PARAGON UNION BERHAD

(Company No: 286457-V)

SIRIM ECO-LABEL

Management System ISO 14001:2004 + Cor. 1:2009
CERT. REG. No. 01 104 053502

Management System OHSAS 18001:2007
CERT. REG. No. 01 113 053502

kiwa certified MANAGEMENT SYSTEM CERTIFIED
Reg. No. 6525-T
IATF 16949 : 2016

ANNUAL REPORT 2017

CONTENTS

NOTICE OF TWENTY-FOURTH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Twenty-Fourth Annual General Meeting ("AGM") of the Company will be held at Dewan Berjaya, Bukit Kiara Resort Berhad, Jalan Bukit Kiara, Off Jalan Damansara, 60000 Kuala Lumpur on Tuesday, 5 June 2018 at 11.30 a.m. for the following purposes:-

AGENDA

1. To receive the Audited Financial Statements for the financial year ended 31 December 2017 together with the Reports of the Directors and Auditors thereon. **Please refer to Note B on this agenda**

2. To approve the Directors' fees and benefits payable up to an amount of RM220,000 for the financial year ending 31 December 2018. **Resolution 1**

3. To re-elect Madam Kong See Kuan who is retiring as a Director of the Company in accordance with Article 81 of the Company's Articles of Association. **Resolution 2**

4. To re-elect Mr. Lau Yoke Keen who is retiring as a Director of the Company in accordance with Article 75 of the Company's Articles of Association. **Resolution 3**

5. To re-appoint Messrs. Morison Anuarul Azizan Chew, the retiring Auditors and to authorise the Board of Directors to fix their remuneration. **Resolution 4**

SPECIAL BUSINESS

To consider and, if thought fit, pass with or without modifications, the following Resolutions:-

6. **Authority for Directors to issue and allot shares in the Company pursuant to Section 76 of the Companies Act, 2016** **Resolution 5**

   "**THAT** subject always to the Companies Act, 2016 ("Act"), Articles of Association of the Company, Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") and the approvals of the relevant authorities, the Directors be and are hereby authorised pursuant to Section 76 of the Companies Act, 2016, to issue and allot shares in the Company at any time and upon such terms and conditions and for such purposes as the Directors may in their absolute discretion, deem fit, provided that the aggregate number of shares to be issued pursuant to this resolution does not exceed 10% of the total number of issued shares of the Company at the time of issue **AND THAT** the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional shares to be issued on Bursa Securities **AND FURTHER THAT** such authority shall continue to be in force until the conclusion of the next Annual General Meeting of the Company."

7. To transact any other business of the Company of which due notice shall have been given in accordance with the Company's Articles of Association and the Companies Act, 2016.

By Order Of The Board
PARAGON UNION BERHAD

WONG YOUN KIM (MAICSA 7018778)
Company Secretary
Kuala Lumpur

30 April 2018

NOTICE OF TWENTY-FOURTH ANNUAL GENERAL MEETING

(CONT'D)

Notes:-

A. Appointment of Proxy

1. A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy(ies) to attend and vote on his(her) behalf.

2. A proxy may but need not be a member of the Company. A proxy appointed to attend and vote at a meeting of a Company shall have the same rights as the member to speak at the meeting.

3. A member may appoint more than one (1) proxy to attend the same meeting. Where a member appoints two (2) or more proxies, he(she) shall specify the proportion of his(her) shareholdings to be represented by each proxy.

4. Where a member of the Company is an exempt authorized nominee which holds ordinary shares in the Company for multiple beneficial owners in the one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorized nominee may appoint in respect of each omnibus account it holds.

5. The Form of Proxy shall be signed by the appointor or his(her) attorney duly authorised in writing or, if the member is a corporation, it must be executed under its common seal or by its duly authorised attorney or officers.

6. The instrument appointing a proxy must be deposited at the Registered Office of the Company at Level 2, Tower 1, Avenue 5, Bangsar South City, 59200 Kuala Lumpur, not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting.

7. In respect of deposited securities, only members whose names appear on the Record of Depositors on 30 May 2018 (General Meeting Record of Depositors) shall be eligible to attend, speak and vote at the meeting or appoint proxy(ies) to attend and/or vote on his(her) behalf.

B. Audited Financial Statements for the Financial Year ended 31 December 2017

The Audited Financial Statements under Agenda 1 are laid in accordance with Section 340(1)(a) of the Companies Act, 2016 for discussion only as the approval of shareholders is not required. Hence, this Agenda is not put forward for voting by the shareholders of the Company.

EXPLANATORY NOTES ON SPECIAL BUSINESS

Authority For Directors To Allot and Issue Shares

The proposed Resolution 5 under item 6 of the Agenda, if passed, from the date of the above Annual General Meeting, will empower the Directors of the Company, with the authority to allot and issue shares in the Company up to an amount not exceeding 10% of the issued capital of the Company (excluding treasury shares) for such purposes as the Directors consider would be in the best interest of the Company. This authority, unless revoked or varied at a general meeting, will expire at the next Annual General Meeting.

The general mandate sought to grant authority to Directors to allot and issue of shares is a renewal of the mandate that was approved by the shareholders at the Twenty-Third Annual General Meeting held on 8 June 2017. The renewal of the general mandate is to provide flexibility to the Company to issue new shares without the need to convene a separate general meeting to obtain shareholders' approval so as to avoid incurring additional cost and time. The purpose of this general mandate is for fund raising exercises including but not limited to further placement of shares for purpose of funding current and/or future investment projects, working capital and/or acquisitions.

Up to the date of this Notice, the Company did not issue any shares pursuant to the mandate granted to the Directors at the Twenty-Third Annual General Meeting as the need does not arise for any fund raising activity for the purpose of investment, acquisition or working capital.

NOTICE OF TWENTY-FOURTH ANNUAL GENERAL MEETING

(CONT'D)

STATEMENT ACCOMPANYING THE NOTICE OF ANNUAL GENERAL MEETING

1. The Twenty-Fourth Annual General Meeting of the Company will be held at Dewan Berjaya, Bukit Kiara Resort Berhad, Jalan Bukit Kiara, Off Jalan Damansara, 60000 Kuala Lumpur on Tuesday, 5 June 2018 at 11.30 a.m.

2. The Directors who are standing for re-election at the Twenty-Fourth Annual General Meeting of the Company pursuant to Articles of Association of the Company are:-

   (i) Madam Kong See Kuan (Article 81)
   (ii) Mr. Lau Yoke Keen (Article 75)

   The details of the above Director seeking re-election are set out in the Profile of Directors as disclosed on pages 6 and 7 of this Annual Report.

3. The details of attendance of the Directors of the Company at Board of Directors' Meetings held during the financial year ended 31 December 2017 are disclosed in the Corporate Governance Overview Statement set out on page 14 of this Annual Report.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Fung Beng Ee
(Senior Independent Non-Executive Chairman)

Lau Yoke Keen
(Independent Non-Executive Director)

Lee Choon Hee
(Executive Director)

Kong See Kuan
(Appointed on 29 January 2018)
(Non-Independent Non-Executive Director)

Michael Lim Hee Kiang
(Resigned on 31 October 2017)
(Senior Independent Non-Executive Chairman)

AUDIT COMMITTEE

Lau Yoke Keen
(Chairman)

Fung Beng Ee
Kong See Kuan
(Appointed on 29 January 2018)
Michael Lim Hee Kiang
(Resigned on 31 October 2017)

NOMINATION COMMITTEE

Fung Beng Ee
(Chairman)

Lau Yoke Keen
Kong See Kuan
(Appointed on 29 January 2018)
Michael Lim Hee Kiang
(Resigned on 31 October 2017)

REMUNERATION COMMITTEE

Kong See Kuan
(Appointed on 29 January 2018)
(Chairman)

Fung Beng Ee
Lee Choon Hee
Michael Lim Hee Kiang
(Resigned on 31 October 2017)

RISK MANAGEMENT COMMITTEE

Lau Yoke Keen
(Chairman)

Fung Beng Ee
Lee Choon Hee

COMPANY SECRETARY

Wong Youn Kim
(MAICSA 7018778)

REGISTERED OFFICE

Level 2, Tower 1, Avenue 5
Bangsar South City
59200 Kuala Lumpur

Tel : 603-2241 5800
Fax : 603-2282 5022

PRINCIPAL PLACE OF BUSINESS

Lot 14 Jalan Satu
Kawasan Perindustrian Cheras Jaya
Batu 11 Cheras
43200 Selangor Darul Ehsan

Tel : 603-9086 1100
Fax : 603-9086 1107

PRINCIPAL BANKERS

Malayan Banking Berhad
OCBC Bank (Malaysia) Berhad
CIMB Bank Berhad

REGISTRARS

Symphony Share Registrars Sdn Bhd (378993-D)
Level 6, Blok D13
Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya
Selangor Darul Ehsan

Tel : 603-7841 8000
Fax : 603-7841 8150

AUDITORS

Morison Anuarul Azizan Chew
(AF 001977)
No 18 Jalan Pinggir 1/64
Jalan Kolam Air
Off Jalan Sultan Azlan Shah
(Jalan Ipoh)
51200 Kuala Lumpur

Tel : 603-4048 2888
Fax : 603-4048 2999

SOLICITORS

Jaffar & Menon
Kamarudin & Partners
TS Teoh & Partners
Tai Wah & Co

DOMICILE

Malaysia

LEGAL FORM AND PLACE OF INCORPORATION

A public company incorporated in Malaysia under the Companies Act, 1965 and limited by shares.

STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia Securities Berhad

Stock Code : 9407

DIRECTORS' PROFILE

FUNG BENG EE

Aged 55, Male, Malaysian
Senior Independent Non-Executive Director
Chairman of Nomination Committee
Member of Audit Committee
Member of Remuneration Committee
Member of Risk Management Committee

Mr. Fung Beng Ee was appointed to the Board of Paragon on 22 July 2010.He was subsequently re-designated as Senior Independent Non-Executive Chairman on 28 January 2018. Mr. Fung graduated from the University of Oxford in 1987. He has a Master of Arts degree in Jurisprudence. Mr. Fung was called to the Bar of England and Wales at Lincoln's Inn in 1987, the High Court of Malaya in 1988 and the Supreme Court of Singapore in 1992. He is the Managing Partner of Messrs Kamarudin & Partners. He sits on the Board of Directors of Major Team Holdings Berhad. He has no family relationship with any Director and/or substantial shareholders of Paragon and his directorship in Paragon does not give rise to any conflict of interest situation. He has no convictions for any offences within the past five years.

LAU YOKE KEEN

Aged 52, Male, Malaysian
Independent Non-Executive Director
Chairman of Audit Committee
Chairman of Risk Management Committee
Member of Nomination Committee

Mr. Lau Yoke Keen was appointed to the Board of Paragon on 11 August 2011. Mr. Lau is a Chartered Accountant by profession and a member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants. He is also a member of the Chartered Tax Institute of Malaysia. Mr Lau started his professional career with the public accounting firms of Hanafiah Raslan & Mohamad, (Arthur Andersen & Co) in 1986 and subsequently in 1991 with Hew & Tan (Moores Rowland) until 1993. During the periods from 1994 until 2001, Mr. Lau has served in various financial management capacities with several companies (public listed and non public listed) mainly in the retail, manufacturing, information technology and property development sectors. In 2002, he went into Public practice and currently he is the Managing Partner of Messrs KL Associates, a Partner of Messrs YC Chong & Co and also sits on the Board of Director of Major Team Holdings Berhad. He has more than 20 years of exposure to various aspects of auditing, taxation and accounting. He has no family relationship with any Director and/or substantial shareholders of Paragon and his directorship in Paragon does not give rise to any conflict of interest situation. He has no convictions for any offences within the past five years.

DIRECTORS' PROFILE

(CONT'D)

LEE CHOON HEE

Aged 48, Male, Malaysian
Executive Director
Member of Remuneration Committee
Member of Risk Management Committee

Mr. Lee Choon Hee was appointed to the Board of Paragon on 7 April 2014 as a Finance Director and has been re-designated on 26 August 2014 as Executive Director. Mr. Lee is a Chartered Accountant by profession. He is a fellow member of The Australian Society Of Certified Practising Accountant and a member of The Malaysian Institute of Accountants. He holds a Degree in Commerce (Accounting) from Flinders University of South Australia. Mr. Lee has more than twenty years of experience with all aspects of accounting system and he is a respected management professional with high standards of integrity. He started his professional career with PricewaterhouseCoopers. Prior to joining Paragon, he was an Executive Finance Director cum Company Secretary in Pica (M) Corporation Bhd. He has no family relationship with any Director and/or substantial shareholders of Paragon and his directorship in Paragon does not give rise to any conflict of interest situation. He has no convictions for any offences within the past five years.

KONG SEE KUAN

Aged 61, Female, Malaysian
Non-Independent Non-Executive Director
Chairman of Remuneration Committee
Member of Audit Committee
Member of Nomination Committee

Madam Kong See Kuan was appointed to the Board of Paragon on 29 January 2018. She graduated from Cambridge University with Master in Business Administration. Madam Kong is a businesswoman with 38 years of experience in various industries such as property development and construction. She presently sits on the board of directors of Major Team Holdings Berhad and several private companies. She is the major shareholder of Asia Avenue Sdn Bhd, the substantial shareholder of Paragon. Save for the above, she has no family relationship with any Director and/or substantial shareholders of Paragon and her directorship in Paragon does not give rise to any conflict of interest situation. She has no convictions for any offences within the past five years.

SENIOR MANAGEMENTS' PROFILE

SHAHRUL HISHAM BIN MUSA

Aged 44, Male, Malaysian
Group Senior General Manager
Management Representative IATF16949
Management Representative EHS

Mr. Shahrul Hisham Musa was appointed as a General Manager for Automotive Division in year of 2013 and subsequently re-designated as a Group General Manager in 2016. He holds a Degree in Economics (Hons) from National University of Malaysia. Mr. Sharul currently oversees both business and operations for the Group. With approximately 19 years of working experience with two automotive manufacturing companies, Mr. Shahrul was adequately exposed to a managing standard of business and operations. He has no convictions for any offences within the past five years.

HIEW SIEW SHAN

Aged 39, Female, Malaysian
Group Senior Finance Manager

Ms. Hiew started her career with Paragon in year 2003. She holds an Advance Diploma in Accountancy. She has approximately 16 years working experience in all aspects of accounting system. She is currently in charge of Finance Department and responsible for all the finance related matters and financial reporting. She is also acting as Executive Personal Assistant for Executive Director. She has no convictions for any offences within the past five years.

HALEZA BINTI HUSSIN

Aged 48, Female, Malaysian
Senior Head of Costings for Automotive Division

Pn. Haleza started her career with Paragon in year 1995. She graduated from University Pertanian Malaysia (UPM) in 1994 with a Bachelor in Accountancy. She has more than 20 years working experience in all aspects of accounting and finance. She is currently in charge of Costings Department for Automotive Division. Her duties include overseeing operation of the Finance Departments with responsibility for budgets preparation, forecasting, Accounts Payable and Receivable. She has no convictions for any offences within the past five years.

LETTER TO SHAREHOLDERS

DEAR SHAREHOLDERS,

I am pleased to present, on behalf of the Board of Directors of the Company, the Annual Report and the Audited Financial Statements for the financial year ended 31 December 2017 of Paragon Union Berhad.

On behalf of the Board of Directors, I wish to extend my thanks to the staff and management in their dedication in carrying out their duties over the past year. I would also like to thank our customers, shareholders, business partners, government authorities and business associates for their continued support and trust.

Further information of Paragon's performance in the financial year is detailed in the Management Discussion and Analysis on Page 10.

FUNG BENG EE
Senior Independent Non-Executive Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE AND FINANCIAL REVIEWS

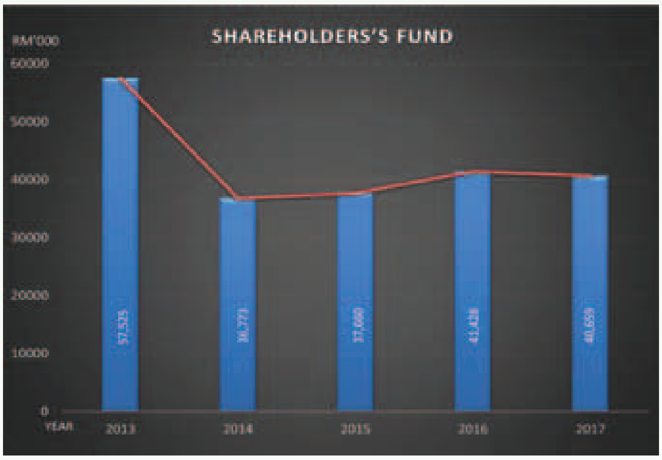
The Group faced an erosion of margin due to higher costs and recorded a lower turnover of RM53.7 million with a loss before taxation of RM1.0 million (2016: Turnover of RM67.4 million with a profit before taxation of RM3.7 million).

