are carried out. During such engagement, the Group is able to validate the sustainable matters identified by the Management of the Group.

The Group's stakeholder engagement process is guided by the Guide and Toolkit: Stakeholder Engagement issued by Bursa Securities with necessary adaption based on the nature and scale of the businesses of the Group.

During the financial year under review and up to the date of this Statement, with regards 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 Head of Departments and Executive Directors, supported by formal channel of communication (such as, employees' performance appraisal) to engage with the stakeholders.

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

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

Stakeholder Group	Engagement Objective(s)	Preferred Engagement Method(s)	Frequency of Engagement
Employees	• To ensure fair engagement of salary • To establish career pathway for workforce at all levels • To have a safe and healthy working environment • To strike for work life balance	• Performance appraisal • Employee's self-evaluation • Memorandum • Electronic mail system • Meetings • Employees' dialogue	Annually; Ongoing

Sustainability Statement

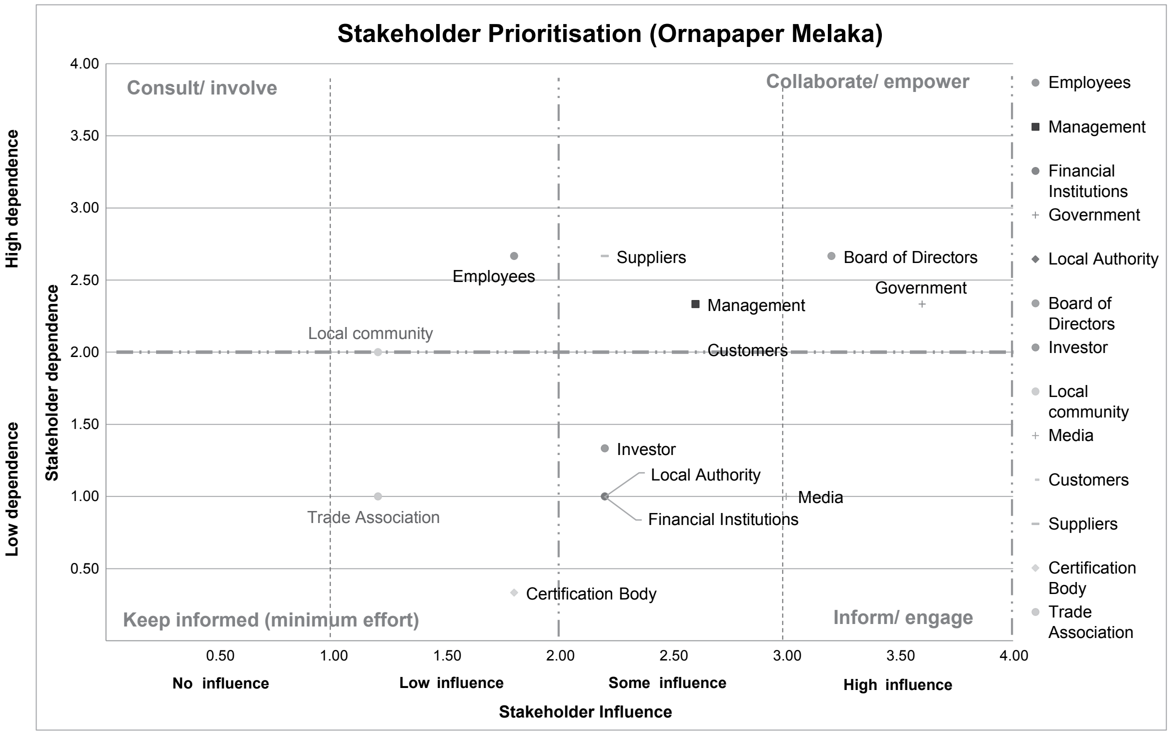
Stakeholder Group	Engagement Objective(s)	Preferred Engagement Method(s)	Frequency of Engagement
Management	• To ensure sustainable of human resources in pursuing of company's goals	• Meetings • Memorandum • Electronic mail system	Annually; Quarterly; Monthly; Ongoing
Board of Directors	• To ensure business strategy take into consideration of sustainable practices	• Committee meetings • Board of Directors meeting	Annually; Quarterly
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 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
Customers	• To improve customer's satisfaction • To meet potential customer's requirements	• Face -to -face meetings • Electronic mail system • Telephone conversation • Customer's audits • Letter of complaint • Official letter • SCAR	Ongoing
Suppliers	• To ensure all materials are RoHS compliance/ environmental friendly • To strive for reasonable price materials and services at acceptable quality, consistent and on -time delivery • To ensure safety and health during loading and unloading process & delivery journey • To ensure product quality and safety	• Supplier's evaluation and appraisal • Meetings • Conflict of Interest Policy • Code of Conduct • Electronic mail system • Telephone conversation • Official letter/ memorandum • Supplier audit	Ongoing

Sustainability Statement

Stakeholder Group	Engagement Objective(s)	Preferred Engagement Method(s)	Frequency of Engagement
Investors	• To demonstrate financial sustainability	• Annual report • Annual general meeting • Shareholders' communication • Press release 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
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
Media	• To minimize negative reporting and protect 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 groups identification with respective engagement methods proposed, stakeholders prioritisation exercise was conducted for Ornapaper Melaka to rank respective stakeholder groups' influence over and/or dependence on Ornapaper Melaka based on influence over and dependence rating criteria and scale approved by the Board. The results of the stakeholders prioritisation exercise for Ornapaper Melaka are tabulated in the following Stakeholder Prioritisation Matrix with recommended level of engagement for respective quadrum:

Sustainability Statement



Sustainability Management Activity

Ornapaper Melaka had performed the following activities in relation to the identification, management and reporting of sustainability matters and performance:

- Identification of the internal and external stakeholders of manufacturing activities that have influence over and dependence on Ornapaper Melaka through Stakeholder's Mapping and with individual Stakeholder Profile established for each stakeholder identified.
- Internal and external stakeholders of manufacturing activities identified by Risk and Sustainability Management Committee were assessed and prioritised for its degree of influence over and dependence on Ornapaper Melaka based on the agreed upon criteria and rating scale ("Stakeholder Prioritisation Exercise").
- 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 Head of Departments.
- Risk and Sustainability Management Committee performed the internal materiality assessment by using predetermined criteria and rating scale to prioritise the sustainability matters for assessment by internal and external stakeholders and to determine the significance of the sustainability matters from the Group's perspective ("Internal Materiality Assessment").

Sustainability Statement

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

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

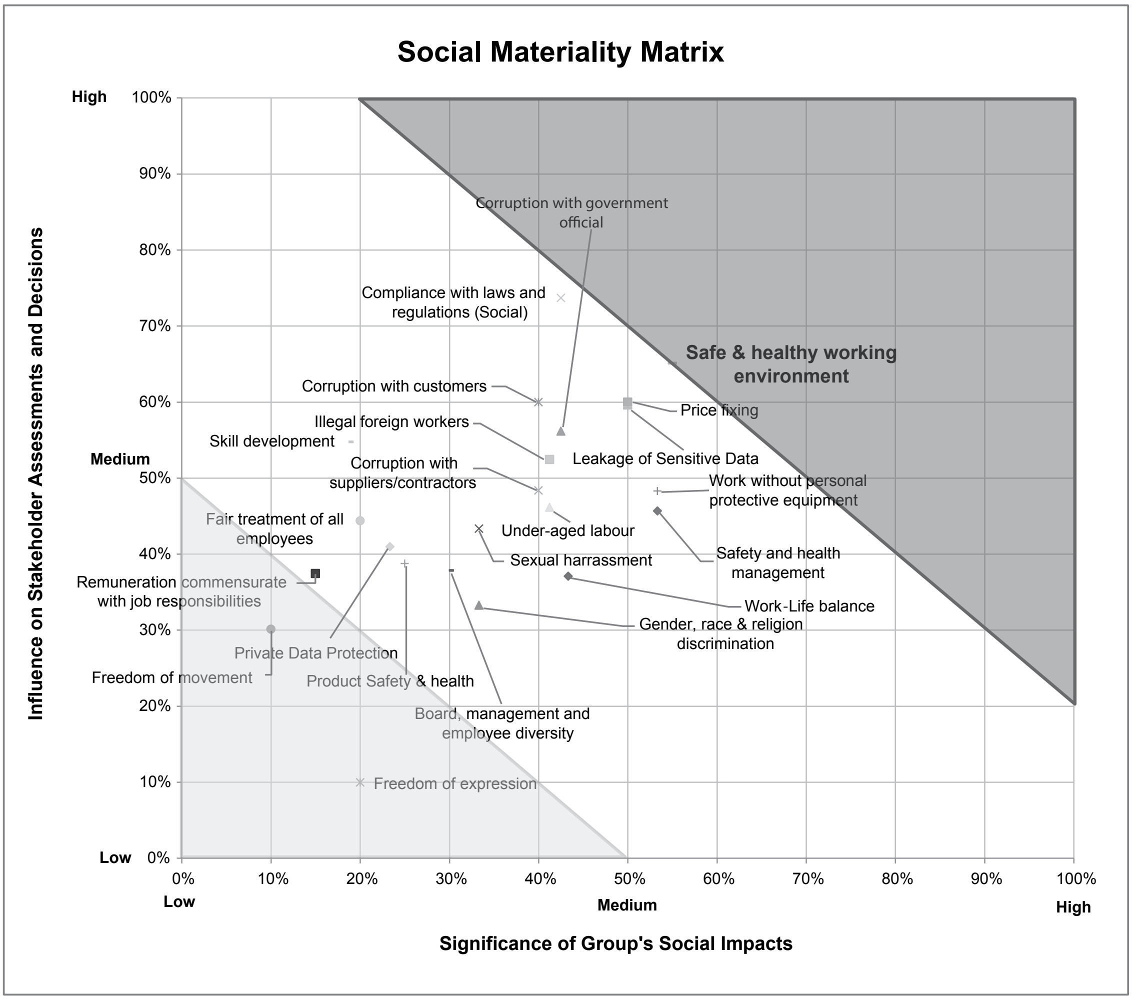
Material Sustainability Matters

The Group focuses strongly on delivering value to shareholders, practicing 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 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.

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

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

Sustainability Statement



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

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

Sustainability Statement

Safe and Healthy Working Environment (Social)

As a socially responsible business, the Company'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 provide and maintain a productive yet safe and healthy workplace to all employees and relevant stakeholders by minimising the risk of accidents, injury and exposure to health hazards.

In this respect, the Company places utmost importance on continuous compliance with all relevant safety and health related legislative requirements. The safety and health management at workplace is managed by the Safety and Health Committee (made up of representatives from the Management and the employees) in compliance with the *Occupational Safety and Health Act 1994, Occupational Safety and Health (Safety and Health Committee) Regulations 1996, Poisons Act 1952, Poisons (Sodium Hydroxide) Regulations 1962, Fire Services Act 1988 and Factories and Machinery Act 1967 (and its orders and regulations)*. The safety and health management at workplace is also guided by the Safety and Health Policy established by the Safety and Health Committee and approved by the Chief Executive Director. Besides, safety and health rules and regulations are also established by the Safety and Health Committee and approved by the Management to ensure the operational activities are carried out in a manner to minimise industrial accidents.

In order to foster the desired safety and health objectives and outcomes with minimal industrial accidents and incidents occurred, the Safety and Health Committee established by the Company shall oversee the due observance of safety and health rules and regulations established at workplace and to promote safe and healthy conducts and environment at workplace. The Company strives to work towards its goals in achieving "A Zero Accident" workforce, meanwhile, creating "A Good, Safe and Pleasant" environment to the employees and relevant stakeholders in order to prevent unnecessary accidents and injuries at workplace.

Safety and health audits are conducted by Safety and Health Committee on all departments of the Company to ensure that incidents of non-compliance of 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 environment are performed by the Safety and Health Committee with planned controls formulated to eliminate hazards or control risks at regular interval.

Furthermore, scheduled meetings of the Safety and Health Committee are held at predetermined interval in accordance with the required safety and health related rules and regulations to discuss and monitor the trend of accident or incident and immediately investigate near-miss accident or incident, dangerous occurrence, occupational poisoning or occupational disease that are occurred at workplace, 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 the safety and health during the execution of their duties and responsibilities. To promote safety and health culture among the employees, regular safety and health related trainings are conducted and provided to all employees to keep them abreast with the current safety and health practices with necessary precautions to be taken in place to minimise accidents or incidents in workplace.

Sustainability Statement

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

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

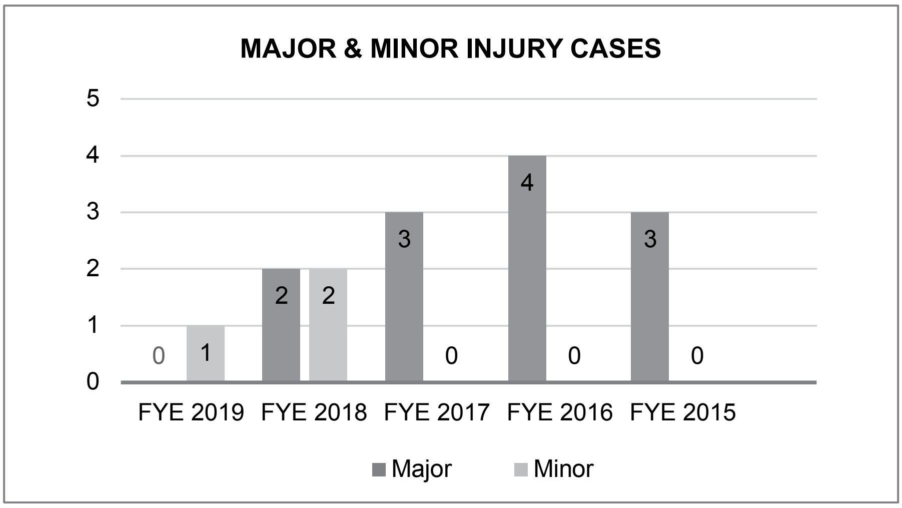
In addition, fire preventive equipment and systems are installed and inspected at regular interval to ensure its functionalities are not compromised over time and clear escape route plans are place in strategic locations. All plants and equipment used within the Company are subject to service and maintenance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

Occupational safety and health performance are regularly monitored and reported in monthly progress reports, identifying any new or recurring health and safety issues that may occur in workplace and the measures undertaken to address these issues. The Company targets a zero-injury (both minor and major) rate. The figures below illustrate the incident records of the Company over the course of 5 years from financial year end 2015 to 2019:-

Year	FYE 2019	FYE 2018	FYE 2017	FYE 2016	FYE 2015
Major	0	2	3	4	3
Minor	1	2	0	0	0
Target	0	0	0	0	0

Sustainability Statement

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



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

Last but not least, as the Company has obtained approval from the Ministry of International Trade and Industry to resume operation at 50% of its workforce during the Movement Control Order ("MCO") period, the Company is committed to ensure its adaptation and compliance with the Standard Operating Procedures stipulated as well as the rules and guidelines on health precautions and strict movement control from Ministry of Health Malaysia and other related enforcement agencies. The Company has submitted the registers of employees that are involved in the operations during MCO and complied with the requirement of ensuring the registered employees' movement is confined only to leaving their homes to and fro from the factory/ premise. In view of the recent outbreak of COVID-19 pandemic, in order to provide a safe and healthy working environment to employees, sufficient and appropriate briefings were given to employees in relation to the pandemic and the preventive measures that are required to be taken. Employees are always required to comply strictly with the guidelines and preventive measures required by the Ministry of Health Malaysia.

Besides, thermal scanner is prepared and used by the Company, whereby body temperature of employees is measured every day by the security guards at entrance of the factory premises and employees are enquired for any symptoms of cough, sore throat or breathing difficulties. Readings of employees are recorded and kept for a period of at least three months for reference. Should the body temperature reading be 37.5 degree Celsius or more, or has symptoms, the employee is not allowed to enter the Company's premises and the Company is required to contact the nearest health office or government hospital or clinics. Hand sanitizers are provided at the security guardhouse, main entrance of the office premise, common areas as well as other related places within the premises/ factory. Face masks are required to be used by every employee too. The best practices of social distancing, such as, one-meter distance/ space separation, floor markings, desks and chairs etc. are established and performed by the Company especially in common areas and the social distancing practices are required to be observed by employees in the premises/ factory.

Sustainability Statement

Furthermore, disinfection or sanitisation process at the Company's premises/ factory is conducted before the shift or operation begins in accordance with the guidelines set by the Ministry of Health Malaysia. The sanitation and cleaning process is performed three (3) times a day especially in common spaces such as lobby/ entrance to the office premises, meeting rooms, prayer rooms, canteen, toilets, pantries and production floors. The Company's canteen is only allowed to operate for the purpose of providing packed foods by food operators who should also wear mask and gloves with social distancing practiced. Lunch time of employees are arranged in stages. The Company also encourages no handshake policy to avoid unnecessary physical contact. Thus far, there was no cases of COVID-19 reported at the Company.

