

#### 4. INFORMATION ON THE ORNAPAPER GROUP

##### 4.1 Incorporation

Ornapaper was incorporated in Malaysia under the Act on 12 March 2002 as a public company. It is principally an investment holding company, with its subsidiaries principally engaged in the manufacturing and sale of corrugated boards and carton boxes. As at 30 November 2002, the Ornapaper Group has 376 employees.

The details of the subsidiary companies of Ornapaper are as follows:-

Name	Date and place of incorporation	Issued and paid-up share capital (RM)	Effective Equity Interest (%)	Principal Activities
OISB(M)	24 July 1990 Malaysia	22,727,000	100.00	Manufacturing of corrugated boards and carton boxes
OISB(BP)	26 November 1996 Malaysia	1,000,000	100.00	Manufacturing and trading of carton boxes

##### 4.2 Share Capital and Changes in Share Capital

The present authorised share capital is RM100,000,000 comprising 100,000,000 ordinary shares of RM1.00 each whilst its current issued and paid-up share capital is RM54,000,000 comprising 54,000,000 ordinary shares of RM1.00 each.

The changes in the issued and paid up share capital of Ornapaper since its incorporation are as follows:-

Date of Allotment	No. of Ordinary Shares	Par Value RM	Consideration	Total Issued and Paid-up Share Capital RM
12 March 2002	2	1.00	Subscribers' shares	2
17 October 2002	499,998	1.00	Cash	500,000
1 December 2002	52,649,204	1.00	Acquisition of subsidiaries	53,149,204
2 December 2002	850,796	1.00	Rights Issue	54,000,000

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##### 4.3 Restructuring Scheme

In conjunction with, and as an integral part of the listing and quotation for the entire issued and paid-up share capital of Ornapaper on the Main Board of the KLSE, the Company undertook a restructuring scheme involved the following:-

###### i) Acquisition of OISB(M)

On, 1 December 2002, Ornapaper acquired the entire issued and paid-up share capital of OISB(M) comprising 22,727,000 ordinary shares of RM1.00 each ("Shares") from its existing shareholders for a purchase consideration of RM54,779,833 based on its audited NTA value of RM54,778,002 for the financial year ended 31 December 2001 adjusted for the gain on disposal of RM1,831 from the disposal of its 50% interest in OISB(BP) as set out below. The purchase consideration of RM54,779,833 was to be satisfied by the issuance of 52,171,270 Shares in Ornapaper at an issue price of approximately RM1.05 per Share as follows:-

Shareholders	No of shares held in OISB(M)	Percentage interest %	Purchase Consideration RM	No. of Ornapaper Shares issued
Datuk Ting Chung Cheng	4,000,000	17.60	9,641,368	9,182,255
Pilihan Sistemik Sdn Bhd	2,000,000	8.80	4,820,683	4,591,127
Selat Muhibbah Sdn Bhd	1,000,000	4.40	2,410,341	2,295,563
Intisari Delima Sdn Bhd	8,907,000	39.19	21,468,912	20,446,583
Lembaga Tabung Haji	6,820,000	30.01	16,438,529	15,655,742
<b>TOTAL</b>	<b>22,727,000</b>	<b>100.0</b>	<b>54,779,833</b>	<b>52,171,270</b>

The 52,171,270 Shares issued pursuant to the Acquisition of OISB(M) rank pari passu in all respects with the then existing Shares of the Company.

###### ii) Acquisition of OISB(BP)

On 1 December 2002, Ornapaper acquired the entire issued and paid-up share capital of OISB(BP) comprising 1,000,000 Shares from its existing shareholders for a purchase consideration of RM1,003,662 based on its audited NTA value for the financial year ended 31 December 2001. The purchase consideration of RM1,003,662 was to be satisfied partly in cash of RM501,831 and partly by the issuance of 477,934 Shares in Ornapaper at an issue price of approximately RM1.05 per Share as follows:-

Shareholders	No of shares held in OISB(BP)	Percentage interest %	Purchase Consideration RM	No. of Ornapaper Shares issued
Tan Chin Hwee	500,000	50.00	501,831	477,934
OISB(M)	500,000	50.00	501,831	-*
<b>TOTAL</b>	<b>1,000,000</b>	<b>100.00</b>	<b>1,003,662</b>	<b>477,934</b>

\* *satisfied by cash consideration*

The 477,934 Shares issued pursuant to the Acquisition of OISB(BP) rank pari passu in all respects with the then existing Shares of the Company.

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iii) Rights Issue

Upon completion of the Acquisitions, Ornapaper implemented a Rights Issue of 850,796 new Shares in Ornapaper at an issue price of RM1.00 per Share on the basis of approximately 1 new Share for every 62 existing Shares held.

The Rights Issue which was completed on 2 December 2002 resulted in the issued and paid up share capital of Ornapaper being further increased from 53,149,204 Shares to 54,000,000 Shares.

iv) Public Issue and Offer for Sale

The final stage in the Restructuring Scheme involves a Public Issue of 8,000,000 new shares in Ornapaper at an issue price of RM1.60 per Share to the Malaysian public.

In conjunction with the IPO, the Offerors are offering 5,320,000 Shares in Ornapaper representing 8.58% of the entire enlarged share capital of Ornapaper at an offer price of RM1.60 per Share in order to meet the minimum Bumiputera and Public shareholdings spread requirement.

