PARAGON UNION BERHAD
(286457 - V)
(Incorporated in Malaysia)

FINANCIAL STATEMENTS

31 DECEMBER 2014

Registered office:
Unit 07-02, Level 7
Persoft Tower
6B, Persiaran Tropicana
47410 Petaling Jaya
Selangor Darul Ehsan

Principal place of business:
Lot 14, Jalan Satu
Kawasan Perindustrian Cheras Jaya
Batu 11, Cheras
43200 Selangor Darul Ehsan

PARAGON UNION BERHAD
(286457 - V)
(Incorporated in Malaysia)

FINANCIAL STATEMENTS

31 DECEMBER 2014

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PARAGON UNION BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors hereby present their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2014.

Principal Activities

The principal activity of the Company is that of investment holding.

The principal activities of the subsidiary companies are disclosed 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 for the financial year attributable to:		
- Owners of the Company	20,750,170	17,061,868
- Non-controlling interests	2,048	-
	20,752,218	17,061,868

Dividend

No dividend has been paid or declared by the Company since the end of the previous financial year.

The Board of Directors does 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 under review other than those disclosed in the financial statements.

Issue of Shares and Debentures

There were no issues of shares or debentures during the financial year under review.

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 who served since the date of the last report and at the date of this report are as follows:

Michael Lim Hee Kiang
Fung Beng Ee
Lau Yoke Keen
Lee Choon Hee
Toh Hong Wooi (Vacated on 31 December 2014)

Directors' Interests

None of the Directors holding office at the end of the financial year had any interest in the ordinary shares of the Company or its related corporations during the financial year under review.

Directors' Benefits

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any 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 the Director is a member, or with a company in which the Director has a substantial financial interest.

Neither during nor at the end of the financial year, was the Company a party to any arrangement the object of which is to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Other Statutory Information

(a) Before the statements of profit or loss and other comprehensive income and statements of financial position of the Group and of the Company were made out, 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 allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and

Other Statutory Information (continued)

(ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

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

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

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

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

(iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

(c) No contingent or other liabilities of the Group and of the Company have become enforceable, or are 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 or the Company or its subsidiary companies to meet their obligations as and 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 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 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 other than as disclosed in Note 29(i) to the financial statements; 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.

Holding Company

The holding company is Asia Avenue Sdn. Bhd., a company incorporated in Malaysia.

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	MICHAEL LIM HEE KIANG

KUALA LUMPUR
24 April 2015

Company No. | 286457 | V |

PARAGON UNION BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS
Pursuant to Section 169(15) of the Companies Act, 1965

We, LEE CHOON HEE and MICHAEL LIM HEE KIANG, 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 10 to 69 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 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 2014 and of their financial performance and cash flows for the financial year then ended.

The information set out in page 70 to the financial statements have been prepared in accordance with the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

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

LEE CHOON HEE

MICHAEL LIM HEE KIANG

KUALA LUMPUR
24 April 2015

Company No. | 286457 | V |
|---|---|

PARAGON UNION BERHAD
(Incorporated in Malaysia)

STATUTORY DECLARATION
Pursuant to Section 169(16) of the Companies Act, 1965

I, LEE CHOON HEE, 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 10 to 69 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, Wilayah Persekutuan)
on this date of 24 April 2015)

LEE CHOON HEE

Before me,

No. W521
MOHAN A.S. MANIAM
COMMISSIONER FOR OATHS

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF PARAGON UNION BERHAD
(Company No: 286457-V)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Paragon Union Berhad, which comprise the statements of financial position as at 31 December 2014 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 flow of the Group and of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 10 to 69.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Company's preparation of financial statements that give a true and fair view 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 Company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as of 31 December 2014 and of their financial performance and 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, 1965 in Malaysia

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report on the following:

(a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Companies Act, 1965 in Malaysia.

(b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

(c) Our audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Other Reporting Responsibilities

The supplementary information set out in page 70 to the financial statements is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the Directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the Directive of Bursa Malaysia Securities Berhad.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

MORISON ANUARUL AZIZAN CHEW
No.: AF 001977
Chartered Accountants

SATHIEA SEELEAN A/L MANICKAM
No.: 1729/05/16 (J/PH)
Chartered Accountant

KUALA LUMPUR
24 April 2015

Company No. 286457 V

PARAGON UNION BERHAD
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

		Group		Company	
		2014	2013	2014	2013
	Note	RM	RM	RM	RM
Non-Current Assets					
Property, plant and equipment	3	32,264,359	33,253,924	-	-
Investment in subsidiary companies	4	-	-	11,607,745	11,607,745
Deferred tax assets	5	-	71,768	-	-
		32,264,359	33,325,692	11,607,745	11,607,745
Current Assets					
Inventories	6	26,848,425	22,292,036	-	-
Trade receivables	7	9,531,079	12,742,697	-	-
Other receivables	8	831,588	19,362,004	-	18,359,349
Amount owing by subsidiary companies	9	-	-	23,307,906	21,800,777
Tax recoverable		502,269	551,007	22,933	22,933
Cash and bank balances	10	400,600	879,467	27,743	20,843
		38,113,961	55,827,211	23,358,582	40,203,902
Current Liabilities					
Trade payables	11	4,753,163	3,445,432	-	-
Other payables	12	5,911,105	5,492,506	2,086,312	2,283,894
Amount owing to subsidiary companies	9	-	-	414,130	-
Finance lease liabilities	13	295,952	142,643	-	-
Bank borrowings	14	17,657,056	17,393,359	-	-
Current tax liabilities		299,412	650,230	-	-
		28,916,688	27,124,170	2,500,442	2,283,894
Net current assets		9,197,273	28,703,041	20,858,140	37,920,008
		41,461,632	62,028,733	32,465,885	49,527,753

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

Company No. 286457 V

PARAGON UNION BERHAD
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2014 (CONTINUED)

		Group		Company	
		2014	2013	2014	2013
	Note	RM	RM	RM	RM
Financed by:					
Share capital	15	70,000,000	70,000,000	70,000,000	70,000,000
Merger reserves	16	(4,618,481)	(4,618,481)	-	-
Treasury shares	17	(4,220,708)	(4,220,708)	(4,220,708)	(4,220,708)
Accumulated losses		(24,366,686)	(3,616,516)	(33,313,407)	(16,251,539)
Equities attributable to owners of the Company		36,794,125	57,544,295	32,465,885	49,527,753
Non-controlling interests		(21,287)	(19,239)	-	-
		36,772,838	57,525,056	32,465,885	49,527,753
Non-Current Liabilities					
Finance lease liabilities	13	950,545	486,124	-	-
Bank borrowings	14	1,541,172	2,117,091	-	-
Deferred tax liabilities	5	2,197,077	1,900,462	-	-
		4,688,794	4,503,677	-	-
		41,461,632	62,028,733	32,465,885	49,527,753

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

Company No. 286457 V

PARAGON UNION BERHAD
(Incorporated in Malaysia)