This downtrend of revenue and loss before taxation were mainly attributed to the pressure of lower sales from both Automotive and Commercial Sectors, as well as softer economic climate experienced during the year, which had adversely affected the overall performance of the Group.

In terms of market share, the Group is able to maintain its main existing automotive clientele, which comprises of Perodua, Proton, Honda, Nissan, BMW, Volvo and Isuzu. The Group is able to secure additional projects from our existing clients with the launches of new models.

For the commercial carpet division, we have selected on-going projects in our order book, which among others are Goldsand Hotel, Langkawi; Swiss Inn & Swiss Garden Group; Mercure Hotel; KLIA Convention Centre; KL Sport City; Berjaya Time Square; Mahkamah Kota Kinabalu; Istana Shah Alam; and Liberty Cinema at Sri Lanka.

To sustain the overall performance and to remain competitive in the market, the Group will continue to emphasize on cost reduction, process re-engineering and identifying potential opportunities for further growth.



PROPERTY DEVELOPMENT DIVISION

The Group has not engaged in any property development in recent years. Nonetheless, the Group would embark in property development in future when viable opportunity arises.

PROSPECTS AND OUTLOOK

In general, the Group prospects and outlook in the coming year would largely rely on the implementation of the secured projects and the success rate of tenders in both automotive and commercial sectors. Dealers' performance throughout the year would also contribute to our total revenue generated.

Our outlook and market competitiveness would remain challenging for the year ahead and could be subjected to unforeseen factors which may affect our price competitiveness. For instance in the recent years, the cost of production had escalated drastically, which affected our price competitiveness, particularly the currency fluctuation and hike in the raw material prices. Generally, such factors are usually counter-productive in our effort to stay competitive.

In spite of above situations, the Group will continue to engage in business development, product expansion and seek potential opportunities to enhance our market share.

SUSTAINABILITY STATEMENT

Paragon recognise the importance of sustainability related issues which can have a significant impact on Paragon Group's business. In line with governance recommendations, Paragon now makes a formal statement disclosing its sustainability strategy.

Sustainability is embedded within the Company and sustainability matters are managed by various departments within the Paragon Group. Based on the Economic, Environment and Social framework and workplace as set out in the guideline.

ECONOMIC

a) Logistics Activities

The Group's existing business are involve in Automotive and Commercial Sector and efforts are continuing to achieve greater sustainability of earnings from this Sectors.

b) Business Ethics & Transparency

The Board has a Code of Conduct and Ethics to ensure all business dealings are conducted in an ethical and transparent manner. The Group also has in place a Whistleblower Policy where complaints are investigated while identity of whistleblower protected.

c) Regulatory Compliance

The Group keeps abreast of changes in relevant laws, regulations and practices to ensure compliance with the regulatory changes taking place. Quarterly Financial Reports are prepared and submitted to Bursa Securities in accordance with Bursa Securities' Listing requirements.

ENVIRONMENT

We take responsibility for the environment that we operate in. As such, we complied strictly to all existing environment laws and regulations. We are an ISO 14001 certified, an environmental management system since 2002 and have established and maintained a system of environmental planning, taking into consideration the legal and other requirements, the environmental aspect-impact and health and safety hazard-risk analysis. Stringent management programs are in place to ensure these objectives are met which include minimizing the generation of schedule waste, waste water-treatment plant and recycle of materials such as paper, metal and plastic.

SOCIAL

The Group's contributions in the social sector include generating employment and business opportunities in its areas of operations. It also strives to provide a safe working environment for all its employees and business partners and also makes annual financial contributions to community and society.

WORKPLACE

The Board fully acknowledges that employees are the backbone of the operations and central to the success and continued viability of the Group.

To this end, the Group strives to provide a healthy, comfortable and safe working environment for its diverse workforce and offers its employees fair compensation for their contributions and efforts. Employee's welfare is also taken care of through competitive medical benefits and occupational safety, particularly for production floor employees, is given appropriate attention. Employees will also be given opportunities to enhance their knowledge and skills which will not only enhance their productivity but also position them to undertake increased responsibilities and more challenging tasks in future.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Malaysian Code of Corporate Governance defines corporate governance as ”the process and structure used to direct and manage the business and affairs of the company towards promoting business prosperity and corporate accountability with the ultimate objective of realising long-term shareholder value, whilst taking into account the interests of the other stakeholders.”

The Board of Directors remains committed to subscribe to the principles of good corporate governance that is central to the effective operation of the Company and to ensure the highest standards of accountability and transparency. The Board supports the Corporate Governance Framework and continues to improve existing practices and achieve the objectives of the Company.

The Board is pleased to set out below the manner in which the Group has applied the three main principles in the Malaysian Code on Corporate Governance (“MCCG[1]) during the financial year ended 31 December 2017. This statement is prepared in compliance with Bursa Malaysia Securities Berhad Main Market Listing Requirements (“MMLR”) and it is to be read together with the CG Report 2017 of the Company which is available on Paragon’s website at www.paragon.com.my.

PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS

Board Responsibilities

The Board retains full and effective control of the Group. Its roles are essentially providing leadership, management oversight, setting strategic direction premised on sustainability and promoting ethical conduct in business dealings. The Board has adopted certain responsibilities for effective discharge of its functions through formalizing its Board Charter (available at the Company’s website: www.paragon.com.my) which, inter alia, sets a list of specific functions that are reserved for the Board and Chairman; and the authorisation limit which defines relevant matters and applicable limits reserved for Chairman/ /Executive Director that are further cascaded to senior management team within the Company.

The Board has delegated specific responsibilities to various Board Committees namely the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Management Committee whose functions are within their respective terms of reference approved by the Board. The said terms of reference are periodically reviewed by the Board, as and when necessary and the Board appoints the Chairman and members of each committees. These Committees assist the Board in making informed decisions through in-depth discussions on issues in discharge of the respective committees’ terms of reference and responsibilities. The terms of reference of the Board Committees are available at the Company’s website.

The Board of Directors adopted the Code of Conduct and Ethics for Company Directors and employees within the Group. This Code of Conduct and Ethics provides good guidance for a standard of ethical behaviour for Directors based on trustworthiness and honest values that are acceptable and to uphold the spirit of responsibility including social responsibility in line with the legislation, regulations and guidelines for administrating a company.

The Group aims to ensure a balance of power and authority between the Chairman and Executive Director with a clear division of responsibility between the running of the Board and the Company’s business respectively. The Group also emphasizes and practices a division of responsibility between the Executive and Non-Executive Directors.

The distinct and separate roles of the Chairman and Executive Director, with a clear division of responsibilities, ensure a balance of power and authority, such that no one individual has unfettered powers of decision-making.

The Chairman is responsible for ensuring the integrity and effectiveness of the governance process of the Board, acts as facilitator at the meetings and ensure that Board proceedings are in compliance with good conduct and best practices. Whilst the Executive Director is responsible for making and implementing operational and corporate decision as well as developing, coordinating and implementing business and corporate strategies.

PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

Board Responsibilities (Cont'd)

The Board had appointed a qualified secretary who is a member of the Malaysian Institute of Chartered Secretaries and Administrators ("MAICSA") and is qualified to act as Company Secretary under the Companies Act, 2016. As a practicing company secretary, she has also attended continuous professional development programmes as required by MAICSA.

All Directors have the right to access all information pertaining to the business and affairs of the Group and unhindered access to the advice and services of the Company Secretary and senior management, and are also empowered to seek independent professional advice at the Company's expense should they consider it necessary in the furtherance of their duties.

All directors also have full and free access to information within the Group and can as individual Director or as a full Board have unrestricted access to all information pertaining to the Group's business and affair. This is to enable them to carry out their duties effectively and diligently. As and when necessary, the Board may obtain independent professional advice, in furtherance of their duties, at the expense of the Group.

Board Composition

The Board acknowledges the call by the Government and MCCG for boards to comprises at least 30% woman on board.

The Board is mindful that any gender representation should be in the best interest of the Company. Although the Company has not reached the 30% woman representation target at Board level as require, the Board is putting its effort in getting other suitable women who could meet the objective criteria, merit and with due regard for diversity in skills, experience, age to join the Board.

The Board does not have specific policy on diversity policy and measures, However, the issue of diversity is discussed by the Nomination Committee ("NC"). The Board will take steps towards formalising such policy, targets and measures to reflect the Company's commitment towards gender diversity.

In connection with this policy, the Board have appointed one woman director to the Board, which represent 25% of the total number of board members.

Further, the Board has been and also through the NC, assessed on an annual basis with the use of board matrix, questionnaires and other evaluation forms, the size, composition, mix of skills, experience, competencies of the existing Board, the individual Directors, the independence and tenure of the Independent Directors, and the effectiveness of the Board and the Board Committees, to identify gaps in the Board composition and the needs to identify and select new members to the Board or Board Committees.

With the current composition, the NC opines that all the Board members have the necessary knowledge, experience, requisite range of skills and competence to enable them to discharge their duties and responsibilities effectively. All Directors on the Board have extensive experience with their many years of experience on the Boards of other companies and/or also as professionals in their respective fields of expertise.

None of the Directors of the Company hold more than five (5) directorships of listed companies as provided under Paragraph 15.06 of the Main Market Listing Requirements ("MMLR").

PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

Board Composition (Cont'd)

The Board meets on a quarterly basis with additional meetings being convened when necessary to address urgent matters. All the Directors have complied with the minimum attendance requirements as stipulated by the MMLR. The Board met six occasions during the year ended 31 December 2017 and the details of attendance at Board Meetings is set out below:-

Name of Directors	Meeting attended
Fung Beng Ee	6/6
Lau Yoke Keen	6/6
Lee Choon Hee	6/6
Michael Lim Hee Kiang (Resigned on 31 October 2017)	4/4

All Directors are encouraged to participate in relevant training programmes for continuous professional development and to further enhance their skills and knowledge. The Directors are aware that they shall receive appropriate training which may be required from time to time to keep them abreast with the current developments in the industry as well as new statutory and regulatory developments including changes in accounting standards.

Training programmes and seminars attended by the Directors of the Company during the financial year ended 31 December 2017 are as follows:-

Name of Directors	Training Attended	Date
Lau Yoke Keen	• Corporate Tax Issues for 2017 • 2018 Budget Seminar	7 June 2017 5 December 2017
Lee Choon Hee	• Duties of the Company Secretary under Companies Act, 2016 • GST Audits & Investigations	18 July 2017 19 July 2017

All Directors of the Company had attended the Mandatory Accreditation Programme (MAP) prescribed by Bursa Securities for directors of public listed companies.

During the financial year ended 31 December 2017, besides from attending the briefings conducted by the Company Secretary pertaining to the updates on the Listing Requirements and Companies Act, 2016. In addition, the External Auditors also briefed all the Board members on the changes to the Malaysian Financial Reporting Standard that affect the Group's financial statement.

The Company Secretary circulated the relevant guidelines on statutory and regulatory requirements from time to time for the Board's reference and brief the Board quarterly on these updates, where applicable at Board meetings. The External Auditors also briefed the Board members on any changes to the Malaysian Financial Reporting Standards that affect the Group's financial statements during the year. Throughout their period in office, the Directors are continually updated on the Group's business and the regulatory requirements.

Remuneration

The Company aims to set remuneration at levels which are sufficient to attract and retain the Directors and Senior Management needed to run the Company successfully, taking into consideration all relevant factors including the function, workload and responsibilities involved, and after giving due consideration to the Group's performance.

The Remuneration Committee ("RC") is responsible for evaluating, deliberating and recommending to the Board the compensation and benefits that are fairly guided by market norms and industry practices for the business the company is in. The RC is also responsible for evaluating the Executive Director's remuneration which is linked to the performance of the Executive Director and performance of the Group. Individual Director do not participate in the decisions regarding his individual remuneration.

The annual review during the financial year ended 31 December 2017 was conducted by the RC on 18 January 2017.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

(CONT'D)

PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

Remuneration (Cont'd)

The details of the Directors' remuneration comprising remuneration received from the Company in the financial year ended 31 December 2017 are as follows:-

Category	Fees (RM)	Bonus (RM)	Salaries (RM)	Benefit in Kind (RM)	Total (RM)
Executive Director					
Lee Choon Hee	42,000	108,000	496,800	–	646,800
Non-Executive Directors					
Fung Beng Ee	42,000	–	–	–	42,000
Lau Yoke Keen	42,000	–	–	–	42,000
Michael Lim Hee Kiang	35,000	–	–	–	35,000

The details of the remuneration of the top Senior Management (including salary, bonus, benefit in kind and other emoluments) in each successive bands of RM50,000.00 during the financial year ended 31 December 2017 are as follows:-

Range of Remuneration (RM)	Designation of Top Senior Management
50,000 – 100,000	–
100,001 – 150,000	Group Senior Finance Manager Senior Head of Costings for Automotive Division
150,001 – 200,000	–
200,001 – 250,000	Group Senior General Manager

PRINCIPLE B – EFFECTIVE AUDIT AND RISK MANAGEMENT

Audit Committee

The Board is assisted by the Audit Committee ("AC") which comprises two (2) Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director, to oversee the Group's financial reporting process. In line with the principles of the MCCG, the Terms of Reference of the AC was amended to include a policy that requires a former key audit partner who was part of the engagement team to observe a cooling-off period of at least 2 years before being appointed as a member of the AC.

The composition of the AC is reviewed annually with the view to maintain an independent and effective AC, and in line with the principles of the MCCG, all members of the AC have continuously improved their financial literacy by attending trainings on the developments and changes in the Malaysian Financial Reporting Standards in order for them to discharge their duties effectively.

The independence, suitability and appointment/re-appointment of the External Auditors is reviewed by the AC annually based on the External Auditor Appointment and Independence Policy established by the Company.

PRINCIPLE B – EFFECTIVE AUDIT AND RISK MANAGEMENT (CONT'D)

Risk Management and Internal Control Framework

The Board is assisted by Senior Management in implementing the Board approved policies and procedures to assure that the Group's risk management and internal controls systems are operating adequately and effectively.

Risk Management Committee ("RMC") has been formed to assist the Board on the ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This process is regularly reviewed and is in accordance with the Statement on Risk Management and Internal Control: Guidance for Directors of Public Listed Companies.

The Management is responsible for the identification and evaluation of key risks applicable to their areas of business activities on a continuous basis. Risks identified are reported on a timely manner during the periodic management meetings to enable corrective actions to be taken.

The Board is of the view that the system of internal control and risk management is in place, is sound and sufficient in safeguarding the Group's assets and shareholders' investment and interests of all stakeholders.

Statement on Risk Management and Internal Control furnished on pages 18 to 22 of this Annual Report provides an overview on the state of risk management and internal control within the Group.

PRINCIPLE C – INTEGRITY IN CORPORATE REPORTING AND MEANING RELATIONSHIP WITH STAKEHOLDERS

Communication with Stakeholders

The Company aims to ensure that the shareholders and investors are kept informed of all major corporate developments, financial performance and other relevant information by promptly disseminating such information to shareholders and investors via announcements to Bursa Securities, which is in line with Bursa Securities' objectives of ensuring transparency and good corporate governance practices, through dialogue with analysts and the media.

The annual report and the quarterly announcements are the primary mode of communications to report on the Group's business activities and financial performance to all shareholders.

The Company also maintains an effective communication channel between the Board, shareholders and the general public through timely dissemination of all material information. Minority shareholders may communicate with the Company through the Company's website.

Conduct of General Meetings

The Annual General Meeting ("AGM") represents the principal forum for dialogue and interaction with shareholders. At each AGM, the Board presents the performance and progress of the Company and provides ample opportunity for shareholders to raise questions pertaining to the business activities of the Company. All the Directors and key management personnel are available to provide responses to questions raised by the shareholders during the AGM.