The total of 13,320,000 IPO Shares pursuant to the Proposed Public Issue and Offer for Sale will be allocated in the following manner:-

- i) 8,000,000 Public Shares representing 12.9% of the enlarged issued and paid-up share capital of 62,000,000 comprising:-
  - 1,020,000 new Shares available for application by the Malaysian Public;
  - 3,880,000 new Shares by way of Placement; and
  - 3,100,000 new Shares to eligible directors, employees and business associates of the Ornapaper Group;
- ii) 5,320,000 Offer Shares representing approximately 8.58% of the enlarged issued and paid-up share capital of 62,000,000 comprising:-
  - 4,340,000 Shares to Bumiputera investors approved by the MITI; and
  - 980,000 new Shares available for application by the Malaysian Public;

All the new Shares issued pursuant to the IPO will rank pari passu in all aspects with the existing ordinary shares of Ornapaper including voting rights and the rights to the dividend that may be declared subsequent to the allotment of the IPO Shares.

v) Listing

The Company will make an application to the KLSE for the admission of Ornapaper to the Official List and for the listing of and quotation for the enlarged issued and fully paid-up share capital of up to 62,000,000 Shares in Ornapaper on the Main Board of the KLSE.

**4.4 Business Overview**(i) Introduction

Ornapaper was incorporated in Malaysia under the Act on 12 March 2002 as a public company.

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The Group is principally an investment holding whilst its subsidiaries are principally involved in the manufacturing and sales of corrugated cartons and boards. The Group designs, manufactures and sells corrugated boards and cartons for the packaging of electronics and electrical products, food, beverage and tobacco, furniture and textile and garments. Most of the Group's products are manufactured according to customers' specifications.

The Group's products are solely catered to the domestic market and its customer profile includes mainly the local manufacturers, MNCs as well as other converters who do not own a corrugator plant.

The Group has strategic alliances with several corrugators and converters in Perak, Selangor and Johor which uses the Group's trade name of "Ornapaper" to trade and sell cartons. Ornapaper also holds a 15% stake in Ornapaper Industry (Penang) Sdn Bhd which also uses the trade name of Ornapaper and purchase boards and cartons from the Ornapaper Group. The tie-ups with these strategic partners allows Ornapaper to increase its market coverage throughout the Peninsular Malaysia by servicing the customers located throughout the length of West Malaysia covering the Northern region (Penang) to the Southern region (Johor). This enhances its ability to sustain and expand its market share with a view to diversifying its customer base.

Presently, the Group has an installed production capacity of 7,000 MT per month based on daily two (2) shift basis and the present utilisation rate of its plant is approximately 65% or 4,540 MT per month. As at 30 November 2002, the Group employed a total of 376 employees.

##### (ii) Development of Ornapaper Group

The Ornapaper Group's business was first founded by Datuk Ting Chung Cheng when OISB(M) was incorporated on 24 July 1990. The business started its operations by focusing only on the manufacturing of corrugated carton boxes in rented premises in Melaka. Then, it purchased its corrugated boards from outside upstream suppliers and carried out the downstream manufacturing process of transforming corrugated boards into cartons also known as "*converting*".

Riding on the economic boom in the early to mid-nineties and with its continuous re-investment programme, a new high technology production and development facility was commissioned by OISB(M) in 1997. OISB(M) installed a 2.5m wide 250mpm fully computerised corrugator which is configured especially for high-speed order changes to cater for the order nature of the industry. With this, OISB(M) obtained the capability to transform industrial kraft and medium paper into corrugated boards. This upstream manufacturing process is also known as "*corrugating*". In 1997, OISB(M) began commercial production of corrugated boards for internal use as well as for sales to other downstream corrugated carton box manufacturers. In 1996, OISB(BP) was established to manufacture and sell carton boxes.

As the corrugating and converting business of the Group expanded significantly, Ornapaper is now operating from its own premises in Melaka and Batu Pahat with a total land area of approximately 8.33 acres and 3.23 acres respectively.

##### (iii) Production Facilities

The Ornapaper Group owns two factories located at both Melaka and Batu Pahat.

OISB(M) is located at 8998, Kawasan Perindustrian Peringkat IV, Batu Berendam, 75350 Melaka. It is operating at its own premises, with a total land area of approximately 8.33 acres. The built-up area for its factory and three (3) stories office block is approximately 167,572 and 17,846 square feet respectively.

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It has an installed production capacity of 7,000 MT per month or 84,000 metric tones per annum. Presently, OISB(M) is operating at about 4,540 MT per month which translates into an utilization rate of 65%. The factory is currently running on two (2) shifts six (6) days week. Its high-speed hybrid machine is shut down at least once a week for maintenance in order to ensure optimal production efficiency with minimal disruption and low wastage.

OISB(M) is currently operating with a fully automated corrugator plant which is described below:-

##### Corrugating line

This is a fully computerized corrugator comprises a K&H C30-25D wet-end system and a full Marquip dry-end system. The line is a hybrid machine fully tested and proven in operations in other parts of the world specially configured for high-speed order change and optimum running speed capable of producing corrugated boards at a maximum speed of 250 metres per minute.

##### Conveyor System

The whole production floor is covered with the China Leon Conveyor System fully designed for smooth material handling between corrugating, converting and warehouse departments.