Other Major Environment and Social Activities Undertaken During Financial Year

A. Environment

As a responsible corporate citizen, the Group is mindful of its commitment to drive long-term value for its stakeholders and its role in securing a sustainable future for the Group and the communities it's interacting with along with the environment that it subsist upon. Hence, the Group strives to conduct its business and operations in an environmentally responsible manner. The Group's operations are built on governance procedures intended to ensure sound environmental practices in its daily operations. Having said so, the Group is committed wholeheartedly to ensure that all relevant environmental laws and regulatory requirements, i.e. *Environmental Quality Act 1974* and its regulations, are being adhered to and embedded into its operations. The Group's target is to sustainably maintain operational quality across the Group, in which would promote sensible use of natural resources. To enhance this, the Company has obtained ISO 14000:2015 certification.

Given the nature and size of its operations, the Group's operating processes produce 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 business 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 by using Electronic Scheduled Waste Information System under DOE. To play a part in maintaining environmental sustainability, Ornapaper Melaka had installed a more cost-saving yet environmentally friendly heated purge desiccant dryer system which processes the ink sludge by using evaporation technique that enables lesser ink sludge to be generated and disposed by the Company. Trial run and monitoring of the ink sludge produced from such dryer system is still on-going. Such dryer system provides the smallest footprint possible while ensuring maximum performance.

As for non-scheduled waste generated, it is scrapped or collected by selected waste collectors to be recycled or disposed at landfills. The nature of 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 atmosphere are channelled through chimneys, whereby the Group's Safety Department conducts regular air emissions monitoring through stack monitoring in order to ensure continuous compliance to DOE's limits. Besides, engineering controls were deployed on plants and machineries to the extent possible in order to reduce the wastages generated, improve air quality and minimise/ prevent depletion of natural resources.

Sustainability Statement

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

- Reuse and recycle of A4 paper which helps to reduce trees being cut down and reduce greenhouse gases emission;
- Recycle and reuse the printer toner cartridge by sending the empty toner to supplier for refilling;
- Reduce electronic waste to be disposed through landfill, which helps to conserve environment by saving energy, water, and natural resources and reduces greenhouse gases caused by manufacturing new cartridges.
- Recycle of trim waste, paper core and rejected carton which help to conserve energy and natural resources and ultimately reduce pollution.
- Recycle of 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.

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

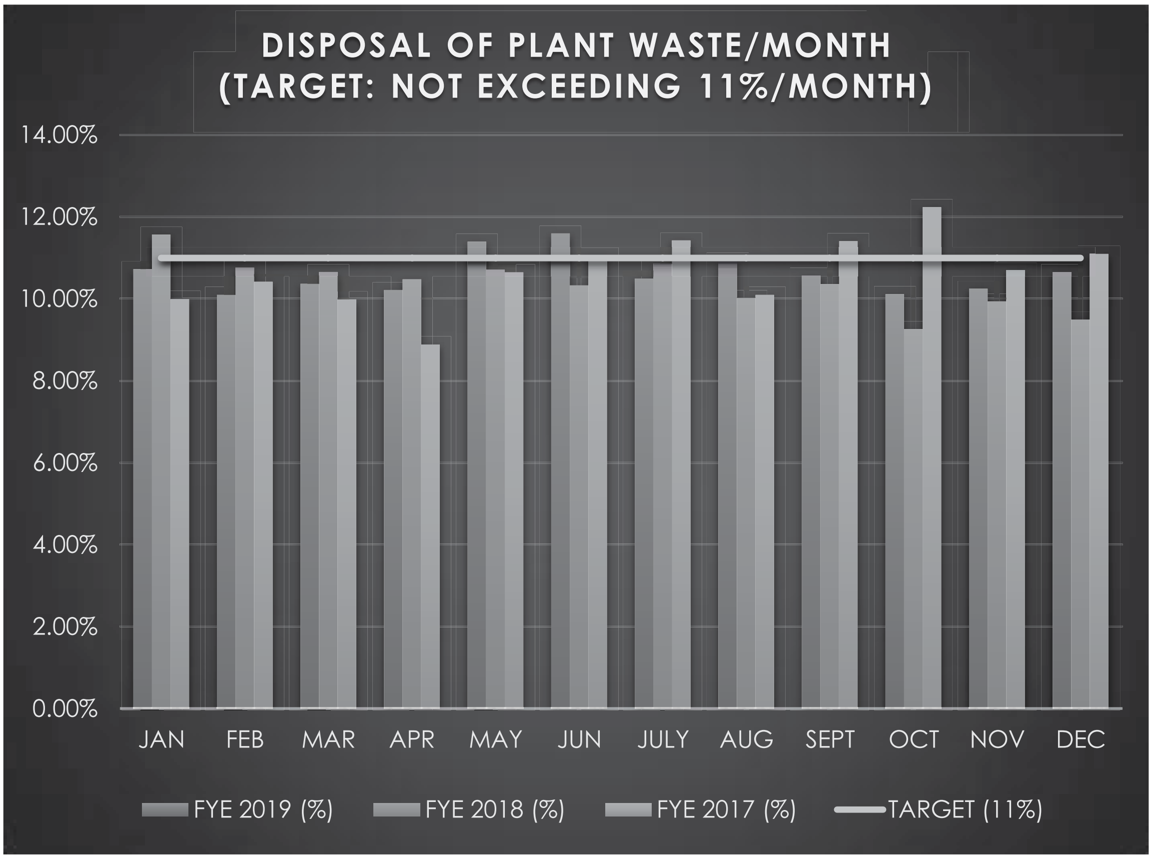
Environmental Objective (s)	Environmental Target (s)
1. To control water consumption	To ensure the water consumption not exceeding average of 0.7 m^3/ MT for the next twelve months.
2. To control energy consumption	To ensure the energy consumption not exceeding average of 50 kwh/MT for the next twelve months.
3. To reduce disposal of plant waste	To ensure disposal of plant waste not exceeding 11%/month.
4. To reduce disposal of peel waste	To reduce disposal of peel waste from Incoming Warehouse below 3 MT/month.
5. To reduce disposal of glue sludge	To reduce the disposal of glue sludge accumulated to 25 MT/year.
6. To reduce disposal of ink sludge	To reduce the disposal of ink sludge to average 10 MT / month.

Sustainability Statement

➤ *Energy and Water Consumption:*

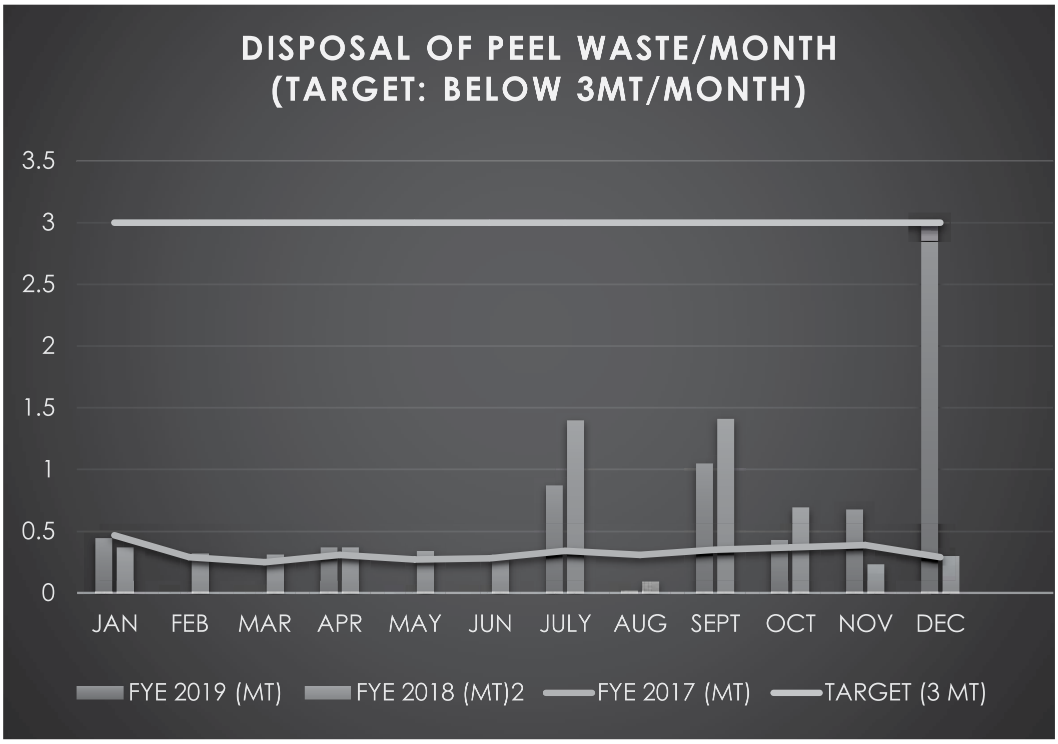
	FYE 2019	FYE 2018	TARGET
Average Water Consumed/MT (m^3/MT)	0.6	0.7	0.7
Average Energy Consumed/MT (kwh/MT)	52	51	50

➤ *Disposal of Plant Waste:*



Sustainability Statement

- *Disposal of peel waste:*



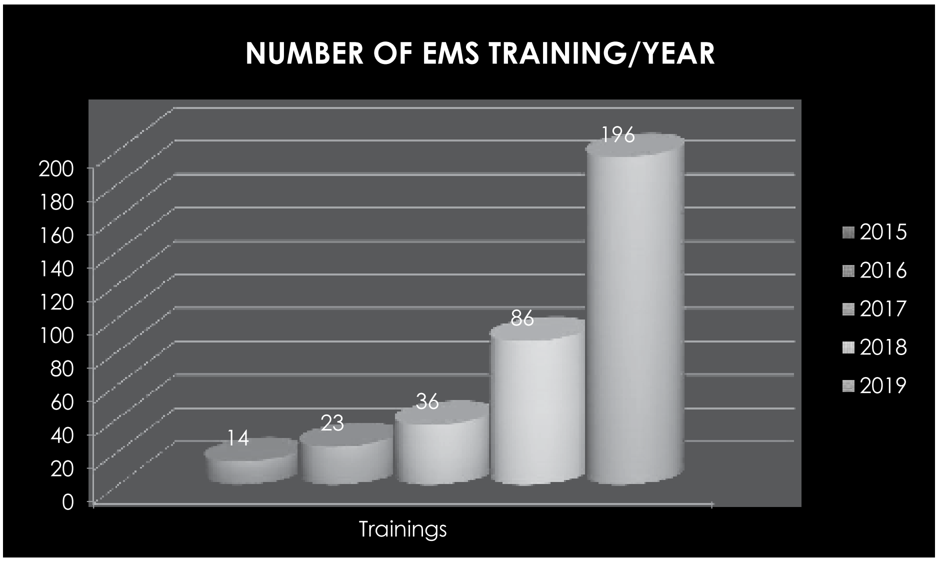
- *Disposal of Glue Sludge and Ink Sludge:*

	FYE 2019	FYE 2018	FYE 2017	TARGET
Accumulated Glue Sludge Disposed for the Year (MT/year)	19.54	16.11	22.67	25
Average Ink Sludge Disposed/Month (MT/month)	6.71	9.08	5.61	10

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

TRAINING/YEAR	YEAR 2019	YEAR 2018	YEAR 2017	YEAR 2016	YEAR 2015
NO. OF EMS TRAINING	196	86	36	23	14

Sustainability Statement



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

B. Social

The Group is committed to conduct 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 lies in every employee as employees are a valuable resource and a key business success factor for the Group. Therefore, it is vital for the Group to treat them equally, provide them with a safe, healthy and sustainable working environment as well as to actively develop, invest in and foster growth amongst its employees to further develop the skills, knowledge and talents of the employees. The Group had developed Employee Handbook and Human Resource policies and procedures in that respect for transparency in employee's benefits and entitlements.

To have a strong-based workforce and ensure the 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 duties and responsibilities, to offer on-going opportunities for trainings and developments, as well as long-term career prospects. To enable this, the Group encourages employees to undergo learnings to support their career development and performance enhancement. The learnings can be inclusive of functional, on-the-job or people skills that are relevant to current or future job function, which shall prepare them for the next level of long-term career with the Group.

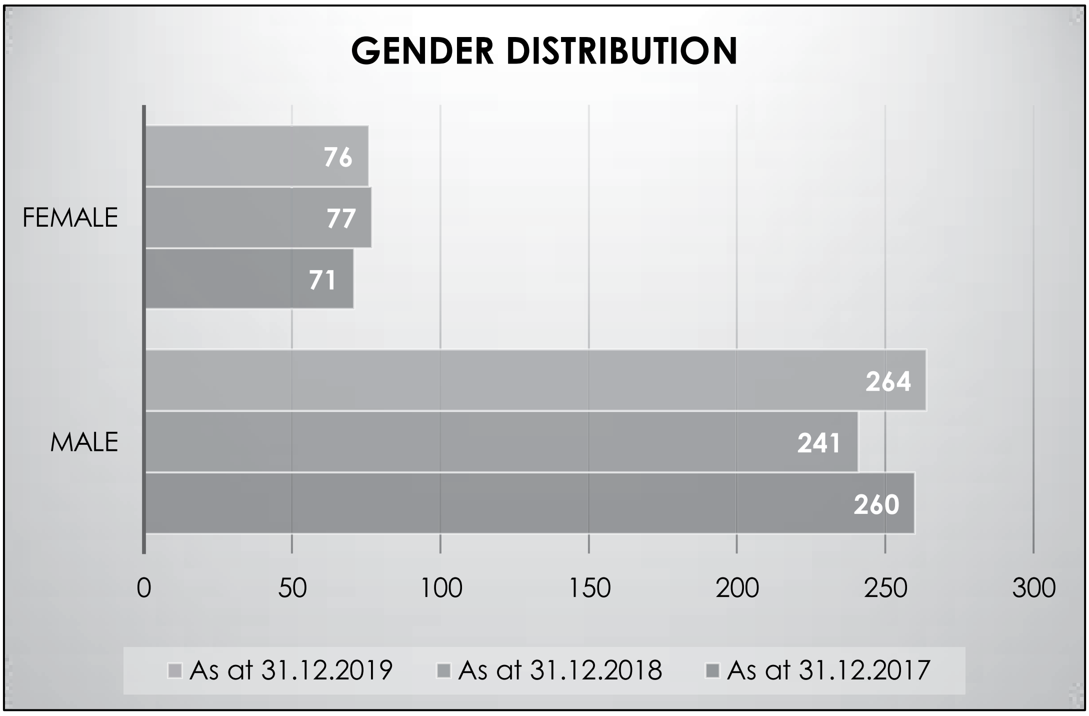
The Board is committed to build performance-based culture by allowing employees to demonstrate their capabilities. The Group is mindful that fair compensation is essential in motivating and engaging workforce to achieve its growth target. Thus, employees are to be reasonably rewarded based on the competencies demonstrated and efforts dedicated by them in delivering their duties and responsibilities. Annual performance appraisals are undertaken by the Management, not only for the performance-based remuneration, but also to have effective two-way communication with its people whereby the past performance and expectations for the future years by the Management on its people are communicated while its people's commitment and concerns are conveyed for future monitoring.

Sustainability Statement

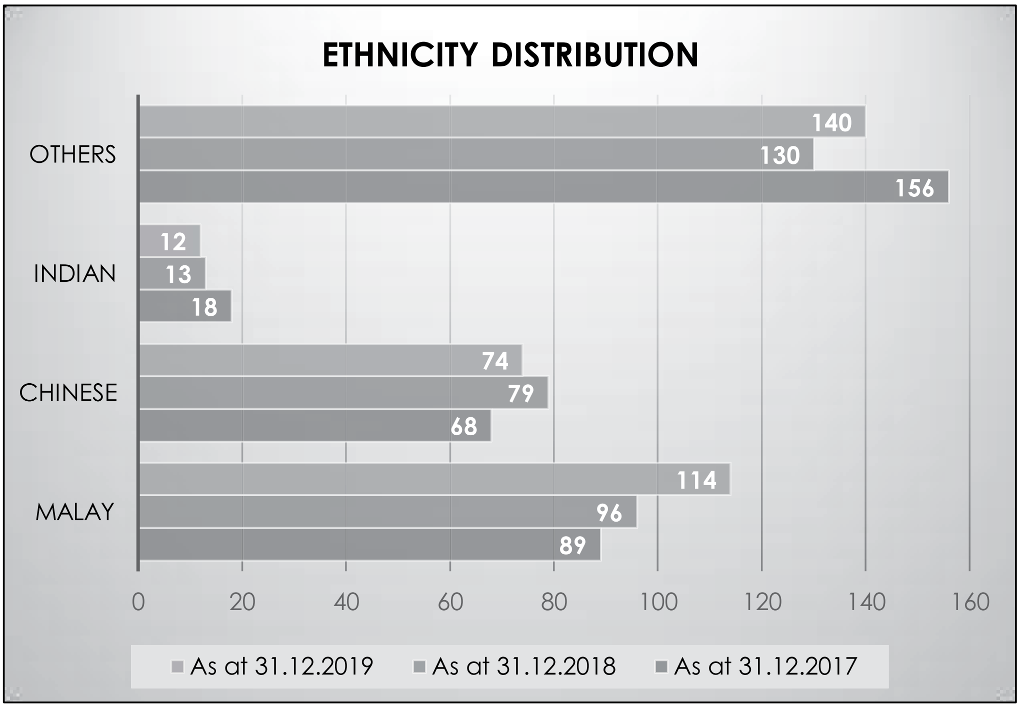
Making the Group a secure and comfortable workplace continues to be an important focus in its business strategy whereby health and safety improvement benefits will eventually deliver to employees, suppliers, contractors, customers, investors and general public. The Board understands the inherent risk 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.