In line with the MCCG, the Notice of the Twenty Fourth AGM and Annual Report 2017 of the Company are sent 28 days prior to the AGM, so as to provide sufficient time for shareholders to read through the Annual Report and make the necessary attendance and voting arrangements.

In compliance with Bursa Securities' Listing Requirements, voting for all resolutions set out in the Notice of the Twenty Fourth AGM shall be conducted by poll as it fairly reflects shareholders' views by ensuring that every vote is recognized, in accordance with the "one share one vote" principle which enforces greater shareholders' rights.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

(CONT'D)

STATEMENT OF DIRECTORS' RESPONSIBILITY FOR PREPARING THE FINANCIAL STATEMENTS

The Directors are required by the Companies Act, 2016 to prepare the financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group at the end of financial year and of the results and cash flows of the Company and of the Group for the financial year then ended.

The Directors are satisfied that in preparing the financial statements of the Company and of the Group for the financial year ended 31 December 2017 the Company and the Group have used the appropriate accounting policies and applied them consistently and prudently. The Directors also consider that all relevant approved accounting standards have been followed in the preparation of these financial statements.

COMPLIANCE STATEMENT

The Board confirms that the Group has made significant effort to maintain high standards of corporate governance throughout the year under review. The Board acknowledges that achieving excellence in corporate governance is a continuous process and is committed to play a pro-active role in steering the Group towards the highest level of integrity and ethical standards.

ADDITIONAL COMPLIANCE INFORMATION

The following is provided in compliance with the MMLR of Bursa Securities:-

1. **Non-audit fees**

   The amount of non-audit fees incurred for the services rendered to the Group by the external auditors or their affiliated companies during the financial year amounted to RM2,000.

2. **Material contracts**

   There were no material contracts entered into by the Company and/or its subsidiaries that involve Directors' or substantial shareholders' interests either still subsisting at the end of the financial year ended 31 December 2017 or entered into since the end of the previous financial year.

3. **Share Buy-back**

   There was no share buy-back by the Company during the financial year.

4. **Utilisation of Proceeds Raised from Corporate Proposals**

   There were no proceeds raised from corporate proposals during the financial year ended 31 December 2017.

5. **Recurrent Related Party Transactions**

   The Group did not have any recurrent related party transactions of revenue or trading nature during the financial year under review, which exceeded the materiality threshold stipulated in Paragraph 10.09 (2)(b) of the MMLR of Bursa Securities.

STATEMENT OF RISK MANAGEMENT AND INTERNAL CONTROL

1. Introduction

The Board of Directors ("Board") acknowledges the importance of maintaining a sound system of risk management and internal controls to safeguard shareholders' investments and the Group's assets. The Board is pleased to outline the state of risk management and internal control of the Group for the financial year ended 31 December 2017 pursuant to Paragraph 15.26 (b) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

2. Board's Responsibility

The Board affirms its overall responsibility for the Group's system of risk management and internal controls and for reviewing its effectiveness, adequacy and integrity. However, in view of the limitations that are inherent in any system of risk management and internal controls, the Board is aware that such system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement, fraud or loss.

The Board is assisted by Senior Management in implementing the Board approved policies and procedures to assure that the Group's risk management and internal controls systems are operating adequately and effectively by:

a. Identifying and analysing risk information;
b. Designing and operating suitable internal controls to manage these risks; and
c. Monitoring risk changes and the appropriate action plans.

The key features of the risk management and internal control system are described below.

3. Key Elements of Internal Controls

(a) Risk Management Framework

The Board has formed a Risk Management Committee ("RMC") which will assist the Board on the ongoing process for identifying, evaluating and managing the significant risks faced by the Group, which had been in place for the year under review. This process is regularly reviewed by the Board and is in accordance with the Statement on Risk Management and Internal Control: Guidance For Directors of Public Listed Companies.

The Management is responsible for the identification and evaluation of key risks applicable to their areas of business activities on a continuous basis. Risks identified are reported on a timely manner during the periodic management meetings to enable corrective actions to be taken.

(b) Internal Audit

The Group's system of internal controls is regularly reviewed for its effectiveness in managing key risks. The internal audit function focuses on areas of priority as determined by the risk assessment of the auditable areas. Where significant weaknesses have been identified, improvement measures are recommended to strengthen controls.

The internal audit reports are tabled at Audit Committee meetings for members' review.

STATEMENT OF RISK MANAGEMENT AND INTERNAL CONTROL

(CONT'D)

3. Key Elements of Internal Controls (Cont'd)

(c) Other Key Elements of Internal Controls

Other key elements of the Group's system of internal controls are as follows:

- The Group has an appropriate organisational structure, which enables adequate monitoring of the activities and ensures effective flow of information across the Group. In addition, lines of responsibility and delegations of authority are clearly defined.
- The Executive Director is actively participating in day-to-day operations running of the Group. This enables material issues to be effectively resolved on a timely basis.
- The AC met the RMC on quarterly basis to bring to the AC's attention significant matters related to internal controls, ensuring that it maintains full and effective supervision over appropriate controls.
- Committee and the Board monitor and review the Group performance and financial results at their quarterly meetings.
- The Board receives and reviews information on the Company's financial status and performance.
- The Audit Committee meets at least four times a year and reviews the effectiveness of the Group's system of internal controls. The Committee receives periodic management reports.

(d) Review of the Statement By External Auditors

Pursuant to Paragraph 15.23 of the Listing Requirements, the External Auditors, Messrs. Morison Anuarul Azizan Chew have reviewed this Statement on Risk Management and Internal Control for the inclusion in the Annual Report of the Company for the financial year ended 31 December 2017.

The Board has received assurance from the Executive Director and is pleased to report that the Group's risk management and internal control systems are operating adequately and effectively, in all material aspects, based on the risk management and internal control systems of the Group. There was no material control failure that would have material adverse effect on the financial results of the Group for the year under review and up to the date of issuance of the financial statements.

Statement of Risk Management and Internal Control

The Company's Risk Management and Control System aims to ensure that the risks of the Company are identified and managed effectively and that its operational and financial objectives are met in compliance with applicable laws and regulations at a reasonable level of assurance. A system of controls that ensures adequate financial reporting is in place.

The Company is recognized for its drive for quality, service and financial discipline. Entrepreneurial spirit is encouraged in the company, in order to seek opportunities that support continuous growth, such as business and products development while taking reasonable controlled risks.

Risk Profile

The Company is a predominantly a carpet manufacturing company and is subject to varying degrees of risk and uncertainty which may be affected by the materials price variation as well as business competition.

STATEMENT OF RISK MANAGEMENT AND INTERNAL CONTROL

(CONT'D)

3. Key Elements of Internal Controls (Cont'd)

Risk Management

The Company strives to be sustainable and performance-driven and by nature involves taking risks and managing those risks. Structured risk assessments are integrated in tendering projects, business planning, manufacturing process, system implementations and business integration activities. Although steps are taken to minimize risks but there is no absolute assurance on completely eliminating the risks involved in these business undertakings.

Responsibilities

The Board has the overall responsibility for Risk Management and Control Systems. It is responsible for resource allocation and risk management policy setting. Its overall effectiveness is subject to review by the Audit Committee.

The Risk Management Committee supports the Board with their responsibility for risk management. The Risk Committee would meet to discuss the results of the risk assessment, management process, the developments of existing risks, identification of emerging new risks and the progress of risk mitigating actions.

Company Rules

There is a standard governing procedure and activities to ensure continuous awareness, compliance and follow-up are in place. The Management is constantly updated on the financial reporting to ensure all financial obligations can be met periodically.

Governance

Company's governance procedure consists of annual business planning, operational planning and performance monitoring meetings. Business plans, key risks and quarterly performance of our operating companies are discussed between the management and presented to the Board. These plans also contain an assessment of the main risks, mitigation plans and financial sensitivity analysis.

Internal Control in Operating Companies

The internal operating process is generally supported by IT systems with embedded key control frameworks. This would ensure the integrity of information processing in supporting the day-to-day transactions, financial and management reporting. Internal Audit is involved in monitoring key controls in main business processes and assessing their effectiveness based on a common audit approach.

Code of Business Conduct

The compliance of Company's Business Conduct procedure is supported through continuous monitoring of its effectiveness and its periodic reviews. Employees may report suspected cases of serious misconduct to their direct superior and the Management oversees the process and its confidentiality. The Management will report on quarterly basis to the Board and Audit Committee respectively on reported cases, if any.

Supervision

The Management oversees the adequacy and functioning of the entire system of risk management and internal control which is further assisted by independent Internal Auditor which provides independent assurance and advice on the risk management and internal control systems. The outcome and effectiveness of the risk management and internal control systems are evaluated by the Management and reports to the Board by the independent internal Auditors.

STATEMENT OF RISK MANAGEMENT AND INTERNAL CONTROL

(CONT'D)

3. Key Elements of Internal Controls (Cont'd)

Financial Reporting

The Audit Committee supports the Management in its responsibility to oversee the financial reporting and its effectiveness of the internal control of the Group. The Audit Committee comprise of two independent directors and one Non-Independent Non-Executive Director. The Management is generally to provide and present a balance representation of the financial standings of the Group. The Management also recommends and presents to the Audit Committee their financial findings of the year.

In addition, the engaging of independent external auditors would provide further assurance on the financial reporting within the scope of the external auditors' financial audit assignment.

The internal risk management and control systems would provide a reasonable degree of assurance that the financial reporting does not contain any errors of material importance and that the risk management and control systems worked properly in the year under review.

Main Risks

The Company's main risks and related mitigation measures are described below. The main Company risks have been discussed with the Board and are annually reviewed.

Risk category	Risk description	Mitigation
Products and Process-Quality and standard of our products Labour Intensive Process	Poor quality products may result in reputational and image damage, resulting in loss of business and high warranty claims. Specific risks are: Poor quality of products recalls. Manpower depending process lead to high recruitments	Production and process controls and improvements. Business continuity plans. Recall and rework procedures.
Management Capabilities	Unable in attracting, developing and retaining talented staff with the required capabilities. Specific risks are: Insufficient number of talented staff employed to fill current and future positions. Lower quality of staff in key positions.	Develop and increase our management talent. Implementation of appraisal and evaluation processes. Strengthening management development programmes.
Availability and volatility in prices of raw materials and commodities.	Risk of availability of raw materials and commodities. Volatility in prices of raw materials and commodities may impact our profit. Specific risks are: Limited availability. Failure to pass on price increases. Cost down committed to customer without official support from existing suppliers	Utilising the flexibility in contracts. Improvement of our knowledge of the market and management of stock. Multi sourcing and continued negotiation with suppliers on cost down activities.
Disruptions in the supply chain	Supply chain disruption may lead to inability to deliver products to key customers on time. Specific risks are: Failure of delivery systems.	Business continuity plans and Implementation of back-up scenarios.

STATEMENT OF RISK MANAGEMENT AND INTERNAL CONTROL

(CONT'D)

3. Key Elements of Internal Controls (Cont'd)

Main Risks (Cont'd)

Risk category	Risk description	Mitigation
Manufacturing Capacity Technology Improvement and Machinery Efficiency	Obsolete technology leads to low confidence of products. Machines running under/over optimisation. Specific risks are: May lead to high maintenance cost. Phase out of spare parts.	To keep on tracing and studying latest technology and innovation in the industry. To look into machine integrations and upgrading.
Economic Environment and market trend	The economic and financial uncertainties, could impact our business and those of our customers. This may lead to lower volumes, pressure on selling prices and increased credit risk. Specific risks are: Declining market. Increasing credit risk.	Further monitoring and mitigating actions related to customers' solvency. Implementation of a Credit Policy. Supplier selection process via multi sourcing. Assessment of the financial position of critical suppliers and customers
Business improvement and transformation	Risk of cost overruns and of lower than required deliverables. Specific risks are: Estimated benefits too high. Ineffective or inefficient programme execution.	Selection and prioritisation of business improvement projects. Involvement of management in all major projects. Planning of projects and monitoring of project costs and benefits. Enhance project governance organisation including project management and progress reporting.

There may be current risks that do not have a significant impact on the business but which could "at a later stage" develop into a risk. The Company's risk management systems are constantly monitoring risks and timely discovery of such risks.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Corporate social responsibility is concerned with the integration of economic, environmental and social imperatives while considering the interests of shareholders and stakeholders.

At Paragon Union Berhad or 'PUB', we strived to achieve the best industrial practices to ensure that we integrate our business values with environmental and social responsibilities.

EMPLOYEE WELFARE

We recognise employees are important assets to the Group. In line with our commitment to protect and safeguard the health and safety of our employees, we have achieved OHSAS 18001, a health and safety management system since 2002. To ensure a safe and zero accident workplace, we have provided trainings to our workers on safety procedures and upgraded our facilities to comply with the latest safety requirements. Among the trainings conducted for the year include:-

Safety Training

1. Emergency response plan and prepareness (ERP) and accident investigation and report procedure
2. First Aid and CPR
3. 5S, housekeeping and schedule waste
4. Fire Fighting Training
5. Safety awareness
6. Noise exposure (including ear plug and purposes)
7. Fire drill
8. Forklift Handing and Safety Programe
9. Chemical spilage/drill
10. PPE Training (Personal protection equipment)

Other Training

1. IATF 16949 : 2016 requirements (awarness) and internal auditing
2. Abnormalities Training
3. Basic occupational first aid, CPRT and introduction to AED
4. Training support program - Malaysia Automotive Institute (MAI)
5. Best vendor practice by Perodua Vendor Association

Our continued success relies on our employees. Therefore we provide trainings to employees to enhance their skills and competencies. It would not only enable employees to properly discharge their duties but also provide progression opportunities for employees. Trainings conducted such as strategic procurement, negotiation skill and cost reduction techniques, production cycle time reduction, production planning and control and some other in-house trainings.

Recognising the need to also 'unwind', not just on hard work, we encourage recreational activities and funded the establishment of a sport club whereby the employees can enjoy sports activities such as futsal, bowling, fishing, ping pong and badminton.

COMMUNITY WELFARE

At PUB, we support practical training for students whereby we welcome aspiring students who need to meet their practical training requirements. Besides that, we also support community activities.

Corporate social responsibility to PUB is more than a statement. We strongly believe that the Group's activities should always take into consideration, its impact on society, our customers, suppliers, employees, shareholders, communities, environment and other stakeholders.

AUDIT COMMITTEE REPORT

COMPOSITION

The Audit Committee of Paragon Union Berhad ("PUB" or "the Company"), chaired by an Independent Director, comprises three members, all of whom are Non-Executive Directors, with a majority of whom are Independent Directors. The current composition meets the requirement of Paragraphs 15.09 and 15.10 of the Main Market Listing Requirements ("Listing Requirements") of Bursa Malaysia Securities Berhad ("Bursa Securities"). The Audit Committee currently comprises the following Non-Executive Directors, namely:-

Mr. Lau Yoke Keen (Chairman)
Mr. Fung Beng Ee
Madam Kong See Kuan (Appointed on 29 January 2018)
Mr. Michael Lim Hee Kiang (Resigned on 31 October 2017)

The Audit Committee is authorised by the Board to independently investigate any activity within its Terms of Reference and shall have unrestricted access to information pertaining to the Group, from the internal and external auditors, Management and all employees.

MEETINGS

During the financial year, the Audit Committee conducted 5 meetings of which all were duly convened with sufficient notices given to all Audit Committee members together with the agenda, report and proposals for deliberation at the meetings. The Executive Director was invited to all Audit Committee meetings to facilitate direct communication as well as to provide clarification on audit issues and the operations of the Group.

Representatives from the External Auditors and Internal Auditors, as the case may be, were in attendance to present the relevant reports and proposals to the Audit Committee at the meetings which included inter alia, the Auditors' audit plans and audit reports and the audited financial statements for the financial year ended 31 December 2017.

In the Audit Committee meetings, the external auditors were given opportunities to raise any matters and gave unrestricted access to the external auditors to contact them at any time should they become aware of incidents or matters during the course of their audits or reviews. Minutes of the Audit Committee meetings were tabled for confirmation at the following Audit Committee meeting and subsequently presented to the Board for notation.