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

		Group		Company	
		2014	2013	2014	2013
	Note	RM	RM	RM	RM
Revenue	18	49,470,202	52,703,927	-	-
Cost of sales		(45,467,339)	(44,878,550)	-	-
Gross profit		4,002,863	7,825,377	-	-
Other operating income		3,003,099	677,244	2,810,948	269
Selling and distribution costs		(4,042,502)	(4,171,000)	-	-
Administrative expenses		(21,996,598)	(3,449,395)	(19,872,816)	(1,233,932)
Finance costs	19	(1,300,255)	(1,247,305)	-	-
Loss before taxation	20	(20,333,393)	(365,079)	(17,061,868)	(1,233,663)
Taxation	21	(418,825)	(221,412)	-	-
Total comprehensive loss for the financial year		(20,752,218)	(586,491)	(17,061,868)	(1,233,663)
Total comprehensive loss attributable to:					
Owners of the Company		(20,750,170)	(584,700)	(17,061,868)	(1,233,663)
Non-controlling interests		(2,048)	(1,791)	-	-
		(20,752,218)	(586,491)	(17,061,868)	(1,233,663)
Loss per share attributable to owners of the Company:					
Basic and diluted (sen)	22	(32.07)	(0.90)	-	-

The accompanying notes form an integral part of the financial statements

Company No. 286457 V

PARAGON UNION BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

	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 2014	70,000,000	(4,618,481)	(4,220,708)	(3,616,516)	57,544,295	(19,239)	57,525,056
Total comprehensive loss for the financial year	-	-	-	(20,750,170)	(20,750,170)	(2,048)	(20,752,218)
At 31 December 2014	70,000,000	(4,618,481)	(4,220,708)	(24,366,686)	36,794,125	(21,287)	36,772,838
At 1 January 2013	70,000,000	(4,618,481)	(4,220,708)	(3,031,816)	58,128,995	(17,448)	58,111,547
Total comprehensive loss for the financial year	-	-	-	(584,700)	(584,700)	(1,791)	(586,491)
At 31 December 2013	70,000,000	(4,618,481)	(4,220,708)	(3,616,516)	57,544,295	(19,239)	57,525,056

Company No. 286457 V

PARAGON UNION BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

	Share Capital RM	**Treasury Shares** RM	**Accumulated Losses** RM	**Total** RM
Company				
At 1 January 2014	70,000,000	(4,220,708)	(16,251,539)	49,527,753
Total comprehensive loss for the financial year	-	-	(17,061,868)	(17,061,868)
At 31 December 2014	70,000,000	(4,220,708)	(33,313,407)	32,465,885
At 1 January 2013	70,000,000	(4,220,708)	(15,017,876)	50,761,416
Total comprehensive loss for the financial year	-	-	(1,233,663)	(1,233,663)
At 31 December 2013	70,000,000	(4,220,708)	(16,251,539)	49,527,753

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

Company No. 286457 V

PARAGON UNION BERHAD
(Incorporated In Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014

	Group		Company	
	2014	2013	2014	2013
	RM	RM	RM	RM
Cash Flows From Operating Activities				
Loss before taxation	(20,333,393)	(365,079)	(17,061,868)	(1,233,663)
Adjustments for:				
Impairment loss for trade receivables	-	120,000	-	-
Reversal of impairment loss on trade receivables	(69,035)			
Impairment loss for other receivables	18,387,064	-	18,359,349	-
Depreciation of property, plant and equipment	2,816,838	2,945,227	-	-
Gain on disposal of property, plant and equipment	(44,880)	-	-	-
Property, plant and equipment written off	-	1,495	-	-
Finance income	(297)	(6,384)	(294)	(269)
Interest expense	1,300,255	1,247,305	-	-
Operating profit/(loss) before working capital changes	2,056,552	3,942,564	1,297,187	(1,233,932)
Changes in working capital:				
Inventories	(4,556,389)	1,662,882	-	-
Trade and other receivables	3,424,005	(5,189,536)	-	(353,746)
Trade and other payables	1,726,330	1,710,101	(197,582)	869,238
Amount owing by/(to) subsidiary companies	-	-	(1,092,999)	661,249
Cash generated from/(used in) operations	2,650,498	2,126,011	6,606	(57,191)
Interest received	297	6,384	294	269
Interest paid	(1,300,255)	(1,247,305)	-	-
Tax paid	(352,522)	(399,418)	-	-
Net cash generated from/(used in) operating activities	998,018	485,672	6,900	(56,922)

Company No. 286457 V

PARAGON UNION BERHAD
(Incorporated In Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

	Group		Company	
	2014	2013	2014	2013
	RM	RM	RM	RM
Cash Flows From Investing Activities				
Purchase of property, plant and equipment	(1,029,608)	(1,769,527)	-	-
Proceeds from disposal of property, plant and equipment	52,215	-	-	-
Net cash used in investing activities	(977,393)	(1,769,527)	-	-
Cash Flows From Financing Activities				
Repayment of term loans	(695,272)	(658,694)	-	-
Net withdrawal of banker's acceptances	(125,853)	1,452,965	-	-
Net addition of usance letter of credit	431,507	-	-	-
Repayment of finance lease liabilities	(187,270)	(1,074,352)	-	-
Net cash used in financing activities	(576,888)	(280,081)	-	-
Net (decrease)/increase in cash and cash equivalents	(556,263)	(1,563,936)	6,900	(56,922)
Cash and cash equivalents at the beginning of the financial year	(11,323,799)	(9,759,863)	20,843	77,765
Cash and cash equivalents at the end of the financial year	(11,880,062)	(11,323,799)	27,743	20,843
Cash and cash equivalents at the end of the financial year comprises:				
Cash and bank balances	400,600	879,467	27,743	20,843
Bank overdrafts	(12,280,662)	(12,203,266)	-	-
	(11,880,062)	(11,323,799)	27,743	20,843

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

NOTES TO THE FINANCIAL STATEMENTS

1. Corporate Information

The principal activity of the Company is that of investment holding.

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 Unit 07-02, Level 7, Persoft Tower, 6B, Persiaran Tropicana, 47410 Petaling Jaya, Selangor Darul Ehsan.

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 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, 1965 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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts 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).

2. Basis of preparation and Significant Accounting Policies (continued)

(a) Basis of Preparation (continued)

Accounting standards, amendments to accounting standards and interpretations that are effective for the Group and the Company's financial year beginning on or after 1 January 2014 are as follows:

- Amendments to MFRS 10, MFRS 12 and MFRS 127, "Investment Entities"
- Amendments to MFRS 132, "Financial Instruments: Presentation"
- Amendments to MFRS 136, "Impairment of Assets"
- Amendments to MFRS 139, " Novation of Derivatives and Continuation of Hedge Accounting"
- IC Interpretation 21, "Levies"

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

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

Annual periods beginning on/after 1 July 2014

<u>Amendment to MFRS 1 First-time Adoption of Malaysian Financial Reporting Standards</u>

These Amendment relates to the Basis for Conclusions which is not an integral part of the Standard. The Basis for Conclusions clarifies that a first-time adopter is permitted but not required to apply a new or revised Standard that is not yet mandatory but is available for early application.