##### Converting line

A fully equipped converting facility with capability to produce a wide range of corrugated products. Major machineries are as follows:-

- 1) Rapidex Line Flexo Folder Gluer/Stitcher and Printer Slotter sharing four (4) colour printing units and rotary diecutter interchangeable between the two machines. These French machines are fully automatic with computerized set up features incorporating vacuum board transfer and doctor blade system for high efficiency and high speed operation.

The Rapidex Line Flexo Folder Gluer/Sticher has the capability to perform both glueing and stitching function as it carries the Valco glue system and the 2000 stitches per minute Rapidline Oscillating Stitcher. The Rapidex Printer Slotter coupled with the Geo Martin Stacker are capable of performing high speed die cutting functions.

<i>Rapidex Line Flexo Folder Gluer/Stitcher and Rapidex Printer Slotter</i>	
Machine working width	Max. with skip feed: 1750mm x 2840mm Max : 1300mm x 2840mm Min : 340mm x 800mm

- 2) TCY 6PA 3 Colour flexo folder gluer with rotary die-cut. This Taiwanese world class printer is a high performer at 220 pc/min.

<i>Colour flexo folder gluer with rotary die-cut:</i>	
Machine working width	Max : 1170mm x 2750mm Min : 310mm x 720mm.

- 3) TCY 6PA 4 Colour Printer Slotter with Rotary Die-Cut. This machine is also capable of producing Award winning Hi-Graphic process printing.

<i>Colour Printer Slotter with Rotary Die-Cut:</i>	
Machine working width	Max : 1170mm x 3000mm Min : 310mm x 600mm

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- 4) TCY 9PA 4 Colour Flexo Folder Gluer with rotary diecutter capable of 350pc/min production speed. A fully computerized printer with chamber doctor blade inking system, it is a highly productive machine.

<i>Colour Flexo Folder Gluer:</i>	
Machine working width	Max : 633mm x 1800mm Min : 190mm x 370mm

- 5) Plus E Long Way 2 Colour Flexo Printer. This is a wide format machine with working width of 1800mm x 3000mm.
- 6) Rapidfold automatic folder gluer/ stitcher .
- 7) 2 x Twin-Head Semi Auto Stitcher. These stitchers are used to provide stitching joints for two joint cartons which usually are big in dimension.
- 8) Semi-automatic gluer. Suitable for glueing small size cartons.
- 9) Stretch-wrap Machine etc.
- 10) Li Sheng Automatic Plater Die Cutter (Model LS 1670-S)  
(size : 1670x115 mm, speed : 4,600 pieces/hour)

OISB(BP) is located at PLO 271, Jalan Wawasan 5, Kawasan Perindustrian Sri Gading 83009, Batu Pahat Johor. It is operating as a converter and its factory has a total land area of approximately 3.23 acres. The built-up area for its warehouse and three (3) story office block is approximately 65,875 and 8,611 square feet respectively. The installed production capacity of the converter plant in Batu Pahat is 600 metric tonne per month or 7,200 metric tonne per year. The current operating level is 60% of the total capacity at Batu Pahat plant.

The factory is currently running on one (1) shift six days per week. Under this Converting Line, OISB(BP) is operating with the following machineries:-

<b>Colour Flexo Printer</b>	<b>Quantity</b>	<b>Working width</b>
Plus E Long Way	1	1800mm x 3000mm
Plus E Long Way	1	1650mm x 2400mm
<b>Colour Flexo Printer Slotter</b>		
Plus E 3	1	1800mm x 3000mm
Plus E 2	1	1200mm x 2450mm
<b>Semi Auto Stitcher</b>	1	3000mm x 1
<b>Semi Auto Gluer</b>	2	3000mm x 1
<b>Slitter Scorer</b>	1	3000mm x 1
<b>Manual Hand Stitcher</b>	5	1200mm x 1

(iv) Principal Products and Markets

Ornapaper manufactures and distributes corrugated boards and corrugated cartons that meet the packaging needs of the manufacturing sector.

A description of its product line is set out below:-

- **Corrugated boards**

A combination of layers of industrial grade paper glued together into a structure formed by the corrugated inner member glued between flat facing paper providing the mechanical strength needed in the final product. Typically there are single wall (3 layers) and double wall (5 layers) corrugated boards. These boards are used in down stream converting operation which convert them into various types of folding cartons and set up boxes.

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- **Corrugated cartons**

A package made from corrugated boards and used for merchandising consumer quantities of product. It is a rigid container having close faces and completely enclosing the contents. It is also referred to as a 'knocked down box'. The final set up and closure are performed by the carton user.

- **Die-cut boxes**

A corrugated container which is cut and scored to shape by special steel rule dies. This includes regular slotted cartons which require hand-holes, ventilation holes etc., and all other non-regular slotted cartons designs.

- **Corrugated pad**

A corrugated sheet used for extra protection or for separating tiers or layers of articles when packed for shipment.

- **Display Boxes/ Hand Carry Boxes**

Through innovative design and attractive graphics, this container promotes its contents by projecting a powerful appeal that promotes impulse buying. It also helps to gain important counter or shelf space thus making the consumer product stand out in the crowd.