Details of attendance of the Audit Committee members at the Audit Committee meetings during the financial year are as follows:-

Committee Member	Meeting attended
Fung Beng Ee	5/5
Lau Yoke Keen	5/5
Michael Lim Hee Kiang (Resigned on 31 October 2017)	4/4
Kong See Kuan (Appointed on 29 January 2018)	Not Applicable

AUDIT COMMITTEE REPORT

(CONT'D)

SUMMARY ACTIVITIES

The Audit Committees' activities during the financial year under review comprised the following:-

Quarterly Financial Statements and Audited Financial Statements

- reviewed the audited financial statements of the Company prior to submission to the Directors for their perusal and approval. This was to ensure compliance of the financial statements with the provisions of the Companies Act, 2016 and the applicable approved accounting standards as per Malaysian Accounting Standards Board; and
- reviewed the unaudited financial results before recommending them for Board's approval, focusing particularly on:-
  - Any change in accounting policies
  - Significant adjustments arising from audit
  - Compliance with accounting standards and other legal requirements

External Auditors

- reviewed the external audit planning memorandum, outlining the audit scope, audit process and areas of emphasis based on the external auditors' presentation of audit plan;
- reviewed the external audit review memorandum and the response from the Management;
- consideration and recommendation to the Board for approval of the audit fees payable to the external auditors;
- reviewed the performance and effectiveness of the external auditors in the provision of statutory audit services and recommend to the Board for approval on the re-appointment of external auditors; and
- reviewed and evaluated the factors relating to the independence of the external auditors.

The Audit Committee recommended to the Board for approval of the audit fee of RM74,500.00 in respect of the financial year ended 31 December 2017.

The Board at its meeting held on 29 November 2017, approved the audit fee based on the recommendation of the Audit Committee.

Internal Auditors

The Group outsources its Internal Audit Function to a professional services firm. The Internal Auditors were engaged to conduct regular review and appraisals of the effectiveness of the governance, risk management and internal control process within the Company and the Group.

The Internal Audit Report directly to the Audit Committee, the appointed Internal Auditors are given full access to all the documents relating to the Company and Group's governance, financial statements and operational assessments.

The Audit Committee had reviewed:-

- internal audit on the area of Sales and Marketing Management and Human Resources Management of the Group.
- follow-up audit on Purchasing Department and Revenue and Credit Control Department of the Group.
- suggestion on improvement opportunities in the areas of internal controls, systems, adequacy and efficiency improvements.

Internal Control and Risk Management

- reviewed the internal audit plan for adequacy scope and coverage and risk areas;
- reviewed risk management report and internal audit reports;
- reviewed the effectiveness and adequacy of risk management, operational and compliance processes; and
- reviewed the adequacy and effectiveness of corrective actions taken by the Management on all significant matters raised.

AUDIT COMMITTEE REPORT

(CONT'D)

RELATED PARTY TRANSACTION AND CONFLICT OF INTEREST

At each quarterly meeting, the Audit Committee reviewed the related party transactions ("RPT") and conflict of interest situation that may arise within the Company and its Group including any transaction, procedure or course of conduct that raises questions of Management integrity.

The Audit Committee review the RPT and conflict of interest situation presented by the Management prior to the Company entering into such transaction. The Audit Committee also ensure that the adequate oversight over the controls on the identification of the interested parties and possible conflict of interest situation before entering into transaction.

INTERNAL AUDIT FUNCTION

The purpose of the Internal Audit function is to provide the Board, through the Audit Committee, with reasonable assurance of the effectiveness of the risk management, control and governance processes in the Group. To ensure that the responsibilities of internal auditors are fully discharged, the Audit Committee reviews the adequacy of the scope, functions and resources of the Internal Audit function as well as the competency of the Internal Auditors.

The Internal Auditors also highlighted to the Audit Committee the audit findings which required follow-up action by Management as well as outstanding audit issues which required corrective action to ensure an adequate and effective internal control system within the Group.

All Internal Audit activities in financial year ended 31 December 2017 were outsourced to an independent assurance provider and the total costs incurred were amounted to RM16,930.00.

SUBSIDIARY COMPANIES

EQUITY INTEREST

	Name Of Company	2017	Principal Activities
	Paragon Car Carpets & Components Sdn Bhd (108988-M)	100%	Manufacturing and trading in car carpets and automotive components
*	Paragon Carpetmaker Sdn Bhd (246013-P)	100%	Manufacturing and trading in car carpets and commercial carpets
**	Paragon Carpet Distributor Sdn Bhd (162824-P)	100%	Distribution and trading in commercial carpets
	Paragon Expression Sdn Bhd (437303-P)	100%	Investment holding and property development related activities
***	Paragon Property Development Sdn Bhd (503011-P)	100%	Inactive
	Paragon Precision Industries Sdn Bhd (277004-P)	78%	Inactive
	Paragon Metal Components Sdn Bhd (267454-U)	77%	Inactive

* Held through Paragon Car Carpets & Components Sdn Bhd (108988-M)
** Held through Paragon Carpetmaker Sdn Bhd (246013-P)
*** Held through Paragon Expression Sdn Bhd (437303-P)

LIST OF PROPERTIES

Held by the Group as at 31 December 2017

Location	Age of Building	Tenure	Description	Land Area (sq. m.)	Build-Up Area (sq. m.)	Net Book Value as at 31.12.2017 (RM)
Lot No. PT 7637 14, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	27 years	Leasehold (Expiry 14.05.2088)	Leasehold Land Factory & Office	8,094	3,190 (factory) 3,929 (office)	5,510,255
Lot No. PT 7667 21, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras 2 Selangor Darul Ehsan	26 years	Leasehold (Expiry 14.05.2088)	Leasehold Land Factory & Office	6,833	4,177 (factory) 873 (office)	4,067,939
Lot No. PT 7641 11A, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	22 years	Leasehold (Expiry 14.05.2088)	Leasehold Land Factory & Office	12,128	7,919 (factory)	6,448,838
Lot No. 6669 Mukim 15 Daerah Seberang Perai Selatan Pulau Pinang	4 years	Leasehold (Expiry 18.09.2093)	Leasehold Building	111	74	22,389

ANALYSIS OF SHAREHOLDINGS

Issued Paid-up Capital	:	RM70,000,000
Number of Issued Shares	:	70,000,000 #
Class of Shares	:	Ordinary shares
Voting Rights	:	One (1) vote per ordinary share held

Inclusive of 5,301,700 treasury shares

ANALYSIS BY SIZE OF SHAREHOLDINGS AS AT 30 MARCH 2018

Size of Holdings	No. of Shareholders	No. of Shares	Percentage (%)
1 – 99	25	445	0.00
100 – 1,000	563	527,721	0.82
1,001 – 10,000	1,123	5,141,700	7.95
10,001 – 100,000	332	9,551,800	14.76
100,001 – 3,234,914 *	40	14,107,540	21.80
3,234,915 and above **	2	35,369,094	54.67
Total	2,085	64,698,300 ***	100.00

Notes * Less than 5% of the issued and paid-up share capital.
** 5% and above of the issued and paid-up share capital.
*** The number of 64,698,300 ordinary shares was arrived at after deducting 5,301,700 treasury shares retained by the Company from the issued share capital of 70,000,000 ordinary shares as per the Record of Depositors.

DIRECTORS' SHAREHOLDINGS AS PER THE REGISTER OF DIRECTORS' SHAREHOLDINGS AS AT 30 MARCH 2018

Names	No. of Shares (Direct)	Percentage (%)	No. of Shares (Indirect)	Percentage (%)
Kong See Kuan	–	–	31,941,094	49.37
Fung Beng Ee	–	–	–	–
Lau Yoke Keen	–	–	–	–
Lee Choon Hee	–	–	–	–

SUBSTANTIAL SHAREHOLDERS AS PER THE REGISTER OF SUBSTANTIAL SHAREHOLDERS AS AT 30 MARCH 2018

Substantial Shareholders	No. of Shares (Direct)	(%)	No. of Shares (Indirect)	(%)
Asia Avenue Sdn. Bhd.	31,941,094	49.37	–	–
Kong See Kuan	–	–	31,941,094 *	49.37
Tan Choon Hock	3,428,000	5.30	–	–

Notes: * Deemed interest by virtue of her substantial shareholdings in Asia Avenue Sdn. Bhd.

ANALYSIS OF SHAREHOLDINGS

(CONT'D)

THIRTY (30) LARGEST SHAREHOLDERS AS AT 30 MARCH 2018

No.	Names	No. of Shares	Percentage (%)
1.	Asia Avenue Sdn. Bhd.	31,941,094	49.37
2.	Tan Choon Hock	3,428,000	5.30
3.	Kong Say Thor	2,788,200	4.31
4.	Su Ming Keat	1,196,040	1.85
5.	Yayasan Kelantan Darulnaim	1,000,000	1.55
6.	Lee Poh Ting	988,700	1.53
7.	Lee Poh Yee	843,800	1.30
8.	Gan Lam Seong	620,000	0.96
9.	CIMSEC Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Ng Geok Wah (B BRKLANG-CL)	500,000	0.77
10.	CIMSEC Nominees (Asing) Sdn Bhd Exempt An for CIMB Securities (Singapore) Pte Ltd (Retail Clients)	466,500	0.72
11.	Sit Peng Chok	372,000	0.57
12.	Wong Mei Sun	370,000	0.57
13.	Soniia Cheah Su-Ya	358,400	0.55
14.	Low Wan Chin	300,000	0.46
15.	Maybank Nominees (Tempatan) Sdn Bhd Tan Say Watt	276,000	0.43
16.	Tan Yew Chuan	240,000	0.37
17.	Chew Weng Khak @ Chew Weng Kiak	219,100	0.34
18.	Lim Chir Ching	200,000	0.31
19.	Wong Ah Yong	200,000	0.31
20.	Yeow Teck Chai	188,000	0.29
21.	Goh Yoke Choo	177,200	0.27
22.	Esmond Sit Bo Sheng	175,000	0.27
23.	Liw Kwei Sunn	167,500	0.26
24.	Wong Boon Choy	165,000	0.26
25.	Chin Tung Leong	154,800	0.24
26.	See Kee Hoot	152,700	0.24
27.	Phong Chiew Khim	147,800	0.23
28.	Tang Siew Geok	145,000	0.22
29.	Maybank Nominees (Tempatan) Sdn Bhd Ng Hai Sim	142,000	0.22
30.	Yee Kwek Keong	140,000	0.22
Total		**48,062,834**	**74.29**

DIRECTORS' REPORT

The Directors have pleasure in submitting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and provision of management services.

The principal activities of the subsidiary companies are stated in Note 4 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year.

FINANCIAL RESULTS

	Group RM	Company RM
(Loss)/Profit for the financial year attributable to:		
- Owners of the Company	(766,904)	699,233
- Non-controlling interests	(1,928)	–
	(768,832)	699,233

DIVIDEND

Since the end of the previous financial year, no dividend has been paid or declared by the Company. The Directors do not recommend any dividend in respect of the current financial year under review.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements.

ISSUE OF SHARES AND DEBENTURES

There were no issuances of shares or debentures during the financial year.

OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Company during the financial year under review.

DIRECTORS

The Directors in office during the financial year and during the period from the end of the financial year to the date of this report are:

Fung Beng Ee	
Lau Yoke Keen	
Lee Choon Hee	
Kong See Kuan	(Appointed on 29 January 2018)
Michael Lim Hee Kiang	(Resigned on 31 October 2017)

DIRECTORS' INTERESTS IN SHARES OR DEBENTURES

According to the register of Directors' shareholdings required to be kept under Section 59 of the Companies Act, 2016, none of the Directors who held office at the end of the financial year held any shares or debentures in the Company or its subsidiaries or its holding company or subsidiaries of the holding company during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

There were no arrangements during and at the end of the financial year which had the object of enabling the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' REMUNERATION

Details of Directors' remuneration are disclosed in Note 20 to the financial statements.

SUBSIDIARY COMPANIES

Details of the subsidiary companies are disclosed in Note 4 to the financial statements.

AUDITORS' REMUNERATION

Details of auditors' remuneration are disclosed in Note 20 to the financial statements.

OTHER STATUTORY INFORMATION

(a) Before the financial statements of the Group and of the Company were prepared, the Directors took reasonable steps:

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

   (ii) to ensure that any current assets which were unlikely to be realised in the ordinary course of business including the value of current assets as shown in the accounting records of the Group and of the Company have been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the Directors are not aware of any circumstances which would render:

   (i) the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; or

   (ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading; or

   (iii) adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate; or

   (iv) any amount stated in the financial statements of the Group and of the Company misleading.

(c) No contingent or other liabilities of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Group and of the Company to meet their obligations when they fall due.

(d) At the date of this report, there does not exist:

   (i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; and

   (ii) any contingent liability in respect of the Group or of the Company or its subsidiary companies which has arisen since the end of the financial year.

(e) In the opinion of the Directors:

   (i) the results of the operations of the Group and of the Company for the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and

   (ii) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report is made.

DIRECTORS' REPORT

(CONT'D)

HOLDING COMPANY

The Directors regard Asia Avenue Sdn. Bhd., a company incorporated in Malaysia, as the holding company.

AUDITORS

The auditors, Messrs. Morison Anuarul Azizan Chew, have expressed their willingness to accept re-appointment.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors.

LEE CHOON HEE **FUNG BENG EE**

KUALA LUMPUR
11 APRIL 2018

STATEMENT BY DIRECTORS

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

We, **LEE CHOON HEE** and **FUNG BENG EE**, being two of the Directors of **PARAGON UNION BERHAD**, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 39 to 87 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 2017 and of their financial performance and cash flows for the financial year then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors.

LEE CHOON HEE **FUNG BENG EE**

KUALA LUMPUR
11 APRIL 2018

STATUTORY DECLARATION

Pursuant to Section 251(1) of the Companies Act, 2016

I, **LEE CHOON HEE (MIA Membership No: 12337)**, being the Director primarily responsible for the financial management of **PARAGON UNION BERHAD**, do solemnly and sincerely declare that the financial statements set out on pages 39 to 87 are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by)
the abovenamed LEE CHOON HEE)
at KUALA LUMPUR)
on this date of 11 APRIL 2018)

LEE CHOON HEE

Before me,

COMMISSIONER FOR OATHS
KAPT. (B) JASNI BIN YUSOFF
NO. W465

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF PARAGON UNION BERHAD

(Company No.: 286457-V) (Incorporated in Malaysia)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Paragon Union Berhad, which comprise the statements of financial position as at 31 December 2017 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 year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 39 to 87.

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 2017, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 year. We have determined that there are no key audit matters to communicate in our report on the financial statements of the Company. These matters were addressed in the context of our audit of the financial statements of the Group as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of inventories (Refer to Note 2(c)(i) and Note 5 to the financial statements) The Group carries significant inventories as disclosed in Note 5 to the financial statements. There is a risk that certain inventories of the Group that may not be recoverable due to old and out of design carpets as well as economic deterioration of the carpets' condition over time. Significant judgments and estimation are involved in forming expectations about the demand and future sales value of those inventories.	We evaluated the Group's inventory management process over the identification of indicators which may result in the net realisable value of inventories being lower than their recorded carrying values. In addition, we perused the inventory ageing that had shown little or no recent movement and corroborated such findings during our physical stock count observation of the Group's inventories at the end of the financial year. We have also obtained the sales listing, including the promotional stock listing after year end and compared its net selling price against the respective cost of inventories to identify potential write downs required for expected future sales below its cost. We have also discussed with the management on their action plans to address the slow moving inventories and have evaluated the reasonableness and adequacy of the write-off made by the management amounting to RM521,435 during the financial year.

INDEPENDENT AUDITORS' REPORT

(CONT'D)

INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITORS' REPORT THEREON

The Directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.

INDEPENDENT AUDITORS' REPORT

(CONT'D)

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act, 2016 in Malaysia and for no other purpose. We do not assume any responsibility to any other person for the content of this report.

