

6. INFORMATION ON ORNAPAPER

6.1 Approvals, Major Licenses and Permits

The licences held by the Group (which will be renewed upon expiry) required for the purposes of conducting its businesses are listed as below:-

Authority	Issuer	Date of Issuance	Equity Conditions
Manufacturing License	MITI	26 August 1996	Eighty percent (80%) of the share equity must be owned by Malaysian citizens with 30% from the said quota be reserved for Bumiputera Equities held by non-citizens cannot be transferred or sold by such non-citizens without express (written) approval from MITI.
License under the Sales Tax Act 1972 – Manufacturers License	Royal Customs and Excise Malaysia	14 November 1990	None

6.2 Related Party Transactions

6.2.1 Material Interest of Contracts or Arrangements

Save as disclosed below, there are no other related party transactions which involve the Directors or substantial shareholders of the Company: -

(i) *OISB(M)'s Strategic Alliance with Ornapaper Industry (Penang) Sdn Bhd ("OIPSB")*

OISB(M) has a business arrangement with OIPSB whereby OISB(M) consented to OIPSB using the name of "Ornapaper" in consideration of OISB(M) and OIPSB agreeing to co-operate with each other to enhance and realise strategic alliance and give financial value for mutual benefit and in further consideration of OIPSB agreeing to purchase all its materials (paper boards) to manufacture its paper related products from OISB(M) and/or its authorized strategic partners.

The aforementioned arrangement may constitute a related party transaction under the KLSE's Listing Requirements upon listing of Ornapaper as Datuk Ting Chung Cheng ("DTCC") is a common director of both OISB(M) and OIPSB and a proposed director of Ornapaper. In addition, DTCC is an indirect substantial shareholder of OIPSB through OISB(M). However, it is to be noted that DTCC does not separately hold any direct interest in OIPSB and DTCC's shareholding in OIPSB is indirect by virtue of DTCC's direct shareholding in OISB(M) as OISB(M) holds 15% of the issued and paid up share capital of OIPSB.

6. INFORMATION ON ORNAPAPER (Cont'd)

To ensure that such related party transactions are conducted at arm's length and on normal commercial terms consistent with Group's usual business practices and policies and will not be prejudicial to the shareholders, the management of Ornapaper will enter into the transactions with the related party namely OIBP only after taking into consideration the pricing, level of service and quality of product supplier. Further, the records and details of the related party transactions will be made available by the management to the external auditors, internal auditors and audit committee for their review.

As at 31 December 2001, the transaction value between OISB(M) and OIPSB amounted to RM5.04 million.

(ii) Oral Tenancy between OISB(M) and Pandangan Positif Sdn Bhd

OISB(M) currently rents the eight (8) residential premises described below from Pandangan Positif Sdn Bhd for the lodging of OISB(M)'s staff and the aggregate rental paid for the eight (8) month period ended 31 August 2002 was RM55,600 only:-

- a) seven (7) single storey terrace houses held under H.S.(D) 13008, 13009 13018, 13019, 13061, 13062 and 13063 Taman Bachang Baru, Melaka; and
- b) one (1) unit of condominium at B12-06, Kondo Ocean Palm Sunshine Tower, Klebang Besar, 76400 Melaka.

The total rentals for the properties amount to RM6,950 per month.

The aforementioned tenancies will constitute related party transactions upon listing of Ornapaper on the KLSE as a proposed independent director of Ornapaper namely Adillah binti Ahmad Nordin is a substantial shareholder and director of Pandangan Positif Sdn Bhd. It is the intention for Adillah binti Ahmad Nordin to cease to act as Director and to dispose of her shareholding in Pandangan Positif Sdn Bhd before the listing Ornapaper.

The management of Ornapaper will continue to review the terms of the tenancy having regard to the rates of rentals of similar properties and the location of these properties.

(iii) Secretarial Services By Ample Consult Sdn Bhd

OISB(M) pays secretarial fees to Ample Consult Sdn Bhd and the total fees paid for the eight (8) month period ended 31 August 2002 amounted to RM1,110.

The aforementioned transaction will constitute a related party transaction under the KLSE's Listing Requirements upon listing of Ornapaper as a director of OISB(BP) namely, Leong Yoke Kam who is also the company secretary of the OISB(M) and OISB(BP) is a director and substantial shareholder of Ample Consult Sdn Bhd.

OISB(BP) pays secretarial fees to Ample Consult Sdn Bhd and the total fees paid for the eight (8) month period ended 31 August 2002 amounted to RM960.