- **Process Printing Colour Boxes**

A corrugated container with Hi-graphic printing involving three subtractive primary colours i.e. cyan, magenta and yellow as well as black. With high screen counts in the anilox roll, closed to 'photo finish' printing can be achieved on corrugated cartons.

The Company markets the above products mainly to the domestic market. Strategic service points have also been set up in states like Penang, Perak, Selangor and Johor to service companies and converters operating in those industrial areas. The list of Ornapaper's top 20 customers for the eight (8) month financial period ended 31 August 2002 is tabulated as below:-

Customers	Percentage of total sales (%)
Ornapaper Industry (Selangor) Sdn Bhd*	25.5%
Ornapaper Industry (Johor) Sdn Bhd*	8.8%
Witachi Sdn Bhd	5.1%
Tripack Packaging (M) Sdn Bhd	4.2%
Ornapaper Industry (Penang) Sdn Bhd	3.2%
SHH Furniture Industries Sdn Bhd	2.9%
Paperjaya Printing & Packaging Sdn Bhd	2.5%
Best Box Packaging Sdn Bhd	2.4%
Ornapaper Industry (Perak) Sdn Bhd*	2.4%
YCN Carton Sdn Bhd	2.2%
Poh Huat Furniture Industries Sdn Bhd	1.8%
Kimble Furniture Corporation (M) Sdn Bhd	1.7%
Hup Seng Perusahaan Makanan (M) Sdn Bhd	1.6%
Jolly Wood Sdn Bhd	1.4%
Kurnia Serjati Sdn Bhd	1.4%
LY Furniture Sdn Bhd	1.4%
Samsung Electronics Display (M) Sdn Bhd	1.3%
Cemax Technology Sdn Bhd	1.2%
Malaysian Paper Carton Manufacturers Sdn Bhd	1.0%
Jonfong Wood Products Sdn Bhd	1.0%

\* Strategic Alliance Partner

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Further sales breakdown of its boards and carton boxes to converters and end customers are tabulated below:-

As at 31 August 2002	Percentage of total sales (%)
Sales to Converters/Corrugators	33.0
Sales to End-Customers	67.0

According to the estimates of Ornapaper's management, the Ornapaper Group's estimated market share within the corrugated carton industry was in the region of 10% in the financial year ended 2001. The estimated market share is based on Ornapaper's year 2001 turnover of RM114.2 million with an estimated corrugated carton industry worth of approximately RM1.2 billion in the same year.

According to the Department of Statistics, the manufacture of containers and boxes of paper and paper boards (which may include the paper products other than corrugated boards and cartons) in year 2001 stood at RM1.8 billion. Based on Ornapaper's turnover of RM114.2 million in the year 2001 and the said statistics for containers and boxes of paper and paper boxes, the Company's estimated market share is estimated to be in the region of 6.0%.

(v) Production Process

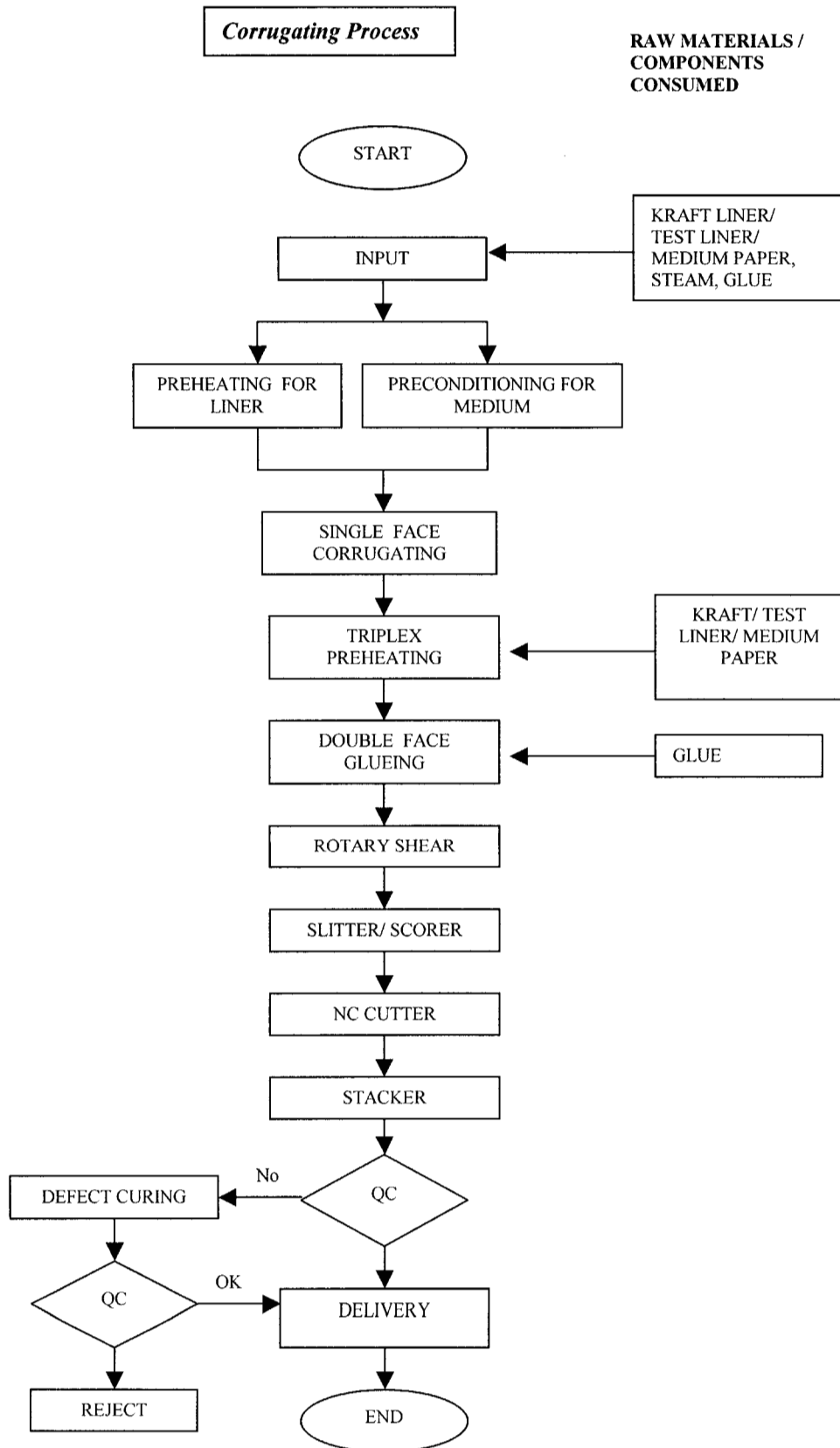
The corrugated carton industry can be sub-divided into corrugating and converting, whereby the manufacturer of corrugated boards are known as corrugating while the subsequent transformation of the corrugated boards into cartons is referred to as converting. Ornapaper is both a corrugator and converter and it is involved in the sourcing of raw materials, turning the paper into corrugated boards, pre-press processes and converting the corrugated boards into cartons and other corrugated paper products.