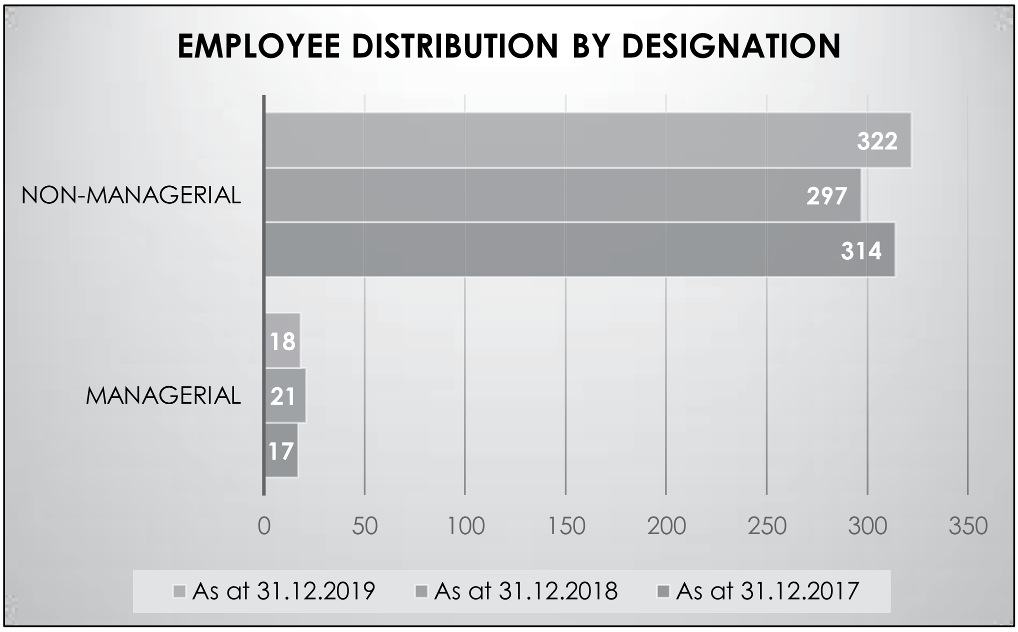
The Group also champions equal opportunity for all employees regardless of race or ethnicity, religion, nationality, age, marital status, gender or any other characteristics as protected by the local legislation and regulations. There is strict enforcement by the Group where no illegal employees shall be engaged in the work place. In addition, equal access and opportunities with fair treatments are provided to employees in terms of recruitment, retention and training. The Group acknowledges the culture that respects and leverage on the diverse ethnicities and cultures of Malaysia, hence, to recognise the needs of respective ethic groups and cater their needs and requirements in its business and operations. The Group is committed to provide a work environment that is free from discrimination for employees.

This is evidenced by the diversity profile of human capital in the Company.

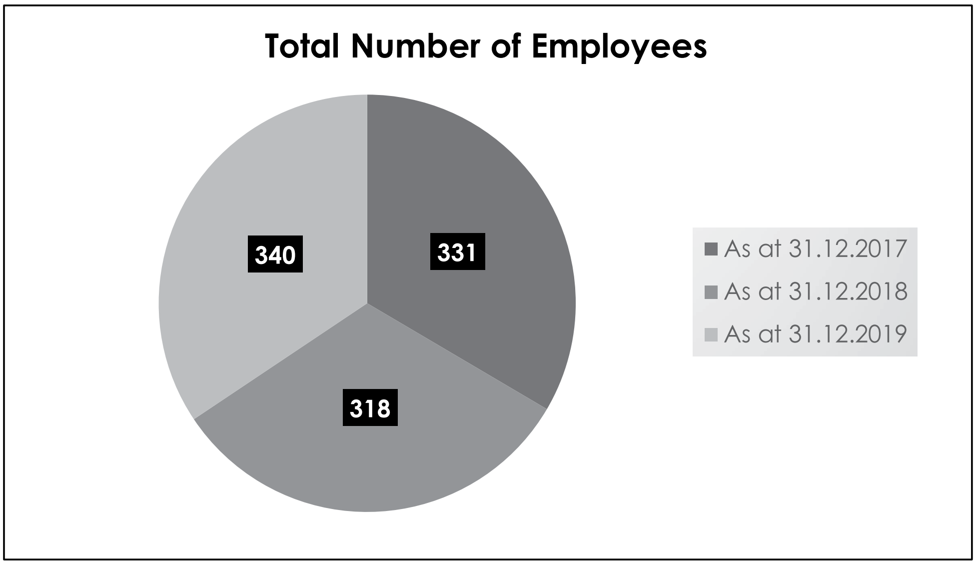


Sustainability Statement





Sustainability Statement



As a responsible corporate citizen, the Group strives to undertake sustainable and responsible practices to add value to the sustainable business growth, environmental stewardship and social responsibility. In the aspect of social responsibility, in order to accord our people with their rights as an employee of the Group, the Group observes strict compliance with all applicable prevailing human resource laws and regulation, at the minimum. It is paramount for the Group to also comply with the other relevant social laws and regulations, such as *The Federal Constitution of Malaysia, Employment Act and its regulations, Minimum Wages Order, Competition Act, Personal Data Protection Act, Minimum Retirement Age Act and Child Act.*

On the other hand, the Group has established a proper channel for whistle-blowing with serious effort being taken in communicating the whistle-blowing policy to all our employees. Such whistle-blowing channel set-up encourages whistle-blower to report any inappropriate ethical behaviours and workplace grievances through multiple communication channels 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 during the financial year under review.

Lastly, the Group believes in the philosophy of giving back to society to show its gratitude and appreciation for its success and growth. Hence, the Group is committed in giving back to communities. Its strategy is to generate sustainable value for both the community and economic growth through effective use of the Group's capabilities and resources as well as sharing of financial resources with local community for their developments. During the financial year, the Group have supported various community causes through corporate donations and community events for the less fortunate. The Group is committed to continue investing in community programmes and other corporate social responsibility initiatives to contribute towards the betterment of local communities. Employee's participation is the key to success of these initiatives. Such initiatives help to increase employees' interaction outside working hours, build fellowship and support inter-departmental bonds. Whilst communities benefit, its employees also benefit.

Financial Statements

Director's 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 2019.

Principal activities

The Company is principally engaged in the business of investment holding. The principal activities of the subsidiaries are set out in Note 15 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	13,476	1,991
Attributable to:		
Owners of the Company	13,210	1,991
Non-controlling interest	266	-
	13,476	1,991

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.

Dividends

Dividends paid or declared by the Company since 31 December 2018 was as follows:

	RM'000
<u>In respect of the financial year ended 31 December 2018:</u>	
Final single tier dividend of 2.5 sen per ordinary share, declared on 2 July 2019 and paid on 16 July 2019	1,854

At the forthcoming Annual General Meeting, a final single tier dividend of 3 sen per ordinary share in respect of the current financial year ended 31 December 2019, will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2020.

Director's 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
Ang Kwee Teng
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:-

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 1.1.2019	**Bought**	**Sold**	**At 31.12.2019**
The Company				
Direct interest				
Sai Han Siong	15,000	-	-	15,000
Ang Kwee Teng	10,000	-	-	10,000
Siow Kee Yen	30,500	-	-	30,500
Datuk Adillah binti Ahmad Nordin	34,000	-	-	34,000
Sai Ah Sai	120,000	-	-	120,000
Indirect interest				
Sai Chin Hock #	23,152,198	-	-	23,152,198
Sai Han Siong #	23,275,198	-	-	23,275,198
Sai Ah Sai #	24,339,698	-	-	24,339,698

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 and son's shareholdings in the Company.

Director’s Report

Directors' interests (continued)

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' benefits

Since the end of the previous financial year, no director has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivables by the directors shown in the financial statements or the fixed salary of a full-time employee of the Company or related corporations) 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 32 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 disclosed in Note 33(a) to the financial statements.

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 RM3,000 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.

Director's Report

Treasury shares

As at 31 December 2019, 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 15 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.

 (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) 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.

Director's Report

Other statutory information (continued)

(d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.

(e) The contingent liabilities are disclosed in Note 36 to the financial statements. 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 are disclosed in Note 8 to the financial statements.

Signed in accordance with a resolution of the directors dated 19 May 2020

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 95 to 164 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 2019 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 19 May 2020.

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 95 to 164 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 19 May 2020

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 2019 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 95 to 164.

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 2019, 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' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current 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 Revenue Recognition (Refer to Page 120, Note 4 to the financial statements)	**How our audit addressed the key audit matter**
Consolidated revenue recorded by the Group during the year amounted to approximately RM332 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.	Our procedures included, amongst others: ● 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 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 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, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current 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 15 to the financial statements.

OTHER MATTERS

(1) The financial statements of the Company for the preceeding financial year were audited by another firm of chartered accountants whose report dated 5 April 2019, expressed an unqualified opinion on those financial statements.

(2) 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
Melaka, Malaysia
Date: 19 May 2020

Piong Yew Peng
03070/06/2021 J
Chartered Accountant

Statements of Profit or Loss and other Comprehensive Income

For the financial year ended 31 December 2019

	Note	Group 2019 RM'000	Group 2018 RM'000 (Restated)	Company 2019 RM'000	Company 2018 RM'000
Revenue	4	331,580	349,853	2,445	7,726
Cost of goods sold		(282,696)	(307,867)	-	-
Gross profit		48,884	41,986	2,445	7,726
Other income	5	1,225	1,446	91	88
Administrative expenses		(15,264)	(15,076)	(408)	(382)
Selling and marketing expenses		(5,370)	(4,918)	(7)	(5)
Other expenses		(7,248)	(6,784)	(110)	(129)
Operating profit		22,227	16,654	2,011	7,298
Finance costs	6	(3,564)	(3,557)	-	-
(Net impairment losses)/ Reversal of net impairment losses on financial assets	7	(513)	348	-	-
Profit before taxation	8	18,150	13,445	2,011	7,298
Income tax expense	10	(4,674)	(3,597)	(20)	-
Profit after taxation		13,476	9,848	1,991	7,298
Other comprehensive income		-	-	-	-
Total comprehensive income		13,476	9,848	1,991	7,298
Profit after taxation attributable to:					
Owners of the Company		13,210	9,429	1,991	7,298
Non-controlling interest		266	419	-	-
		13,476	9,848	1,991	7,298
Total comprehensive income attributable to:					
Owners of the Company		13,210	9,429	1,991	7,298
Non-controlling interest		266	419	-	-
		13,476	9,848	1,991	7,298
Earnings per share attributable to owners of the Company (sen)					
Basic	11	17.8	12.7		
Diluted	11	17.8	12.7		

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

Statements of Financial Position

As at 31 December 2019

	Note	Group 2019 RM'000	Group 2018 RM'000 (Restated)	Company 2019 RM'000	Company 2018 RM'000 (Restated)
Assets					
Non-current assets					
Property, plant and equipment	12	89,782	96,848	-	-
Land use rights	13	-	6,529	-	-
Right-of-use assets	14	22,159	-	-	-
Investment in subsidiaries	15	-	-	103,659	103,659
Goodwill	16	1,633	1,633	-	-
		113,574	105,010	103,659	103,659
Current assets					
Inventories	17	54,193	47,397	-	-
Right of return assets	18	217	110	-	-
Trade receivables	19	77,413	84,273	-	-
Other receivables, deposits and prepayments	20	6,586	4,550	29	22
Current tax assets		276	11	-	-
Deposits with licensed banks	21	6,652	6,436	3,149	3,066
Cash and bank balances		36,640	29,747	606	574
		181,977	172,524	3,784	3,662
Total assets		295,551	277,534	107,443	107,321
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		89,461	78,105	21,531	21,394
		175,327	163,971	107,397	107,260
Non-controlling interest	15	1,661	1,530	-	-
Total equity		176,988	165,501	107,397	107,260
Non-current liabilities					
Loans and borrowings	23	2,307	6,628	-	-
Lease liabilities	24	4,858	-	-	-
Deferred tax liabilities	25	10,137	9,109	-	-
		17,302	15,737	-	-

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

Statements of Financial Position

As at 31 December 2019

	Note	Group 2019 RM'000	Group 2018 RM'000 (Restated)	Company 2019 RM'000	Company 2018 RM'000 (Restated)
Current liabilities					
Trade payables	26	20,816	25,348	-	-
Other payables and accruals	27	13,276	13,015	45	60
Refund liabilities	18	762	828	-	-
Loans and borrowings	23	61,755	56,403	-	-
Bank overdrafts	28	1,493	-	-	-
Lease liabilities	24	2,256	-	-	-
Derivative liabilities	29	4	-	-	-
Current tax liabilities		899	702	1	1
		101,261	96,296	46	61
Total liabilities		118,563	112,033	46	61
Total equity and liabilities		295,551	277,534	107,443	107,321

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

Statements of Changes in Equity

For the financial year ended 31 December 2019

	Note	|-- Non-distributable --| Share capital RM'000	Treasury shares RM'000	Distributable Retained earnings RM'000	Total equity attributable to owners of the parent RM'000	Non-controlling interest RM'000	Total equity RM'000
Group							
Balance at 1 January 2018		86,407	(541)	70,530	156,396	1,246	157,642
Profit after taxation representing total comprehensive income for the financial year		-	-	9,429	9,429	419	9,848
		86,407	(541)	79,959	165,825	1,665	167,490
Contributions by and distributions to owners of the Company:							
- Dividends:							
- by the Company	30	-	-	(1,854)	(1,854)	-	(1,854)
- by subsidiary to non-controlling interest		-	-	-	-	(135)	(135)
		-	-	(1,854)	(1,854)	(135)	(1,989)
Balance at 31 December 2018 / 1 January 2019		86,407	(541)	78,105	163,971	1,530	165,501
Profit after taxation representing total comprehensive income for the financial year		-	-	13,210	13,210	266	13,476
		86,407	(541)	91,315	177,181	1,796	178,977
Contributions by and distributions to owners of the Company:							
- Dividends:							
- by the Company	30	-	-	(1,854)	(1,854)	-	(1,854)
- by subsidiary to non-controlling interest		-	-	-	-	(135)	(135)
		-	-	(1,854)	(1,854)	(135)	(1,989)
Balance at 31 December 2019		86,407	(541)	89,461	175,327	1,661	176,988

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

Statements of Changes in Equity

For the financial year ended 31 December 2019

	Note	Non-distributable Share capital RM'000	Non-distributable Treasury shares RM'000	Distributable Retained earnings RM'000	Total equity RM'000
Company					
Balance at 1 January 2018		86,407	(541)	15,950	101,816
Profit after taxation representing total comprehensive income for the financial year		-	-	7,298	7,298
Dividend	30	-	-	(1,854)	(1,854)
Balance at 31 December 2018/1 January 2019		86,407	(541)	21,394	107,260
Profit after taxation representing total comprehensive income for the financial year		-	-	1,991	1,991
Dividend	30	-	-	(1,854)	(1,854)
Balance at 31 December 2019		86,407	(541)	21,531	107,397