The aforementioned transactions will constitute related party transactions upon listing of Ornapaper as a director of OISB(BP) namely, Leong Yoke Kam who is also the company secretary of OISB(M) and OISB(BP) is a director and substantial shareholder of Ample Consult Sdn Bhd.

6. INFORMATION ON ORNAPAPER (Cont'd)

The amounts paid to Ample Consult Sdn Bhd is in line with the rates charged by other company secretarial firms. The management will continue to review and monitor the rates of fees charged and the level of services provided. In the event that comparable services are available at lower prices, the management will seek to renegotiate the fees payable to Ample Consult Sdn Bhd.

6.2.2 Declaration of the Advisers

AmMerchant Bank hereby confirms that, as at the date of Prospectus, there are no existing or potential conflicts of interest in its capacity as the Adviser for the IPO.

Messrs Tay Tee & Nasir has given its confirmation that there are no existing or potential conflict of interest in its capacity as the Solicitor for the IPO.

Messrs Ernst & Young has given its confirmation that there are no existing or potential conflict of interest in its capacity as the Reporting Accountants for the IPO.

6. INFORMATION ON ORNAPAPER (Cont'd)

6.3 Summary of Landed Properties

The landed properties owned by the Ornapaper Group are set out below:-

Registered Owner	Title/Location	Description	Existing use	Land area (sq.ft)/Built-up area (sq.ft.)	Tenure From / to	Approximate Age of Building (years)	Net Book Value As at 31 August 2002 (RM'000)
OISB(M)	H.S.(M) 455 to H.S.(M) 470 Lot 4944 to PT 4959, Mukim of Bachang, District of Melaka Tengah, Malacca Factory No. 8998, Kawasan Perindustrian Batu Berendam (Phase IV) (Taman Perindustrian Batu Berendam), Batu Berendam, Malacca	A factory complex together with two vacant industrial lots (PT 4958 and PT 4959)	Industrial	362,854/ Factory Building: 167,572 Three Storey Office Block: 17,846	Leasehold 99 years expiring on 24 September 2094	5	15,749
OISB(BP)	HS(D) 43098, Lot No. PLO 271 (PTD 39208), Mukim of Simpang Kanan, District of Batu Pahat, Johor Darul Takzim Factory No. PLO 271, Jalan Wawasan 5, Kawasan Perindustrian Sri Gading, 83009 Batu Pahat, Johor Darul Takzim	A single storey warehouse incorporating a three-storey office	Industrial	140,655/ Warehouse: 65,875 Three Storey Office Block: 8,611	60-year leasehold expiring on 10 July 2060	4	3,946

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7. FINANCIAL INFORMATION

7.1 Proforma Consolidated Profit and Dividend Record

A summary of the proforma consolidated audited results of the Ornapaper Group for the five (5) financial years ended 31 December 1997 to 2001 and eight (8) month period ended 31 August 2002 has been prepared for illustrative purposes only based on the audited accounts of the Ornapaper Group and the assumption that the current structure of the Ornapaper Group upon completion of the Acquisitions has been in existence throughout the period under review:-

	Financial Year Ended					8 months ended 31 August 2002 RM'000
	31.12.1997 RM'000	31.12.1998 RM'000	31.12.1999 RM'000	31.12.2000 RM'000	31.12.2001 RM'000	
Turnover	64,781	74,426	95,494	142,011	114,293	75,902
EBIDTA	12,970	15,525	16,564	20,648	19,103	12,346
Interest expense	(4,634)	(10,177)	(7,366)	(6,587)	(4,675)	(1,757)
Depreciation and Amortisation	(2,266)	(3,838)	(3,712)	(4,000)	(3,853)	(2,538)
Profit before exceptional items	6,070	1,510	5,486	10,061	10,575	8,051
Exceptional items	-	-	-	-	-	-
Share of profits/losses of associated companies	-	-	-	-	-	-
PBT	6,070	1,510	5,486	10,061	10,575	8,051
Taxation	(1,125)	4	-	(732)	(735)	(551)
Profit from ordinary activities	4,945	1,514	5,486	9,329	9,840	7,500
Extraordinary items	-	-	-	-	-	-
Minority interest	-	-	-	-	-	-
Net profit	4,945	1,514	5,486	9,329	9,840	7,500
No. of Shares assumed to be in issue of RM1.00 each ('000)	53,149	53,149	53,149	53,149	53,149	53,149
Gross EPS (RM)^	0.11	0.03	0.10	0.19	0.20	0.23*
Net EPS (RM)^	0.09	0.03	0.10	0.18	0.19	0.21*
Dividend Rate (%)	-	-	-	-	-	-

