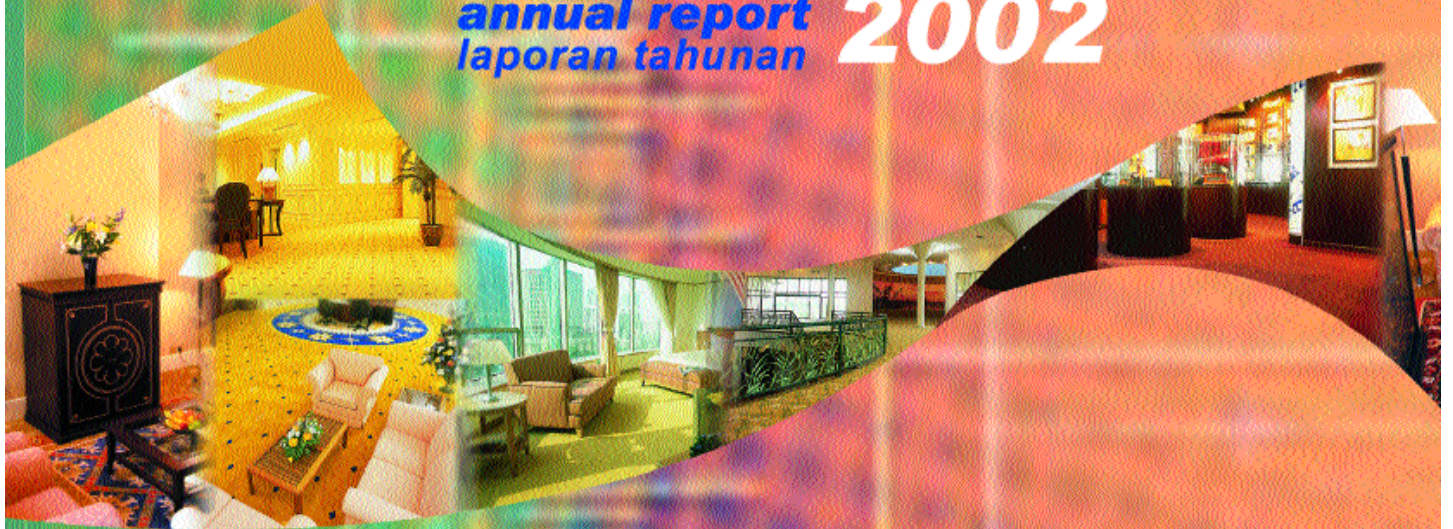
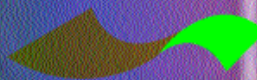


*annual report*  
*laporan tahunan* **2002**



**PARAGON UNION**  
**BERHAD**  
286457 - V





# C O N T E N T S

Notice of Annual General Meeting	2 - 3
Statement Accompanying Notice of Annual General Meeting	4
Directors' Profile	5 - 6
Corporate Information	7
Chairman's Statement	8 - 10
Statement on Corporate Governance	11 - 16
Statement on Internal Control	17
Audit Committee Report	18 - 21
Subsidiary Companies	22
List of Properties Held By The Group	23
Analysis of Shareholdings	24 - 25
Directors' Report	26 - 30
Report of the Auditors	31
Balance Sheets	32
Income Statements	33
Consolidated Statement of Changes in Equity	34
Statement of Changes in Equity	35
Cash Flow Statements	36 - 37
Notes to and forming part of the Financial Statements	38 - 59
Statement by Directors	60
Statutory Declaration	61
Proxy Form	

## NOTICE OF NINTH ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** the Ninth Annual General Meeting of the Company will be held at the Cempaka Raya Room, Equatorial Hotel, Jalan Sultan Ismail, 50250 Kuala Lumpur on Tuesday, 17 June 2003 at 11.00 a.m. for the following purposes:

### A G E N D A

#### ORDINARY BUSINESS

- |   |                     |
|---|---------------------|
| 1. To receive the Audited Financial Statements for the year ended 31 December 2002 together with the Directors' and Auditors' Reports thereon.        | <b>Resolution 1</b> |
| 2. To approve the payment of Directors' fees for the year ended 31 December 2002.   | <b>Resolution 2</b> |
| 3. To approve a First and Final Dividend of 4% less tax at 28% for the year ended 31 December 2002.   | <b>Resolution 3</b> |
| 4. To re-elect Mr. Tan Hong Kien who is retiring as Director of the Company in accordance with Article 75 of the Company's Articles of Association.   | <b>Resolution 4</b> |
| 5. To re-elect Mr. Teoh Tek Siong who is retiring as Director of the Company in accordance with Article 75 of the Company's Articles of Association.  | <b>Resolution 5</b> |
| 6. To re-elect Mr. Yap Kiang Siang who is retiring as Director of the Company in accordance with Article 81 of the Company's Articles of Association. | <b>Resolution 6</b> |
| 7. To re-appoint Messrs. Moores Rowland, the retiring Auditors and to authorise the Board of Directors to fix their remuneration.                     | <b>Resolution 7</b> |

#### SPECIAL BUSINESS

To consider and, if thought fit, to pass with or without modifications, the following Ordinary Resolution:

- |   |                     |
|---|---------------------|
| 8. Ordinary Resolution                              | <b>Resolution 8</b> |
| • Authority for Directors to Allot and Issue Shares |                     |

"**THAT** subject always to the approvals of the relevant authorities, the Directors be and are hereby authorised pursuant to Section 132D of the Companies Act, 1965, to allot and issue shares in the Company at any time and upon such terms and conditions and for such purposes as the Directors may deem fit, provided that the aggregate number of shares to be issued pursuant to this resolution does not exceed ten per centum (10%) of the total issued capital of the Company at the time of issue and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company."

#### ANY OTHER BUSINESS

To transact any other ordinary business of the Company of which due notice shall have been given in accordance with the Company's Articles of Association and the Companies Act, 1965.

## NOTICE OF NINTH ANNUAL GENERAL MEETING

### NOTICE OF DIVIDEND ENTITLEMENT

**NOTICE IS HEREBY GIVEN THAT** the First and Final Dividend of 4% less tax at 28% in respect of the financial year ended 31 December 2002 will be payable on 2 July 2003 to Depositors registered in the Record of Depositors at the close of business on 23 June 2003.

A Depositor shall qualify for entitlement only in respect of:

- a) Shares transferred to the Depositor's Securities Account before 4.00 p.m. on 23 June 2003 in respect of ordinary transfers; and
- b) Shares bought on the Kuala Lumpur Stock Exchange on a cum entitlement basis according to the Rules of the Kuala Lumpur Stock Exchange.

BY ORDER OF THE BOARD  
**PARAGON UNION BERHAD**

.....  
Lim Phooi Kee (MIA 2759)  
Ng Yim Kong (LS 0008343)

Company Secretaries

Kuala Lumpur  
Date: 26 May 2003

Notes:

- A member of the Company entitled to attend and vote at the Meeting is entitled to appoint a Proxy to attend and vote on his (her) behalf.
- A Proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply.
- A member may appoint more than one Proxy to attend the same Meeting. Where a member appoints two or more Proxies, he shall specify the proportion of his shareholdings to be represented by each Proxy. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one Proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
- The Proxy Form shall be signed by the appointor or his(her) attorney duly authorised in writing or, if the member is a corporation, must be executed under its common seal or by its duly authorised attorney or officers.
- The instrument appointing a Proxy must be deposited at the Registered Office of the Company at 10th Floor, Tower Block, Kompleks Antarabangsa, Jalan Sultan Ismail, 50250 Kuala Lumpur not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote and in default the instrument of proxy shall not be treated as valid.

### EXPLANATORY NOTES ON SPECIAL BUSINESS

Resolution pursuant to Section 132D of the Companies Act, 1965

The proposed Ordinary Resolution under item 8 above, if passed, will empower the Directors of the Company, from the date of the above Annual General Meeting, authority to allot and issue shares in the Company up to an amount not exceeding in total 10% of the issued capital of the Company for such purposes as the Directors consider would be in the interest of the Company. This authority unless revoked or varied at a General Meeting will expire at the next Annual General Meeting.



## STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

### 1. Directors who are standing for re-election at the Ninth Annual General Meeting

- |                          |                |
|--------------------------|----------------|
| i. Mr. Tan Hong Kien     | (Resolution 4) |
| ii. Mr. Teoh Tek Siong   | (Resolution 5) |
| iii. Mr. Yap Kiang Siang | (Resolution 6) |

### 2. Details of attendance of Directors at Board Meetings

There were 6 Board of Directors' Meetings held during the financial year ended 31 December 2002. Attendance for each Director is as follows:

Name of Director	Attendance
Mr. Wong Thiam Loy	6/6
Mr. Tan Onn Poh	6/6
Mr. Tan Hong Kien	6/6
Mr. Michael Lim Hee Kiang	6/6
Mr. Teoh Tek Siong	6/6
Dato' Zainol Abidin bin Haji A. Hamid	6/6
Mr. Yap Kiang Siang (appointed on 1 August 2002)	2/2

### 3. Place, date and time of the Ninth Annual General Meeting

Date of Meeting	Time of Meeting	Place of Meeting
17 June 2003	11.00 a.m.	Cempaka Raya Room Equatorial Hotel Jalan Sultan Ismail 50250 Kuala Lumpur

## DIRECTORS' PROFILE

**Wong Thiam Loy** Aged 53, Malaysian  
Executive Chairman

Mr Wong Thiam Loy was appointed to the Board of Paragon Union Berhad ("Paragon" or "Company") on 3 March 1999 as the Executive Chairman. He has more than 20 years of experience in the construction, property development and related business. Among the property development projects in the Kuala Lumpur City undertaken by construction companies in which he was involved are the MBF Plaza, Menara SMI, Menara MCB, Wisma TIME, Regency Park Luxury Apartments, Bougainvilla Apartments, Holiday Villa Hotel/Club and Wangsa Baiduri Townhouse Project. He was formerly the Managing Director of Econstates Berhad and a Director of Golden Plus Holdings Berhad. He has no family relationship with any Director and/or major shareholders of Paragon and his directorship in Paragon does not give rise to any conflict of interest situation. He has no convictions for any offences within the past ten years.

**Tan Onn Poh** Aged 57, Malaysian  
Managing Director

Mr Tan Onn Poh was appointed to the Board of Paragon on 3 March 1999 as the Managing Director. He graduated with a Bachelor of Engineering (Hons.) degree in Mechanical Engineering from University of Malaya in 1971 and has more than 28 years of experience in trading, commerce and industry. He is a registered professional engineer ("P.E.") with the Board of Engineers, Malaysia. He worked as a mechanical engineer in Osborne & Chappel Mining and Consulting Engineers from 1971 to 1972 and in Federal Industrial Development Authority from 1972 to 1973 before joining the Hong Leong Group in 1973. He was with the Hong Leong Group until 1982, during which he assumed the positions of Sales Manager, General Manager and later Managing Director of various companies in the Group. He joined the Lion Group of companies in 1982 as Group Executive Director and was a Managing Director of several public listed companies in the Group until 1997. He was formerly a Director for Asia Commercial Finance (M) Bhd and is currently a Director of Silverstone

Berhad. He has no family relationship with any Director and/or major shareholders of Paragon and his directorship in Paragon does not give rise to any conflict of interest situation. He has no convictions for any offences within the past ten years.

**Tan Hong Kien** Aged 35, Malaysian  
Executive Director /  
Member of Audit Committee

Mr Tan Hong Kien was appointed to the Board of Paragon on 12 January 1999 as a Director. Subsequently, on 8 March 1999 he was appointed as the Executive Director. He obtained his professional qualification from the Chartered Institute of Management Accountants (UK) ("CIMA") and is an Associate Member of CIMA, and also a Chartered Accountant with the Malaysian Institute of Accountants. He joined Lion Plastic Industries Sdn Bhd in 1993 before leaving in 1997 as the Senior Accountant. He subsequently joined Bumi Luas Sdn Bhd and Optad Marketing Sdn Bhd as the Financial Controller. He is currently a Director in both the companies. He has no family relationship with any Director and/or major shareholders of Paragon and his directorship in Paragon does not give rise to any conflict of interest situation. He has no convictions for any offences within the past ten years.