<u>Amendment to MFRS 2 Share-based payment</u>

These Amendment clarifies the definition of 'vesting conditions' by separately defining 'performance condition' and 'service condition' to ensure consistent classification of conditions attached to a share-based payment.

<u>Amendment to MFRS 3 Business combination</u>

These Amendment clarifies that when contingent consideration meets the definition of financial instrument, its classification as a liability or equity is determined by reference to MFRS 132 Financial Instruments: Presentation. It also clarifies that contingent consideration that is classified as an asset or a liability shall be subsequently measured at fair value at each reporting date and changes in fair value shall be recognised in profit or loss.

2. **Basis of preparation and Significant Accounting Policies (continued)**

(a) Basis of Preparation (continued)

Annual periods beginning on/after 1 July 2014 (continued)

Amendment to MFRS 3 Business combination (continued)

In addition, Amendment to MFRS 3 clarifies that MFRS 3 excludes from its scope the accounting for the formation of all types of joint arrangements (as defined in MFRS 11 Joint Arrangements) in the financial statements of the joint arrangement itself, but not to the parties to the joint arrangement for their interests in the joint arrangement.

Amendment to MFRS 8 Operating segments

These Amendment requires the disclosure of judgements made in applying the aggregation criteria to operating segments. This includes a brief description of the operating segments that have been aggregated and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. It also clarifies that reconciliation of the total reportable segments' assets to the entity's assets is required if that amount is regularly provided to the chief operating decision maker.

Amendment to MFRS 13 Fair value measurement

These Amendment relates to the Basis for Conclusions which is not an integral part of the Standard. The Basis for Conclusions clarifies that when MFRS 13 was issued, it did not remove the practical ability to measure short-term receivables and payables with no stated interest rate at invoice amounts without discounting, if the effect of discounting is immaterial.

The Amendment also clarifies that the scope of the portfolio exception of MFRS 13 includes all contracts accounted for within the scope of MFRS 139 Financial Instruments: Recognition and Measurement or MFRS 9 Financial Instruments, regardless of whether they meet the definition of financial assets or financial liabilities as defined in MFRS 132 Financial Instruments: Presentation.

Amendment to MFRS 116 Property, plant and equipment and MFRS 138 Intangible Assets

The Amendment clarifies the accounting for the accumulated depreciation/ amortisation when an asset is revalued. It clarifies that:

- the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset; and
- The accumulated depreciation/amortization is calculated as the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses.

2. **Basis of preparation and Significant Accounting Policies (continued)**

(a) Basis of Preparation (continued)

Annual periods beginning on/after 1 July 2014 (continued)

Amendments to MFRS 119 Employee Benefits

These Amendments provides a practical expedient in accounting for contributions from employees or third parties to defined benefit plans. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the related service is rendered, instead of attributing the contributions to the periods of service. However, if the amount of the contributions is dependent on the number of years of service, an entity is required to attribute those contributions to periods of service using the same attribution method required by MFRS 119 for the gross benefit.

Amendment to MFRS 124 Related Party Disclosures

The Amendment extends the definition of 'related party' to include an entity, or any member of a group of which it is a part, that provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Amendment to MFRS 140 Investment Property

The Amendment clarifies that the determination of whether an acquisition of investment property meets the definition of both a business combination as defined in MFRS 3 and investment property as defined in MFRS 140 requires the separate application of both Standards independently of each other.

Annual periods beginning on/after 1 January 2016

Amendments to MFRS 5 Non Current Assets Held for Sale and Discontinued Operations

The Amendments introduce specific guidance in MFRS 5 for when an entity reclassifies an asset (or disposal group) from held-for-sale to held-for-distribution to owners (or vice versa), or when held-for-distribution is discontinued.

Amendments to MFRS 7 Financial Instruments: Disclosures

The Amendments provide additional guidance to clarify whether servicing contracts constitute continuing involvement for the purposes of applying the disclosure requirements of MFRS 7. The Amendments also clarify the applicability of Amendments to MFRS 7, Disclosure–Offsetting Financial Assets and Financial Liabilities to condensed interim financial statements.

2. Basis of preparation and Significant Accounting Policies (continued)

(a) Basis of Preparation (continued)

Annual periods beginning on/after 1 January 2016 (continued)

Amendments to MFRS 10 Consolidated Financial Statements and MFRS 128 Investments in Associates and Joint Ventures

The Amendments address an acknowledged inconsistency between the requirements in MFRS 10 and those in MFRS 128, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the Amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not), as defined in MFRS 3. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

Amendments to MFRS 11 Joint Arrangements

These Amendments clarify that when an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in MFRS 3, it shall apply the relevant principles on business combinations accounting in MFRS 3, and other MFRSs, that do not conflict with MFRS 11. Some of the impact arising may be the recognition of goodwill, recognition of deferred tax assets/liabilities and recognition of acquisition-related costs as expenses.

Amendments to MFRS 101 Presentation of Financial Statements

The Amendments aim to improve the effectiveness of disclosures and are designed to encourage companies to apply professional judgement in determining the information (including where and in what order) to be disclosed in the financial statements.

Amendments to MFRS 116 Property, plant and equipment

These Amendments to MFRS 116 prohibit revenue-based depreciation because revenue does not, as a matter of principle, reflect the way in which an item of property, plant and equipment is used or consumed.

Amendments to MFRS 119 Employee Benefits

The Amendment clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. The Amendment also clarifies that the depth of the market for high quality corporate bonds should be assessed at a currency level.

2. Basis of preparation and Significant Accounting Policies (continued)

(a) Basis of Preparation (continued)

Annual periods beginning on/after 1 January 2016 (continued)

Amendments to MFRS 127 Separate Financial Statements

The Amendments allow a parent and investors to use the equity method in its separate financial statement to account for investments in subsidiaries, joint ventures and associates, in addition to the existing options.

Amendments to MFRS 134 Interim Financial Reporting

The Amendment clarifies the meaning of disclosure of information 'elsewhere in the interim financial report' as used in MFRS 134. The Amendment requires such disclosures to be given either in the interim financial statements or incorporated by cross-reference from the interim financial statements to some other statement that is available to users of the financial statements on the same terms as the interim financial statements and at the same time.

Amendments to MFRS 138 Intangible assets

These Amendments to MFRS 138 introduce a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate. This presumption can be overcome only in the limited circumstances:

- In which the intangible asset is expressed as a measure of revenue, i.e. in the circumstance in which the predominant limiting factor that is inherent in an intangible asset is the achievement of a revenue thereshold; or
- When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

Annual periods beginning on/after 1 January 2017

MFRS 15 Revenue from Contracts with Customers

The Standard provides clarity on revenue recognition especially on areas where existing requirements unintentionally created diversity in practice. Under MFRS 15, an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Extensive disclosures are required to provide greater insight into both revenue that has been recognised, and revenue that is expected to be recognised in the future from existing contracts.