Notes:-

* Annualised

- (i) For financial year period ended 31 December 1998, turnover increased by 15% mainly due to its efforts in forming strategic alliances with local converters throughout the Peninsular of Malaysia. However, profit before taxation declined by 75% when compared to the previous corresponding period as a result of its competitive pricing policy and rising interest expense mainly due from additional hire purchase financing for the purchase of additional plant and machinery.
- (ii) Turnover increased by 28% in financial year period ended 31 December 1999 due mainly to improved orders from both its existing customers and its strategic alliance converters. Correspondingly, profit before taxation increased by 263% mainly aided by the reduced interest expense. No taxation was provided for the financial year 1999 as the financial year falls in the year of assessment 2000 where tax on income earned is waived in accordance with Section 8 of the Income Tax (Amendment) Act, 1990.
- (iii) Both the turnover and profit before taxation increased 49% and 83% respective as a result of the improved economy in year 2000. This was despite the fact the paper roll costs increased 17% from the previous corresponding period. The effective tax rate for the year is less than the standard rate of tax applicable was due principally to the claims of reinvestment allowances under the Income Tax Act, 1967.
- (iv) Despite the turnover declining by 20% in financial year period ended 31 December 2001, profit before taxation increased 5% mainly attributed to the Group's strategy to reduce wastage and reduced interest expense. The effective tax rate for the year is less than the standard rate of tax applicable was due principally to the claims of reinvestment allowances under the Income Tax Act, 1967.
- (v) The annualised revenue for the year 2002 is 0.38% lower than the preceding year mainly due to the seasonal factors whereby revenue for the second half of the financial year would normally be higher compared to first half of the year. Ornapaper recorded revenue of RM75.90 million with a pretax profit of RM8.05 million.

^ The proforma gross earning per share and net earning per share is computed based on the number of shares assumed to be issued of 53,149,000 shares before the rights issue and public issue.

** There were no extraordinary items in respect of the financial years under review.

7. FINANCIAL INFORMATION (Cont'd)

7.2 Directors' Declaration on Financial Performance

As at 19 December 2002, being the latest practicable date prior to the printing of this Prospectus, the financial conditions and operations of Ornapaper and its subsidiaries are not affected by any of the following:-

- i) Known trends, demands, commitments, events or uncertainties that have had or that the Group reasonably expects to have a material favourable or unfavourable impact on the financial performance, position and operations of the Ornapaper Group;
- ii) Material commitment for capital expenditure;
- iii) Unusual, infrequent events or transactions or any significant economic changes that materially affected the financial performance, position and operations of the Ornapaper Group;
- iv) Known events, circumstance, trends, uncertainties and commitments that are reasonably likely to make the historical financial statements not indicative of future financial performance and position; and
- v) Known trends, demand, commitment, events or uncertainties that have resulted in a substantial increase in revenue which is attributable to prices, volume of goods/services being sold and the introduction of new products/services or any other factors.

7.3 Segmental Analysis of Revenue and Profits

Analysis of turnover by Ornapaper and its subsidiaries

	Financial year ended					8-month
	1997	1998	1999	2000	2001	ended 31 August 2002
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
OISB(M)	64,815	73,890	92,888	137,325	110,689	73,391
OISB(BP)	410	2,379	6,555	9,802	9,433	6,478
Less: Consolidation adjustments	(444)	(1,843)	(3,949)	(5,116)	(5,829)	(3,967)
Total Group	64,781	74,426	95,494	142,011	114,293	75,902

7. FINANCIAL INFORMATION (Cont'd)

Analysis of profit after tax by Ornapaper and its subsidiaries

	Financial year ended					8-month ended
	1997	1998	1999	2000	2001	31 August 2002
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
OISB(M)	5,058	2,618	6,046	8,066	9,370	7,115
OISB(BP)	(113)	(1,104)	(560)	1,263	470	392
Ornapaper	-	-	-	-	-	(7)
Total Group	4,945	1,514	5,486	9,329	9,840	7,500

7.4 Working Capital, Borrowings, Contingent Liabilities and Capital Commitments**7.4.1 Working Capital**

The Directors of Ornapaper are of the opinion that after taking into account the cashflow forecast, banking facilities available and gross proceeds from the Public Issue, the Group will have adequate working capital for its present and foreseeable requirements.