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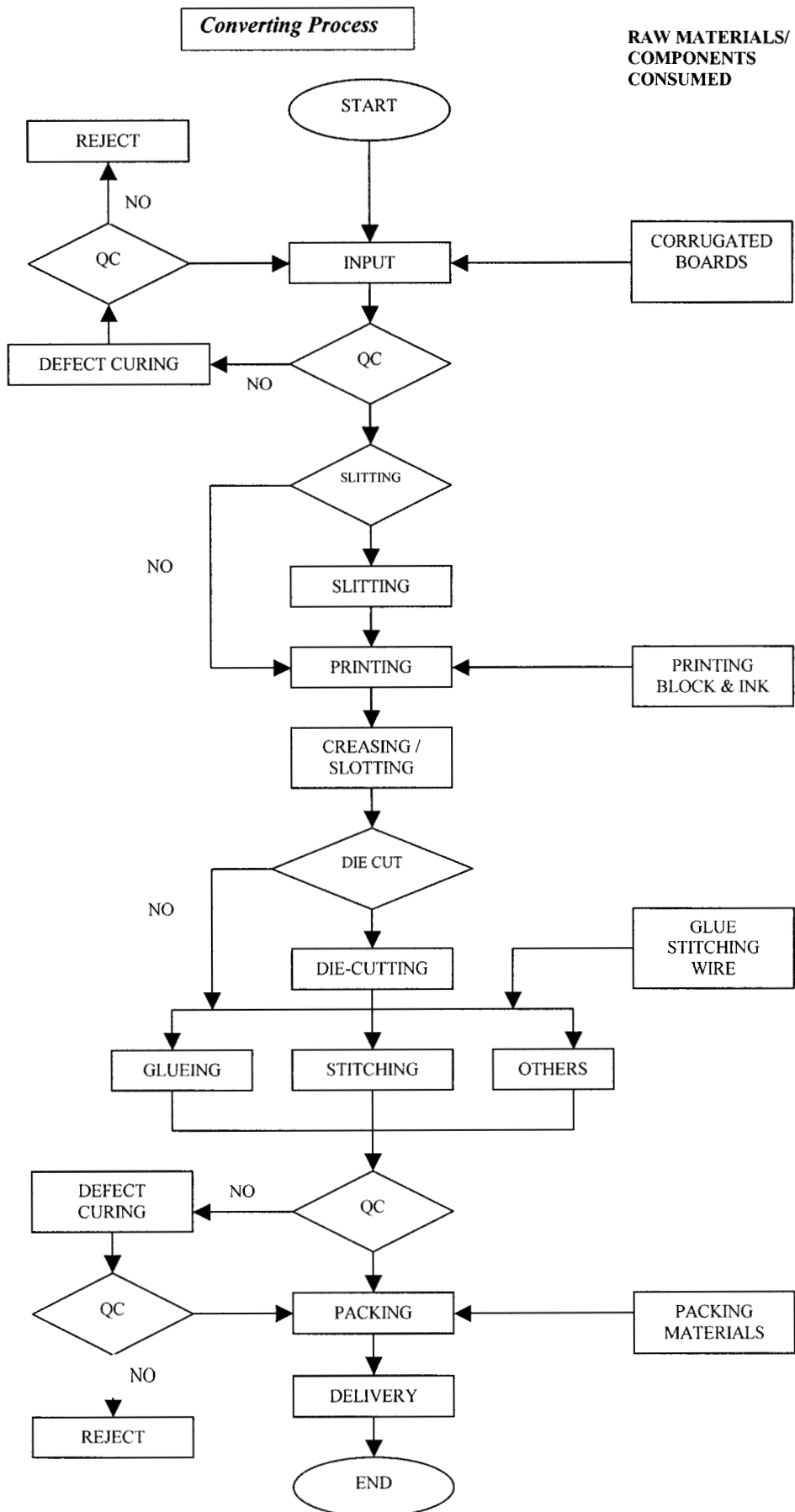


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*Manufacturing Flowchart*



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##### *Corrugating Process*

The corrugating process refers to the process of manufacturing corrugated boards. Corrugated boards are a composite structure made up of at least one corrugated layer and at least one flat layer. The corrugated layer is made from medium paper while the flat layer is made from Krafliner or Testliner.