2. Basis of preparation and Significant Accounting Policies (continued)

(a) Basis of Preparation (continued)

Annual periods beginning on/after 1 January 2018

MFRS 9 Financial Instruments

This Standard addresses the classification, measurement and recognition of financial assets and financial liabilities.

Classification determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. The Standard introduces an approach for classification of financial assets which is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, thereby removing a source of complexity associated with previous accounting requirements. If a financial asset is a simple debt instrument and the objective of the entity's business model within which it is held is to collect its contractual cash flows, the financial asset is measured at amortised cost. In contrast, if that asset is held in a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets, then the financial asset is measured at fair value in the balance sheet, and amortised cost information is provided through profit or loss. If the business model is neither of these, then fair value information is increasingly important, so it is provided both in the profit or loss and in the balance sheet.

The Standard introduces a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, it requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis. The model requires an entity to recognise expected credit losses at all times and to update the amount of expected credit losses recognised at each reporting date to reflect changes in the credit risk of financial instruments. This model is forward-looking and it eliminates the threshold for the recognition of expected credit losses, so that it is no longer necessary for a trigger event to have occurred before credit losses are recognised.

In addition, the Standard introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements. As a result of these changes, users of the financial statements will be provided with better information about risk management and the effect of hedge accounting on the financial statements.

2. **Basis of preparation and Significant Accounting Policies (continued)**

(a) Basis of Preparation (continued)

The Group and the Company is in the process of assessing the impact of MFRS 9 and MFRS 15 in the year of initial application. 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.

Accounting standards and amendments to accounting standards that are not relevant and not yet effective for the Group and the Company are as follows:

- Amendments to MFRS 10, MFRS 12 and MFRS 128, “Investment Entities: Applying the Consolidation Exception”
- MFRS 14, “Regulatory Deferral Accounts”
- Amendments to MFRS 116 and MFRS 141, “Agriculture: Bearer Plants”

(b) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (“RM”), which is the Company’s functional currency.

(c) Significant accounting estimates and judgements

Estimates, assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group and Company’s accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on historical 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) Depreciation of property, plant and equipment

The costs of property, plant and equipment are depreciated on a straight-line basis over the useful lives of the property, plant and equipment. Management estimates the useful lives of the property, plant and equipment as stated in Note 2(f)(iii) to the financial statements. These are common life expectancies applied in the industries. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

2. **Basis of preparation and Significant Accounting Policies (continued)**

(c) Significant accounting estimates and judgements (continued)

(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.

(iv) 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.

(v) Provisions for liabilities

Provisions for liabilities are recognised in accordance with accounting policy in Note 2(m) to the financial statements. To determine whether it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made, the Group takes into consideration factors such as existence of legal/contractual agreements, past historical experience, external advisors’ assessments and other available information.

(d) 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.

2. **Basis of preparation and Significant Accounting Policies (continued)**

(d) Basis of Consolidation (continued)

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 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.

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.

2. Basis of preparation and Significant Accounting Policies (continued)

(e) Investment in subsidiaries

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.

(f) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The policy of recognition and measurement of impairment losses is in accordance with Note 2(g) to the financial statements.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

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.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss as incurred.

2. **Basis of preparation and Significant Accounting Policies (continued)**

(f) Property, plant and equipment (continued)

(iii) Depreciation

Depreciation is recognised in the profit or loss on a straight-line basis over the estimated useful lives of property, plant and equipment.

Leasehold land is amortised on a straight line method over the period of the lease. All other property, plant and equipment are depreciated on a straight-line method at rates calculated to write off the cost of the assets to their residual values over their estimated useful lives 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 reassessed at each reporting period, and adjusted as appropriate.

Gains or losses on disposals are determined by comparing net disposal proceeds with carrying amount and are recognised in the profit or loss.

(g) Impairment of non-financial assets

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.

2. **Basis of preparation and Significant Accounting Policies (continued)**

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

Impairment losses are recognised in profit or loss unless it reverses a previous revaluation in which it is charged to the revaluation surplus. Impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

(h) 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.

(i) 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.

2. **Basis of preparation and Significant Accounting Policies (continued)**

(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:

Financial assets at fair value through profit or loss

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.

Loans and receivables

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.

Held-to-maturity financial assets

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.

Available-for-sale financial assets

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.

2. **Basis of preparation and Significant Accounting Policies (continued)**

(j) Financial assets (continued)

(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.

(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.

2. Basis of preparation and Significant Accounting Policies (continued)

(j) Financial assets (continued)

(iii) Subsequent measurement (continued)

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 (continued)**

(j) Financial assets (continued)

(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.

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.

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.

(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.

2. Basis of preparation and Significant Accounting Policies (continued)

(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.

(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:

	2014 RM	2013 RM
United States Dollar (USD)	3.4950	3.2815

(o) Income tax

Income tax on the profit or loss for the financial year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the financial year and is measured using the tax rates that have been enacted at the reporting date.

2. **Basis of preparation and Significant Accounting Policies (continued)**

(o) Income tax (continued)

Deferred tax is provided for, using the liability method, on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax is recognised in profit or loss, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

(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.

(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.

2. **Basis of preparation and Significant Accounting Policies (continued)**

(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.

(iii) Termination benefits

Termination benefits are payments due to employees as a result of the termination of employment before the normal retirement date or to encourage voluntary redundancy. They are recognised as a liability and as an expense when the Group has a detailed formal plan for termination with no realistic possibility of withdrawal. In the case of voluntary redundancy, the benefits are accounted for based on the number of employees expected to accept the offer.

(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.

2. **Basis of preparation and Significant Accounting Policies (continued)**

(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) Earnings per share

The Group presents basic earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

(v) 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.

(w) 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

Group	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
2014							
Cost							
At 1 January 2014	10,130,000	11,439,101	34,582,216	1,820,282	11,946,725	6,155,967	76,074,291
Additions	-	63,791	821,581	54,800	831,839	62,597	1,834,608
Disposal	-	-	-	(1,411,088)	-	-	(1,411,088)
At 31 December 2014	10,130,000	11,502,892	35,403,797	463,994	12,778,564	6,218,564	76,497,811
Accumulated depreciation							
At 1 January 2014	1,872,706	3,645,218	22,900,432	1,467,523	9,001,551	3,932,937	42,820,367
Charge for the financial year	120,281	242,345	1,176,132	123,254	919,294	235,532	2,816,838
Disposal	-	-	-	(1,403,753)	-	-	(1,403,753)
At 31 December 2014	1,992,987	3,887,563	24,076,564	187,024	9,920,845	4,168,469	44,233,452
Carrying amount							
At 31 December 2014	8,137,013	7,615,329	11,327,233	276,970	2,857,719	2,050,095	32,264,359