7.4.2 Borrowings

As at 30 November 2002 (being the last practicable date prior to the printing of this Prospectus), the total borrowings of the Ornapaper Group amounted to approximately RM38.35 million comprising term loans, overdraft, leases, hire-purchases and trade facilities. As at 30 November 2002, Ornapaper's short-term and long-term interest bearing borrowings amounted to RM33.23 million and RM5.12 million respectively.

7.4.3 Contingent Liabilities and Capital Commitments

Save as disclosed below, as at 19 December 2002 (being the last practicable date prior to the printing of this Prospectus), the Group does not have any contingent liabilities or capital commitments, which upon becoming enforceable, may have material impact on the profit or net asset value of the Group:-

By five (5) separate sale and purchase agreements all dated 4 March 2002 between OISB(M) and Fairway Review Sdn Bhd ("FRSB"), OISB(M) agreed to purchase and FRSB agreed to sell five parcels of industrial lands held under HS(M) 471 to HS(M) 475 PT No. 4960 to PT No. 4964 all of Mukim Bachang, Daerah Melaka Tengah, Negeri Melaka for a total cash consideration of RM2.5 million only. The completion date for all the abovementioned sale and purchase agreements is four (4) months from the date of receipt of the consent to transfer from the State Authority.

The acquisition is expected to be completed in 2003. The acquisition of the said parcels of industrial lands is not expected to have any material financial impact on the Ornapaper group for the financial year ending 31 December 2003.

7. FINANCIAL INFORMATION (Cont'd)

7.5 Consolidated Profit Estimate, Forecast and Assumptions

The Directors of Ornapaper forecast that, barring any unforeseen circumstances, the estimate proforma consolidated PBT and PAT for the financial year ending 31 December 2002 and 31 December 2003 will be as follows:-

PROFORMA CONSOLIDATED PROFIT ESTIMATED AND FORECAST

	Estimate for financial year ending 31.12.2002 (RM'000)	Forecast for financial year ending 31.12.2003 (RM'000)
Turnover	112,288	126,339
Consolidated PBT	11,989	17,215
Less : Taxation	(720)	(4,626)
Consolidated PAT before pre-acquisition profits	11,269	12,589
Less: Pre-acquisition profits	(10,330)	-
Consolidated PAT after pre-acquisition profits	939	12,589
No. of Shares ('000)	4,476#	62,000
Gross EPS (Sen)	22.32 [^]	27.77*
Net EPS (Sen)	20.98 [^]	20.30*
Gross PE multiple based on the IPO price of RM1.60 per share (times)	7.17	5.76
Net PE based on the IPO price of RM1.60 per share (times)	7.63	7.88

Weighted average number of Shares

* Based on enlarged capital of 62,000,000 Shares

[^] Based on weighted average number of shares of 4,476,000 Shares

The principal assumptions upon which the above consolidated profit estimate and forecast have been made are as follows:

1. There will be no significant changes in the present principal activities and the group structure of the Group.
2. The prevailing Malaysian and world economic conditions will not adversely affect the activities or performance of the Group as currently planned. There will be no further significant changes affecting the Malaysian economy which will adversely affect the Group.
3. There will be no significant changes in the present legislations and government regulations, which will adversely affect the activities of the Group or the market in which it operates.
4. There will be no significant fluctuations in inflation and interest rates.
5. Foreign currency exchange rates will not fluctuate significantly from the prevailing exchange rate of RM3.80 : USD1.00.
6. There will be no material increase in prices of wages, costs of production and other related costs which will adversely affect the performance of the Group.

7. FINANCIAL INFORMATION (Cont'd)

7. The average selling price of the products and cost of paper rolls estimated and forecasted by the Group are as follows :

	2002	2003
	RM/Metric tonnage	RM/Metric tonnage
Average selling price of corrugated carton boxes and boards	2,036	2,059
Average cost of paper rolls	1,119	1,142

There will be no significant changes in the selling prices of corrugated carton boxes and boards and paper rolls cost that will cause adverse effect to the Group's profitability.