MORISON ANUARUL AZIZAN CHEW
Firm Number: AF 001977
Chartered Accountants

CHEW LOONG JIN
Approved Number: 03279/03/2019 J
Chartered Accountant

KUALA LUMPUR
11 APRIL 2018

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2017

		Group		Company	
	Note	2017 RM	2016 RM	2017 RM	2016 RM
Non-Current Assets					
Property, plant and equipment	3	28,697,356	28,457,460	–	–
Investment in subsidiary companies	4	–	–	11,607,745	11,607,745
		28,697,356	28,457,460	11,607,745	11,607,745
Current Assets					
Inventories	5	19,158,881	21,358,942	–	–
Trade receivables	6	14,137,110	14,890,076	–	–
Other receivables	7	738,052	1,592,838	51,000	51,000
Amount owing by subsidiary companies	8	–	–	32,109,591	32,334,992
Tax recoverable		7,496	16,311	–	–
Cash and bank balances	9	1,367,873	331,503	10,162	16,929
		35,409,412	38,189,670	32,170,753	32,402,921
Current Liabilities					
Trade payables	10	4,560,097	4,439,602	–	–
Other payables	11	3,535,937	4,745,173	278,677	1,681,632
Amount owing to subsidiary companies	8	–	–	7,152,340	6,680,786
Finance lease liabilities	12	687,457	310,380	–	–
Bank borrowings	13	8,648,593	11,809,792	–	–
Tax payable		2,729	48,458	–	–
		17,434,813	21,353,405	7,431,017	8,362,418
Net current assets		17,974,599	16,836,265	24,739,736	24,040,503
		46,671,955	45,293,725	36,347,481	35,648,248

STATEMENTS OF FINANCIAL POSITION

(CONT'D)

		Group		Company	
		2017	2016	2017	2016
	Note	RM	RM	RM	RM
Equities attributable to owners of the Company					
Share capital	14	70,000,000	70,000,000	70,000,000	70,000,000
Merger reserves	15	(4,618,481)	(4,618,481)	–	–
Treasury shares	16	(4,220,708)	(4,220,708)	(4,220,708)	(4,220,708)
Accumulated losses		(20,473,201)	(19,706,297)	(29,431,811)	(30,131,044)
		40,687,610	41,454,514	36,347,481	35,648,248
Non-controlling interests		(28,505)	(26,577)	–	–
		40,659,105	41,427,937	36,347,481	35,648,248
Non-Current Liabilities					
Finance lease liabilities	12	1,713,330	573,371	–	–
Bank borrowings	13	1,794,683	336,794	–	–
Deferred tax liabilities	17	2,504,837	2,955,623	–	–
		6,012,850	3,865,788	–	–
		46,671,955	45,293,725	36,347,481	35,648,248

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the financial year ended 31 December 2017

		Group		Company	
	Note	2017 RM	2016 RM	2017 RM	2016 RM
Revenue	18	53,702,385	67,417,903	480,000	480,000
Cost of sales		(43,219,087)	(50,134,321)	–	–
Gross profit		10,483,298	17,283,582	480,000	480,000
Other operating income		2,077,354	5,073,984	1,271,577	5,000,030
Selling and distribution costs		(2,967,958)	(3,880,754)	–	–
Administrative expenses		(9,815,325)	(13,983,757)	(1,052,344)	(1,562,939)
Finance costs	19	(820,979)	(779,680)	–	–
(Loss)/Profit before taxation	20	(1,043,610)	3,713,375	699,233	3,917,091
Taxation	21	274,778	54,481	–	–
(Loss)/Profit/Total comprehensive (expense)/ income for the financial year		(768,832)	3,767,856	699,233	3,917,091
(Loss)/Profit/Total comprehensive (expense)/ income for the financial year attributable to:					
- Owners of the Company		(766,904)	3,770,969	699,233	3,917,091
- Non-controlling interests		(1,928)	(3,113)	–	–
		(768,832)	3,767,856	699,233	3,917,091
(Loss)/Earnings per share: Basic and diluted (sen)	22	(1.19)	5.83	–	–

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY

for the financial year ended 31 December 2017

	Attributable to Owners of the Company						
		← Non-Distributable	→				
	Share Capital RM	Merger Reserves RM	Treasury Shares RM	Accumulated Losses RM	Total RM	Non-Controlling Interests RM	Total Equity RM
Group							
At 1 January 2017	70,000,000	(4,618,481)	(4,220,708)	(19,706,297)	41,454,514	(26,577)	41,427,937
Loss/Total comprehensive expense for the financial year	–	–	–	(766,904)	(766,904)	(1,928)	(768,832)
At 31 December 2017	70,000,000	(4,618,481)	(4,220,708)	(20,473,201)	40,687,610	(28,505)	40,659,105
At 1 January 2016	70,000,000	(4,618,481)	(4,220,708)	(23,477,266)	37,683,545	(23,464)	37,660,081
Profit/Total comprehensive income for the financial year	–	–	–	3,770,969	3,770,969	(3,113)	3,767,856
At 31 December 2016	70,000,000	(4,618,481)	(4,220,708)	(19,706,297)	41,454,514	(26,577)	41,427,937

STATEMENTS OF CHANGES IN EQUITY

(CONT'D)

	Share Capital RM	Treasury Shares RM	Accumulated Losses RM	Total RM
Company				
At 1 January 2017	70,000,000	(4,220,708)	(30,131,044)	35,648,248
Profit/Total comprehensive income for the financial year	–	–	699,233	699,233
At 31 December 2017	70,000,000	(4,220,708)	(29,431,811)	36,347,481
At 1 January 2016	70,000,000	(4,220,708)	(34,048,135)	31,731,157
Profit/Total comprehensive income for the financial year	–	–	3,917,091	3,917,091
At 31 December 2016	70,000,000	(4,220,708)	(30,131,044)	35,648,248

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF CASH FLOWS

for the financial year ended 31 December 2017

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Cash Flows from Operating Activities				
(Loss)/Profit before taxation	(1,043,610)	3,713,375	699,233	3,917,091
Adjustments for:				
Depreciation of property, plant and equipment	3,342,842	2,914,050	–	–
Reversal of impairment loss on:				
- trade receivables	(37,129)	(20,000)	–	–
- other receivables	–	(5,000,000)	–	(5,000,000)
Impairment loss on trade receivables	208,286	668,453	–	–
Interest expense	820,979	779,680	–	–
Interest income	(4,032)	(490)	–	(30)
Inventories written off	521,435	4,078,153	–	–
Loss/(Gain) on disposal of property, plant and equipment	589,486	(500)	–	–
Forfeiture of deposit received	(1,254,000)	–	(1,254,000)	–
Operating profit/(loss) before changes in working capital	3,144,257	7,132,721	(554,767)	(1,082,939)
Changes in working capital:				
Inventories	1,678,626	2,184,221	–	–
Trade and other receivables	1,436,595	1,628,504	–	5,000,000
Trade and other payables	165,259	(4,756,702)	(184,955)	149,199
Amount owing (to)/by subsidiary companies	–	–	732,955	(4,095,816)
Cash generated from/(used in) operations	6,424,737	6,188,744	(6,767)	(29,556)
Interest received	4,032	490	–	30
Interest paid	(820,979)	(779,680)	–	–
Tax paid	(258,359)	(358,616)	–	–
Tax refund	45,437	–	–	–
Net cash generated from/(used in) operating activities	5,394,868	5,050,938	(6,767)	(29,526)
Cash Flows from Investing Activities				
Purchase of property, plant and equipment	(2,503,153)	(1,170,008)	–	–
Proceeds from disposal of property, plant and equipment	354,996	18,661	–	–
Net cash used in investing activities	(2,148,157)	(1,151,347)	–	–

STATEMENTS OF CASH FLOWS

(CONT'D)

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Cash Flows from Financing Activities				
Repayment of term loans	(626,080)	(583,702)	–	–
Drawdown of term loans	2,000,000	–	–	–
Net addition of bankers' acceptances	292,269	598,851	–	–
Net (repayment)/addition of usance letter of credit	(1,025,642)	439,219	–	–
Repayment of finance lease liabilities	(507,031)	(352,548)	–	–
Net cash generated from financing activities	133,516	101,820	–	–
Net increase/(decrease) in cash and cash equivalents	3,380,227	4,001,411	(6,767)	(29,526)
Cash and cash equivalents at the beginning of the financial year	(7,607,754)	(11,609,165)	16,929	46,455
Cash and cash equivalents at the end of the financial year	(4,227,527)	(7,607,754)	10,162	16,929
Cash and cash equivalents at the end of the financial year comprises:				
Cash and bank balances	1,367,873	331,503	10,162	16,929
Bank overdrafts	(5,595,400)	(7,939,257)	–	–
	(4,227,527)	(7,607,754)	10,162	16,929

The accompanying notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The principal activities of the Company are investment holding and provision of management services.

The principal activities of the subsidiary companies are disclosed in Note 4 to the financial statements.

The Company is a public limited liability company, incorporated under the Companies Act, 1965 and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad.

The registered office of the Company is located at Level 2, Tower 1, Avenue 5, Bangsar South City, 59200 Kuala Lumpur, Wilayah Persekutuan.

The principal place of business of the Company is located at Lot 14, Jalan Satu, Kawasan Perindustrian Cheras Jaya, Batu 11, Cheras, 43200, Selangor Darul Ehsan.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements of the Group and of the Company have been prepared in accordance with the provisions of the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

The financial statements have been prepared under the historical cost convention except as disclosed in summary of significant accounting policies.

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reported period. It also requires Directors to exercise their judgment in the process of applying the Group and Company's accounting policies. Although these estimates and judgment are based on the Directors' best knowledge of current events and actions, actual results may differ. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2(c).

Amendments to accounting standards that are effective for the Group and the Company's financial year beginning on or after 1 January 2017 are as follows:

- Amendments to MFRS 12, "Disclosure of Interest in Other Entities" (Annual Improvements 2014-2016 cycle)
- Amendments to MFRS 107, "Disclosure Initiative"
- Amendments to MFRS 112, "Recognition of Deferred Tax Assets for Unrealised Losses"

The above amendments to accounting standards effective during the financial year do not have any significant impact to the financial results and position of the Group and the Company.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (Cont'd)

Accounting standards, amendments to accounting standards and IC Interpretations that are applicable for the Group and the Company in the following periods but are not yet effective:

Annual periods beginning on/after 1 January 2018

- MFRS 9, "Financial Instruments"
- MFRS 15, "Revenue from Contracts with Customers"
- Amendments to MFRS 1, "First-time Adoption of Malaysian Financial Reporting Standards" (Annual improvements 2014-2016 cycle)
- Amendments to MFRS 2, "Classification and Measurement of Share-Based Payment Transactions"
- Amendments to MFRS 4, "Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts"
- Amendments to MFRS 128, "Investments in Associates and Joint Ventures" (Annual improvements 2014-2016 cycle)
- Amendments to MFRS 140, "Transfers of Investment Property"
- IC Interpretation 22, "Foreign Currency Transactions and Advance Consideration"

Annual periods beginning on/after 1 January 2019

- MFRS 16, "Leases"
- Amendments to MFRS 9, "Prepayment Features with Negative Compensation"
- Amendments to MFRS 128, "Long-term Interests in Associates and Joint Ventures"
- IC Interpretation 23, "Uncertainty over Income Tax Treatments"

Annual periods beginning on/after 1 January 2021

- MFRS 17, "Insurance Contracts"

Effective date yet to be determined by the Malaysian Accounting Standards Board

- Amendments to MFRS 10 and MFRS 128, "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"

The above accounting standards, amendments to accounting standards and IC interpretations which may have a significant impact to the financial statements are as follows:

<u>MFRS 9 Financial Instruments</u>

MFRS 9 replaces the guidance in MFRS 139, "Financial Instruments: Recognition and Measurement" on the classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting.

Based on assessments to date, there are no changes in the measurement of the Group's and of the Company's financial assets and financial liabilities.

In respect of impairment of financial assets, MFRS 9 replaces the "incurred loss" model in MFRS 139 with an expected credit loss ("ECL") model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments measured at fair value through other comprehensive income, but not to investments in equity instruments.

The Group and the Company has assessed the estimated impact that the initial application of ECL model will have on the financial statements as at 1 January 2018 and based on assessments undertaken to date, the estimated impact is 0.5% on the total trade receivables of the Group.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (Cont'd)

MFRS 15 Revenue from Contracts with Customers

In assessing the revenue recognition under MFRS 15, the principles currently applied by the Group is consistent with the requirements of MFRS 15. Other than the enhanced disclosures required, the estimated impact on initial application of MFRS 15 does not have significant impact to the Group.

Aside from the above mentioned, the adoption of the accounting standards and amendments to accounting standards are not expected to have any significant impact to the financial statements of the Group and the Company.

(b) Basis of consolidation

Subsidiaries are entities, including structured 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.

The Group considers it has de-facto power over an investee when, despite not having the majority of voting rights, it has the current ability in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders to direct the activities of the investee that significantly affect the investee's return.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Business combinations are accounted for using the acquisition method on the acquisition date. The consideration transferred includes the fair value of assets transferred, equity interest issued by the Group and liabilities assumed. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Acquisition-related costs are recognised in the profit or loss as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recognised as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

Inter-company transactions, balances and unrealised gains and losses on transactions between group companies are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Basis of consolidation (Cont'd)

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions. Any difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities, any non-controlling interests and other components of equity related to the disposed subsidiary. Any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset depending on the level of influence retained.

(c) Significant accounting estimates and judgements

Accounting estimates and judgements, are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key assumptions concerning the future and other key sources of estimation or uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Allowance for inventory write down

Allowance for inventory write down is made based on an analysis of the ageing profile and expected sales patterns of individual items held in inventory. This requires an analysis of inventory usage based on expected future sales transactions taking into account current market prices and expected costs to sell. Changes in the inventory ageing and expected usage profiles can have an impact on the allowance recorded.

(ii) Impairment of financial assets

The impairment is established when there is objective evidence that the Group or the Company will not be able to collect all amounts due according to the original terms of receivables. This is determined based on the ageing profile, expected collection patterns of individual receivable balances, credit quality and credit losses incurred. Management carefully monitors the credit quality of receivable balances and makes estimates about the amount of credit losses that have been incurred at each financial statements reporting date. Any changes to the ageing profile, collection patterns, credit quality and credit losses can have an impact on the impairment recorded.

(iii) Impairment of non-financial assets

The Group assesses impairment of property, plant and equipment when the events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. In assessing such impairment, the recoverable amount of the assets is estimated using the expected value in use of the relevant assets.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Investment in subsidiaries

In the Company's separate financial statements, investment in subsidiaries is carried at cost less accumulated impairment losses. On disposal of investments in subsidiaries, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

(e) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as expenses in profit or loss during the financial period in which they are incurred.

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

Gains and losses on disposals are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised as net in the profit or loss.

(ii) Depreciation

Depreciation is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leasehold land and building are amortised over the period of the lease. The estimated useful lives are as follows:

Factory buildings and building improvements	50 years
Plant and machinery	6 to 30 years
Motor vehicles	5 to 10 years
Furniture, fittings and equipment	3 to 10 years
Electrical installation and renovation	10 years

Depreciation methods, useful lives and residual values are reviewed at end of each reporting period and adjusted as appropriate.

At the end of the reporting period, the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. (Refer to accounting policy Note 2(f) on impairment of non-financial assets).

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Impairment of non-financial assets

Assets that have an indefinite useful life, such as goodwill or intangible assets not ready to use, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

(g) Inventories

Inventories are valued at the lower of cost and net realisable value after adequate allowance has been made for all deteriorated, damage, obsolete or slow-moving inventories.

Cost is determined using the first in first out method. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three month or less and are used by the Group and the Company in the management of their short term commitments. For the purpose of the statements of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

(i) Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Financial assets

(i) Classification

The Group classifies its financial assets based on the purpose for which the financial assets were acquired at initial recognition in the following categories:

<u>Financial assets at fair value through profit or loss</u>

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise, they are classified as non-current assets.

<u>Loans and receivables</u>

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

<u>Held-to-maturity financial assets</u>

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

<u>Available-for-sale financial assets</u>

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

(ii) Recognition and initial measurement

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Financial assets (Cont'd)

(iii) Subsequent measurement

Gains and losses

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are subsequently carried at amortised cost using the effective interest method.

Changes in the fair values of financial assets at fair value through profit or loss, including the effects of currency translation, interest and dividend income are recognised in profit or loss in the period in which the changes arise.

Changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income. Impairment losses and exchange differences on monetary assets are recognised in profit or loss, whereas exchange differences on non-monetary assets are recognised in other comprehensive income as part of fair value change.

Interest and dividend income on available-for-sale financial assets are recognised separately in profit or loss. Interest on available-for-sale debt securities calculated using the effective interest method is recognised in profit or loss. Dividend income on available-for-sale equity instruments are recognised in profit or loss when the Group right to receive payments is established.