3. **Property, Plant and Equipment (continued)**

Group	**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
2013							
Cost							
At 1 January 2013	10,130,000	11,439,101	34,257,618	1,730,234	10,746,300	5,671,174	73,974,427
Additions	-	-	325,829	90,048	1,204,325	484,793	2,104,995
Reclassification	-	-	(1,231)	-	-	-	(1,231)
Write-off	-	-	-	-	(3,900)	-	(3,900)
At 31 December 2013	10,130,000	11,439,101	34,582,216	1,820,282	11,946,725	6,155,967	76,074,291
Accumulated depreciation							
At 1 January 2013	1,752,423	3,416,436	21,736,537	1,354,341	7,922,822	3,695,058	39,877,617
Charge for the financial year	120,283	228,782	1,163,967	113,182	1,081,134	237,879	2,945,227
Reclassification	-	-	(72)	-	-	-	(72)
Write-off	-	-	-	-	(2,405)	-	(2,405)
At 31 December 2013	1,872,706	3,465,218	22,900,432	1,467,523	9,001,551	3,932,937	42,820,367
Carrying amount							
At 31 December 2013	8,257,294	7,793,883	11,681,784	352,759	2,945,174	2,223,030	33,253,924

3. **Property, Plant and Equipment (continued)**

(a) The remaining period of the lease term of the leasehold land is 74 (2013: 75) 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 14 to the financial statements are as follows:

	Group	
	2014	2013
	RM	RM
Leasehold land	8,137,013	8,257,294
Factory buildings	7,615,329	7,793,883
	15,752,342	16,051,177

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

	Group	
	2014	2013
	RM	RM
Plant and machinery	1,271,391	664,169
Motor vehicles	128,274	175,392
	1,399,665	839,561

(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	
	2014	2013
	RM	RM
Aggregate costs	1,834,608	2,104,995
Finance lease financing	(805,000)	(335,468)
Cash payments	1,029,608	1,769,527

4. Investment in Subsidiary Companies

(a) Investment in subsidiary companies

	Company 2014 RM	Company 2013 RM
In Malaysia		
Unquoted shares, at cost	14,511,655	14,511,655
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 2014 %	Effective ownership and voting interest 2013 %	Principal activities
Direct holding:				
Paragon Car Carpets & Components Sdn. Bhd.	Malaysia	100	100	Manufacturing and distribution of 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 in commercial carpets

4. Investment in Subsidiary Companies (continued)

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

Name of companies	Country of incorporation/ Principal place of business	Effective ownership and voting interest 2014 %	2013 %	Principal activities
Subsidiary company of Paragon Expression Sdn. Bhd.:				
Paragon Property Development Sdn. Bhd.	Malaysia	100	100	Dealing in land, properties and other property development related activities

5. Deferred Taxation

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	Group 2014 RM	2013 RM
Deferred tax assets	-	(71,768)
Deferred tax liabilities	2,197,077	1,900,462
	2,197,077	1,828,694
At 1 January	1,828,694	2,011,455
Recognised in profit or loss (Note 21):		
- Property, plant and equipment	472,966	(182,492)
- Unutilised tax losses	107,823	(268)
- Unabsorbed capital allowances	(316,493)	-
- Allowance for impairment on trade receivables	104,087	(1)
At 31 December	2,197,077	1,828,694

5. Deferred Taxation (continued)

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

	Group 2014 RM	Group 2013 RM
Deferred tax assets:		
- Impairment on trade receivables	-	(104,088)
Offsetting	-	
- Property, plant and equipment		32,320
	-	(71,768)
Deferred tax liability:		
- Property, plant and equipment	3,579,005	2,844,943
Offsetting		
- Unutilised tax losses and tax credits	(804,338)	(944,481)
- Unabsorbed capital allowances	(577,590)	-
	2,197,077	1,900,462

6. Inventories

	Group 2014 RM	Group 2013 RM
At cost:		
Raw materials	10,017,168	6,805,005
Work-in-progress	2,415,401	2,265,098
Finished goods	14,415,856	13,221,933
	26,848,425	22,292,036

7. Trade Receivables

	Group 2014 RM	Group 2013 RM
Trade receivables	9,984,464	13,395,823
Retention sum	130,706	-
	10,115,170	13,395,823
Less: Impairment losses	(584,091)	(653,126)
	9,531,079	12,742,697

The Group's normal trade credit term range from 60 to 90 days (2013: 60 to 90 days). Other credit terms are assessed and approved on a case to case basis.

7. **Trade Receivables (continued)**

Ageing analysis of trade receivables

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

	Group 2014 RM	Group 2013 RM
Neither past due or impaired	3,265,529	6,635,983
1 - 90 days past due but not impaired	5,866,773	4,357,591
91 - 180 days past due but not impaired	398,777	1,749,123
	6,265,550	6,106,714
Individually impaired	584,091	653,126
	10,115,170	13,395,823

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 Group's trade receivables of RM584,091 (2013: RM653,126) were individually impaired. The individually impaired receivables mainly relate to customers which are facing difficulties in cash flows. As at 31 December 2014, the impairment loss for these receivables is RM584,091 (2013: RM653,126).

Movements on the allowance for impairment of trade receivables are as follows:

	Group 2014 RM	Group 2013 RM
At 1 January	653,126	764,812
Allowance made during the financial year	-	120,000
Reversal of impairment losses	(69,035)	-
Written off	-	(231,686)
At 31 December	584,091	653,126

	Group 2014 RM	Group 2013 RM
Trade receivables – nominal amounts	584,091	653,126
Less: Allowance for impairment loss	(584,091)	(653,126)
	-	-

7. Trade Receivables (continued)

The currency exposure profiles of trade receivables are as follows:

	Group 2014 RM	Group 2013 RM
Ringgit Malaysia	9,037,651	12,393,502
United States Dollar	493,428	349,195
	9,531,079	12,742,697

8. Other Receivables

	Group 2014 RM	Group 2013 RM	Company 2014 RM	Company 2013 RM
Other receivables	18,870,153	19,027,310	18,359,349	18,359,349
Deposits	16,756,191	16,791,345	16,540,000	16,540,000
Prepayments	132,308	83,349	-	-
	35,758,652	35,902,004	34,899,349	34,899,349
Less: Impairment losses	(34,927,064)	(16,540,000)	(34,899,349)	(16,540,000)
	831,588	19,362,004	-	18,359,349

Movements on the allowance for impairment of other receivables are as follows:

	Group 2014 RM	Group 2013 RM	Company 2014 RM	Company 2013 RM
At 1 January	16,540,000	16,599,646	16,540,000	16,540,000
Provisions made during the financial year	18,387,064	-	18,359,349	-
Written off	-	(59,646)	-	-
At 31 December	34,927,064	16,540,000	34,899,349	16,540,000

Included in allowance for impairment is an amount of RM34,540,000 (2013: RM16,540,000) recognised in relation to the Group's and Company's pending material litigation as disclosed in Note 29 to the financial statements.