8. There will be no major industrial disputes or disruptions in the production operations or other abnormal factors, both domestic and overseas, which will adversely affect the activities and performance of the Group. The production quantity is estimated and forecasted to be 54,845 and 60,361 metric tonnage respectively.
9. Existing financing facilities will remain available and the level of interest rates will not change materially from those prevailing. The Group will also be able to obtain additional financing facilities at interest rates that approximate to those currently available to the Group.
10. Capital expenditure will take place as planned with no material changes in the costs or prices.
11. There will be no significant changes in the present income tax rate of 28%. It is also assumed that the Group will continue to enjoy reinvestment allowance incentive during the period covered by the estimate and forecast.
12. There will be no significant changes in management structure and accounting policies normally adopted by the companies within the Group.
13. The proceeds from rights issue of approximately RM851,000 and public issue of approximately RM12,800,000 will be received by January 2003 and utilised in the following manner :

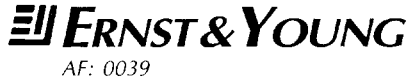
	RM'000
(i) Repayment of hire purchase facilities	6,848
(ii) Working capital	4,803
(iii) Estimate listing expenses	2,000
	<u>13,651</u>

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7. FINANCIAL INFORMATION (Cont'd)

7.6 Auditors' Letter on the Consolidated Profit Estimate and Forecast of the Ornapaper Group for the Financial Years Ending 31 December 2002 and 2003 together with the bases and assumptions contained therein

(Prepared for inclusion in this Prospectus)



AF: 0039

■ Chartered Accountants
Graha Maju, Bangunan PKNM
Tingkat 10, Lot 1
Jalan Graha Maju
75300 Melaka, Malaysia

■ Phone : (06) 283-1399
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19 December 2002

The Board of Directors

ORNAPAPER BERHAD

No. 8998, Kawasan Perindustrian Peringkat 4,
Batu Berendam,
75350 Melaka.

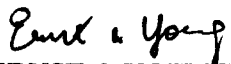
Gentlemen


CONSOLIDATED PROFIT ESTIMATE AND FORECAST

We have reviewed the accounting policies and calculations for the consolidated profit estimate and forecast of **ORNAPAPER BERHAD** ("ORNAPAPER") and its subsidiaries ("the Group"), for which the Directors are solely responsible, for the years ending 31 December 2002 and 2003 respectively which have been prepared for inclusion in the Prospectus to be dated **24 DEC 2002** in connection with the Public Issue of 8,000,000 new ordinary shares of RM1.00 each and the Offer For Sale of 5,320,000 ordinary shares of RM1.00 each at an issue/offer price of RM1.60 per share in ORNAPAPER and the listing of and quotation for the entire enlarged issued and paid-up share capital of ORNAPAPER comprising 62,000,000 ordinary shares of RM1.00 each on the Main Board of the Kuala Lumpur Stock Exchange.

In our opinion, the consolidated profit estimate and forecast, so far as the accounting policies and calculations are concerned, have been properly compiled on the basis of assumptions made by the Directors as set out in the accompanying appendix, and are prepared on a basis consistent with the accounting policies normally adopted by the companies within the Group.

Yours faithfully


ERNST & YOUNG
No. AF 0039
Chartered Accountants


LEE AH TOO
No. 2187/09/03(J)
Partner of the Firm

7. FINANCIAL INFORMATION (Cont'd)

APPENDIX

ORNAPAPER BERHAD**CONSOLIDATED PROFIT ESTIMATE AND FORECAST
AND ASSUMPTIONS**

The Directors estimate and forecast that, in the absence of unforeseen circumstances, the consolidated profit after taxation for the years ending 31 December 2002 and 2003 will be as follows:

	2002 RM'000	2003 RM'000
Revenue	<u>112,288</u>	<u>126,339</u>
Profit before taxation	11,989	17,215
Taxation	<u>(720)</u>	<u>(4,626)</u>
Post after taxation before pre-acquisition profit	11,269	12,589
Pre-acquisition profit	<u>(10,330)</u>	<u>-</u>
Profit after taxation	<u>939</u>	<u>12,589</u>
Weighted average number of shares ('000)	4,476	62,000
Gross earnings per share (sen)*	22.32	27.77
Net earnings per share (sen)*	20.98	20.30
Gross price-earnings multiple **	7.17	5.76
Net price-earnings multiple **	7.63	7.88

* Based on the weighted average number of shares.

** Based on the issue price of RM1.60 per ordinary share of RM1.00 each.

The principal assumptions upon which the above consolidated profit estimate and forecast have been made are as follows:

1. There will be no significant changes in the present principal activities and the structure of the Group.
2. The prevailing Malaysian and world economic conditions will not adversely affect the activities or performance of the Group as currently planned. There will be no further significant changes affecting the Malaysian economy which will adversely affect the Group.
3. There will be no significant changes in the present legislations and government regulations, which will adversely affect the activities of the Group or the market in which it operates.
4. There will be no significant fluctuations in inflation and interest rates.
5. Foreign currency exchange rates will not fluctuate significantly from the prevailing exchange rate of RM3.80 : USD1.00.
6. There will be no material increase in prices of wages, costs of production and other related costs which will adversely affect the performance of the Group.