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

Statements of Cash Flows

For the financial year ended 31 December 2019

	Group 2019 RM'000	Group 2018 RM'000 (Restated)	Company 2019 RM'000	Company 2018 RM'000
Operating activities				
Profit before tax	18,150	13,445	2,011	7,298
Adjustments for:				
Bad debts recovered	(7)	-	-	-
Bad debts written off	3	235	-	-
Depreciation and amortisation:				
- Property, plant and equipment	12,986	13,524	-	-
- Land use rights	-	157	-	-
- Right-of-use assets	1,503	-	-	-
Fair value changes on derivatives	4	-	-	-
Gain on disposal of property, plant and equipment	(121)	(210)	-	-
Property, plant and equipment written off	279	2	-	-
Allowance for impairment loss on trade receivables	528	-	-	-
Reversal of allowance for impairment loss on trade and other receivables	(15)	(348)	-	-
Unrealised gain on foreign exchange	-	(15)	-	-
Other interest expense	2,966	3,341	-	-
Interest expense on lease liabilities	359	-	-	-
Interest income	(595)	(331)	(91)	(88)
	17,890	16,355	(91)	(88)
Operating cash flows before changes in working capital	36,040	29,800	1,920	7,210
(Increase)/Decrease in inventories and right of return assets	(6,903)	5,889	-	-
Decrease/(Increase) in trade and other receivables	6,685	1,475	(7)	38
Decrease in refund liabilities	(66)	(628)	-	-
(Decrease)/Increase in trade and other payables	(4,189)	3,456	(15)	33
	(4,473)	10,192	(22)	71
Cash from operations	31,567	39,992	1,898	7,281
Income tax paid	(3,805)	(3,610)	(20)	(22)
Income tax refunded	91	705	-	1
Net cash from operating activities	27,853	37,087	1,878	7,260

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

Statements of Cash Flows

For the financial year ended 31 December 2019

	Note	Group 2019 RM'000	Group 2018 RM'000 (Restated)	Company 2019 RM'000	Company 2018 RM'000
Cash flows (for)/from investing activities					
Purchase of property, plant and equipment	31(a)	(21,180)	(8,484)	-	-
Purchase of right-of-use asset	31(b)	(335)	-	-	-
Interest received		595	331	91	-
Investment in a subsidiary		-	-	-	(3,499)
Proceeds from disposal of property, plant and equipment		279	291	-	-
Decrease/(Increase) in pledged fixed deposits with licensed banks		2,162	(2,350)	(83)	(1,350)
Net cash (for)/from investing activities		(18,479)	(10,212)	8	(4,849)
Cash flow for financing activities					
Interest paid		(2,966)	(3,341)	-	-
Interest paid on lease liabilities		(359)	-	-	-
Dividends paid		(1,854)	(1,854)	(1,854)	(1,854)
Dividend paid to non-controlling interest		(135)	(135)	-	-
Drawdown of term loans	31(e)	-	3,300	-	-
Drawdown of finance lease	31(e)	-	2,219	-	-
Net drawdown/(repayment) of bankers' acceptances	31(e)	6,609	(10,790)	-	-
Repayment of term loans	31(e)	(994)	(667)	-	-
Repayment of finance lease	31(e)	-	(954)	-	-
Repayment of lease liabilities	31(e)	(1,740)	-	-	-
Net repayment of charge card	31(e)	(157)	(14)	-	-
Net cash for financing activities		(1,596)	(12,236)	(1,854)	(1,854)
Net increase in cash and cash equivalents		7,778	14,639	32	557
Effect of exchange rate changes on cash and cash equivalents		-	15	-	-
Cash and cash equivalents at beginning of the financial year		29,747	15,093	574	17
Cash and cash equivalents at end of the financial year	31(c)	37,525	29,747	606	574

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

Notes to the Financial Statements

For the financial year ended 31 December 2019

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 15 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 19 May 2020.

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):-

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

MFRS 16 Leases

IC Interpretation 23 Uncertainty Over Income Tax Treatments

Amendments to MFRS 9: Prepayment Features with Negative Compensation

Amendments to MFRS 119: Plan Amendment, Curtailment or Settlement

Annual Improvements to MFRS Standards 2015 – 2017 Cycles

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

The adoption of the above accounting standards and/or interpretations (including the consequential amendments, if any) did not have any material impact on the financial statements of the Group except as follows:-

MFRS 16: Leases

MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. MFRS 16 requires a lessee to recognised right-of-use assets and lease liabilities for all leases with a term of more than 12 months whereby the right-of-use assets are subject to depreciation and the interest on lease liabilities are calculated using the effective interest method. For a lessor, MFRS 16 continues to allow the lessor to classify its leases as either operating leases or finance leases and account for these 2 types of leases differently. The impact on the financial statements of the Group upon its initial application of MFRS 16 are disclosed in Note 38 to the financial statements.

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:-

MFRSs and/or IC Interpretations (Including The Consequential Amendments)	Effective Date
Amendments to MFRS 3: Definition of a Business	1 January 2020
Amendments to MFRS 9, MFRS 139 and MFRS 7: Interest Rate Benchmark Reform	1 January 2020
Amendments to MFRS 101 and MFRS 108: Definition of Material	1 January 2020
Amendments to References to the Conceptual Framework in MFRS	1 January 2020
MFRS 17 Insurance Contracts	1 January 2021

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.

3. Significant accounting policies (continued)

3.1 Critical accounting estimates and judgements (continued)

Key sources of estimation uncertainty (continued)

(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.

(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) 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.

(f) 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.

Notes to the Financial Statements

For the financial year ended 31 December 2019

3. Significant accounting policies (continued)

3.1 Critical accounting estimates and judgements (continued)

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).

(b) Contingent liabilities

The recognition and measurement for contingent liabilities are based on management's view of the expected outcome on contingencies after consulting legal counsel for litigation cases and experts, for matters in the ordinary course of business. Furthermore, the directors are of the view that the chances of the financial institutions to call upon the corporate guarantees issued by the Group and the Company are remote.

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.

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.

3. Significant accounting policies (continued)

3.2 Basis of consolidation (continued)

(a) Business combinations (continued)

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.

(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. Significant accounting policies (continued)

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.

(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.

3. Significant accounting policies (continued)

3.5 Financial instruments (continued)

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 – Revenue from Contracts with Customers 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.

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.

Notes to the Financial Statements

For the financial year ended 31 December 2019

3. Significant accounting policies (continued)

3.5 Financial instruments (continued)

(a) Financial assets (continued)

Debt instruments (continued)

(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.

(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).

3. Significant accounting policies (continued)

3.5 Financial instruments (continued)

(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.

(d) 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.

Notes to the Financial Statements

For the financial year ended 31 December 2019

3. Significant accounting policies (continued)

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

Assets in progress included 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. Significant accounting policies (continued)

3.8 Land use rights

Accounting policies applied until 31 December 2018
Land use rights are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation and accumulated impairment losses. The land use rights are amortised over their lease terms.

3.9 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 36 to 99 years
Plant and machinery	10 years
Motor vehicles	5 years
Factory buildings	4 years
Hostels	2 to 9 years

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. Significant accounting policies (continued)

3.9 Leases (continued)

Accounting policies applied until 31 December 2018

Group as lessee

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

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statements of comprehensive income.

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

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statements of comprehensive income on a straight-line basis over the lease term.

3.10 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.

3.11 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank balances and demand deposits 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. Significant accounting policies (continued)

3.12 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 or at fair value through other comprehensive income and trade receivables.

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).

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.

3. Significant accounting policies (continued)

3.12 Impairment (continued)

(b) Impairment of non-financial assets (continued)

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.

3.13 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.

3.14 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.

3.15 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).

3. Significant accounting policies (continued)

3.15 Income taxes (continued)

(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.

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.

3.16 Contigent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements, unless the probability of outflow of economic benefits is remote. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

3.17 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. Significant accounting policies (continued)

3.18 Earning per ordinary shares

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.

3.19 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.

3.20 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.

3.21 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.

3. Significant accounting policies (continued)

3.21 Revenue from contracts with customers (continued)

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.

(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.

3. Significant accounting policies (continued)

3.21 Revenue from contracts with customers (continued)

(a) Sale of goods (continued)

Right of return assets

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

Refund liabilities

A refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group 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.

3.22 Revenue from other sources and other operating income

(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.

(d) Commission income

Commission income is recognised when services are rendered.

Notes to the Financial Statements

For the financial year ended 31 December 2019

4. Revenue

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Revenue from contracts with customers:				
Sale of goods	331,159	349,772	-	-
Transportation fees	421	81	-	-
Revenue from other sources:				
Dividend income from subsidiaries	-	-	2,445	7,726
	331,580	349,853	2,445	7,726

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

	Group			
	Corrugated board and carton RM'000	Paper stationery product RM'000	Corporate segment and others RM'000	Total RM'000
2019				
Revenue recognised at a point of time				
Paper industry	68,208	22,128	-	90,336
Furniture, rubber, hardware and steel	85,783	-	-	85,783
Food based, beverage and tobacco	70,399	-	-	70,399
Electronic and electrical	51,226	-	-	51,226
Others	33,415	-	421	33,836
	309,031	22,128	421	331,580

	Group			
	Corrugated board and carton RM'000	Paper stationery product RM'000	Corporate segment and others RM'000	Total RM'000
2018				
Revenue recognised at a point of time				
Paper industry	71,260	30,543	-	101,803
Furniture, rubber, hardware and steel	80,648	-	-	80,648
Food based, beverage and tobacco	72,740	-	-	72,740
Electronic and electrical	56,965	-	-	56,965
Others	37,616	-	81	37,697
	319,229	30,543	81	349,853

Notes to the Financial Statements

For the financial year ended 31 December 2019

5. Other income

	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Bad debts recovered	7	-	-	-
Commission received	-	28	-	-
Gain on disposal of property, plant and equipment	121	210	-	-
Insurance claims	82	7	-	-
Interest income from:				
- bank balance	501	243	91	88
- deposits with licensed banks	94	88	-	-
Realised gain on foreign exchange	105	519	-	-
Sales of scrap materials	147	215	-	-
Unrealised gain on foreign exchange	-	15	-	-
Lease income:				
- right-of-use assets	30	-	-	-
Miscellaneous	138	121	-	-
	1,225	1,446	91	88

6. Finance costs

	Group 2019 RM'000	Group 2018 RM'000
Interest expense on:		
- bank overdrafts interest	59	9
- bankers' acceptances interest	2,665	2,952
- term loans interest	242	173
- obligation under finance lease	-	207
- lease liabilities (Note 24)	359	-
Bankers' acceptance commission	238	215
Commitment fee	1	1
	3,564	3,557

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

	Group 2019 RM'000	Group 2018 RM'000
Impairment losses on:		
- trade receivables (Note 19)	(528)	-
Reversal of impairment losses on:		
- trade receivables (Note 19)	15	23
- other receivables (Note 20)	-	325
	(513)	348

Notes to the Financial Statements

For the financial year ended 31 December 2019

8. Profit before taxation

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Profit before taxation is arrived at after charging:-				
Auditors' remuneration:				
- Audit fees				
- Current year	188	208	40	44
- Underprovision in prior year	6	6	-	-
- Non-audit fees				
- member firm of the auditors of the Company	5	42	5	10
Bad debts written off	3	235	-	-
Carriage inwards and outwards	16,408	17,873	-	-
Depreciation and amortisation:				
- Property, plant and equipment (Note 12)	12,986	13,524	-	-
- Land use rights (Note 13)	-	157	-	-
- Right-of-use-assets (Note 14)	1,503	-	-	-
Employees benefit expense (Note 9)	33,554	31,468	-	-
Fair value changes on derivatives	4	-	-	-
Directors' remuneration (Note 33(a))	3,286	4,502	257	259
Lease expense:				
- Short-term lease	621	-	-	-
- Low-value assets	9	-	-	-
Property, plant and equipment written off	279	2	-	-
Realised loss on foreign exchange	196	-	-	-
Rental of land and buildings	-	710	-	-

9. Employees benefit expense

	Group	
	2019 RM'000	2018 RM'000
Short-term employee benefits	30,449	28,514
Defined contributions benefits	2,550	2,421
Other benefits	555	533
Total employees benefit expense (Note 8)	33,554	31,468

Included in employees benefit expense are key management personnel compensation as disclosed in Note 33(b) to the financial statements.

Notes to the Financial Statements

For the financial year ended 31 December 2019

10. Income tax expense

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Income tax:				
- Current year	3,728	3,343	20	21
- (Over)/underprovision in previous financial year	(82)	56	-	(21)
	3,646	3,399	20	-
Deferred tax (Note 25):				
- Origination and reversal of temporary differences	1,180	287	-	-
- Overprovision in previous financial year	(152)	(89)	-	-
	1,028	198	-	-
Total income tax expense	4,674	3,597	20	-

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	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Profit before tax	18,150	13,445	2,011	7,298
Taxation at 24% (2018: 24%)	4,356	3,227	483	1,752
Reduction in Malaysian income tax rate	-	(93)	-	-
Tax effect of:				
- Non-deductible expenses	523	450	124	115
- Non-taxable income	-	-	(587)	(1,854)
Deferred tax assets not recognised during the financial year	29	46	-	8
(Over)/Under provision in prior year:				
- Income tax	(82)	56	-	(21)
- Deferred tax	(152)	(89)	-	-
Income tax expense recognised in profit or loss	4,674	3,597	20	-

Notes to the Financial Statements

For the financial year ended 31 December 2019

10. Income tax expense (continued)

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

	Group	
	2019	**2018**
	RM'000	**RM'000**
Unutilised capital allowances	662	425
Unutilised reinvestment allowances	-	2,549
	662	2,974

The unutilised reinvestment allowances are allowed to be carried forward for a maximum period of 7 consecutive years of assessment. The unutilised capital allowances do not expire under the current tax legislation 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	
	2019	**2018**
Profit attributable to owners of the parent (RM'000)	13,210	9,429
Weighted average number of ordinary shares in issue ('000)*	74,153	74,153
Basic earnings per share (sen)	17.8	12.7
Diluted earnings per share (sen) #	17.8	12.7

* The weighted arrange 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.

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12. **Property, plant and equipment**

	1.1.2019 As previously reported RM'000	1.1.2019 Initial application of MFRS 16 RM'000	1.1.2019 As restated RM'000	Additions (Note 31(a)) RM'000	Disposals RM'000	Written off RM'000	Reclassification RM'000	Depreciation charges (Note 8) RM'000	At 31.12.2019 RM'000
The Group									
2019									
Carrying Amount									
Long term leasehold land	7,082	(7,082)	-	-	-	-	-	-	-
Factory buildings	29,865	-	29,865	750	-	-	-	(1,324)	29,291
Plant and machinery	53,042	(3,411)	49,631	15,361	(117)	(279)	1,727	(10,577)	55,746
Other assets	5,140	(1,878)	3,262	1,463	(41)	-	-	(1,085)	3,599
Assets in progress	1,719	-	1,719	1,154	-	-	(1,727)	-	1,146
	96,848	(12,371)	84,477	18,728	(158)	(279)	-	(12,986)	89,782

	At 1.1.2018 RM'000	Additions (Note 31(a)) RM'000	Disposals RM'000	Written off RM'000	Reclassification RM'000	Depreciation charges (Note 8) RM'000	At 31.12.2018 RM'000
2018							
Carrying Amount							
Long term leasehold land	7,176	-	-	-	-	(94)	7,082
Factory buildings	29,501	1,263	-	-	397	(1,296)	29,865
Plant and machinery	56,866	3,840	(72)	-	3,188	(10,780)	53,042
Other assets	3,774	2,731	(9)	(2)	-	(1,354)	5,140
Assets in progress	3,444	1,860	-	-	(3,585)	-	1,719
	100,761	9,694	(81)	(2)	-	(13,524)	96,848

Notes to the Financial Statements

For the financial year ended 31 December 2019

12. Property, plant and equipment (continued)

	At Cost RM'000	Accumulated Depreciation RM'000	Carrying Amount RM'000
The Group			
2019			
Factory buildings	49,254	(19,963)	29,291
Plant and machinery	149,973	(94,227)	55,746
Other assets	12,458	(8,859)	3,599
Assets in progress	1,146	-	1,146
	212,831	(123,049)	89,782

	At Cost RM'000	Accumulated Depreciation RM'000	Carrying Amount RM'000
2018			
Long term leasehold land	8,959	(1,877)	7,082
Factory buildings	48,504	(18,639)	29,865
Plant and machinery	142,609	(89,567)	53,042
Other assets	13,503	(8,363)	5,140
Assets in progress	1,719	-	1,719
	215,294	(118,446)	96,848

(a) The long term leasehold land, factory buildings and certain plant and machinery are pledged as securities for bank borrowings as disclosed in Note 23 to the financial statements.

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

(c) In the last financial year, included in the property, plant and equipment of the Group were motor vehicles and plant and machinery with a total carrying amount of RM4,110,000, which were acquired under hire purchase terms. These leased assets had been pledged as security for the finance lease of the Group as disclosed in Note 23 to the financial statements.