The main inputs for the corrugating process can be classified as follows:-

1. Paper;
2. Steam; and
3. Starch

Paper rolls are fed into a corrugator production line to be made into corrugated boards. There are various grade of paper used ranging from Kraftliner, Testliner to Medium paper. Paper raw materials form the largest input in corrugated board productions.

Steam is used for the several functions during the corrugating process mainly to drive away excess moisture in the paper, pre-heat the paper to bring up the paper temperature necessary for glue bonding and provide heat energy at the point of contact between flute tips and the adjacent surface so that gel point of starch can be reached to facilitate "green bond".

Starch made of raw tapioca flour with some chemical such as caustic soda, borax acid and cross-linking agent. Corn flour is also commonly used and sago flour is also used occasionally. Starch formulation is normally tailor-made to suit the running condition of the corrugating line. Care is taken to ensure consistent gel point temperature, viscosity, splashing, penetration properties of glue.

With the use of corrugating rolls, the medium paper is corrugated and bonded to a layer of liner paper which may be a Krafliner or Testliner. The bonding takes place at very high speed when the flute tips picked up starch and come into contact with the liner. The resulted single face web will then move on to be bonded with another layer of liner to form the final product of single-wall or another layer of single face web to form what is termed as double-wall corrugated boards.

The difference in the flute profile is mainly defined in terms of flute height, flute pitch, take-up factor and flute shape. The flute profile commonly used in Malaysia is A and B profile which are also found in Ornapaper. The profile of different types of flutes is set out below:-

	Flutes per linear foot	Approximate Height (inch)
A-Flute	36±3	3/16
B-Flute	50±3	3/32
C-Flute	42±3	9/64
E-Flute	94±4	3/64

With a microprocessor-controlled corrugator, the Group is capable of producing single-face, single-wall and double-wall corrugated boards with different types of flutes for different levels of protection to suit customers' requirements. The front portion of the corrugator that carries out the corrugating and gluing process is known as the "wet-end".

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The types of boards can be classified as follows:-

Type of Corrugated Boards	
Single-Face	The structure formed by one corrugated member glued to one flat facing.
Single-Wall	The structure formed by one corrugated inner member glued between two flat facings.
Double-Wall	The structure formed by three flat facings and two intermediate corrugated members.

The corrugated single face boards emerge from the wet-end of the corrugating process after passing through a double gluer station will be bonded onto a bottom facing. These combined layer of boards will enter a hot-plates section where they are bonded firmly together and emerge at the dry-end of the process where it is slitted, scored and cut to the dimension as required. It is a highly automated process whereby high speed order setup is key to high productivity. All scheduled orders are downloaded into the process control computer and are produced consecutively as each order is 'made to order' based on the work order instruction.

Quality control of the corrugating process begins at the paper roll receiving store where inspection and samples are obtained for lab verification. The in process quality checks are carried out to look for defects such as warpage, bonding problems and others like poor trimming and 'high-low' flute formation. Care is taken to ensure accurate quantity is produced and non-conformance products are dealt with.

#### *Converting Process*

The converting process refers to the process where the corrugated boards are transformed into final products such as corrugated cartons, die-cut boxes and components like pad and nesting as inserts. Most of the corrugating packaging requires printings involving multi-colour flexographic printing using water soluble ink. During the printing process, slotting and creasing are normally done. Sometimes rotary die-cutting is also done at the same time.

Before the flexo printing can start the prepress work includes:-

- ❑ to capture all specification on a "master-card" which will carry all details such as printing design, sizes of product, material used, ink codes, other process involved like die-cut, glueing joint, stitch joint, varnishing, stretched wrapping, palletizing etc.;
- ❑ to select the ink code from the master colour chart. If no colour can match the one as required, the new colour will need to be matched for a new formula which controls the computerised ink dispenser system. A new ink code will thus be used and the in house ink dispenser will produce the ink accordingly based on demand;
- ❑ if die-cut is required, a decision will be made to determine whether it is a rotary or platen die cut job. Die cut mould needs to be ready before an order can be executed; and
- ❑ flexo printing plates will be produced in-house and pre-mounted for used at the printers.

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Quality controls are done both on-line and at the out-going. Master card is used for proof checking to ensure specifications are met. Orders are run as per scheduled for each process. The final products or finished goods are conveyed to the warehouse for delivery.

(vi) Sources and Availability of Raw Materials

Raw materials involved in the production of corrugated packaging products include paper, printing ink and glue. Paper is the main raw material used to produce carton board, accounting for approximately 97% of its total raw material costs for eight (8) month financial period ended 31 August 2002. Other materials including printing ink and glue constitutes the balance of only 3.0%.