7. FINANCIAL INFORMATION (Cont'd)

APPENDIX (Cont'd)

7. The average selling price of the products and cost of paper rolls estimated and forecasted by the Group are as follows :

	2002 RM/Metric tonnage	2003 RM/Metric tonnage
Average selling price of corrugated carton boxes and boards	<u>2,036</u>	<u>2,059</u>
Average cost of paper rolls	<u>1,119</u>	<u>1,142</u>

There will be no significant changes in the selling prices of corrugated carton boxes and boards and paper rolls cost that will cause adverse effect to the Group's profitability.

8. There will be no major industrial disputes or disruptions in the production operations or other abnormal factors, both domestic and overseas, which will adversely affect the activities and performance of the Group. The production quantity is estimated and forecasted to be 54,845 and 60,361 metric tonnage respectively.
9. Existing financing facilities will remain available and the level of interest rates will not change materially from those prevailing. The Group will also be able to obtain additional financing facilities at interest rates that approximate to those currently available to the Group.
10. Capital expenditure will take place as planned with no material changes in the costs or prices.
11. There will be no significant changes in the present income tax rate of 28%. It is also assumed that the Group will continue to enjoy reinvestment allowance incentive during the period covered by the estimate and forecast.
12. There will be no significant changes in management structure and accounting policies normally adopted by the companies within the Group.
13. The proceeds from rights issue of approximately RM851,000 and public issue of approximately RM12,800,000 will be received by January 2003 and unutilised in the following manner :

	RM'000
(i) Repayment of hire purchase facilities	6,848
(ii) Working capital	4,803
(iii) Estimated listing expenses	<u>2,000</u>
	<u>13,651</u>

7. FINANCIAL INFORMATION (Cont'd)

7.7 Directors' Commentary on Achievability of Profit Estimate and Forecast

The Board of Directors of Ornapaper expects the Ornapaper Group to register a higher proforma profit after-tax of RM11.3 million despite a 2% decline in turnover for financial year ending 31 December 2002. This compares to RM9.8 million in the previous corresponding period. The increase in profit is mainly due to higher forecast sales volume in view of the improved economic condition coupled with the lower interest expense. The lower forecast turnover is mainly due to the lower average selling prices forecasted arising from weaker paper prices.

For financial year 2003, Ornapaper is expected to increase its profit after tax to RM12.6 million on the back of a 12.5% increase in turnover. The improved profit is mainly aided by interest savings arising from the early retirement of its hire purchase facilities from its listing proceeds as well as increasing demand from its customers.

The Board of Directors of Ornapaper confirm that the profit forecast of the Company and the underlying bases and assumptions stated therein have been reviewed by the Directors after due and careful enquiry, and that the Directors, having taken into account the future prospects of the industry, future plans of Ornapaper and its level of gearing, liquidity and working capital requirements, are of the opinion that the profit estimate and forecast of Ornapaper are achievable and the assumptions made are reasonable.

Nevertheless, in light of the current economic environment in Malaysia and globally, certain assumptions, including interest and exchange rates, may differ significantly from actual, should the economic situation differ significantly from the date of this profit forecast and this may have a material impact on Ornapaper's profit forecast.

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7. FINANCIAL INFORMATION (Cont'd)

7.8 Dividend Forecast and Policy

Based on the consolidated profit forecast for the financial year 2003, and on the assumption that the present basis for calculating taxation and the rates of taxation will remain unchanged, the Directors of Ornapaper Group anticipate that they will be in a position to propose, based on the enlarged issued share capital of 62,000,000 Shares, a tax-exempt dividend 5.0% for the financial year ending 31 December 2003.

It will be the policy of the Directors in recommending dividends to allow shareholders to participate in the profits of the Group as well as leaving adequate reserves for the future growth of the Ornapaper Group.

The intended appropriation of the consolidated profit forecast for the financial year ending 31 December 2003 is as follows:-

Financial Year Ending 31 December	Forecast financial year ending 2003 RM'000
Consolidated PBT	17,215
Less : Taxation	(4,626)
Consolidated PAT	12,589
Less : Proposed dividend (less 28% tax)	3,100
Consolidated retained profit for the year	9,489
Tax-exempt dividend per Share (sen)	5.00
Dividend yield based on the IPO price of RM1.60 per Share (%)	3.12
Dividend cover (times)	4.06

Investors should note that future dividends might be waived if:-

- (a) The group records a loss instead of the forecast profits; or
- (b) The payment of the dividends would adversely affect the Group's cashflows and operations.