9. Amount Owing by/(to) Subsidiary Companies

	Company 2014 RM	2013 RM
Amount owing by subsidiary companies	25,163,250	23,656,121
Less: Impairment loss	(1,855,344)	(1,855,344)
	23,307,906	21,800,777
Amount owing to subsidiary companies	414,130	-

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

10. Cash and Bank Balances

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

	Group		Company	
	2014 RM	2013 RM	2014 RM	2013 RM
Ringgit Malaysia	399,755	761,253	27,743	20,843
United States Dollar	845	118,214	-	-
	400,600	879,467	27,743	20,843

11. Trade Payables

The currency exposure profiles of trade payables are as follows:

	Group 2014 RM	2013 RM
Ringgit Malaysia	1,720,100	2,874,709
United States Dollar	3,033,063	570,723
	4,753,163	3,445,432

The normal trade credit terms granted to the Group range from 60 to 120 days (2013: 60 to 120 days).

12. Other Payables

	Group		Company	
	2014	2013	2014	2013
	RM	RM	RM	RM
Other payables	4,790,283	4,369,889	1,912,812	2,143,594
Accruals	1,120,822	1,122,617	173,500	140,300
	5,911,105	5,492,506	2,086,312	2,283,894

13. Finance Lease Liabilities

	Group	
	2014	2013
	RM	RM
Minimum finance lease payments		
Within one year	363,228	173,890
Between one and five years	1,049,013	494,092
More than five years	-	39,355
	1,412,241	707,337
Less: Future finance charges	(165,744)	(78,570)
Present value of finance lease liabilities	1,246,497	628,767
Present value of finance lease liabilities		
Within one year	295,952	142,643
Between one and five years	950,545	447,565
More than five years	-	38,559
	1,246,497	628,767
Analysed as:		
Repayable within twelve months	295,952	142,643
Repayable after twelve months	950,545	486,124
	1,246,497	628,767

The effective interest rates of the Group are between 2.67% and 4.30% (2013: 2.42% and 4.05%) per annum.

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

14. Bank Borrowings

	Group 2014 RM	Group 2013 RM
Current		
Bank overdrafts	12,280,662	12,203,266
Banker's acceptances	4,365,974	4,491,827
Usance letter of credit	431,507	-
Term loans	578,913	698,266
	17,657,056	17,393,359
Non-Current		
Term loans	1,541,172	2,117,091
	19,198,228	19,510,450
Secured		
Bank overdrafts	12,280,662	12,203,266
Banker's acceptances	4,365,974	4,491,827
Usance letter of credit	431,507	-
Term loans	2,120,085	2,815,357
	19,198,228	19,510,450

Maturity of borrowings is as follows:

	Group 2014 RM	Group 2013 RM
Within one year	17,657,056	17,393,359
Between one and five years	1,541,172	1,794,999
More than five years	-	322,092
	19,198,228	19,510,450

(a) The secured bank overdrafts, banker's acceptances, usance letter of credits and term loans are secured on the following:

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

(ii) Corporate guarantee by the Company.

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

(c) The term loans are repayable by monthly installments over 2 to 4 years (2013: 2 to 5 years).

14. Bank Borrowings (continued)

The weighted average effective interest rate is as follows:

	Group 2014 RM	Group 2013 RM
Bank overdrafts	8.55	8.35
Banker's acceptances	5.00	4.75
Usance letter of credit	8.10	-
Term loans	6.35	6.15

15. Share Capital

	Group/Company Number of ordinary shares of RM1 each 2014	2013	Amount 2014 RM	2013 RM
Authorised share capital				
At 1 January/31 December	100,000,000	100,000,000	100,000,000	100,000,000
Issued and fully paid				
At 1 January/31 December	70,000,000	70,000,000	70,000,000	70,000,000

16. Merger Reserves

	Group 2014 RM	Group 2013 RM
Non-distributable:		
Merger reserves	4,618,481	4,618,481

17. Treasury Shares

	Group/Company 2014 RM	2013 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 the requirements of section 67A of the Companies Act, 1965. There has been no sale or cancellation of such shares to date.

18. Revenue

	Group 2014 RM	2013 RM
Sale of carpets	49,470,202	52,703,927

19. Finance Costs

	Group 2014 RM	Group 2013 RM
Finance costs on:		
Bank overdrafts	943,254	853,910
Banker acceptance	142,187	141,128
Finance lease	46,501	60,304
Usance letter of credit	26,351	13,388
Term loans	141,962	178,575
	1,300,255	1,247,305

20. Loss Before Taxation

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

	Group 2014 RM	Group 2013 RM	Company 2014 RM	Company 2013 RM
Auditors' remuneration	59,000	57,000	14,000	14,000
Impairment loss on trade receivables	-	120,000	-	-
Impairment loss on other receivables	18,387,064	-	18,359,349	-
Depreciation of property, plant and equipment	2,816,838	2,945,227	-	-
Directors' remuneration:				
- fees	165,000	120,000	165,000	120,000
- salaries and other emoluments	522,045	811,463	522,045	80,070
- EPF	53,051	63,772	53,051	-
- benefits-in-kind	12,296	15,500	-	-
Reversal of impairment loss on trade receivables	(69,035)	-	-	-

20. Loss Before Taxation (continued)

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

	Group		Company	
	2014	2013	2014	2013
	RM	RM	RM	RM
Rental of warehouse	374,400	345,600	-	-
Property, plant equipment written off	-	1,495	-	-
Gain on disposal of property, plant and equipment	(44,880)	-	-	-
Realised loss on foreign exchange	31,819	22,916	-	-
Compensation awarded on legal proceedings	(2,810,654)	-	(2,810,654)	-
Finance income	(297)	(6,384)	(294)	(269)
Fire insurance claim	-	(670,860)	-	-

Included in depreciation of property, plant and equipment of the Group are amounts charged to costs of sales amounting to RM2,585,356 (2013: RM2,748,165).

21. Taxation

	Group		Company	
	2014	2013	2014	2013
	RM	RM	RM	RM
Income tax:				
- Current year	-	379,420	-	-
- Under provision in prior year	50,442	24,753	-	-
	50,442	404,173	-	-
Deferred tax (Note 5):				
- Current year	(314,865)	(63,916)	-	-
- Under/(Over) provision in prior year	683,248	(118,845)	-	-
	368,383	(182,761)	-	-
Taxation for the financial year	418,825	221,412	-	-

Income tax is calculated at the Malaysia statutory tax rate of 25% (2013: 25%) of the estimated assessable loss for the financial year.