Notes to the Financial Statements

For the financial year ended 31 December 2019

13. Land use rights

	Group	
	2019	2018
	RM'000	RM'000
Cost		
At 1 January/31 December	8,455	8,455
Initial application MFRS 16	(8,455)	-
	-	8,455
Accumulated amortisation		
At 1 January	1,926	1,769
Initial application MFRS 16	(1,926)	-
Amortisation (Note 8)	-	157
At 31 December	-	1,926
Carrying amount	-	6,529
Amount to be amortised:		
- Not later than one year	-	157
- Later than one year but not later than 5 years	-	629
- Later than 5 year	-	5,743

(a) The land use rights have been represented as right-of-use assets as shown in Note 14 to the financial statements following the application of MFRS 16 by the Group using the modified retrospective approach.

(b) In the last financial year, the above properties are pledged as securities for bank borrowings as disclosed in Note 23 to the financial statements.

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14. Right-of-use assets

Group	1.1.2019 As previously reported RM'000	1.1.2019 Initial application of MFRS 16 RM'000	1.1.2019 As restated RM'000	Additions (Note 31(b)) RM'000	Depreciation (Note 8) RM'000	At 31.12.2019 RM'000
Carrying Amount						
Leasehold land	-	13,611	13,611	-	(204)	13,407
Plant and machinery	-	3,411	3,411	1,453	(398)	4,466
Motor vehicles	-	1,878	1,878	260	(423)	1,715
Factory buildings	-	618	618	1,259	(153)	1,724
Hostels	-	922	922	250	(325)	847
	-	20,440	20,440	3,222	(1,503)	22,159

	RM'000
Analysed by:-	
Cost	26,279
Accumulated depreciation	(4,120)
	22,159

The comparative information is not presented as the Group has applied MFRS 16 using the modified retrospective approach.

Notes to the Financial Statements

For the financial year ended 31 December 2019

14. Right-of-use assets (continued)

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

(i)	Leasehold land	The Group has entered into a number of non-cancellable operating lease agreements for the use of land. The unexpired leasehold period of the leasehold land as at 31 December 2019 ranges between 36 to 99 years and the Group does not have an option to purchase the leasehold land at the expiry of the lease period.
(ii)	Plant and machinery	The Group has leased certain plant and machinery under finance lease arrangements with lease terms ranges between 3 to 5 years. The leases bear effective interest rates ranging from 3.00% to 6.68% and are secured by the leased assets.
(iii)	Motor vehicles	The Group has leased certain motor vehicles under finance lease arrangements with lease terms ranges between 3 to 5 years. At the end of the lease term, the Group has the option to purchase the asset at an insignificant amount. The leases bear effective interest rates ranging from 3.00% to 7.25% and are secured by the leased assets.
(iv)	Factory building	The Group has leased a factory building that runs for 3 years, with an option to renew the lease after that date.
(v)	Hostels	The Group has leased a number of hostels that run between 1 to 9 years, with an option to renew the lease after that date.

15. Investment in subsidiaries

	Company	
	2019	**2018**
	RM'000	**RM'000**
Unquoted shares, at cost		
At 1 January	103,659	100,159
Additions	-	3,500
At 31 December	103,659	103,659

Notes to the Financial Statements

For the financial year ended 31 December 2019

15. 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 2019 %	2018 %	Principal activities
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
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] ("OLSB")	Malaysia	100	100	Transportation service

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

(a) In the last financial year, the Company had subscribed for an additional 3,500,000 new ordinary shares in Quantum Rhythm Sdn. Bhd. for a cash consideration of RM3,500,000. The proportion of ownership interests of Quantum Rhythm Sdn. Bhd. held by the Company remains unchanged.

(b) In the last financial year, a subsidiary of the Company, Ornapaper Industry (M) Sdn. Bhd. had subscribed for an additional 250,000 ordinary shares in OLSB for a cash consideration of RM250,000. The proportion of ownership interests of OLSB held by the Company remains unchanged.

15. Investment in subsidiaries (continued)

(c) The non-controlling interest at the end of the reporting period comprise the following:-

	Effect equity interest		Group	
	2019	2018	2019	2018
	%	%	RM'000	RM'000
Ornarpaper Industry (Johor) Sdn. Bhd.	20	20	1,661	1,530

(d) 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.

16. Goodwill

	Group	
	2019	2018
	RM'000	RM'000
Goodwill	1,633	1,633

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

	Group	
	2019	2018
	RM'000	RM'000
Ornapaper Industry (Perak) Sdn. Bhd. ("OIP")	1,574	1,574
Ornapaper Industry (Johor) Sdn. Bhd. ("OIJ")	59	59
	1,633	1,633

The 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	
	2019	2018	2019	2018
Budgeted gross margins	21%	16%	17%	15%
Discount rates (Pre-tax)	9%	10%	9%	10%

Notes to the Financial Statements

For the financial year ended 31 December 2019

16. Goodwill (continued)

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

17. Inventories

	Group	
	2019	**2018**
	RM'000	**RM'000**
Raw materials and consumables	41,619	38,237
Work-in-progress	1,444	1,638
Finished goods	7,457	6,789
Goods-in-transit	3,673	733
	54,193	47,397
Recognised in profit or loss:-		
Inventories recognised as cost of sales	252,378	292,668

18. Right of return assets/(refund liabilities)

	Group	
	2019	**2018**
	RM'000	**RM'000**
Right of return assets	217	110
Refund liabilities		
- arising from right of return assets	319	216
- arising from discounts	443	612
	762	828

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.

Notes to the Financial Statements

For the financial year ended 31 December 2019

19. Trade receivables

	Group 2019 RM'000	Group 2018 RM'000
Third parties	74,073	79,641
Companies in which a director has substantial financial interest	4,022	4,801
	78,095	84,442
Allowance for impairment losses:-		
At 1 January	169	406
Addition during the financial year (Note 7)	528	-
Reversal during the financial year (Note 7)	(15)	(23)
Written off during the financial year	-	(214)
	682	169
At 31 December	77,413	84,273

The Group's normal trade credit terms range from 30 to 150 (2018 - 30 to 150) days.

20. Other receivables, deposits and prepayments

	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Other receivables:-				
Third parties	466	728	17	8
Advance payments to supplier of property, plant and equipment	4,231	1,861	-	-
Advance payments to supplier	79	297	-	-
GST receivables	24	182	9	11
	4,800	3,068	26	19
Allowance for impairment losses	(400)	(400)	-	-
	4,400	2,668	26	19
Sundry deposits	307	295	2	2
Prepayments	1,879	1,587	1	1
	6,586	4,550	29	22

	Group 2019 RM'000	Group 2018 RM'000
Allowance for impairment losses:-		
At 1 January	400	725
Reversal during the financial year (Note 7)	-	(325)
At 31 December	400	400

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

Notes to the Financial Statements
For the financial year ended 31 December 2019

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 3.13% and 2.75% (2018 - 3.10% and 2.75%) per annum respectively. The deposits of the Group and of the Company have maturity periods range from 3 to 12 and 5 to 12 (2018 - 12) months respectively.

(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 RM4,274,000 and RM3,149,000 (2018 - RM6,436,000 and RM3,066,000) 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			
	2019	2018	2019	2018
	Number of ordinary shares		Amount	
			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 (2018: 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 2019

23. Loans and borrowings

	Group	
	2019 RM'000	2018 RM'000
Current		
Secured:		
Bankers' acceptances	60,820	54,211
Charge card	-	157
Term loans	935	992
Finance lease payables	-	1,043
	61,755	56,403
Non-current		
Secured:		
Term loans	2,307	3,244
Finance lease payables	-	3,384
	2,307	6,628
Total loans and borrowings	64,062	63,031

Finance lease payables

	Group 2018 RM'000
Minimum lease payments:	
- not later than 1 year	1,287
- later than 1 year and not later than 5 years	3,715
	5,002
Less: Future finance charges	(575)
Present value of minimum lease payables	4,427

	Group 2018 RM'000
Analysed by:-	
Current liabilities	1,043
Non-current liabilities	3,384
	4,427

(a) The finance lease payables have been represented as 'lease liabilities' as shown in Note 24 to the financial statement following the application of MFRS 16 by the Group using the modified retrospective approach.

(b) In the last financial year, the finance lease payables of the Group were secured by the Group's motor vehicles and plant and machinery under finance leases as disclosed in Note 12(c) to the financial statements.

(c) In the last financial year, the finance lease payables of the Group at the end of the reporting period bore average discount rates of 3.85% per annum.

23. Loans and borrowings (continued)

Finance lease payables (continued)

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	
	2019	**2018**
	%	**%**
Bankers' acceptances	4.01	4.33
Term loans	6.19	6.24

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

The loans and borrowings except finance lease payables were secured by way of the following:-

(i) legal charge of the Group's leasehold land and factory buildings as disclosed in Notes 12, 13 and 14 to the financial statements;

(ii) pledged of the fixed deposits of the Group as disclosed in Note 21 to the financial statements;

(iii) negative pledged on certain property, plant and equipment of the Group as disclosed in Note 12 to the financial statements;

(iv) specific debenture for RM2,700,000 over the Group's certain machinery as disclosed in Note 12 to the financial statements;

(v) registered debenture for RM12,000,000 over the Group's fixed and floating assets both present and future as disclosed in Note 12 to the financial statements; and

(vi) corporate guarantee by the Company.

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Notes to the Financial Statements

For the financial year ended 31 December 2019

24. Lease liabilities

	Group 2019 RM'000
At 1 January	
- As previous reported	-
- Initial application of MFRS 16	5,967
- As restated	5,967
Additional during the year	2,887
Interest expense recognised in profit or loss	359
Repayment of principal	(1,740)
Repayment of interest expenses (Note 6)	(359)
At 31 December	7,114
Analysed by:-	
Current liabilities	2,256
Non-current liabilities	4,858
	7,114

The comparative information is not presented as the Group has applied MFRS 16 using the modified retrospective approach.

Certain lease liabilities of the Group are secured by the Group's motor vehicles under the finance lease arrangements as disclosed in Note 14(a)(iii) to the financial statements, with lease terms ranging from 3 to 5 years and bear effective interest rates ranging from 3.00% to 7.25%.

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25. Deferred tax liabilities

Group	← As previously reported RM'000	1.1.2019 Initial application of MFRS 16 RM'000	As restated RM'000 →	Recognised in profit or loss (Note 10) RM'000	At 31.12.2019 RM'000
2019					
Deferred tax liabilities					
Property, plant and equipment	10,254	(296)	9,958	583	10,541
Right-of-use assets	-	534	534	672	1,206
	10,254	238	10,492	1,255	11,747
Deferred tax assets					
Lease liabilities	-	(238)	(238)	(883)	(1,121)
Provision	(321)	-	(321)	21	(300)
Unutilised capital allowance	(111)	-	(111)	(78)	(189)
Unabsorbed business losses	(102)	-	(102)	102	-
Unutilised reinvestment allowances	(611)	-	(611)	611	-
	(1,145)	(238)	(1,383)	(227)	(1,610)
	9,109	-	9,109	1,028	10,137

	At 1.1.2018 RM'000	Recognised in profit or loss (Note 10) RM'000	At 31.12.2018 RM'000
2018			
Deferred tax liabilities			
Property, plant and equipment	10,565	(311)	10,254
Deferred tax assets			
Provision	(96)	(225)	(321)
Unutilised capital allowances	(227)	116	(111)
Unabsorbed business losses	(283)	181	(102)
Unutilised reinvestment allowances	(1,048)	437	(611)
	(1,654)	509	(1,145)
	8,911	198	9,109

Notes to the Financial Statements
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26. Trade payables

	Group	
	2019	2018
	RM'000	RM'000
Third parties	20,754	25,283
Companies in which a director has substantial financial interest	62	65
	20,816	25,348

The normal trade credit term granted to the Group is 30 to 120 (2018 - 30 to 120) days.

27. Other payables and accruals

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Accrued operating expenses	8,099	8,346	45	60
Other payables	3,710	3,025	-	-
Sales and services tax payables	444	539	-	-
Goods and services tax payables	1	1	-	-
Amount payable to property, plant and equipment suppliers	1,022	1,104	-	-
	13,276	13,015	45	60

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 7.78% (2018 - Nil) per annum.

Notes to the Financial Statements

For the financial year ended 31 December 2019

29. Derivative liabilities

	Contract/Notional Amount		Group	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Forward currency contracts	417	-	4	-

The Group does not apply hedge accounting.

Forward currency contracts are used to manage some of the Group's transactions exposures for which firm commitments existed at the end of the reporting period. The settlement dates of the forward currency contracts are one months after the end of the reporting period.

30. Dividends

	Group/Company	
	2019	2018
	RM'000	RM'000
Final single tier dividend of approximately 2.5 sen (2018 - 2.5sen) per ordinary share in respect of the previous financial year	1,854	1,854

At the forthcoming Annual General Meeting, a final single tier dividend of 3 sen per ordinary share in respect of the current financial year ended 31 December 2019, will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2020.

31. Cash flow information

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

	Group	
	2019	2018
	RM'000	RM'000
Cost of property, plant an equipment purchased (Note 12)	18,728	9,694
Amount financed through finance lease (Note (e) below)	-	(1,673)
Other payables - amounts not yet due for payment	82	(1,104)
Payment made for future purchase	2,370	1,567
Cash disbursed for purchase of property, plant and equipment	21,180	8,484

31. Cash flow information (continued)

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

	Group 2019 RM'000	Group 2018 RM'000
Cost of right-of-use assets purchased (Note 14)	3,222	-
Amount under new lease acquired	(2,887)	-
Cash disbursed for purchase of right-of-use assets	335	-

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

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Deposits with licensed banks	6,652	6,436	3,149	3,066
Cash and bank balances	36,640	29,747	606	574
Bank overdrafts	(1,493)	-	-	-
	41,799	36,183	3,755	3,640
Less: Deposits pledged to licensed banks (Note 21)	(4,274)	(6,436)	(3,149)	(3,066)
	37,525	29,747	606	574

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

	Group 2019 RM'000
Payment of short-term leases	621
Payment of low-value assets	9
Interest paid on lease liabilities	359
Payment of lease liabilities	1,740
	2,729

31. 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	Finance lease payables RM'000	Lease liabilities RM'000	Total RM'000
2019							
At 1 January, as previously reported	-	54,211	157	4,236	4,427	-	63,031
Effects on adoptions of MFRS 16	-	-	-	-	(4,427)	5,967	1,540
At 1 January, as restated	-	54,211	157	4,236	-	5,967	64,571
Changes in financing cash flows							
Net proceeds from drawdown	*	6,609	-	-	-	-	6,609
Repayment of principal	*	-	(157)	(994)	-	(1,740)	(2,891)
Repayment of interests	(59)	(2,665)	-	(242)	-	(359)	(3,325)
	(59)	3,944	(157)	(1,236)	-	(2,099)	393
Non-cash changes							
Acquisition of new lease	-	-	-	-	-	2,887	2,887
Interest expenses recognised in profit or loss	59	2,665	-	242	-	359	3,325
	59	2,665	-	242	-	3,246	6,212
At 31 December	-	60,820	-	3,242	-	7,114	71,176

31. Cash flow information (continued)

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

	Bank overdrafts RM'000	Bankers' acceptances RM'000	Charge card RM'000	Term loans RM'000	Finance lease payables RM'000	Total RM'000
Group						
2018						
At 1 January	-	65,001	171	1,603	1,489	68,264
Changes in financing cash flows						
Proceeds from drawdown	*	-	-	3,300	-	3,300
Net repayment of principal	-	(10,790)	-	-	-	(10,790)
Acquisition of new lease	-	-	-	-	2,219	2,219
Repayment of principal	*	-	(14)	(667)	(954)	(1,635)
Repayment of interests	(9)	(2,952)	-	(173)	(207)	(3,341)
	(9)	(13,742)	(14)	2,460	1,058	(10,247)
Non-cash changes						
Acquisition of new lease (Note (b) above)	-	-	-	-	1,673	1,673
Interest expenses recognised in profit or loss	9	2,952	-	173	207	3,341
	9	2,952	-	173	1,880	5,014
At 31 December	-	54,211	157	4,236	4,427	63,031

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

Notes to the Financial Statements

For the financial year ended 31 December 2019

32. 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 and entities within the same group of companies.

(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	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Subsidiaries				
Dividends received from subsidiaries	-	-	(2,445)	(7,726)
Companies in which certain directors have substantial financial interests				
Lease expenses	200	-	-	-
Sales of goods	(10,774)	(13,102)	-	-
Purchase of goods	498	535	-	-

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.

33. 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	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
(a) Directors				
Directors of the Company				
Short-term employee benefits:				
- fees	496	782	240	240
- salaries, bonuses and other benefits	1,874	2,823	17	19
Defined contribution benefits	146	145	-	-
	2,516	3,750	257	259
Directors of the Subsidiaries				
Short-term employee benefits:				
- salaries, bonuses and other benefits	688	672	-	-
Defined contribution benefits	82	80	-	-
	770	752	-	-
Total directors' remuneration (Note 8)	3,286	4,502	257	259

The estimated monetary value of benefits-in-kind provided by the Group to the directors of the Company were approximately RM34,000 (2018 - RM50,000).