Impairment of financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. For an equity instrument, a significant or prolonged declined in fair value below its cost is also considered objective evidence of impairment.

An impairment loss in respect of loans and receivables and held-to-maturity investments is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortization) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity to profit or loss.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale is not reversed through profit or loss.

If, in a subsequent period, the fair value of a financial asset measured at amortised cost and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Financial assets (Cont'd)

(iv) De-recognition

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

When available-for-sale financial assets are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss.

(k) Financial liabilities

Financial liabilities are initially recognised at fair value net of transaction costs for all financial liabilities not carried at fair value through profit or loss. Financial liabilities carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss.

All financial liabilities are subsequently measured at amortised cost using the effective interest method other than those categorised as fair value through profit or loss.

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

(l) Finance leases as lessee

Assets acquired by way of finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses. The corresponding liability is included in the statements of financial positions as liabilities. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practical to determine; otherwise, the Group's incremental borrowing rate is used.

Finance lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised as an expense in profit or loss over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(m) Provisions for liabilities

Provisions for liabilities are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) Foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as qualifying cash flow hedges and qualifying net investment hedges, which are recognised in other comprehensive income.

The closing exchange rates used for the main foreign currency in the Group are:

	2017 RM	2016 RM
United States Dollar ("USD")	4.1721	4.4860
Chinese Renminbi ("RMB")	0.6445	0.6457
Euro Dollar ("EUR")	4.7582	–

(o) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses or unused tax credits can be utilised.

Deferred tax is not recognised if the temporary difference arises from goodwill or from the initial recognition of 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 and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(p) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, based on the following:

(i) Goods sold and services rendered

Revenue from sale of goods is measured at the fair value of the consideration received or receivable, net of returns and discounts and is recognised in the profit or loss when significant risks and rewards of the ownership have been transferred to the customers.

Revenue from services rendered is recognised in profit or loss upon performance of services and is measured at the fair value of the consideration receivable

(ii) Interest income

Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset.

(iii) Dividend income

Dividend income is recognised when the shareholder's right to receive payment is established.

(q) Employee benefits

(i) Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensation absences. Short term non-accumulating compensated absences such as sick and medical leave are recognised when the absences occur.

The expected cost of accumulating compensated absences is measured as additional amount expected to be paid as a result of the unused entitlement that has accumulated at the reporting date.

(ii) Defined contribution plans

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in profit or loss as incurred.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(r) Equity instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

(s) Treasury shares

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares that are not subsequently cancelled are classified as treasury shares and are presented as a deduction from total equity.

Where treasury shares are reissued by re-sale in the open market, the difference between the sales consideration net of directly attributable costs and the carrying amount of the treasury shares is recognised in equity.

(t) Merger reserves

The merger reserve represents the differences between the nominal value of shares plus any cash paid as consideration for the merger and the nominal value of the share capital of the subsidiary company acquired.

(u) Operating segments

For management purposes, the Group is organised into operating segment based on their business activities. An operating segment's operating results are reviewed regularly by the chief operating decision maker, who will make decisions to allocate resources to the segments and assess the segment performance.

(v) Borrowing costs

Borrowing costs are recognised as an expense in the profit or loss in the period in which they are incurred.

3. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land RM	Factory buildings and building improvements RM	Plant and machinery RM	Motor vehicles RM	Furniture, fittings and equipment RM	Electrical installation and renovation RM	Total RM
Group							
2017							
Cost							
At 1 January 2017	10,130,000	12,217,380	34,543,979	674,562	14,136,186	5,625,532	77,327,639
Additions	–	822,000	1,347,861	–	2,175,951	181,408	4,527,220
Disposals	–	–	(2,780,047)	–	(24,550)	–	(2,804,597)
Written off	–	–	(43,000)	–	–	–	(43,000)
At 31 December 2017	10,130,000	13,039,380	33,068,793	674,562	16,287,587	5,806,940	79,007,262
Accumulated depreciation							
At 1 January 2017	2,233,552	4,494,857	25,218,685	290,796	12,010,044	4,622,245	48,870,179
Charge for the financial year	120,283	271,267	986,931	103,451	1,627,728	233,182	3,342,842
Disposals	–	–	(1,835,615)	–	(24,500)	–	(1,860,115)
Written off	–	–	(43,000)	–	–	–	(43,000)
At 31 December 2017	2,353,835	4,766,124	24,327,001	394,247	13,613,272	4,855,427	50,309,906
Carrying amount							
At 31 December 2017	7,776,165	8,273,256	8,741,792	280,315	2,674,315	951,513	28,697,356

3. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Leasehold land RM	Factory buildings and building improvements RM	Plant and machinery RM	Motor vehicles RM	Furniture, fittings and equipment RM	Electrical installation and renovation RM	Total RM
Group							
2016							
Cost							
At 1 January 2016	10,130,000	12,217,380	35,125,949	776,418	13,128,916	5,529,735	76,908,398
Addition	–	–	83,441	–	1,012,270	74,297	1,170,008
Disposals	–	–	(648,911)	(101,856)	–	–	(750,767)
Reclassification	–	–	(16,500)	–	(5,000)	21,500	–
At 31 December 2016	10,130,000	12,217,380	34,543,979	674,562	14,136,186	5,625,532	77,327,639
Accumulated depreciation							
At 1 January 2016	2,113,270	4,194,491	24,797,871	270,519	10,912,765	4,399,819	46,688,735
Charge for the financial year	120,282	300,366	1,054,314	122,133	1,099,084	217,871	2,914,050
Disposals	–	–	(630,750)	(101,856)	–	–	(732,606)
Reclassification	–	–	(2,750)	–	(1,805)	4,555	–
At 31 December 2016	2,233,552	4,494,857	25,218,685	290,796	12,010,044	4,622,245	48,870,179
Carrying amount							
At 31 December 2016	7,896,448	7,722,523	9,325,294	383,766	2,126,142	1,003,287	28,457,460

3. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

(a) The remaining period of the lease term of the leasehold land is 71 (2016: 72) years.

(b) The carrying amount of property, plant and equipment of the Group have been pledged to licensed banks as securities for credit facilities granted to subsidiary companies as disclosed in Note 13 to the financial statements are as follows:

	Group	
	2017 RM	**2016 RM**
Leasehold land	7,776,165	7,896,448
Factory buildings	8,250,867	7,686,602
	16,027,032	15,583,050

(c) The carrying amount of property, plant and equipment acquired under finance lease are as follows:

	Group	
	2017 RM	**2016 RM**
Plant and machinery	1,872,376	1,120,496
Motor vehicles	166,853	258,862
	2,039,229	1,379,358

(d) The aggregate additional cost for the property, plant and equipment of the Group during the financial year under finance lease and cash payment are as follows:

	Group	
	2017 RM	**2016 RM**
Aggregate costs	4,527,220	1,170,008
Finance lease financing	(2,024,067)	–
Cash payments	2,503,153	1,170,008

4. INVESTMENT IN SUBSIDIARY COMPANIES

(a) Investment in subsidiary companies

	Company 2017 RM	Company 2016 RM
In Malaysia		
Unquoted shares, at cost	14,511,655	14,511,655
Less: Accumulated impairment losses	(2,903,910)	(2,903,910)
	11,607,745	11,607,745

(b) The subsidiary companies and shareholdings therein are as follows:

Name of companies	Country of incorporation/ Principal place of business	Effective ownership and voting interest 2017 %	Effective ownership and voting interest 2016 %	Principal activities
Direct holding:				
Paragon Car Carpets & Components Sdn. Bhd.	Malaysia	100	100	Manufacturing and trading in car carpets and automotive components
Paragon Expression Sdn. Bhd.	Malaysia	100	100	Investment holding and property development related activities
Paragon Precision Industries Sdn. Bhd.	Malaysia	78	78	Inactive
Paragon Metal Components Sdn. Bhd.	Malaysia	77	77	Inactive
Subsidiary company of Paragon Car Carpets & Components Sdn. Bhd.:				
Paragon Carpetmaker Sdn. Bhd.	Malaysia	100	100	Manufacturing and trading in car carpets and commercial carpets
Subsidiary company of Paragon Carpetmaker Sdn. Bhd.:				
Paragon Carpet Distributor Sdn. Bhd.	Malaysia	100	100	Distribution and trading of commercial carpets

4. INVESTMENT IN SUBSIDIARY COMPANIES (CONT'D)

(b) The subsidiary companies and shareholdings therein are as follows (Cont'd):

Name of companies	Country of incorporation/ Principal place of business	Effective ownership and voting interest 2017 %	2016 %	Principal activities
Subsidiary company of Paragon Expression Sdn. Bhd.:				
Paragon Property Development Sdn. Bhd.	Malaysia	100	100	Inactive

5. INVENTORIES

	Group 2017 RM	2016 RM
At cost:		
Raw materials	7,804,626	10,663,949
Work-in-progress	1,318,247	1,323,105
Finished goods	10,036,008	9,371,888
	19,158,881	21,358,942

During the financial year, there were inventories written off amounting to RM521,435 (2016: RM4,078,153), which were recognised to administrative expenses.

6. TRADE RECEIVABLES

	Group 2017 RM	2016 RM
Trade receivables	15,411,964	15,994,128
Less: Accumulated impairment losses	(1,274,854)	(1,104,052)
	14,137,110	14,890,076

The Group's normal trade credit term range from 60 to 90 days (2016: 60 to 90 days). Other credit terms are assessed and approved on a case to case basis.

6. TRADE RECEIVABLES (CONT'D)

Ageing analysis of trade receivables

The ageing analysis of the Group's trade receivables is as follows:

	Group	
	2017 RM	2016 RM
Neither past due nor impaired	6,201,451	10,796,390
1 - 90 days past due but not impaired	4,826,263	2,714,284
91 - 180 days past due but not impaired	2,925,409	1,281,616
181 - 365 days past due but not impaired	175,247	97,786
More than 365 days past due but not impaired	8,740	–
	7,935,659	4,093,686
Individually impaired	1,274,854	1,104,052
	15,411,964	15,994,128

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group. These debtors are mostly long term customers with no history of default in payments.

The individually impaired receivables mainly relate to customers which are facing difficulties in cash flows.

Movements in allowance for impairment loss are as follows:

	Group	
	2017 RM	2016 RM
At 1 January	1,104,052	456,573
Additional impairment	208,286	668,453
Reversal of impairment loss	(37,129)	(20,000)
Written off	(355)	(974)
At 31 December	1,274,854	1,104,052

The currency exposure profiles of trade receivables are as follows:

	Group	
	2017 RM	2016 RM
Ringgit Malaysia	14,123,496	14,888,943
United States Dollar	13,614	1,133
	14,137,110	14,890,076

7. OTHER RECEIVABLES

	Group 2017 RM	Group 2016 RM	Company 2017 RM	Company 2016 RM
Other receivables	18,710,838	19,587,772	18,410,349	18,410,349
Deposits	159,413	253,384	–	–
Prepayments	227,150	138,746	–	–
	19,097,401	19,979,902	18,410,349	18,410,349
Less: Allowance for impairment loss				
Other receivables	(18,359,349)	(18,384,514)	(18,359,349)	(18,359,349)
Deposits	–	(2,050)	–	–
Prepayments	–	(500)	–	–
	(18,359,349)	(18,387,064)	(18,359,349)	(18,359,349)
	738,052	1,592,838	51,000	51,000

Movements in allowance for impairment loss are as follows:

	Group 2017 RM	Group 2016 RM	Company 2017 RM	Company 2016 RM
At 1 January	18,387,064	34,927,064	18,359,349	34,899,349
Reversal of impairment loss	–	(5,000,000)	–	(5,000,000)
Written off	(27,715)	(11,540,000)	–	(11,540,000)
At 31 December	18,359,349	18,387,064	18,359,349	18,359,349

Included in allowance for impairment loss is an amount of RM18,000,000 (2016: RM18,000,000) recognised in relation to the Group's and Company's pending material litigation as disclosed in Note 31 to the financial statements.

8. AMOUNT OWING BY/(TO) SUBSIDIARY COMPANIES

	Company	
	2017 RM	**2016 RM**
Amount owing by subsidiary companies	33,964,935	34,190,336
Less: Accumulated impairment losses	(1,855,344)	(1,855,344)
	32,109,591	32,334,992
Amount owing to subsidiary companies	7,152,340	6,680,786

These owing by/(to) the subsidiary companies are non-trade in nature, interest free and are repayable on demand.

9. CASH AND BANK BALANCES

The currency exposure profiles of cash and bank balances are as follows:

	Group		Company	
	2017 RM	**2016 RM**	**2017 RM**	**2016 RM**
Ringgit Malaysia	1,346,919	300,675	10,162	16,929
United States Dollar	20,954	30,828	–	–
	1,367,873	331,503	10,162	16,929

10. TRADE PAYABLES

The currency exposure profiles of trade payables are as follows:

	Group	
	2017 RM	**2016 RM**
Ringgit Malaysia	1,900,530	3,291,518
Chinese Renminbi	1,801,481	548,313
Euro Dollar	266,508	–
United States Dollar	591,578	599,771
	4,560,097	4,439,602

The normal trade credit terms granted to the Group range from 60 to 120 days (2016: 60 to 120 days).

11. OTHER PAYABLES

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Other payables	2,840,521	4,013,707	62,717	1,636,882
Accruals	695,416	731,466	215,960	44,750
	3,535,937	4,745,173	278,677	1,681,632

12. FINANCE LEASE LIABILITIES

	Group	
	2017 RM	2016 RM
Minimum finance lease payments		
Within one year	813,750	350,063
Between one and five years	1,893,494	604,671
	2,707,244	954,734
Less: Future finance charges	(306,457)	(70,983)
Present value of finance lease liabilities	2,400,787	883,751
Present value of finance lease liabilities		
Within one year	687,457	310,380
Between one to five years	1,713,330	573,371
	2,400,787	883,751
Analysed as:		
Repayable within twelve months	687,457	310,380
Repayable after twelve months	1,713,330	573,371
	2,400,787	883,751

The effective interest rates of the Group are between 4.55% and 6.27% (2016: 4.55% and 6.27%) per annum.

The finance lease liabilities are secured over the leased assets as disclosed in Note 3(c) to the financial statements.

13. BANK BORROWINGS

	Group 2017 RM	Group 2016 RM
Current		
Bank overdrafts	5,595,400	7,939,257
Banker's acceptances	2,095,452	1,803,183
Usance letter of credit	424,582	1,450,224
Term loans	533,159	617,128
	8,648,593	11,809,792
Non-Current		
Term loans	1,794,683	336,794
	10,443,276	12,146,586
Secured		
Bank overdrafts	5,595,400	7,939,257
Banker's acceptances	2,095,452	1,803,183
Usance letter of credit	424,582	1,450,224
Term loans	2,327,842	953,922
	10,443,276	12,146,586
Maturity of borrowings is as follows:		
Within one year	8,648,593	11,809,792
Between one and two years	222,320	336,794
Between two to five years	845,832	–
More than five years	726,531	–
	10,443,276	12,146,586

(a) The bank borrowings are secured on the following:

(i) Charge over the leasehold land and factory buildings of the Group as disclosed in Note 3(b) to the financial statements;

(ii) Assignment of a Single Premium Reducing Term Plan under the name of a Director of a Company for a sum insured of not less than RM1,000,000;

(iii) Corporate guarantee by subsidiary companies; and

(iv) Joint and several guarantee by certain Directors of the Company.

(b) The unsecured bills payable and bank overdrafts are guaranteed by the Company.

13. BANK BORROWINGS (CONT'D)

The weighted average effective interest rate is as follows:

	Group 2017 RM	Group 2016 RM
Bank overdrafts	8.28	8.50
Banker's acceptances	4.78	5.00
Usance letter of credit	7.88	8.10
Term loans	5.55	5.59

14. SHARE CAPITAL

	Group/Company 2017 Number of shares	2017 Amount RM	2016 Number of shares	2016 Amount RM
Ordinary shares:				
Authorised				
At beginning of the financial year	100,000,000	100,000,000	100,000,000	100,000,000
Abolishment of authorised share capital*	(100,000,000)	(100,000,000)	–	–
At end of the financial year	–	–	100,000,000	100,000,000
Issued and fully paid				
At beginning/end of the financial year	70,000,000	70,000,000	70,000,000	70,000,000

* The new Companies Act 2016 (the "Act"), which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital. There is no impact on the number of ordinary shares in issue or the relative entitlement of the members as a result of this transition.