21. Taxation (continued)

A reconciliation of income tax expense applicable to loss 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		Company	
	2014 RM	2013 RM	2014 RM	2013 RM
Loss before taxation	(20,333,393)	(365,079)	(17,061,868)	(1,233,663)
Taxation at Malaysian statutory tax rate of 25% (2013: 25%)	(5,083,348)	(91,270)	(4,265,467)	(308,416)
Expenses not deductible for tax purposes	5,337,754	602,106	4,968,131	308,416
Income not subject to tax	(718,948)	(167,690)	(702,664)	-
Crystalisation of deferred tax liabilities on amortisation on revalued properties	-	(27,642)	-	-
Deferred tax asset not recognised	149,677	-	-	-
Under provision of income taxation in prior year	50,442	24,753	-	-
Under/(Over) provision of deferred tax in prior year	683,248	(118,845)	-	-
Taxation for the financial year	418,825	221,412	-	-

Deferred tax assets not recognised in respect of the following items:-

	2014 RM	2013 RM
Deductible temporary differences	901,052	484,747
Unutilised tax losses	903,889	721,484
	1,804,941	1,206,231
Deferred tax assets not recognised at 25%	451,235	301,558

22. Loss Per Share

(a) Basic loss per share

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

22. **Loss Per Share (continued)**

(a) Basic loss per share (continued)

	Group 2014 RM	Group 2013 RM
Loss for the financial year attributable to owners of the Company	(20,750,170)	(584,700)
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 per share (sen)	(32.07)	(0.90)

(b) Diluted loss per share

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

23. **Staff Costs**

	Group 2014 RM	Group 2013 RM
Staff costs (excluding Directors)	9,290,581	8,799,571

Included in the staff costs above are contributions made to the Employees Provident Fund under a defined contribution plan for the Group amounting to RM636,633 (2013: RM646,565).

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.

24. Key Management Personnel Compensation (continued)

The key management personnel compensation is as follows:

	Group		Company	
	2014	2013	2014	2013
	RM	RM	RM	RM
Short-term employee benefits				
- Fees	165,000	120,000	165,000	120,000
- Salaries and other emoluments	1,014,501	2,487,420	522,045	88,230
- Estimated monetary value of benefits-in-kind	23,196	28,666	-	-
	1,202,697	2,636,086	687,045	208,230
Post employment benefits				
- Defined contribution plan	110,771	259,370	53,051	-
	1,313,468	2,895,456	740,096	208,230

25. Contingent Liabilities

	Company	
	2014	2013
	RM	RM
Unsecured corporate guarantees in respect of banking facilities granted to subsidiary companies	19,198,228	19,510,450

26. 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.

26. **Segment Information (continued)**

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 Directors. Segment total assets are used to measure the return of assets of each segment.

26. **Segment Information (continued)**

	Commercial RM	Automotive RM	Non-Reportable Segments RM	Inter-Segment Eliminations RM	Total RM
2014					
Revenue					
External revenue	23,016,559	26,453,643	-	-	49,470,202
Inter-segment revenue	13,005,689	2,545,522	-	(15,551,211)	-
Total revenue	36,022,248	28,999,165	-	(15,551,211)	49,470,202
Results					
Finance income	3	-	294	-	297
Finance costs	(561,692)	(738,563)	-	-	(1,300,255)
Depreciation of property, plant and equipment	(994,170)	(1,822,668)	-	-	(2,816,838)
Impairment of other receivables	(47,082)	-	(18,359,349)	-	(18,406,431)
Taxation	(624,522)	205,700	(3)	-	(418,825)
Segment loss	(2,213,434)	(1,420,767)	(17,101,078)	(16,939)	(20,752,218)
Segment assets	48,830,843	39,626,726	48,347,519	(66,426,768)	70,378,320
Segment liabilities	33,209,634	29,347,255	11,726,687	(40,678,094)	33,605,482

26. **Segment Information (continued)**

	Commercial RM	**Automotive** RM	**Non-Reportable Segments** RM	**Inter-Segment Eliminations** RM	**Total** RM
2013					
Revenue					
External revenue	33,008,826	19,695,101	-	-	52,703,927
Inter-segment revenue	16,735,178	3,188,904	-	(19,924,082)	-
Total revenue	49,744,004	22,884,005	-	(19,924,082)	52,703,927
Results					
Finance income	-	-	(6,384)	-	(6,384)
Finance cost	569,405	677,900	-	-	1,247,305
Fire insurance claim	-	(670,860)	-	-	(670,860)
Depreciation of property, plant and equipment	1,164,155	1,781,072	-	-	2,945,227
Impairment of trade receivables	120,000	-	-	-	120,000
Taxation	485,866	(264,454)	-	-	221,412
Segment profit/(loss)	1,030,658	(310,409)	(1,306,740)	-	(586,491)
Segment assets	52,662,527	38,962,047	13,709,196	(16,180,867)	89,152,903
Segment liabilities	34,827,844	27,261,809	9,515,039	(39,976,845)	31,627,847

27. Financial Instruments

The table below provides an analysis of financial instruments and their categories:

	2014		2013	
	Loans and receivables / other financial liabilities RM	**Total** RM	**Loans and receivables/ other financial liabilities** RM	**Total** RM
Group				
Financial assets				
Trade receivables	9,531,079	9,531,079	12,742,697	12,742,697
Other receivables	699,280	699,280	19,278,655	19,278,655
Cash and bank balances	400,600	400,600	879,467	879,467
	10,630,959	10,630,959	32,900,819	32,900,819
Financial liabilities				
Trade payables	4,753,163	4,753,163	3,445,432	3,445,432
Other payables	4,790,283	4,790,283	4,369,889	4,369,889
Finance lease liabilities	1,246,497	1,246,497	628,767	628,767
Bank borrowings	19,198,228	19,198,228	19,510,450	19,510,450
	29,988,171	29,988,171	27,954,538	27,954,538
Company				
Financial assets				
Other receivables	-	-	18,359,349	18,359,349
Amount owing by subsidiary companies	22,307,906	22,307,906	21,800,777	21,800,777
Cash and bank balances	27,743	27,743	20,843	20,843
	22,335,649	22,335,649	40,180,969	40,180,969
Financial liabilities				
Amount owing to subsidiary companies	414,130	414,130	-	-
Other payables	1,912,812	1,912,812	2,143,594	2,143,594
	2,326,942	2,326,942	2,143,594	2,143,594

27. Financial Instruments (continued)

The Group's financial risk management policy is to ensure that adequate financial resources are available for the development of the Group's operations whilst managing its financial risks, including credit risk, liquidity and market risk.

Credit risk

Credit risk is the risk of a financial loss to the Group if a counterparty of a financial asset fails to meet its contractual obligations. The Group'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 disclosed in Note 7.

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

Liquidity risk

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

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

27. Financial Instruments (continued)

Liquidity risk (continued)

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
2014							
Group							
Trade payables	4,753,163	-	4,753,163	4,753,163	-	-	-
Other payables	4,790,283	-	4,790,283	4,790,283	-	-	-
Finance lease liabilities	1,246,497	2.67 to 4.30	1,412,241	363,228	632,454	416,559	-
Bank borrowings	19,198,228	5.00 to 8.55	20,413,395	18,638,835	729,264	1,045,296	-
	29,988,171		31,369,082	28,545,509	1,361,718	1,461,855	-
Company							
Amount owing to subsidiary companies	414,130	-	414,130	414,130	-	-	-
Other payables	1,912,812	-	1,912,812	1,912,812	-	-	-
	2,326,942		2,326,942	2,326,942	-	-	-
2013							
Group							
Trade payables	3,445,432	-	3,445,432	3,445,432	-	-	-
Other payables	4,369,889	-	4,369,889	4,369,889	-	-	-
Finance lease liabilities	628,767	2.42 to 4.05	707,337	173,890	494,092	39,355	-
Bank borrowings	19,510,450	4.75 to 8.35	20,243,164	17,672,996	795,608	1,423,881	350,679
	27,954,538		28,765,822	25,662,207	1,289,700	1,463,236	350,679
Company							
Other payables	2,143,594	-	2,143,594	2,143,594	-	-	-

27. **Financial Instruments (continued)**

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 financial position and cash flows. The Group is not significantly affected by foreign exchange rate and price risks.