(b) Other key management personnel

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Short-term employee benefits	1,165	1,052	-	-
Defined contribution benefits	139	127	-	-
Total compensation for other key management personnel	1,304	1,179	-	-

34. Capital commitments

	Group	
	2019	2018
	RM'000	RM'000
Purchase of plant and equipment	8,496	3,680

35. Operating segments

No business and geographical segment information 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.

36. Contingent liabilities

(a) No provisions are recognised on the following matters as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

The Company has granted corporate guarantees to licensed banks amounting to approximately RM179,173,500 (2018 - RM174,173,500) for credit facilities extended to a subsidiary of which RM53,529,000 (2018 - RM51,331,000) was outstanding as at the end of the financial year.

(b) There was no material litigation against the Group, except for a trade dispute over the Collective Agreement between a subsidiary and the Paper and Paper Products Manufacturing Employee's Union dated 20 May 2004 that was referred to the Industrial Court.

Both parties agreed that the Learned Chairman should hand down an Award on the preliminary issues raised earlier before the Hearing commenced. As such, the subsidiary of the Group had filed a submission on the preliminary issues. As at the reporting date, this matter is pending decision for a date to be fixed by the industrial court.

The Board of Directors believe that there will not have unfavorable outcome from the dispute. Hence no provision is provided for as at the reporting date.

37. 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.

37. Financial instruments (continued)

37.1 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"), Euro Dollar ("EUR") and Singapore Dollar ("SGD"). Foreign currency risk is monitored closely on an ongoing basis to ensure that the net exposure is at an acceptable level. On occassion, 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

	United States Dollar RM'000	Euro Dollar RM'000	Singapore Dollar RM'000	Total RM'000
The Group				
2019				
Financial assets				
Trade receivables	2,399	-	209	2,608
Other receivables	76	-	-	76
Cash and bank balances	3	-	-	3
Financial liabilities				
Trade payables	(474)	-	-	(474)
Other payables and accruals	(798)	(56)	-	(854)
Currency Exposure	1,206	(56)	209	1,359

37. Financial instruments (continued)

37.1 Financial risk management policies (continued)

(a) Market risk (continued)

(i) Foreign currency risk (continued)

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 (continued):-

Foreign currency exposure (continued)

The Group	**United States Dollar RM'000**	**Singapore Dollar RM'000**	**Total RM'000**
2018			
Financial assets			
Trade receivables	2,791	156	2,947
Cash and bank balances	36	6	42
Financial liabilities			
Trade payables	(50)	-	(50)
Other payables and accruals	(1,098)	-	(1,098)
Currency Exposure	1,679	162	1,841

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 2019 RM'000	**Group 2018 RM'000**
Effects on Profit After Taxation		
USD/RM – strengthened by 4% (2018: 5%)	37	64
– weakened by 4% (2018: 5%)	(37)	(64)
EUR/RM – strengthened by 4% (2018: 3%)	(2)	-
– weakened by 4% (2018: 3%)	2	-
SGD/RM – strengthened by 3% (2018: 2%)	5	3
– weakened by 3% (2018: 2%)	(5)	(3)

37. Financial instruments (continued)

37.1 Financial risk management policies (continued)

(a) Market risk (continued)

(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.

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	
	2019	**2018**
	RM'000	**RM'000**
Effects on Profit After Taxation		
Increase of 25 basis points (2018 - 50 basis points)	(167)	(277)
Decrease of 25 basis points (2018 - 50 basis points)	167	277

(iii) Equity price risk

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

37. Financial instruments (continued)

37.1 Financial risk management policies (continued)

(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.

In addition, the Group also 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	
	2019	**2018**
	RM'000	**RM'000**
Local	76,400	84,173
Export	1,013	100
	77,413	84,273

(ii) 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).

37. Financial instruments (continued)

37.1 Financial risk management policies (continued)

(b) Credit risk (continued)

(iii) Assessment of impairment losses

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 when there is no reasonable expectation of recovery (i.e. the debtor does not have assets or sources of income to generate sufficient cash flows to repay the debt) despite the fact that they are still subject to enforcement activities.

Trade Receivables

The Group applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. Also, the Group considers any receivables having financial difficulty are deemed credit impaired.

The expected loss rates are based on the payment profiles of past sales 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 customers to settle their debts.

The information about the exposure to credit risk and the loss allowances calculated under MFRS 9 for trade receivables are summarised below:-

The Group	Gross Amount RM'000	Individual Impairment RM'000	Collective Impairment RM'000	Carrying Amount RM'000
2019				
Current (not past due)	58,032	-	-	58,032
1 to 30 days past due	13,955	-	-	13,955
31 to 60 days past due	3,899	-	-	3,899
61 to 90 days past due	1,430	-	-	1,430
91 to 120 days past due	85	-	-	85
120 to 151 days past due	12	-	-	12
Credit impaired	682	(682)	-	-
	78,095	(682)	-	77,413

37. Financial instruments (continued)

37.1 Financial risk management policies (continued)

(b) Credit risk (continued)

(iii) Assessment of impairment losses (continued)

Trade Receivables (continued)

The information about the exposure to credit risk and the loss allowances calculated under MFRS 9 for trade receivables are summarised below (continued):-

The Group	**Gross Amount RM'000**	**Individual Impairment RM'000**	**Collective Impairment RM'000**	**Carrying Amount RM'000**
2018				
Current (not past due)	59,440	-	-	59,440
1 to 30 days past due	16,963	-	-	16,963
31 to 60 days past due	5,381	-	-	5,381
61 to 90 days past due	2,418	-	-	2,418
91 to 120 days past due	69	-	-	69
120 to 151 days past due	2	-	-	2
Credit impaired	169	(169)	-	-
	84,442	(169)	-	84,273

The movements in the loss allowances in respect of trade receivables are disclosed in Note 19 to the financial statements.

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 last financial year.

37. Financial instruments (continued)

37.1 Financial risk management policies (continued)

(b) Credit risk (continued)

(iii) Assessment of impairment losses (continued)

Deposits with Licensed Banks, Cash and Bank Balances

The Group considers these banks and financial institutions 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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37. Financial instruments (continued)

37.1 Financial risk management policies (continued)

(c) Liquidity risk

Maturity Analysis

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):-

The Group	Weighted Average Effective Interest Rate %	Carrying Amount RM'000	Contractual Undiscounted Cash Flows RM'000	Within 1 Year RM'000	1 – 5 Years RM'000
2019					
Non-derivative Financial Liabilities					
Trade payables	-	20,816	20,816	20,816	-
Other payables and accruals	-	12,831	12,831	12,831	-
Bank overdrafts	7.78	1,493	1,493	1,493	-
Bankers' acceptances	4.01	60,820	60,820	60,820	-
Term loans	6.19	3,242	3,623	1,116	2,507
Lease liabilities	5.07	7,114	7,529	2,486	5,043
Derivative Financial Liabilities					
Forward currency contract (gross settled):					
- gross payments		4	417	417	-
		106,320	107,529	99,979	7,550

37. Financial instruments (continued)

37.1 Financial risk management policies (continued)

(c) Liquidity risk (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):-

	Weighted Average Effective Interest Rate	Carrying Amount	Contractual Undiscounted Cash Flows	Within 1 Year	1 – 5 Years
	%	RM'000	RM'000	RM'000	RM'000
The Group					
2018					
Non-derivative Financial Liabilities					
Trade payables	-	25,348	25,348	25,348	-
Other payables and accruals	-	12,475	12,475	12,475	-
Finance lease payables	3.85	4,427	5,002	1,287	3,715
Term loans	6.24	4,236	4,915	1,292	3,623
Bankers' acceptances	4.33	54,211	54,211	54,211	-
Charge card	3.50	157	157	157	-
		100,854	102,108	94,770	7,338

37. Financial instruments (continued)

37.1 Financial risk management policies (continued)

(c) Liquidity risk (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):-

	Weighted Average Effective Interest Rate %	Carrying Amount RM'000	Contractual Undiscounted Cash Flows RM'000	Within 1 Year RM'000	1 – 5 Years RM'000
The Company					
2019					
Non-derivative Financial Liability					
Other payables and accruals	-	45	45	45	-
2018					
Non-derivative Financial Liability					
Other payables and accruals	-	60	60	60	-

37. Financial instruments (continued)

37.2 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	
	2019	**2018**
	RM'000	**RM'000**
Trade payables	20,816	25,348
Other payables and accruals	13,276	13,015
Bank overdrafts	1,493	-
Derivative liabilities	4	-
Charge card	-	157
Lease liabilities	7,114	-
Finance lease payables	-	4,427
Term loans	3,242	4,236
Bankers' acceptances	60,820	54,211
	106,765	101,394
Less: Cash and bank balances	(36,640)	(29,747)
Less: Deposits with licensed banks	(6,652)	(6,436)
Net debt	63,473	65,211
Total equity	175,327	163,971
Capital and net debt	238,800	229,182
Debt-to-equity ratio	0.27	0.28

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

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For the financial year ended 31 December 2019

37. Financial instruments (continued)

37.3 Classification of financial instruments

	Group		Company	
	2019	**2018**	**2019**	**2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Financial Assets				
Amortised Cost				
Trade receivables (Note 19)	77,413	84,273	-	-
Other receivables (Note 20)	66	328	17	8
Deposits with licensed banks (Note 21)	6,652	6,436	3,149	3,066
Cash and bank balances	36,640	29,747	606	574
	120,771	120,784	3,772	3,648

	Group		Company	
	2019	**2018**	**2019**	**2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Financial Liabilities				
Mandatorily at fair value through profit or loss				
Derivative liabilities (Note 29)	4	-	-	-
Amortised Cost				
Trade payables (Note 26)	20,816	25,348	-	-
Other payables and accruals (Note 27)	12,831	12,475	45	60
Bank overdrafts (Note 28)	1,493	-	-	-
Charge card (Note 23)	-	157	-	-
Lease liabilities (Note 24)	7,114	-	-	-
Finance lease payables (Note 23)	-	4,427	-	-
Term loans (Note 23)	3,242	4,236	-	-
Bankers' acceptances (Note 23)	60,820	54,211	-	-
	106,320	100,854	45	60

Notes to the Financial Statements

For the financial year ended 31 December 2019

37. Financial instruments (continued)

37.4 Gains or Losses Arising From Financial Instruments

	Group		Company	
	2019	**2018**	**2019**	**2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Financial Assets				
Amortised Cost				
Net gains recognised in profit or loss	109	616	-	-
Financial Liabilities				
Fair Value Through Profit or Loss				
Net loss recognised in profit or loss	(4)	-	-	-
Amortised Cost				
Net losses recognised in profit or loss	(3,577)	(3,236)	-	-

37.5 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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37. Financial instruments (continued)

37.5 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:-

	Fair Value of Financial Instruments Carried at Fair Value			Fair Value of Financial Instruments not Carried at Fair Value			Total	Carrying
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Fair Value	Amount
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group								
2019								
Financial Liabilities								
Term loans:								
- floating rate	-	-	-	-	3,242	-	3,242	3,242
Derivative liabilities:								
- forward currency contract	-	4	-	-	-	-	4	4

Notes to the Financial Statements

For the financial year ended 31 December 2019

37. Financial instruments (continued)

37.5 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 (continued):-

	Fair Value of Financial Instruments not Carried at Fair Value			Total	Carrying
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Fair Value RM'000	Amount RM'000
Group					
2018					
Financial Liabilities					
Finance lease payable	-	4,427	-	4,427	4,427
Term loans:					
– floating rate	-	4,236	-	4,236	4,236

(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 loans that carry floating interest rates approximated their carrying amounts as they are repriced to market interest rates on or near the reporting date.

(ii) The fair value of finance lease payables that carry fixed interest rates are determined by discounting the relevant future contractual cash flows using current market interest rates for similar instruments at the end of the reporting period. The interest rates used to discount the estimated cash flows are as follows:-

	Group 2018 %
Finance lease	3.16 to 3.19

38. Initial application of MFRS 16

The Group has adopted MFRS 16 retrospectively from 1 January 2019 and has not restated the comparative information as permitted under the specific transition provisions in the standard. The Group has applied MFRS 16 only to contracts that were previously identified as leases under MFRS 117 'Leases' and IC Interpretation 4 'Determining Whether an Arrangement Contains a Lease'.Therefore, MFRS16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At 1 January 2019, for leases that were classified as operating leases under MFRS 117, the Group measured the lease liabilities at the present value of the remaining lease payments, discounted using the Group's weighted average incremental borrowing rate at that date of 5.07%. The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease.

The Group has used the following practical expedients in applying MFRS 16 for the first time:-

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Applied for the exemption not to recognise operating leases with a remaining lease term of less than 12 months as at 1 January 2019;
- Excluded initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term where the lease contract contains options to extend or terminate the lease.

For leases that were classified as finance leases, the Group has recognised the carrying amount of the leased asset and lease liability immediately before 1 January 2019 as the carrying amount of the right-of-use asset and the lease liability as at the date of initial application.

As a result, the Group did not make any adjustments to its retained profits upon the transition to MFRS 16 at 1 January 2019 other than the reclassification of certain balances in the Group's statement of financial position on that date as disclosed below:-

Statements of financial position

	Group 1.1.2019		
	As previously reported RM'000	Initial application of MFRS 16 RM'000	As restated RM'000
Property, plant and equipment	96,848	(12,371)	84,477
Land use rights	6,529	(6,529)	-
Right-of-use assets	-	20,440	20,440
Loans and borrowings	(63,031)	4,427	(58,604)
Lease liabilities	-	(5,967)	(5,967)

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39. Comparative figure

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
Group		
Statement of Financial Position (Extract):-		
Non-current Asset		
Deferred tax assets	713	-
Current Assets		
Trade and other receivables	85,078	-
Other current assets	3,745	-
Trade receivables	-	84,273
Other receivables, deposits and prepayments	-	4,550
Non-current Liability		
Deferred tax liabilities	9,822	9,109
Current Liabilities		
Trade and other payables	38,563	-
Refund liabilities	628	828
Trade payables	-	25,348
Other payables and accruals	-	13,015
Statement of Profit or Loss and Other Comprehensive income (Extract):-		
Interest income	331	-
Other income	1,463	1,446
Reversal of net impairment losses on financial assets	-	348

Notes to the Financial Statements

For the financial year ended 31 December 2019

39. Comparative figure (continued)

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

	As Previously Reported RM'000	As Restated RM'000
Group		
Statement of Cash Flows (Extract):-		
Cash flows from operating activities		
Interest expense	3,557	3,341
Bad debts recovered	(9)	-
Increase in trade and other receivables	-	1,475
Increase in receivables	2,404	-
Increase in other current assets	(929)	-
Increase in payables and refund liabilities	3,202	-
Decrease in refund liabilities	-	(628)
Increase in trade and other payables	-	3,456
Reversal of impairment loss on trade receivables	(339)	(348)
Interest paid	(3,773)	-
Cash flows for financing activities		
Interest paid	-	(3,341)

	As Previously Reported RM'000	As Restated RM'000
Company		
Statement of Financial Position (Extract):-		
Current Assets		
Trade and other receivables	21	-
Other current assets	1	-
Other receivables, deposits and prepayments	-	22

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 31/12/2019 (RM'000)
OISB(M)	H. S. (M) 455 to H. S. (M) 470 Lot PT4944 to PT4959 Mukim of Bachang, District of Melaka Tengah, Melaka	33,720	Leasehold 99 Years Expiring On 24/09/2094	Industrial		16-Jan-96	
OISB(M)	H. S. (M) 471 to H. S. (M) 475 Lot PT4960 to PT4964 Mukim of Bachang, District of Melaka Tengah, Melaka	17,505	Leasehold 99 Years Expiring On 24/09/2094	Industrial	23	04-Mar-02	28,309
PKNM*	Lot PT 6127, Kawasan Perindustrian Batu Berendam IV, Melaka Factory No.: 8998, Kawasan Perindustrian Batu Berendam (PhaseIV) (Taman Perindustrian Batu Berendam), Batu Berendam, Melaka.	6,822	Leasehold 99 Years Expiring On 20/04/2103	Industrial (Former Service Road)		01-Aug-03	
OISB(BP)	H. S. (D) 43098 Lot. No. PLO 271 (PTD39208), Mukim of Simpang Kanan, District of Batu Pahat, Johor Darul Takzim	13,067	Leasehold 60 Years Expiring On 10/07/2060	Industrial	22	27-Oct-97	
	Factory No. PLO 271, Jalan Kawasan Perindustrian Sri Gading, 83009 Batu Pahat, Johor Darul Takzim						6,173
OISB(BP)	H. S. (D) 38426 (PTD35123), Mukim of Simpang Kanan, District of Batu Pahat, Johor Darul Takzim	4,047	Leasehold 60 Years Expiring On 04/02/2058	Industrial	22	27-Dec-11	
OISB(PERAK)	H. S. (D) 10127, H.S. (D) 101313 To H.S. (D)10135 Lot PT 80050, PT 80054 to PT 80058 Mukim of Hulu Kinta, District of Kinta, State of Perak	42,808	Leasehold 60 Years Expiring On 02/01/2051	Industrial	29	25-May-90	5,676
	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	13	14-Mar-02	2,540
	Factory No. PLO 114 Jalan Cyber 5, Kawasan Perindustrian Senai III, 81400 Senai Johor.		Extended for another 30 years				