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7. FINANCIAL INFORMATION (Cont'd)

7.9 Proforma Consolidated Balance Sheets of Ornapaper Group
(Prepared for inclusion in this Prospectus)

APPENDIX

ORNAPAPER BERHAD

PROFORMA CONSOLIDATED BALANCE SHEETS
AS AT 31 AUGUST 2002

The Proforma Consolidated Balance Sheets of ORNAPAPER BERHAD ("ORNAPAPER") as at 31 August 2002 as set out below are provided for illustrative purposes only.

	← Proforma Consolidated Balance Sheets →			
	(I)	(II)	(III)	(IV)
Balance sheet of Ornapaper as at 31 August 2002 RM'000	After Issue of Shares RM'000	After (I) and Acquisitions RM'000	After (II) and Rights Issue RM'000	After (III) and Public Issue RM'000
NON-CURRENT ASSETS				
Property, plant and Equipment	-	62,846	62,846	62,846
Other investments	-	269	269	269
	<u>-</u>	<u>63,115</u>	<u>63,115</u>	<u>63,115</u>
CURRENT ASSETS				
Inventories	-	15,085	15,085	15,085
Trade receivables	-	30,741	30,741	30,741
Other receivables	944	3,890	3,890	3,890
Cash and bank balances	*	7,092	7,943	11,895
	<u>944</u>	<u>56,808</u>	<u>57,659</u>	<u>61,611</u>
CURRENT LIABILITIES				
Short term borrowings	-	38,486	38,486	36,526
Trade payables	-	6,390	6,390	6,390
Other payables	951	5,001	5,001	5,001
Taxation	-	34	34	34
	<u>951</u>	<u>49,911</u>	<u>49,911</u>	<u>47,951</u>
NET CURRENT ASSETS/ (LIABILITIES)	<u>(7)</u>	<u>6,897</u>	<u>7,748</u>	<u>13,660</u>
	<u>(7)</u>	<u>70,012</u>	<u>70,863</u>	<u>76,775</u>

7. FINANCIAL INFORMATION (Cont'd)



APPENDIX (Cont'd)

ORNAPAPER BERHAD

PROFORMA CONSOLIDATED BALANCE SHEETS
AS AT 31 AUGUST 2002

	← Proforma Consolidated Balance Sheets →				
	(I)	(II)	(III)	(IV)	
Balance sheet of Ornapaper as at 31 August 2002 RM'000	After Issue of Shares RM'000	After (I) and Acquisitions RM'000	After (II) and Rights Issue RM'000	After (III) and Public Issue RM'000	
FINANCED BY :					
Share capital	*	500	53,149	54,000	62,000
Reserves	(7)	(7)	2,626	2,626	5,426
Shareholders' equity	(7)	493	55,775	56,626	67,426
Reserve on consolidation	-	-	7,727	7,727	7,727
	(7)	493	63,502	64,353	75,153
Hire purchase payables	-	-	5,733	5,733	845
Deferred taxation	-	-	777	777	777
Non-current liabilities	-	-	6,510	6,510	1,622
	(7)	493	70,012	70,863	76,775
NTA per share (RM)	(3,642)	0.99	1.19	1.19	1.21

* RM2

7. FINANCIAL INFORMATION (Cont'd)



APPENDIX (Cont'd)

ORNAPAPER BERHAD

NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS

1. The Proforma Consolidated Balance Sheets of **ORNAPAPER BERHAD** (“ORNAPAPER”) and the following subsidiaries as at 31 August 2002 have been prepared for illustrative purposes based on accounting principles and bases adopted in the preparation of the audited financial statements:

- | | | |
|------|-------------------------------------------|---------------|
| (i) | Ornapaper Industry (M) Sdn. Bhd. | (“OISB (M)”) |
| (ii) | Ornapaper Industry (Batu Pahat) Sdn. Bhd. | (“OISB (BP)”) |

2. The allotment of shares, Acquisitions, Rights Issue and Public Issue are assumed to have been effected on 31 August 2002 in the following manner :