The four (4) major types of paper for the corrugated carton product range comprise primarily of the following: -

Type of Paper	
Kraftliner	made mainly out of virgin wood pulp
Testliner	made of recycled paper with some wood pulp
White Kraftliner	the top side of the liner is made of bleached wood pulp
Medium	made entirely of recycled paper material

The Group produces a wide range of carton products for a diversified range of customers. As such, by varying the mix of four (4) major raw material components, the characteristic of the carton products can be varied. This is done by varying the type of paper grammage use and also by varying the layers of liners and strength of mediums. Various grades of paper are used in production which will differ in weight of substance, moisture content and mechanical properties such as ring crush, busting strength, tensile strength, water absorbency and printability.

The common grade in terms of gram per square metre are as follows:-

Type of Paper	Common Grade
Kraftliner	K150, K175, K275, K440
Testliner	T150, T175, T275
White Kraftliner	W180, W200
Medium	M120, M150, M180, M200

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The following table highlights the suppliers of Ornapaper's raw materials and the percentage of their supplies to Ornapaper as at 31 August 2002:-

<b>Raw Materials</b>	<b>Supplier</b>	<b>Country of Origin</b>	<b>% of Supply</b>
Medium Paper	Genting Sanyen Industrial Paper Sdn Bhd & Genting Sanyen Paperboard Sdn Bhd	Malaysia	13
	Muda Paper Mills Sdn Bhd	Malaysia	12
	Pascorp Paper Industries Bhd	Malaysia	9
	Trio Paper Mills Sdn Bhd	Malaysia	4
	United Paper Board (M) Sdn Bhd	Malaysia	1
	Sun Favorite Co., Ltd	Taiwan	1
			<u>40</u>
Testliner	Genting Sanyen Industrial Paper Sdn Bhd & Genting Sanyen Paperboard Sdn Bhd	Malaysia	31
	Muda Paper Mills Sdn Bhd	Malaysia	7
	Pascorp Paper Industries Bhd	Malaysia	6
	United Paper Board (M) Sdn Bhd	Malaysia	2
	Global Forest Investment Ltd	Hong Kong	2
			<u>48</u>
Kraftliner	Carter Holt Harvey Pulp & Paper	New Zealand	4
	Eurocan Pulp & Paper Co.	Europe	2
	Pacific Forest Resources Inc	US	1
	Inland Containers	US	1
	Weyerhaeuser Company	US	1
			<u>9</u>
Whitelineer	Genting Sanyen Industrial Paper Sdn Bhd & Genting Sanyen Paperboard Sdn Bhd	Malaysia	3
			<u>100</u>

As shown in the above table, Testliner and Medium Paper are most commonly used in the production and these are mainly sourced from local paper mills which are paid in Malaysian Ringgit. Kraftliner and Whitelineer are imported from overseas countries like America and Europe and these are transacted in US dollars. Most of the printing ink and glue are sourced locally and transacted in Malaysian Ringgit.

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**(vii) Quality Control ("QC")**

Ornapaper believes product quality and reliability are essential for the success of its carton products. Its quality assurance department is equipped with various precision testing equipment and apparatus to ensure a consistently high standard of quality and reliability in its final products. The tests provided by its laboratory for both paper raw material and final products are set out below:-

- (i) Edge Crush Test
- (ii) Ring Crush Test
- (iii) Box Compression Test
- (iv) Pin Adhesion Test
- (v) Tensile Strength Test
- (vi) Bursting or Mullen Test
- (vii) Puncture Test
- (viii) Moisture Content Test
- (ix) Paper Substance GSM Test
- (x) Thickness Test
- (xi) Cobb's Test

These quality checks are conducted by a team of qualified and experienced quality assurance inspectors who monitor quality from paper roll procurement to manufacturing of finished products. As at 30 November 2002, its quality control department consisted of sixteen (16) staff.

As a result of its commitment to quality and dedicated staff, the Company was accredited with the prestigious MS ISO 9001 certification award from the Standard and Industrial Research Institute of Malaysia on 14 June 1996.

The quality control standard of the Ornapaper Group has also enabled the Group to minimize product wastage which helps the Group to reduce costs.

**(viii) Research & Development ("R & D")**

To face the challenges in the knowledge-based economy, Ornapaper focuses on research and development in new product and services and manufacturing process development to keep up with the ever changing needs of its customers. Making full use of its computer technology, Ornapaper's Computer Aided Design System undertakes various carton and paper product design as well as graphic designs for packaging needs. Various research studies into packaging strength are also conducted to cater for the diverse needs of industries. The results of its continuous R & D efforts are reflected by the several awards received by Ornapaper which are detailed in Section 4.4(xi) of this Prospectus under Achievement/Awards of Ornapaper. In the pipeline are two new products arising from its R & D activities are expected to be introduced into the market. These new products are the heavy duty corrugated paper products and honeycomb material paper products respectively.

The heavy duty corrugated paper products are expected to be introduced into the market in 2003 while the honeycomb material paper products are expected to be launched by end of year 2004. In addition the Group has also in the second half of 2002 introduced its corrugated furniture products line into the market.