Notes:- OISB(M) - Ornapaper Industry (M) Sdn. Bhd.
OISB(BP) - Ornapaper Industry (Batu Pahat) Sdn. Bhd.
OISB(JOHOR) - Ornapaper Industry (Johor) Sdn. Bhd.
OISB(PERAK) - Ornapaper Industry (Perak) Sdn. Bhd.
PKNM - Perbadanan Kemajuan Negeri Melaka

* OISB (M) had purchased the land from PKNM as per the Sale and Purchase Agreement dated 01/08/2003

Analysis of Shareholdings

As at 01 June 2020

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	:	RM75,250,601.00
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	15	0.75	408	0.00
100 – 1,000	349	17.55	281,201	0.38
1,001 – 10,000	1,090	54.80	5,460,800	7.36
10,001 – 100,000	473	23.78	14,923,504	20.13
100,001 – 3,707,606 (*)	60	3.02	24,912,369	33.60
3,707,607 and above (**)	2	0.10	28,573,874	38.53
TOTAL	1,989	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.	22,693,874	30.60	-	-
Cartaban Nominees (Asing) Sdn. Bhd. *Exempt AN for Standard Chartered Bank Singapore (EFGBHK-Asing)*	5,880,000	7.93	-	-
Sai Ah Sai	120,000	0.16	(1)24,340,698	32.83
Sai Chin Hock	-	-	(2)23,153,198	31.22
Sai Han Siong	15,000	0.02	(3)23,276,198	31.39

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)24,340,698	32.83
Sai Chin Hock	-	-	(2)23,153,198	31.22
Ang Kwee Teng	10,000	0.01	-	-
Sai Han Siong	15,000	0.02	(3)23,276,198	31.39
Siow Kee Yen	30,500	0.04	-	-
Datuk Adillah Binti Ahmad Nordin	34,000	0.05	-	-
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 Sistematik 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 and his son, Sai Tzy Horng's indirect shareholding held through PSSB.
(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 01 June 2020

THIRTY (30) LARGEST SECURITIES ACCOUNT HOLDERS

No.	Shareholders	No. of shares	%
1	Intisari Delima Sdn. Bhd.	22,693,874	30.60
2	Cartaban Nominees (Asing) Sdn. Bhd. *Exempt AN for Standard Chartered Bank Singapore (EFGBHK-Asing)*	5,880,000	7.93
3	Huai Hin Holdings Sdn. Bhd.	3,579,500	4.83
4	Superior Rainbow Sdn. Bhd.	2,558,945	3.45
5	Yeo Ser Ken	1,288,000	1.74
6	Uptrend Performer Sdn. Bhd.	1,000,000	1.35
7	AllianceGroup Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Kong Kok Choy (8092812)*	910,000	1.23
8	Grandeur Holdings Sdn. Bhd.	900,000	1.21
9	Chen Foong Szeen	890,400	1.20
10	Lim Hong Liang	745,000	1.00
11	CGS-CIMB Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Looi Boon Han (MY0992)*	730,000	0.98
12	Lim Huey Tien	660,000	0.89
13	Chan Hua Heng	530,000	0.71
14	Pilihan Sistematik Sdn. Bhd.	459,324	0.62
15	Chong Nyok Moey	429,000	0.58
16	Chen Fook Wah	405,100	0.55
17	Teh Bee Gaik	403,700	0.54
18	Chen Fook Wah	388,100	0.52
19	Wong Lai Han	360,700	0.49
20	Sia Kim Diang	355,600	0.48
21	Ling Eng Kheat	353,800	0.48
22	Yeo Ser Ken	330,000	0.45
23	Lim Hong Liang	319,200	0.43
24	RHB Nominees (Tempatan) Sdn. Bhd. *Exempt AN for RHB Securities Singapore Pte. Ltd. (A/C Clients)*	310,000	0.42
25	Oi Kim Mai	300,000	0.40
26	Teu Chee Chai	287,000	0.39
27	Siang Teck Siong	285,900	0.39
28	Voo Ah Moh	265,600	0.36
29	Ong Teck Peow	259,000	0.35
30	Maybank Nominees (Tempatan) Sdn. Bhd. *Pledged Securities Account for Liau Thai Min*	256,500	0.35

Share Buy-Back Statement

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

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

Bursa Malaysia Securities Berhad ("**Bursa Securities**") has not perused this Statement prior to its issuance as it is an exempt document pursuant to Practice Note 18 of the Main Market Listing Requirements of Bursa Securities.

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

INTRODUCTION

At the Seventeenth Annual General Meeting ("**AGM**") of Ornapaper Berhad ("**ORNA**" or "**the Company**") held on 24 May 2019, the shareholders approved, inter-alia, the renewal of the authorisation for the Company to purchase up to ten percent (10%) of the issued and paid-up share capital of the Company. The said authorisation shall, in accordance with the Main Market Listing Requirements ("**MMLR**"), expire at the conclusion of the forthcoming Eighteenth AGM of the Company.

On 28 May 2020, the Board of Directors of the Company announced the Company's intention to seek a renewal of its shareholders' authorisation for the Proposed Share Buy-Back Authority at the forthcoming AGM of the Company.

1. Rationale for Renewal of Proposed Share Buy-Back Authority from the Shareholders of the Company

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

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

2. Retained Profits

Pursuant to Paragraph 12.09 of the MMLR, the maximum aggregate number of shares which may be purchased by the Company shall not exceed ten percent (10%) of the total number of issued shares of the Company at any point in time.

Based on the minimum scenario, the Company may purchase up to 7,525,060 shares based on the total number of issued shares of the Company of 75,250,601 shares as at 1 June 2020, being the most practicable date prior to the printing of this Annual Report ("**LPD**"). The total number of shares purchased by the Company and being held as Treasury Shares up to and including LPD is 1,098,445 shares. As such, the balance shares that can be purchased by the Company, taking into account the total cumulative Treasury Shares held up to LPD, is 6,426,615 shares.

Share Buy-Back Statement

The total maximum amount of funds to be allocated for the Proposed Share Buy-Back Authority must be made wholly out of the Company's retained profits based on the latest annual audited financial statements and the latest management accounts (where applicable). Therefore, the Board proposed that the maximum amount of funds to be utilised for any purchase of ORNA shares shall not exceed the aggregate of the Company's retained profits of RM21.531 million based on the Audited Financial Statements for the financial year ended 31 December 2019 and the latest unaudited retained profits of the Company as at 31 March 2020 was RM21.393 million.

3. Source of Funds

The amount allocated for the Proposed Share Buy-Back Authority would be mainly financed by internally generated funds and/or bank borrowings.

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

The actual number of shares to be purchased, the total funds involved in each purchase, and the timing of each purchase will depend on market conditions and sentiments of the share market as well as the available financial resources of ORNA at time of the purchase.

4. Treatment of Shares Purchased

The Proposed Share Buy-Back Authority to be undertaken will be in compliance with Section 127 of the Companies Act 2016 ("**Act**"). The Directors will deal with the shares purchased in the following manner:-

(i) cancel the shares so purchased; or

(ii) retain the shares so purchased as treasury shares which may be distributed as share dividends to shareholders of ORNA and/or be resold on Bursa Securities in accordance with the relevant rules of Bursa Securities and/or be transferred for the purposes of an employees' share scheme and/or be transferred as purchase consideration and/or be cancelled subsequently; or

(iii) retain part of the shares so purchased as treasury shares and cancel the remainder; or

(iv) deal with the shares so purchased in any other manner as may be permitted by the applicable laws and/or regulations in force from time to time.

Upon each purchase of shares, an immediate announcement will be made to Bursa Securities in respect of the intention of the Directors whether to cancel the shares so purchased, retain them as treasury shares or a combination of both. An immediate announcement will also be made to Bursa Securities on any resale, transfer and/or cancellation of treasury shares.

In considering how the shares so purchased will be dealt with, the Directors will take into consideration, amongst others, factors such as prevailing market price of the shares, the intrinsic value of the shares and effects on the earnings and net assets of the Group.

While the purchased shares are held as treasury shares, the rights attached to them in relation to voting, dividends and participation in other distributions whether cash or otherwise are suspended and the treasury shares shall not be taken into account in calculating the number or percentage of shares or of a class of shares in the Company for any purposes including substantial shareholdings, take-overs, notices, the requisitioning of meetings, the quorum for a meeting and the result of a vote on a resolution at a general meeting.

Share Buy-Back Statement

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

The following table illustrates the effects on the shareholdings of Directors, substantial/major shareholders and persons connected to them as at LPD, assuming the Proposed Share Buy-Back Authority is implemented in full –

Directors/Substantial Shareholders	As at LPD(1)				After Proposed Share Buy-Back Authority(2)			
	Number of ORNA Shares Held				Number of ORNA Shares Held			
	Direct	%	Indirect	%	Direct	%	Indirect	%
Directors								
Sai Chin Hock	-	-	23,153,198(3)	31.22	-	-	23,153,198(3)	34.19
Ang Kwee Teng	10,000	0.01	-	-	10,000	0.01	-	-
Sai Han Siong	15,000	0.02	23,276,198(4)	31.39	15,000	0.02	23,276,198(4)	34.37
Sai Ah Sai	120,000	0.16	24,340,698(5)	32.83	120,000	0.18	24,340,698(5)	35.94
Siow Kee Yen	30,500	0.04	-	-	30,500	0.05	-	-
Datuk Adillah Binti Ahmad Nordin	34,000	0.05	-	-	34,000	0.05	-	-
Substantial Shareholders								
Intisari Delima Sdn. Bhd. ("**IDSB**")	22,693,874	30.60	-	-	22,693,874	33.51	-	-
Cartaban Nominees (Asing) Sdn. Bhd. *Exempt AN for Standard Chartered Bank Singapore (EFGBHK-Asing)*	5,880,000	7.93	-	-	5,880,000	8.68	-	-
Sai Chin Hock	-	-	23,153,198(3)	31.22	-	-	23,153,198(3)	34.19
Sai Han Siong	15,000	0.02	23,276,198(4)	31.39	15,000	0.02	23,276,198(4)	34.37
Sai Ah Sai	120,000	0.16	24,340,698(5)	32.83	120,000	0.18	24,340,698(5)	35.94
Persons connected								
Sai Tzy Horng, son of Sai Chin Hock	-	-	459,324(6)	0.62	-	-	459,324(6)	0.68
Sai Swee Seong, son of Sai Ah Sai	171,500	0.23	-	-	171,500	0.25	-	-
Chua Mei Yin, wife of Sai Han Siong	3,000	0.00	-	-	3,000	0.00	-	-
Uptrend Performer Sdn. Bhd. ("**UPSB**")	1,001,000	1.35	-	-	1,001,000	1.48	-	-
Pilihan Sistematik Sdn. Bhd. ("**PSSB**")	459,324	0.62	-	-	459,324	0.68	-	-

Share Buy-Back Statement

Notes:

(1) Calculated based on total number of issued shares of 74,152,156 ordinary shares excluding 1,098,445 treasury shares held as at the LPD.

(2) Assuming that 7,525,060 shares, being the maximum of the shares not more than 10% of the total number of issued that may be bought back by the Company, are bought back and held as treasury shares. The total number of issued shares will be 67,725,541 excluding the treasury shares.

(3) Deemed interest pursuant to Section 8 of the Act by virtue of shares held through IDSB and his son, Sai Tzy Horng's indirect shareholding held through PSSB.

(4) Sai Han Siong is the son of Sai Ah Sai and nephew of Sai Chin Hock. 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.

(5) Deemed interest pursuant to Section 8 of the Act by virtue of shares held through IDSB and his sons, Sai Han Siong's shares held in ORNA and shares held through PSSB, and Sai Swee Seong's indirect shareholding held through UPSB and disclosure made pursuant to Section 59(11)(c) of the Act on shares held through his son, Sai Swee Seong.

(6) Deemed interest pursuant to Section 8 of the Act by virtue of shares held through PSSB.

6. Potential Advantages and Disadvantages

6.1 Potential Advantages

The potential advantages of the Proposed Share Buy-Back Authority are as follows:-

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

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

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

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

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

6.2 Potential Disadvantages

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

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

7. Financial Effects

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

7.1 Share Capital

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

Share Buy-Back Statement

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

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

7.2 Working Capital

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

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

7.3 Net Assets ("NA")

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

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

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

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

7.4 Earnings Per Share ("EPS")

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

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

Share Buy-Back Statement

8. Implication Under the Malaysian Code on Take-Overs and Mergers 2016 (“the Code”)

Assuming that the Proposed Share Buy-Back Authority is carried out in full, the shareholdings of the Directors and parties acting in concert will trigger an obligation to undertake a mandatory general offer under the Code, the Directors and parties acting in concert may consider seeking a waiver under the Code.

However, the intention of the Company to implement the share buy-back exercise was in a manner that it will not result any of the shareholders having to undertake a mandatory offer.

9. Historical Share Prices

The monthly high and low prices of the Company as traded on Bursa Securities for the last twelve (12) months from May 2019 to May 2020 are as follows:-

	Shares	
2019	**High (RM)**	**Low (RM)**
May	1.06	0.99
June	1.02	0.99
July	0.99	0.93
August	0.94	0.91
September	0.94	0.91
October	0.91	0.89
November	1.11	0.90
December	1.16	1.04
2020	**High (RM)**	**Low (RM)**
January	1.12	1.02
February	1.35	1.03
March	1.33	0.75
April	1.05	0.90
May	1.19	1.01

Last transacted market price of the Company’s shares at as LPD was RM1.04.

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

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

The Company did not buy back any of its own shares during the financial year ended 31 December 2019. The Company has not resold or cancelled any of its treasury shares in the preceding twelve (12) months up to the date of printing of this Statement.

As at LPD, there are 1,098,445 shares held as treasury shares. There was no resale or cancellation of treasury shares during the same period.

11. Public Shareholding Spread

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

Share Buy-Back Statement

As at LPD, the Company's public shareholding spread was 58.96% of its issued share capital. Any purchase of the shares by the Company must not result in the public shareholding spread of ORNA falling below 25% of the total number of issued share capital.

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

12. Directors' and Major Shareholders' Interests

Save for the proportionate increase in the percentage of shareholdings including, amongst others, the voting rights of the shareholders of the Company as a result of the Proposed Share Buy-Back Authority, none of the Directors and/or Major Shareholders of the Company and/or persons connected with them have any interest, whether direct or indirect in the Proposed Share Buy-Back Authority.

13. Directors Responsibility Statement

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

14. Directors' Recommendation

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

15. Other Information

15.1 Documents Available for Inspection

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

(a) Constitution of the Company; and

(b) Audited Financial Statements of the Company and Group for the past two (2) financial years ended 31 December 2018 and 31 December 2019 and the latest unaudited results since the last audited financial statements, if any.

Notice of the Eighteenth Annual General Meeting

NOTICE IS HEREBY GIVEN that the Eighteenth Annual General Meeting ("**18th AGM**") of the Company will be held at The Function Room 1, Level 2, Holiday Inn Melaka, Jalan Syed Abdul Aziz, 75000 Melaka on **Friday, 24 July 2020** at 10:30 a.m. for the following purposes:-

AGENDA

1. To receive the Audited Financial Statements for the financial year ended 31 December 2019 together with the Reports of the Directors and the Auditors thereon. **(Please refer to Note 15)**

2. To approve the declaration and payment of a final single-tier dividend of 3.0 sen per ordinary share for the financial year ended 31 December 2019. (Resolution 1)

3. To approve the payment of Directors' fees amounting to RM340,000/- from 25 July 2020 until the Nineteenth AGM of the Company. (Resolution 2)

4. To approve the payment of Directors' benefits payable up to an amount of RM28,000/-, from 25 July 2020 until the Nineteenth AGM of the Company. (Resolution 3)

5. To re-elect the following Directors who are retiring in accordance to Clause 120 of the Company's Constitution and being eligible, have offered themselves for re-election:-

   (a) Mr. Siow Kee Yen; (Resolution 4)
   (b) Mr. Tan Chin Hwee; and (Resolution 5)
   (c) Mr. Sai Han Siong (Resolution 6)

6. To re-appoint Messrs. Crowe Malaysia PLT as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration. (Resolution 7)

   <u>As Special Business</u>
   To consider and if thought fit, with or without any modification, to pass the following Ordinary Resolutions:-

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

   THAT subject always to the Companies Act 2016 ("**the Act**"), the 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 twenty percent (20%) of the total number of issued shares of the Company for the time being (hereinafter referred to as the "**20% General Mandate**") as empowered by Bursa Securities pursuant to Bursa Malaysia Berhad's letter dated 16 April 2020 to grant additional temporary relief measures to listed issuers;

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 pursuant to the 20% General Mandate on Bursa Securities;

AND FURTHER THAT such authority shall commence immediately upon the passing of this resolution and continue to be in force until the conclusion of the next AGM of the Company.