15. MERGER RESERVES

	Group 2017 RM	Group 2016 RM
Non-distributable:		
Merger reserves	4,618,481	4,618,481

16. TREASURY SHARES

	Group/Company 2017 RM	2016 RM
At 1 January/31 December	4,220,708	4,220,708
No. of ordinary shares at RM1.00 each	5,301,700	5,301,700

At the Extraordinary General Meeting held on 18 December 2000, the shareholders approved the share buy-back of up to 10% or up to 7,000,000 ordinary shares of the issued and paid-up share capital of the Company. The authority from the shareholders has been renewed consecutively for five years at the shareholders' meeting. No resolution for renewal of share buy-back was tabled at the Annual General Meeting ("AGM") of the Company held on 29 June 2009. Accordingly, the previous shareholders' approval for share buy-back has ceased to take effect.

During the duration of share buy-back, the Company had purchased the following ordinary shares of its issued and paid-up share capital from the open market:

Financial year	No. of ordinary shares	Average price per share RM	Total cost RM
2001	2,681,000	1.03	2,758,037
2002	46,000	0.80	37,010
2003	143,000	0.86	123,665
2005	269,700	0.64	172,687
2006	825,500	0.60	491,883
2007	579,200	0.47	274,751
2008	730,200	0.48	351,465
2009	27,100	0.42	11,210
	5,301,700		4,220,708

The repurchase transactions were financed by internally generated funds. The repurchased shares are being held as treasury shares and carried at cost in accordance with Section 127 of the Companies Act, 2016 in Malaysia. There has been no sale or cancellation of such shares to date.

17. DEFERRED TAX LIABILITIES

The movement on the net deferred tax liabilities are as follows:

	Group 2017 RM	Group 2016 RM
At 1 January	2,955,623	2,935,683
Recognised in profit or loss (Note 21):		
- Unutilised tax losses	(3,120)	15,053
- Unabsorbed capital allowances	(17,585)	30,283
- Property, plant and equipment	(380,161)	(170,988)
- Provisions	(49,920)	–
- Reinvestment allowance	–	145,592
At 31 December	2,504,837	2,955,623

The components of deferred tax assets and liabilities of the Group during the financial year prior to offsetting are as follows:

	Group 2017 RM	Group 2016 RM
Deferred tax assets:		
- Unutilised tax losses	(11,927)	(8,807)
- Unabsorbed capital allowances	(220,324)	(202,739)
- Provisions	(49,920)	–
	(282,171)	(211,546)
Offsetting	282,171	211,546
	–	–
Deferred tax liability:		
- Property, plant and equipment	2,787,008	3,167,169
Offsetting	(282,171)	(211,546)
	2,504,837	2,955,623

18. REVENUE

	Group 2017 RM	Group 2016 RM	Company 2017 RM	Company 2016 RM
Sale of carpets	53,702,385	67,417,903	–	–
Management fee	–	–	480,000	480,000
	53,702,385	67,417,903	480,000	480,000

19. FINANCE COSTS

	Group 2017 RM	Group 2016 RM
Finance costs on:		
Bank overdrafts	582,406	539,105
Bankers' acceptances	52,816	109,197
Finance lease liabilities	92,085	59,232
Usance letter of credit	46,431	48
Term loans	47,241	72,098
	820,979	779,680

20. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/Profit before taxation is derived after charging/(crediting):

	Group 2017 RM	Group 2016 RM	Company 2017 RM	Company 2016 RM
Auditors' remuneration				
- Current year	74,500	74,500	23,000	23,000
- Under provision in prior year	–	2,500	–	1,000
Depreciation of property, plant and equipment *	3,342,842	2,914,050	–	–
Directors' remuneration:				
- fees	161,000	168,000	161,000	168,000
- salaries and other emoluments	540,000	495,000	540,000	495,000
- EPF	64,800	59,400	64,800	59,400
Impairment loss on trade receivables	208,286	668,453	–	–
Inventories written off	521,435	4,078,153	–	–
Rental of warehouse	72,000	345,600	–	–
Bad debts recovered	(190,413)	–	–	–
Forfeiture of deposit received	(1,254,000)	–	(1,254,000)	–
Realised (gain)/loss on foreign exchange	(19,865)	177,809	–	–
Reversal of impairment loss on:				
- trade receivables	(37,129)	(20,000)	–	–
- other receivables	–	(5,000,000)	–	(5,000,000)
Loss/(Gain) on disposal of property, plant and equipment	589,486	(500)	–	–
Interest income	(4,032)	(490)	–	(30)

* Included in depreciation of property, plant and equipment of the Group are amounts charged to costs of sales amounting to RM2,330,396 (2016: RM1,994,822).

21. TAXATION

	Group 2017 RM	Group 2016 RM	Company 2017 RM	Company 2016 RM
Current tax:				
- Current year	173,879	197,563	–	–
- Under/(Over) provision in prior years	2,129	(271,984)	–	–
	176,008	(74,421)	–	–
Deferred tax (Note 17):				
- Current year	(397,972)	104,534	–	–
- Over provision in prior years	(52,814)	(84,594)	–	–
	(450,786)	19,940	–	–
Taxation for the financial year	(274,778)	(54,481)	–	–

Income tax is calculated at the Malaysian statutory tax rate of 24% (2016: 24%) of the estimated assessable profit for the financial year.

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

	Group 2017 RM	Group 2016 RM	Company 2017 RM	Company 2016 RM
(Loss)/Profit before taxation	(1,043,610)	3,713,375	699,233	3,917,091
Taxation at Malaysian statutory tax rate of 24% (2016: 24%)	(250,466)	891,210	167,816	940,102
Expenses not deductible for tax purposes	311,358	467,670	133,144	259,898
Income not subject to tax	(300,960)	(1,200,000)	(300,960)	(1,200,000)
Deferred tax asset not recognised	15,975	143,217	–	–
Under/(over) provision of current taxation in prior year	2,129	(271,984)	–	–
Over provision of deferred tax in prior year	(52,814)	(84,594)	–	–
Taxation for the financial year	(274,778)	(54,481)	–	–

21. TAXATION (CONT'D)

Deferred tax asset has not recognised in respect of the following items:

	Group	
	2017	**2016**
	RM	**RM**
Unabsorbed capital allowances	1,669,084	1,565,040
Unutilised tax losses	1,733,727	1,733,727
Provision	398,115	435,598
	3,800,926	3,734,365
Deferred tax assets not recognised at 24% (2016: 24%)	912,222	896,248

22. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The basic (loss)/earnings per share has been calculated by dividing the consolidated profit after taxation attributable to owners of the Company by the weighted average number of ordinary shares in issue during the financial year.

	Group	
	2017	**2016**
	RM	**RM**
(Loss)/Profit for the financial year attributable to owners of the Company	(766,904)	3,770,969
Weighted average number of ordinary shares in issue	70,000,000	70,000,000
Less: Treasury shares	(5,301,700)	(5,301,700)
	64,698,300	64,698,300
Basic (loss)/earnings per share (sen)	(1.19)	5.83

(b) Diluted (loss)/earnings per share

There is no diluted (loss)/earnings per share as the Company did not have any dilutive potential ordinary shares during the financial year.

23. STAFF COSTS

	Group 2017 RM	Group 2016 RM
Staff costs (excluding Directors)	10,762,550	10,968,323

Included in the staff costs above are contributions made to the Employees Provident Fund under a defined contribution plan for the Group amounting to RM670,992 (2016: RM716,037).

24. KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The key management personnel include all the Directors of the Group, and certain members of senior management of the Group.

The key management personnel compensation is as follows:

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Short-term employee benefits				
- Fees	161,000	168,000	161,000	168,000
- Salaries and other emoluments	1,203,645	1,325,344	540,000	495,000
- Estimated monetary value of benefits-in-kind	8,800	13,900	–	–
	1,373,445	1,507,244	701,000	663,000
Post employment benefits				
- Defined contribution plan	143,100	148,488	64,800	59,400
	1,516,545	1,655,732	765,800	722,400

25. RELATED PARTY TRANSACTIONS

For the purpose of these financial statements, parties are considered to be related to the Group if the Group or the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

The significant related party transactions of the Company, other than key management personnel compensation, are as follows:

	Company 2017 RM	Company 2016 RM
Management fee received/receivable from subsidiary companies	480,000	480,000

26. FINANCIAL LIABILITIES

	Company 2017 RM	2016 RM
Unsecured corporate guarantees in respect of banking facilities granted to subsidiary companies	10,443,276	12,146,586

27. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Finance lease liabilities RM	Bank borrowings (excluding bank overdrafts) RM	Total RM
At 1 January 2016	1,236,299	3,752,961	4,989,260
Cash flows	(352,548)	454,368	101,820
At 31 December 2016	883,751	4,207,329	5,091,080
Cash flows	(507,031)	640,547	133,516
Finance lease financing for additions of property, plant and equipment	2,024,067	–	2,024,067
At 31 December 2017	2,400,787	4,847,876	7,248,663

28. SEGMENT INFORMATION

Segment information is primarily presented in respect of the Group's business segment which is based on the Group's management and internal reporting structure.

The reportable business segments of the Group comprise the following:

Automotive : Car carpets and components

Commercial : Commercial carpets

Other non-reportable segments comprise operations to subsidiary companies which are inactive and dormant.

Segment revenue, results, assets and liabilities include items directly attributable to a segment and those where a reasonable basis of allocation exists. Inter-segment revenues are eliminated on consolidation.

Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

The total of segment assets is measured based on all assets (including goodwill) of a segment, as included in the internal management reports that are reviewed by the Executive Director. Segment total assets are used to measure the return of assets of each segment.

28. SEGMENT INFORMATION (CONT'D)

(a) Business segment

	Commercial RM	Automotive RM	Non-Reportable Segments RM	Inter-Segment Eliminations RM	Total RM
2017					
Revenue					
External revenue	18,647,294	35,055,091	–	–	53,702,385
Inter-segment revenue	9,034,361	1,342,706	480,000	(10,857,067)	–
Total revenue	27,681,655	36,397,797	480,000	(10,857,067)	53,702,385
Results					
Finance income	1,438	2,594	–	–	4,032
Reversal of impairment loss on trade receivables	37,129	–	–	–	37,129
Impairment loss on trade receivables	(208,286)	–	–	–	(208,286)
Finance cost	(390,742)	(430,237)	–	–	(820,979)
Gain/(Loss) on disposal of property, plant and equipment	5,660	(595,146)	–	–	(589,486)
Depreciation of property, plant and equipment	(1,005,004)	(2,337,838)	–	–	(3,342,842)
Inventories written off	(521,435)	–	–	–	(521,435)
Forfeiture of deposit received	–	–	1,254,000	–	1,254,000
Taxation	101,876	172,902	–	–	274,778
Segment results	(537,489)	(987,162)	649,621	106,198	(768,832)
Segment assets	44,798,833	40,411,911	57,115,842	(78,219,818)	64,106,768
Segment liabilities	30,266,336	28,993,234	16,793,713	(52,605,620)	23,447,663

28. SEGMENT INFORMATION (CONT'D)

(a) Business segment (Cont'd)

	Commercial RM	Automotive RM	Non-Reportable Segments RM	Inter-Segment Eliminations RM	Total RM
2016					
Revenue					
External revenue	24,571,396	42,846,507	–	–	67,417,903
Inter-segment revenue	16,075,715	1,868,896	480,000	(18,424,611)	–
Total revenue	40,647,111	44,715,403	480,000	(18,424,611)	67,417,903
Results					
Finance income	148	312	30	–	490
Reversal of impairment loss on:					
- trade receivables	20,000	–	–	–	20,000
- other receivables	–	–	5,000,000	–	5,000,000
Impairment loss on trade receivables	–	(668,453)	–	–	(668,453)
Finance cost	(374,969)	(404,711)	–	–	(779,680)
Depreciation of property, plant and equipment	(909,236)	(2,004,814)	–	–	(2,914,050)
Inventories written off	(3,111,264)	(966,889)	–	–	(4,078,153)
Taxation	290,456	(235,975)	–	–	54,481
Segment results	(373,320)	267,417	3,861,231	12,528	3,767,856
Segment assets	46,585,445	41,734,505	57,343,132	(79,015,952)	66,647,130
Segment liabilities	31,515,460	29,328,666	17,670,624	(53,295,557)	25,219,193

(b) Geographical information

Revenue by geographical location of customers

	Group 2017 RM	2016 RM
Malaysia	53,276,994	66,930,208
Sri Lanka	275,255	94,624
Singapore	117,496	147,324
Brunei	19,753	54,920
Maldives	–	148,953
Others	12,887	41,874
	53,702,385	67,417,903

28. SEGMENT INFORMATION (CONT'D)

(c) Information about major customers

The following are major customers with revenue equal or more than 10% of the Group's total revenue:

	Segment	Group 2017 RM	Group 2016 RM
Customer A	Automotive	11,545,079	11,489,543
Customer B	Automotive	5,939,312	11,193,803
Customer C	Automotive	5,664,505	–
Customer D	Automotive	–	7,715,729

29. FINANCIAL INSTRUMENTS

(a) Classification of financial instruments

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The following table analyses the financial assets and liabilities in the statements of financial position by the class of financial instruments to which they are assigned, and therefore by the measurement basis:

	2017		2016	
	Loan and receivables/ other financial liabilities RM	Total RM	Loan and receivables/ other financial liabilities RM	Total RM
Group				
Financial assets				
Trade receivables	14,137,110	14,137,110	14,890,076	14,890,076
Other receivables	510,902	510,902	1,454,592	1,454,592
Cash and bank balances	1,367,873	1,367,873	331,503	331,503
	16,015,885	16,015,885	16,676,171	16,676,171
Financial liabilities				
Trade payables	4,560,097	4,560,097	4,439,602	4,439,602
Other payables	3,535,937	3,535,937	4,745,173	4,745,173
Finance lease liabilities	2,400,787	2,400,787	883,751	883,751
Bank borrowings	10,443,276	10,443,276	12,146,586	12,146,586
	20,940,097	20,940,097	22,215,112	22,215,112

29. FINANCIAL INSTRUMENTS (CONT'D)

(a) Classification of financial instruments (Cont'd)

	2017		2016	
	Loan and receivables/ other financial liabilities RM	Total RM	Loan and receivables/ other financial liabilities RM	Total RM
Company				
Financial assets				
Other receivables	51,000	51,000	51,000	51,000
Amount owing by subsidiary companies	32,109,591	32,109,591	32,334,992	32,334,992
Cash and bank balances	10,162	10,162	16,929	16,929
	32,170,753	32,170,753	32,402,921	32,402,921
Financial liabilities				
Other payables	278,677	278,677	1,681,632	1,681,632
Amount owing to subsidiary companies	7,152,340	7,152,340	6,680,786	6,680,786
	7,431,017	7,431,017	8,362,418	8,362,418

(b) Financial risk management objectives and policies

The Group's and the Company's financial risk management policy is to ensure that adequate financial resources are available for the development of the Group's and the Company's operations whilst managing its financial risks, including credit risk, liquidity risk and market risk. The Group and the Company operates within clearly defined guidelines that are approved by the Board and the Group's and the Company's policy is not to engage in speculative transactions.

The following sections provide details regarding the Group's and the Company's exposure to the abovementioned financial risks and the objectives, policies and processes for the management of these risks.

(c) Credit risk

Credit risk is the risk of a financial loss to the Group and the Company if a counterparty of a financial asset fails to meet its contractual obligations. The Group's and the Company's exposure to credit risk arises mainly from receivables from customers.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis through the review of receivables ageing. At reporting date, there were no significant concentrations of credit risk other than as disclosed in Note 6.

The maximum exposure to credit risk for the Group and the Company is the carrying amount of the financial assets shown in the statements of financial position.

29. FINANCIAL INSTRUMENTS (CONT'D)

(d) Liquidity risk

Liquidity risk is the risk that the Group and the Company will not be able to meet its financial obligations as they fall due. The Group's and the Company's exposure to liquidity risk arises principally from trade and other payables, finance lease liabilities and borrowings.

Cash flow forecasting is performed by monitoring the Group's and the Company's liquidity requirements to ensure that it has sufficient liquidity to meet operational, financing repayments and other liabilities as they fall due.