- (i) Proforma I incorporates the issue of 499,998 new ordinary shares of RM1.00 each at par for cash.
- (ii) Proforma II incorporates Proforma I and the acquisition of the following subsidiaries (“Acquisitions”) to be satisfied by an issue of 52,649,204 new ordinary shares of RM1 each in the Company at an issue price of approximately RM1.05 per share and cash consideration as follows:

Company	No. of shares acquired	Equity interest acquired	Purchase consideration RM	Satisfied by new shares in Ornapaper	Cash consideration RM
OISB (M)	22,727,000	100%	54,779,833	52,171,270	-
OISB (BP)	1,000,000	100%	1,003,662	477,934	501,831
			55,783,495	52,649,204	501,831

- (iii) Proforma III incorporates Proforma II and the rights issue of 850,796 new ordinary shares of RM1 each at par on the basis of approximately 16 new ordinary shares of RM1 each for every one thousand ordinary shares held upon completion of Proforma II.
- (iv) Proforma IV incorporates Proforma III and the public issue of 8,000,000 new ordinary shares of RM1 each by the Company at an issue price of RM1.60 per share.

The proceeds from rights and public issue will be utilised as follows: -

	RM'000
Repayment of bank borrowings	6,848
Working capital	4,803
Estimated listing expenses	2,000
	13,651

7. FINANCIAL INFORMATION (Cont'd)

APPENDIX (Cont'd)

- (v) All inter-company balances have been eliminated in arriving at the consolidated balance sheets.
- (vi) Estimated listing expenses of RM2,000,000 is written off against the share premium account.
- (vii) The proforma consolidated balance sheets are arrived at using the acquisition method of accounting.

3. SHARE CAPITAL

The movement of the issued and paid-up share capital of ORNAPAPER after taking into account the Issue of Shares, Acquisitions, Rights Issue and Public Issue are as follows:

	RM'000
As at date of incorporation	*
Issue of Shares	500
Per Proforma Consolidated Balance Sheet (I)	500
Shares issued pursuant to the acquisition of the subsidiaries OISB (M) and OISB (BP)	52,649
Per Proforma Consolidated Balance Sheet (II)	53,149
Rights issue	851
Per Proforma Consolidated Balance Sheet (III)	54,000
Public Issue	8,000
Per Proforma Consolidated Balance Sheet (IV)	62,000

* RM2

4. RESERVES

The movement of the reserves of ORNAPAPER after taking into account the Acquisitions, Rights Issue and Public Issue are as follows:

	Accumulated loss RM'000	Share Premium RM'000	Reserves RM'000
Accumulated loss	(7)	-	(7)
Share premium arising from the Acquisitions	-	2,633	2,633
Per Proforma Consolidated Balance Sheet (II, III)	(7)	2,633	2,626
Share premium arising from the public Issue	-	4,800	4,800
	(7)	7,433	7,426
Estimated listing expenses	-	(2,000)	(2,000)
Per Proforma Consolidated Balance Sheet (IV)	(7)	5,433	5,426

7. FINANCIAL INFORMATION (Cont'd)

7.10 Auditors' Letter on the Proforma Consolidated Balance Sheets
(Prepared for inclusion in this Prospectus)



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75300 Melaka, Malaysia

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Fax : (06) 284-1799
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19 December 2002

The Board of Directors
ORNAPAPER BERHAD
No. 8998, Kawasan Perindustrian Peringkat 4,
Batu Berendam
75350 Melaka.

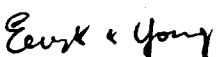
Gentlemen


PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 31 AUGUST 2002

We have reviewed the presentation of the proforma consolidated balance sheets of **ORNAPAPER BERHAD** ("ORNAPAPER") and its subsidiaries as at 31 August 2002 together with the notes thereon, for which the Directors are solely responsible, and which have been prepared for inclusion in the Prospectus to be dated **24 DEC 2002** in connection with the Public Issue of 8,000,000 new ordinary shares of RM1.00 each and the Offer For Sale of 5,320,000 ordinary shares of RM1.00 each in ORNAPAPER at an issue/offer price of RM1.60 per share and the listing and quotation for the entire enlarged issued and paid-up share capital of ORNAPAPER comprising 62,000,000 ordinary shares of RM1.00 each on the Main Board of the Kuala Lumpur Stock Exchange.

In our opinion, the proforma consolidated balance sheets, which are provided for illustrative purposes only, have been properly compiled to reflect the transactions as referred to in the notes to the proforma consolidated balance sheets.

Yours faithfully


ERNST & YOUNG
No. AF 0039
Chartered Accountants


LEE AH TOO
No. 2187/09/03(J)
Partner of the Firm