8. **Ordinary Resolution** (Resolution 9)
Retention of Datuk Adillah Binti Ahmad Nordin as Independent Non-Executive Director

THAT approval be and is hereby given to Datuk Adillah Binti Ahmad Nordin, who has served as an Independent Non-Executive Director for a cumulative term of more than 12 years, to continue to act as an Independent Non-Executive Director of the Company.

9. **Ordinary Resolution** (Resolution 10)
Retention of Mr. Siow Kee Yen as Independent Non-Executive Director

THAT subject to the passing of Resolution 4, approval be and is hereby given to Mr. Siow Kee Yen, who has served as an Independent Non-Executive Director for a cumulative term of more than 12 years, to continue to act as an Independent Non-Executive Director of the Company.

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

THAT subject to the provisions of the Bursa Securities Main Market Listing Requirements, approval be and is hereby given for the renewal of the existing shareholders' mandate for 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 the Circular to Shareholders dated 25 June 2020 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;

Notice of the Eighteenth 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.

11. **Ordinary Resolution** (Resolution 12)
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.

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

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(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.

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

NOTICE OF DIVIDEND ENTITLEMENT AND PAYMENT

NOTICE IS HEREBY GIVEN THAT a final single-tier dividend of 3.0 sen per ordinary share in respect of the financial year ended 31 December 2019, if approved by the shareholders at the forthcoming Eighteenth AGM, will be paid on 15 September 2020 to depositors who are registered in the Record of Depositors at the close of business on 1 September 2020, if approved by shareholders at the forthcoming Eighteenth AGM on Friday, 24 July 2020.

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

(a) Shares transferred into the Depositor's Securities Account before 4:30 p.m. on 1 September 2020 in respect of ordinary transfers; and
(b) Shares bought on Bursa Securities on a cum entitlement basis according to the Rules of the Bursa Securities.

By Order of the Board

CHUA SIEW CHUAN (MAICSA 0777689) / SSM PC NO.: 201908002648
YAU JYE YEE (MAICSA 7059233) / SSM PC NO.: 202008000733
Company Secretaries

Melaka
Dated: 25 June 2020

Notice of the Eighteenth Annual General Meeting

IMPORTANT NOTICE

1. The Board of Directors (“**Board**”) is cognisant of the COVID-19 pandemic as declared by the World Health Organisation which, to-date, is still subsisting. The health and safety of the Company’s shareholders, Directors, staff and other stakeholders is of paramount concern for the Company. In view of the foregoing, the Company wishes to advise shareholders that necessary steps and measures will be undertaken in holding the Company’s 18th AGM.

   In view of the COVID-19 pandemic and further to the “Guidance and FAQs on the Conduct of General Meetings for Listed Issuers” issued by the Securities Commission, members/proxies/corporate representatives who wish to attend the 18th AGM in person **ARE REQUIRED TO PRE-REGISTER** (“**RSVP**”) with the Company’s share registrar, Tricor Investor & Issuing House Services Sdn. Bhd. (“**Share Registrar**”, “**Tricor**”, or “**TIIH**”), via the **TIIH Online** website at https://tiih.online no later than **Wednesday, 22 July 2020** at **10.30 a.m.** Please follow the RSVP Procedures in the Administrative Details for the 18th AGM.

2. 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.

3. 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.

4. For a member of the Company who 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.

5. 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.

6. The instrument appointing a proxy shall be in writing 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.

7. A member who has appointed a proxy or attorney or corporate representative to attend and vote at the 18th AGM must request his/her proxy or attorney or corporate representative to submit their RSVP at **TIIH Online** website at https://tiih.online no later than **Wednesday, 22 July 2020** at **10:30 a.m.** Please follow the RSVP Procedures in the Administrative Details for the 18th AGM.

8. The appointment of a proxy may be made in a hard copy form or by electronic means in the following manner and must be received by the Company not less than forty-eight (48) hours before the time appointed for holding the 18th AGM or adjourned general meeting at which the person named in the appointment proposes to vote:

Notice of the Eighteenth Annual General Meeting

(i) **<u>In hard copy form</u>**

In the case of an appointment made in hard copy form, the Proxy Form must be deposited at the Company's Share Registrar at Tricor Investor & Issuing House Services Sdn. Bhd., Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia, or alternatively, the Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia.

(ii) **<u>By electronic form</u>**

The Proxy Form can be electronically lodged via **TIIH Online** website at https://tiih.online (applicable to individual member only). Kindly refer to the Administrative Details on the procedure for electronic lodgement of proxy form via TIIH Online.

9. Please ensure ALL the particulars as required in the Proxy Form are completed, signed and dated accordingly.

10. Last date and time for lodging the form of proxy is **Wednesday, 22 July 2020 at 10:30 a.m.**

11. 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 Tricor Investor & Issuing House Services Sdn. Bhd., Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia or alternatively, the Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia not less than forty-eight (48) hours before the time appointed for holding the 18th 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.

12. For a corporate member who has appointed an authorised representative, please deposit the **ORIGINAL** certificate of appointment of authorised representative with the Company's Share Registrar at Tricor Investor & Issuing House Services Sdn. Bhd., Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia or alternatively, the Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, 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.

    (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.

13. 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 16 July 2020**. Only a member whose name appears on this Record of Depositors shall be entitled to participate in this 18th AGM or appoint proxies to attend and vote in his stead.

14. **Publication of Notice of 18th AGM and Proxy Form 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:-

    (i) www.ornapaper.com/ornapa/bursa_AGM/18th AGM Proxy Form.pdf; and
    (ii) www.ornapaper.com/ornapa/bursa_AGM/18th AGM Notice.pdf

Notice of the Eighteenth Annual General Meeting

15. **Audited Financial Statements for the financial year ended 31 December 2019**

    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 2, if approved, will authorise the payment of Directors' fees to the Non-Executive Directors ("**NEDs**") by the Company for the period from 25 July 2020 to the Nineteenth 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 3, 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 25 July 2020 to the Nineteenth 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) Authority to Issue Shares pursuant to Sections 75 and 76 of the Companies Act 2016

The proposed Resolution 8 is intended to renew the authority granted to the Directors of the Company at the Seventeenth AGM of the Company held on 24 May 2019 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 twenty percent (20%) of the total number of issued shares of the Company for the time being (hereinafter referred to as the "**20% General Mandate**").

As part of the initiative from Bursa Malaysia Securities Berhad ("**Bursa Securities**") to aid and facilitate listed issuers in sustaining their business or easing their compliance with Bursa Securities' rules, amid the unprecedented uncertainty surrounding the recovery of the COVID-19 outbreak and Movement Control Order imposed by the Government, Bursa Securities had vide Bursa Malaysia Berhad's letter dated 16 April 2020 allow a listed issuer to seek a higher general mandate under Paragraph 6.03 of the Main Market Listing Requirements of Bursa Securities of not more than 20% of the total number of issued shares (excluding treasury shares) for the general issue of new securities.

This 20% General Mandate may be utilised by listed issuer to issue new securities until 31 December 2021 and thereafter, the 10% general mandate will be reinstated.

The Board, having considered the current and prospective financial position, needs and capacity of the Group, is of the opinion that the 20% General Mandate is in the best interests of the Company and its shareholders on the following basis:-

- the proposed 20% General Mandate would allow the Company to raise equity financing promptly rather than the more costly and time-consuming process by obtaining shareholders' approval in a general meeting should the need for capital arise.
- other financing alternatives such as debt financing may incur interest expenses to the Group as compared to equity financing.
- the proposed 20% General Mandate would provide a good opportunity for the Company to raise additional capital expeditiously for its operations, future expansion and business development during this challenging time.
- the proposed 20% General Mandate provides the Company with the capability to capture any capital raising and/or prospective investment opportunities if and when they arise and would best serve the Company's interests in its endeavours and potential plans for future expansion. In view of the current volatile and challenging market conditions and that potential transactions may need to be conducted within a short and restricted timeframe, the readily available 20% General Mandate presents the most suitable method for the Company in the interim period prior to the next AGM of the Company.

Notice of the Eighteenth Annual General Meeting

This proposed 20% General Mandate, if passed, will provide flexibility for the Company and empower the Directors of the Company to issue and allot shares at any time to such persons in their absolute discretion. This authority, unless revoked or varied by the Company in a general meeting, will expire at the next AGM. The proceeds raised from the proposed 20% General Mandate will provide flexibility to the Company for any possible fund-raising activities, including but not limited to further placing of shares, for purpose of funding future investment project(s), working capital and/or acquisitions.

(iii) Retention as Independent Non-Executive Directors

Datuk Adillah Binti Ahmad Nordin and Mr. Siow Kee Yen were appointed as Independent Non-Executive Directors of the Company on 2 December 2002, and have served on the Board of Directors ("**the Board**") for a cumulative term of more than 17 years. In accordance with the Malaysian Code on Corporate Governance, the Board, after having assessed the independence of Datuk Adillah Binti Ahmad Nordin and Mr. Siow Kee Yen, regarded them to be independent based amongst others, the following justifications and recommends that Datuk Adillah Binti Ahmad Nordin and Mr. Siow Kee Yen be retained as Independent Non-Executive Directors of the Company:

a. They have met the independence guidelines as set out in Chapter 1 of Bursa Securities Main Market Listing Requirements;
b. They do not have any conflict of interest with the Company and has not been entering/are not expected to enter into contract(s), especially material contract(s), with the Company and/or its subsidiary companies; and
c. The Board is of the opinion that Datuk Adillah Binti Ahmad Nordin and Mr. Siow Kee Yen are important Independent Non-Executive Directors of the Board in view of their many years on the Board with incumbent knowledge of the Company and the Group's activities and corporate history and have provided invaluable contributions to the Board in their role as Independent Non-Executive Directors.

(iv) Proposed Renewal of Existing Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature

The proposed Resolution 11, 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 favorable to the related parties than those generally available to the public and are not to the detriment of the minority shareholders of the Company.

Please refer to the Circular to Shareholders dated 25 June 2020 for detailed information.

(v) Proposed Renewal of Share Buy-Back Authority

The proposed Resolution 12, 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 Share Buy-Back Statement set out in the Annual Report 2019.

Personal Data Privacy:
By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, participate, speak and vote at the Eighteenth 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.

Ornapaper Berhad
(Incorporated in Malaysia)
Registration No: 200201006032 (573695-W)

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 Eighteenth Annual General Meeting ("**AGM**") of the Company to be held at the Function Room 1, Level 2, Holiday Inn Melaka, Jalan Syed Abdul Aziz, 75000 Melaka on Friday, 24 July 2020 at 10:30 a.m. and at any adjournment thereof.

Please indicate with an "X" in the spaces provided below as to how you wish your votes to be casted. If no specific direction as to voting is given, the proxy will vote or abstain from voting at *his/her discretion.

Resolution	Agenda	For	Against
1	To approve the declaration and payment of a final single-tier dividend of 3.0 sen per ordinary share for the financial year ended 31 December 2019.		
2	To approve the payment of Directors' fees amounting to RM340,000/- from 25 July 2020 until the Nineteenth AGM of the Company.		
3	To approve the payment of Directors' benefits payable up to an amount of RM28,000/-, from 25 July 2020 until the Nineteenth AGM of the Company.		
4	To re-elect Mr. Siow Kee Yen in accordance with Clause 120 of the Company's Constitution.		
5	To re-elect Mr. Tan Chin Hwee in accordance with Clause 120 of the Company's Constitution.		
6	To re-elect Mr. Sai Han Siong in accordance with Clause 120 of the Company's Constitution.		
7	To re-appoint Messrs. Crowe Malaysia PLT as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration.		
8	Authority to Issue Shares pursuant to Sections 75 and 76 of the Companies Act 2016.		
9	Retention of Datuk Adillah Binti Ahmad Nordin as an Independent Non-Executive Director of the Company.		
10	Retention of Mr. Siow Kee Yen as an Independent Non-Executive Director of the Company.		
11	Proposed Renewal of Existing Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature.		
12	Proposed Renewal of Authority for the Company to Purchase Its Own Shares.		

As witness my/our hand(s) this day __________ of ____________________, 2020.

Contact Number:____________________

____
*Signature(s)/Common Seal of Member

* Strike out whichever is not applicable

IMPORTANT NOTICE

1. The Board of Directors ("**Board**") is cognisant of the COVID-19 pandemic as declared by the World Health Organisation which, to-date, is still subsisting. The health and safety of the Company's shareholders, Directors, staff and other stakeholders is of paramount concern for the Company. In view of the foregoing, the Company wishes to advise shareholders that necessary steps and measures will be undertaken in holding the Company's 18th AGM.

   In view of the COVID-19 pandemic and further to the "Guidance and FAQs on the Conduct of General Meetings for Listed Issuers" issued by the Securities Commission, members/proxies/corporate representatives who wish to attend the 18th AGM in person **ARE REQUIRED TO PRE-REGISTER ("RSVP")** with the Company's share registrar, Tricor Investor & Issuing House Services Sdn. Bhd. ("**Share Registrar**", "**Tricor**", or "**TIIH**"), via the **TIIH Online** website at https://tiih.online no later than **Wednesday, 22 July 2020** at **10.30 a.m.** Please follow the RSVP Procedures in the Administrative Details for the 18th AGM.

2. 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.

3. 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.

4. For a member of the Company who 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.

5. 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.

6. The instrument appointing a proxy shall be in writing 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.

7. A member who has appointed a proxy or attorney or corporate representative to attend and vote at the 18th AGM must request his/her proxy or attorney or corporate representative to submit their RSVP at **TIIH Online** website at https://tiih.online no later than **Wednesday, 22 July 2020** at **10:30 a.m.** Please follow the RSVP Procedures in the Administrative Details for the 18th AGM.

8. The appointment of a proxy may be made in a hard copy form or by electronic means in the following manner and must be received by the Company not less than forty-eight (48) hours before the time appointed for holding the 18th AGM or adjourned general meeting at which the person named in the appointment proposes to vote:

   (i) **In hard copy form**

   In the case of an appointment made in hard copy form, the Proxy Form must be deposited at the Company's Share Registrar at Tricor Investor & Issuing House Services Sdn. Bhd., Unit 3201, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia, or alternatively, the Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia.

   (ii) **By electronic form**

   The Proxy Form can be electronically lodged via **TIIH Online** website at https://tiih.online (applicable to individual member only). Kindly refer to the Administrative Details on the procedure for electronic lodgement of proxy form via TIIH Online.

9. Please ensure ALL the particulars as required in the Proxy Form are completed, signed and dated accordingly.

10. Last date and time for lodging the form of proxy is **Wednesday, 22 July 2020 at 10:30 a.m.**

11. 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 Tricor Investor & Issuing House Services Sdn. Bhd., Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia or alternatively, the Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia not less than forty-eight (48) hours before the time appointed for holding the 18th 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.

12. For a corporate member who has appointed an authorised representative, please deposit the **ORIGINAL** certificate of appointment of authorised representative with the Company's Share Registrar at Tricor Investor & Issuing House Services Sdn. Bhd., Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia or alternatively, the Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, 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.

    (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.

13. 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 16 July 2020**. Only a member whose name appears on this Record of Depositors shall be entitled to participate in this 18th AGM or appoint proxies to attend and vote in his stead.

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Affix
Stamp
Here

The Company's Share Registrar

ORNAPAPER BERHAD [200201006032 (573695-W)]

Tricor Investor & Issuing House Services Sdn. Bhd.
[197101000970 (11324-H)]

Unit 32-01, Level 32, Tower A,
Vertical Business Suite, Avenue 3,
Bangsar South, No. 8, Jalan Kerinchi,
59200 Kuala Lumpur

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Ornapaper BERHAD 200201006032 (573695-W)

No. 8998, Kawasan Perindustrian
Peringkat IV, Batu Berendam,
75350 Melaka, Malaysia.

Tel: 06-3355 888 Fax: 06-3356 988

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