The table below summarises the maturity profile of the Group and the Company's financial liabilities as at the end of the reporting period based on contractual undiscounted payments:

	Carrying amount RM	Contractual interest rate %	Contractual cash flows RM	Within 1 year RM	Between 1 and 2 years RM	Between 2 and 5 years RM	More than 5 years RM
2017							
Group							
Trade payables	4,560,097	–	4,560,097	4,560,097	–	–	–
Other payables	3,535,937	–	3,535,937	3,535,937	–	–	–
Finance lease liabilities	2,400,787	2.42 - 3.35	2,707,244	813,750	713,213	1,180,281	–
Bank borrowings	10,443,276	4.78 - 8.28	11,406,803	8,918,464	420,480	1,261,440	806,419
	20,940,097		22,210,081	17,828,248	1,133,693	2,441,721	806,419
Company							
Other payables	278,677	–	278,677	278,677	–	–	–
Amount owing to subsidiary companies	7,152,340	–	7,152,340	7,152,340	–	–	–
	7,431,017		7,431,017	7,431,017	–	–	–

29. FINANCIAL INSTRUMENTS (CONT'D)

(d) Liquidity risk (Cont'd)

The table below summarises the maturity profile of the Group and the Company's financial liabilities as at the end of the reporting period based on contractual undiscounted payments (Cont'd):

	Carrying amount RM	Contractual interest rate %	Contractual cash flows RM	Within 1 year RM	Between 1 and 2 years RM	Between 2 and 5 years RM
2016						
Group						
Trade payables	4,439,602	–	4,439,602	4,439,602	–	–
Other payables	4,745,173	–	4,745,173	4,745,173	–	–
Finance lease liabilities	883,751	2.42 - 3.35	954,734	350,063	325,890	278,781
Bank borrowings	12,146,586	5.00 - 8.50	12,231,014	11,848,464	382,550	–
	22,215,112		22,370,523	21,383,302	708,440	278,781
Company						
Amount owing to subsidiary companies	6,680,786	–	6,680,786	6,680,786	–	–
Other payables	1,681,632	–	1,681,632	1,681,632	–	–
	8,362,418		8,362,418	8,362,418	–	–

29. FINANCIAL INSTRUMENTS (CONT'D)

(e) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and cash flow and fair value interest rate risk that may affect the Group's and the Company's financial position and cash flows. The Group and the Company are not significantly affected by foreign exchange rate and price risks.

(i) Foreign currency exchange risk

The Group is exposed to foreign currency risk on sales, purchases, assets and liabilities that are denominated in a currency other than Ringgit Malaysia. The Group maintains a natural hedge that minimises the foreign exchange exposure by matching foreign currency income with foreign currency costs.

Exposure to foreign currency risk

The Group's exposure to foreign currency risk, based on carrying amounts as at the end of the reporting period were as follows:

		Group	
	Chinese Renminbi RM	Euro Dollar RM	United States Dollar RM
2017			
Trade receivables	–	–	13,614
Cash and bank balances	–	–	20,954
Trade payables	(1,801,481)	(266,508)	(591,578)
	(1,801,481)	(266,508)	(557,010)
2016			
Trade receivables	–	–	1,133
Cash and bank balances	–	–	30,828
Trade payables	(548,313)	–	(599,771)
	(548,313)	–	(567,810)

29. FINANCIAL INSTRUMENTS (CONT'D)

(e) Market risk (Cont'd)

(i) Foreign currency exchange risk (Cont'd)

Currency risk sensitivity analysis

The following shows the sensitivity of the Group's post-tax profit or loss to a reasonably possible change in the foreign currency exchange rate against the Group's functional currency ("RM"), with all other variables remain constant.

	Group Increase/(Decrease) profit or loss	
	2017 RM	**2016 RM**
RMB/RM - strengthening 5%	(68,456)	(20,836)
Euro/RM - strengthening 5%	(10,127)	–
USD/RM - strengthening 5%	(21,166)	(21,577)

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Interest rate exposure arises from borrowings and deposits. The Group does not hedge the interest rate risk.

Exposure to interest rate risk

The interest rate profile of the Group's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period were as follows:

	Group	
	2017 RM	**2016 RM**
Floating rate instruments		
Bank overdrafts	5,595,400	7,939,257
Banker's acceptances	2,095,452	1,803,183
Usance letter of credit	424,582	1,450,224
Term loans	2,327,842	953,922
	10,443,276	12,146,586
Fixed rate instruments		
Finance lease liabilities	2,400,787	883,751

Since the Group's fixed rate financial assets and liabilities are measured at amortised cost, possible changes in interest rates are not expected to have a significant impact on the Group profit or loss.

29. FINANCIAL INSTRUMENTS (CONT'D)

(e) Market risk (Cont'd)

(ii) Interest rate risk (Cont'd)

Interest rate risk sensitivity analysis

A change in interest rates at the end of the reporting period would have increase/(decrease) post-tax profit or loss by the amounts shown below, assuming all other variables remain constant.

	Group Increase/(Decrease) profit or loss	
	2017 RM	2016 RM
Increase of 100 basis points ("bp")	(79,368)	(92,314)

(f) Fair value information

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1 : Quoted prices in active markets for identical assets or liabilities
- Level 2 : Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 : Inputs for the asset or liability that is not based on observable market data.

	2017		2016	
	Carrying amount RM	Fair value RM	Carrying amount RM	Fair value RM
Group				
Finance lease liabilities	2,400,787	2,217,499	883,751	798,016

(i) The carrying amounts of cash and cash equivalents and short-term receivables and payables reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

(ii) The carrying amount of long-term bank borrowings carried on the statements of financial position reasonably approximate their fair values as they are floating rate instruments that are re-priced to market interest rate on or near the reporting date.

(iii) The aggregate fair value of the other financial assets and liabilities carried on the statements of financial position approximates its carrying value and the Group does not anticipate the carrying amounts recorded at the reporting date to be significantly different from the values that would eventually be settled.

30. CAPITAL MANAGEMENT

The objective of the Group on capital management is to ensure that it maintains a strong credit rating and safeguard the Group's ability to continue as a going concern, so as to support its business, maintain the market confidence and maximise shareholder value.

The Group monitors the capital using gearing ratio, which is net bank borrowings divided by equity attributable to owners of the Company.

	Group	
	2017 RM	**2016 RM**
Bank borrowings	10,443,276	12,146,586
Finance lease liabilities	2,400,787	883,751
Less: Cash and bank balances	(1,367,873)	(331,503)
Net bank borrowings	11,476,190	12,698,834
Equity attributable to owners of the Company	40,687,610	41,454,514
Gearing ratio	28.21%	30.63%

There were no changes to the Group's approach to capital management during the financial year.

31. MATERIAL LITIGATION

Paragon Union Berhad vs Prestamewah Development Sdn Bhd & Datuk Liw Jun Wai

On 10 March 2009, the Company terminated the Sales and Shares Agreement ("SSA") which was entered into with Prestamewah Development Sdn. Bhd. ("PDSB") and Datuk Liw Jun Wai ("Datuk Liw") on 19 August 2008 to acquire 1,000,000 ordinary shares of RM1.00 each representing the entire issued and paid-up share capital of Dominion Park Sdn. Bhd. ("DPSB") for a cash consideration of RM18,000,000.

The termination was due to PDSB and Datuk Liw failing to provide the Completion Documents as stipulated in Clauses 6 & 7 of the said SSA. Besides, PDSB and Datuk Liw also failed to remedy the same within the stipulated fourteen (14) days from the date of receipt by them of the Company's notice requiring such remedy.

On 1 April 2009, the Company's lawyer served a Notice pursuant to Section 218 of the Companies Act, 1965 in Malaysia on PDSB, one of the vendors of DPSB (holding 75% of the issued and paid-up share capital of DPSB) to demand for repayment of the sum of RM14,915,095, being the amount due and owing by PDSB to the Company as at 31 March 2009 pursuant to the termination of the SSA as stated above.

31. MATERIAL LITIGATION (CONT'D)

Paragon Union Berhad vs Prestamewah Development Sdn Bhd & Datuk Liw Jun Wai (Cont'd)

The details are as follows:

	RM
Monies paid by the Company to PDSB	13,500,000
Agreed liquidated damages	1,350,000
	14,850,000
Interest calculated at the rate of 8.00% per year upon RM14,850,000 from 11 March 2009 to 31 March 2009	65,095
	14,915,095

On 3 April 2009, the Company's lawyer issued a Letter of Demand to Datuk Liw, one of the vendors of DPSB (holding 25% of the issued and paid-up share capital of DPSB) to demand for repayment of the sum of RM4,950,000, being the amount due and owing by Datuk Liw to the Company comprising of RM4,500,000 as the monies paid to Datuk Liw by the Company under the SSA as stated above and RM450,000 as the liquidated and ascertained damages payable to the Company by Datuk Liw pursuant to the termination of the said SSA.

In addition to the above, the Company also demanded for interest payment at the rate of 8% per annum calculated on a daily basis on the outstanding amount of RM4,950,000 due to the Company from 11 March 2009 up to the date of full settlement.

On 27 April 2009, the Company obtained an injunction order from the High Court of Malaya to compel the Defendants (PDSB and Datuk Liw) to pay to the Court the total sum of RM13,500,000 and RM4,500,000 respectively within seven days from the service of the Order on the Defendants and that this application was heard on 12 May 2009. The sealed copy of the Order was served on PDSB on 30 April 2009 and both of its two directors, Wong Hean Keat Simon and Abdul Rashid Bin Omar on 4 May 2009 and Datuk Liw on 1 May 2009.

The Company's application for injunction as well as the Defendants' application to set aside the ex-parte injunction order dated 27 April 2009 and for transfer of these proceedings to the Shah Alam High Court was concluded on 26 October 2009. The decision with regard to these applications was fixed on 16 November 2009 and the learned Judge after considering the submissions from all parties made the following Orders:

(i) The Plaintiff's application for injunction was allowed with costs. The Defendants are to pay the Plaintiff RM18,000,000 on or before 15 January 2010.

(ii) The Defendants' application to set aside the ex-parte injunction order dated 27 April 2009 was dismissed with costs.

(iii) The Defendants' application to transfer the proceedings to the Shah Alam High Court was dismissed with costs. However, the Court allowed a stay of these proceedings pending the Defendants' appeal to the Court of Appeal with respect to this application.

31. MATERIAL LITIGATION (CONT'D)

Paragon Union Berhad vs Prestamewah Development Sdn Bhd & Datuk Liw Jun Wai (Cont'd)

On 8 February 2010, the appeal by the Defendants against the decision of the High Court which inter-alia, granted the Company the interlocutory mandatory injunction compelling the Defendants to refund RM13,500,000 and RM4,500,000 respectively to the Company was allowed by the Court of Appeal. The Order of the Court of Appeal essentially set aside the interlocutory mandatory Order granted by the High Court Judge on 16 November 2009.

The Company has since filed an application for leave to appeal to the Federal Court against the decision of the Court of Appeal, but on 17 May 2010, the Federal Court dismissed the Company's application for leave to appeal with costs.

On 14 March 2011, the Court heard the Company's application for summary judgment for the refund of RM18,000,000 together with liquidated damages, interest and costs. The application was dismissed as the learned Judicial Commissioner was of the opinion there were triable issues such as alleged misinterpretations prior to the contract, despite their contention that the Share Sale Agreement is a stand alone agreement and no extrinsic evidence was permissible.

On 12 August 2011, The Company proceeded with an appeal to the Court of Appeal and also to apply for the sum of RM18,000,000 to be paid into court by the Defendants.

The Court came up for decision on 18 June 2014 to not allow the Company's claim for the refund of RM18,000,000. The Company had on 1 July 2014 filed an appeal with the Court of Appeal against the said decision.

On 3 August 2015, the Company via its newly appointed solicitors Messrs. Jaffar & Menon filed a Notice of Motion for leave to amend the Memorandum of Appeal dated 19 March 2015 prepared and filed by the Company's former solicitor, Messrs. Kamaruddin & Partners.

The Appeal by the Company to the Court of Appeal has yet to be fixed for a Decision. The Court of Appeal reserves its decision after the hearing came up on 24 February 2017.

On 24 February 2017, the Court of Appeal heard all the submissions and will fix a Decision Date, which will be determined and informed to all parties via notice.

On 9 March 2018, the Court of Appeal fixed 16 March 2018 as a decision date and on 16 March 2018, the Court dismissed the appeal in part but allowed a restitution and thereby ordered the Respondents, Prestamewah Development Sdn. Bhd. and Liw Jun Wai to refund the sum of RM18,000,000 to the Company.

The Company has made full impairment loss for the aforesaid amount as disclosed in Note 7 to the financial statements in the previous financial year.

32. DATE OF AUTHORISATION FOR ISSUE

The financial statements of the Group and of the Company for the financial year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Board of Directors on 11 April 2018.

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PARAGON UNION BERHAD

(Company No. 286457–V)
(Incorporated in Malaysia)

FORM OF PROXY

CDS Account No.	
No of Shares Held	

I/We____
(FULL NAME IN BLOCK LETTERS)

of ____
(FULL ADDRESS)

being a Member of **PARAGON UNION BERHAD** hereby appoint ______________________________

____
(FULL NAME IN BLOCK LETTERS)

of ____
(FULL ADDRESS)

or failing whom ____
(FULL NAME IN BLOCK LETTERS)

of ____
(FULL ADDRESS)

or failing whom, the Chairman of the Meeting as my/our proxy/proxies to vote for me/us and on my/our behalf at the Twenty-Fourth Annual General Meeting of the Company to be held at Dewan Berjaya, Bukit Kiara Resort Berhad, Jalan Bukit Kiara, Off Jalan Damansara, 60000 Kuala Lumpur on Tuesday, 5 June 2018 at 11.30 a.m. and any adjournment thereof.

My/Our proxy(ies) is(are) to vote as indicated below:-

NO.	RESOLUTIONS	FOR	AGAINST
1.	To approve the payment of Directors' fees and benefits for the financial year ending 31 December 2018.		
2.	To re-elect Madam Kong See Kuan who is retiring as a Director of the Company in accordance with Article 81 of the Company's Articles of Association.		
3.	To re-elect Mr. Lau Yoke Keen who is retiring as a Director of the Company in accordance with Article 75 of the Company's Articles of Association.		
4.	To re-appoint Messrs. Morison Anuarul Azizan Chew, the retiring Auditors and to authorise the Board of Directors to fix their remuneration.		
5.	To authorise the Directors to issue and allot shares in the Company pursuant to Section 76 of the Companies Act, 2016.		

[Please indicate with (X) in the spaces provided how you wish your vote to be casted. If no specific direction as to voting is given, the proxy will vote or abstain at his(her) discretion.]

Dated this _________ day of _______________ , 2018

____
Signature of Member / Common Seal

Notes:

1. *A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy(ies) to attend and vote on his(her) behalf.*
2. *A proxy may but need not be a member of the Company. A proxy appointed to attend and vote at a meeting of a Company shall have the same rights as the member to speak at the meeting.*
3. *A member may appoint more than one (1) proxy to attend the same meeting. Where a member appoints two (2) or more proxies, he(she) shall specify the proportion of his(her) shareholdings to be represented by each proxy.*
4. *Where a member of the Company is an exempt authorized nominee which holds ordinary shares in the Company for multiple beneficial owners in the one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorized nominee may appoint in respect of each omnibus account it holds.*
5. *The Form of Proxy shall be signed by the appointor or his(her) attorney duly authorised in writing or, if the member is a corporation, it must be executed under its common seal or by its duly authorised attorney or officers.*
6. *The instrument appointing a proxy must be deposited at the Registered Office of the Company at Level 2, Tower 1, Avenue 5, Bangsar South City, 59200 Kuala Lumpur, not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting.*
7. *In respect of deposited securities, only members whose names appear on the Record of Depositors on 30 may 2018 (General Meeting Record of Depositors) shall be eligible to attend, speak and vote at the meeting or appoint proxy(ies) to attend and/or vote on his(her) behalf.*

Fold this flap for sealing

Then fold here

AFFIX
STAMP

The Company Secretary

PARAGON UNION BERHAD (NO. 286457-V)
LEVEL 2, TOWER 1, AVENUE 5
BANGSAR SOUTH CITY
59200 KUALA LUMPUR

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(Company No. 286457-V)

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