(a) 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:

	United States Dollar RM
2014	
Trade receivables	493,428
Cash and bank balances	845
Trade payables	(3,033,063)
	(2,538,790)
2013	
Trade receivables	349,195
Cash and bank balances	118,214
Trade payables	(570,723)
	(103,314)

27. **Financial Instruments (continued)**

Market risk (continued)

(a) Foreign currency exchange risk (continued)

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 USD exchange rate against the Group's functional currency ("RM"), with all other variables remain constant.

	Group Increase/(Decrease) profit or loss	
	2014	2013
	RM	RM
USD/RM – strengthening 5%	(95,205)	(3,875)

(b) 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	
	2014	2013
	RM	RM
Floating rate instruments		
Term loans	2,120,085	2,815,357
Banker's acceptances	4,365,974	4,491,827
Usance letter of credit	431,507	-
Bank overdrafts	12,280,662	12,203,266
	19,198,228	19,510,450
Fixed rate instruments		
Finance lease liabilities	1,246,497	628,767

Since the Group and the Company'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 and the Company's profit or loss.

27. **Financial Instruments (continued)**

Market risk (continued)

(b) Interest rate risk (continued)

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	
	2014	2013
	RM	RM
Increase of 100 basis points (“bp”)	(143,987)	(146,328)

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.

	2014		2013	
	Carrying amount RM	Fair value Level 3 RM	Carrying amount RM	Fair value Level 3 RM
Group				
Finance lease liabilities	1,246,497	839,338	628,767	476,027

(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.

28. 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 borrowings divided by equity attributable to owners of the Company.

	Group	
	2014	2013
	RM	RM
Borrowings	19,198,228	19,510,450
Finance lease liabilities	1,246,497	628,767
Less: Cash and bank balances	(400,600)	(879,467)
Net borrowings	20,044,125	19,259,750
Equity attributable to owners of the Company	36,794,125	57,544,295
Gearing ratio	54.48%	33.47%

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

29. Material Litigation

(i) 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 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.

29. **Material litigation (continued)**

(i) Paragon Union Berhad vs Prestamewah Development Sdn Bhd & Datuk Liw Jun Wai (continued)

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 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.

29. **Material litigation (continued)**

(i) Paragon Union Berhad vs Prestamewah Development Sdn Bhd & Datuk Liw Jun Wai (continued)

(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.

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 and the hearing on the said application has been fixed on 1 June 2010.

On 17 May 2010, the Federal Court dismissed the Company's application for leave to appeal with costs.

The Company's application for summary judgment was fixed for hearing on 9 December 2010.

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.

The Company had instructed the solicitors to proceed 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 Record of Appeal was lodged with the Court of Appeal on 12 August 2011.

The Company's appeal was fixed for hearing at the Court of Appeal on 1 March 2012. The Court dismissed the Company's appeal and directed the matter to be fixed for full trial.

The Court fixed the suit for trial on 3 September 2012 and was heard together with Kuala Lumpur High Court Suit No. 22NCC-2053-2010 between the Plaintiff and the Defendants.

The Court further fixed the suit for continued trial on 27 March 2013 and subsequently on 10 April 2013 and 23 April 2013. The Court concluded trial of the matter and fixed for oral submissions on 5 September 2013.

29. **Material litigation (continued)**

(i) Paragon Union Berhad vs Prestamewah Development Sdn Bhd & Datuk Liw Jun Wai (continued)

The Court fixed for further submissions on 3 December 2013. Subsequently, the Court fixed for continued submissions on 14 February 2014.

On 14 February 2014, the Court vacated the hearing for oral submissions and fixed for the hearing to be on 22 April 2014.

On 22 April 2014, the Court fixed the decision date to be on 18 June 2014

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

On 19 March 2015, the Company filed the Memorandum of Appeal by way of a Supplemental Record of Appeal and the Court of Appeal has fixed 28 April 2015 as final case management.

As the ultimate outcome of these claims cannot presently be determined, out of prudence and without prejudice, the Board of Directors has decided to make a specific provision of RM18,000,000 for the said Material Litigation.

As at 31 December 2014, the Company has made full impairment loss for the aforesaid amount as disclosed in Note 8 to the financial statements.

(ii) Paragon Union Berhad vs Wong Chee Kong & Poh Hock Leng

In the financial year 1997, the Company terminated the conditional agreements for the acquisition of the entire equity interest comprising 9,985,735 ordinary shares of RM1.00 each in an unquoted company, namely, KINMA Holdings Sdn Bhd ("KINMA").

The Company instructed its solicitors to commence legal proceedings against the vendors for the recovery of deposits and advances paid totaling RM17,770,000. The Company obtained Court judgement on 12 December 2007 for the refund of RM1,230,000, representing deposit paid to a vendor and the said amount was received by the Company.

The High Court struck out the Company's claim summarily on 24 November 2010 and subsequently an appeal against the decision has been lodged.

On 31 December 2014, the Court allowed the Company to claim the remaining RM 16,540,000 plus interest from the defendants. However, the defendants appealed to the Court of Appeal on 9 January 2015 and the Court of Appeal has fixed on 26 May 2015 as the next case management.

The Company has made full impairment loss for the aforesaid amount as disclosed in Note 8 to the financial statements in the previous financial year.

29. **Date of Authorisation for Issue**

The financial statements of the Group and of the Company for the financial year ended 31 December 2014 were authorised for issue in accordance with a resolution of the Board of Directors on 24 April 2015.

REALISED AND UNREALISED PROFITS/LOSSES (SUPPLEMENTARY INFORMATION)

The breakdown of the retained earnings of the Group and of the Company as of 31 December 2014 into realised and unrealised amounts is as follows:

	Group		Company	
	2014	**2013**	**2014**	**2013**
	RM	**RM**	**RM**	**RM**
Total accumulated losses:				
- Realised	(19,539,453)	827,443	(33,313,340)	(16,251,539)
- Unrealised	(2,197,077)	(1,828,694)	-	-
	(21,736,530)	(1,001,251)		
Less: Consolidation adjustments	(2,630,156)	(2,615,265)	-	-
	(24,366,686)	(3,616,516)	(33,313,340)	(16,251,539)

The determination of realised and unrealised profits or losses is based on the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants on 20 December 2010.

The above disclosure of realised and unrealised profits or losses is made solely for complying with the disclosure requirements stipulated in the directive of Bursa Malaysia Securities Berhad and is not made for any other purposes.

PARAGON UNION BERHAD
(286457-V)
(Incorporated in Malaysia)

FINANCIAL STATEMENTS

31 DECEMBER 2014

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