#### 4. INFORMATION ON THE ORNAPAPER GROUP (Cont'd)

Tabulated below Ornapaper's R&D personnel and their respective responsibilities:-

Name	Designation	Responsibilities
Paul Leong Liang Lee Ming @ Leong Lee Ming	Plant Manager	Oversees the function of the R&D department by providing direction, guidance, idea and support so that full creativity and ability of all personnel are fully deployed and exploited. To review and evaluate on all R&D works to ensure the marketability of new designs.
Lim Pay Pay	R & D Officer	Responsible for the function of R&D Department in all its related activities i.e. printing plates processing and development of new paper products. To coordinate all design works at different stages from concept to physical sample for evaluation to final requirement in actual production. To ensure the supply of printing plates is of the quality and standard required for the printing process.
Chan Shiaw Ching	Supervisor	Responsible for the smooth running of image setting and film production process. To support R&D in all its graphic and instructional presentation. To design catalogue and construction diagram.
Lok Chee Meng	Section head	To ensure proper processing of all printing plate orders. To evaluate quality of plates making to meet different printing needs.
Phang Kai Choong	Industrial Designer	To carry out new development work in industrial design of new paper products beginning from conceptual drawing. To ensure designs are properly defined and made suitable for actual production.
Low Kok Long	Sample Designer	To convert all designs drawing to actual physical sample for evaluation. To provide 3D representation in drawing for construction diagram. To participate in development of new paper product.
Too Kok Ming	Sample Maker Operator	To provide production support in sample making in all its stages.
Lee Sy Woei	Flexo plate making operator	Responsible for the smooth running of the plate making process. To provide technical support to converting department in its printing requirement.

(ix) Marketing

Ornapaper's marketing strategy is based on its ability to manufacture quality products, provide fast delivery time, establish wide distribution networks and efficient after-sales services. Aside from operations, Datuk Ting Chung Cheng is involved directly in sales and marketing. Notwithstanding his active involvement, Datuk Ting Chung Cheng is also supported by an experienced marketing team. As at 30 November 2002, Datuk Ting Chung Cheng is supported by a marketing team of six (6) staff. Datuk Ting Chung Cheng is the Managing Director and a promoter of Ornapaper and has over twenty (20) years of experience in the corrugated carton boxes and boards industry.

The marketing team carried out direct sales and marketing activities to promote its corrugated packaging products to its customers who are mainly manufacturers and exporters. The Company's marketing focus is to serve its existing customers better while at the same time to attract new customers. The marketing team works closely with the customers and visits the customers regularly to understand if the current range of products meet their needs and assist them to change, modify or develop new packaging products when required.

This is evidenced from the high percentage of recurring business as more than 95% of sales are derived from its existing customers in the past two (2) financial years.



#### 4. INFORMATION ON THE ORNAPAPER GROUP (Cont'd)

OISB(M) and OISB(BP)'s principal markets is to customers in Melaka and Johor. To expand the geographical coverage, the Group has also taken steps to establish a wider distribution networks to service companies in strategic areas throughout the Peninsular Malaysia as opposed to a single center servicing the entire market. This will allow Ornapaper to sustain and expand its market share within the industry with a view to diversify its customer base. To date, the Company has established strategic service points at Penang, Perak, Selangor and Johor. This is made possible with strategic mutual arrangements with corrugators and converters outside the Group in Johor, Selangor and Perak who have agreed to trade and sell under the name of "Ornapaper". These strategic partners are Ornapaper Industry (Johor) Sdn Bhd, Ornapaper Industry (Selangor) Sdn Bhd and Ornapaper Industry (Perak) Sdn Bhd. In addition, Ornapaper also holds a 15% stake in Ornapaper Industry (Penang) Sdn Bhd which has the same arrangement with the other strategic partners. As at 31 August 2002, approximately 40% of Ornapaper's total sales are derived from these companies with the balance of 60% coming from the sales of corrugated carton board and boxes to its direct customers.

Hence, Ornapaper is able to achieve a wider distribution coverage for its corrugator boards, both in terms of clientele and industry indirectly via these arrangements as these companies have their individual and distinct clientele base in their respective regions.

(x) Employees

As at 30 November 2002, Ornapaper has 376 employees. None of the employees is a member of any union. Ornapaper has not experienced any stoppages in its operation due to labour disputes. The management of Ornapaper enjoys a cordial relationship with its employees.

In the event of any labour shortages, Ornapaper has the option of sourcing from employment agencies.

Ornapaper Group provides comprehensive training to all employees to ensure that they have the skills necessary for their various job functions. To keep abreast with the new development in the industry, the Directors and senior management of the Group attend trade fairs and seminars relevant to the corrugated carton industry in order to keep up with the latest developments and progress in the industry. Regular specialised training courses are conducted to enhance the staff's knowledge and competence in their respective skills.

The following is a table setting out the breakdown of the employees and their length of service as at 30 November 2002:-

Category of Employees	Number of Employees			Total
	<1 year	1-5 years	> 5 years	
Managerial and Professional	4	19	18	41
Technical and Supervisory	7	9	13	29
Administration and Clerical	3	16	7	26
Factory Workers	61	116	46	223
Skilled Workers	8	11	10	29
General Workers	3	22	3	28
	<b>86</b>	<b>193</b>	<b>97</b>	<b>376</b>