**Yap Kiang Siang** Aged 50, Malaysian  
Executive Director

Mr Yap Kiang Siang was appointed to the Board of Paragon on 1 August 2002 as the Executive Director. He obtained his professional qualification from the Royal Institution of Chartered Surveyors, United Kingdom and the New Zealand Institute of Quantity Surveyors. He has more than 20 years of working experience in the construction, property development and related business both overseas and locally. He worked in Maltby & Partners, a professional quantity surveying firm in New Zealand from 1976 to 1980 and Baharuddin Ali & Low Sdn Bhd, a local professional quantity



## DIRECTORS' PROFILE

surveying firm from 1980 to 1984. He was involved in the senior management of various construction and property development companies, which had successfully completed numerous high-rise commercial buildings and residential projects within the Klang Valley. He was formerly the Executive Director (Properties) of Econstates Berhad. He has no family relationship with any Director and/or major shareholders of Paragon and his directorship in Paragon does not give rise to any conflict of interest situation. He has no convictions for any offences within the past ten years.

**Michael Lim Hee Kiang** Aged 55, Malaysian  
Independent  
Non Executive Director / Chairman of Audit Committee

Mr Michael Lim Hee Kiang was appointed to the Board of Paragon on 8 March 1999. He obtained a LLB with Honours and LLM with Distinction from the Victoria University of Wellington, New Zealand in 1972/1973. He was admitted as a Barrister and Solicitor to the Supreme Court of New Zealand in 1973. In 1974, he was admitted to the High Court, Sarawak and Brunei and subsequently to the High Court of Malaya in 1978. He was a lecturer at the Law Faculty, University of Malaya for three years from 1975 to 1977. He is currently an Advocate and Solicitor with Messrs. Shearn Delamore & Co. where he has been a partner with the firm for the last 25 years. His practice concentrates on corporate advices, takeovers & mergers, acquisitions, foreign investments and company restructurings. He sits on the Board of Selangor Properties Berhad, Dijaya Corporation Berhad, Diethelm Holdings (Malaysia) Berhad, Insas Berhad and Kiara Emas Asia Industries Berhad. He has no family relationship with any Director and/or major shareholders of Paragon and his directorship in Paragon does not give rise to any conflict of interest situation. He has no convictions for any offences within the past ten years.

**Teoh Tek Siong** Aged 48, Malaysian  
Independent  
Non Executive Director / Member of Audit Committee

Mr Teoh Tek Siong was appointed to the Board of Paragon on 8 September 1997. He obtained his law degree from the University of London in 1981 and is a barrister-at-law, of Lincoln's Inn, London. From January 1985 to August 1997, he was a partner of the legal firm of Messrs. Vincent Lim & Teoh and since September 1997, he commenced practicing as a sole proprietor under the name T.S. Teoh & Partners. He is currently a Director of Kiara Emas Asia Industries Berhad. He has no family relationship with any Director and/or major shareholders of Paragon and his directorship in Paragon does not give rise to any conflict of interest situation. He has no convictions for any offences within the past ten years.

**Dato' Zainol Abidin bin Haji A. Hamid**  
Independent Aged 61, Malaysian  
Non Executive Director

Dato' Zainol Abidin bin Haji A. Hamid was appointed to the Board of Paragon as the Independent Non-Executive Director on 28 July 2000. He obtained his LLB (Hons.) from the University of London. He served as a state civil service officer in Kedah since 1966 and left the State Government in 1980. He was a General Manager and Director of Kedah Cement Sdn Bhd (presently known as Kedah Cement Berhad) from 1981 to 1996. Presently, he is also the President of Malay Chambers of Commerce in Kedah Branch (Dewan Perniagaan Melayu Malaysia Negeri Kedah Darul Aman). He has no family relationship with any Director and/or major shareholders of Paragon and his directorship in Paragon does not give rise to any conflict of interest situation. He has no convictions for any offences within the past ten years.

# CORPORATE INFORMATION

## **DOMICILE**

Malaysia

## **LEGAL FORM AND PLACE OF INCORPORATION**

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

## **BOARD OF DIRECTORS**

Wong Thiam Loy	<i>(Executive Chairman)</i>
Tan Onn Poh	<i>(Managing Director)</i>
Tan Hong Kien	<i>(Executive Director)</i>
Yap Kiang Siang	<i>(Executive Director)</i>
Michael Lim Hee Kiang	<i>(Independent Non-Executive Director)</i>
Teoh Tek Siong	<i>(Independent Non-Executive Director)</i>
Dato' Zainol Abidin bin Haji A. Hamid	<i>(Independent Non-Executive Director)</i>

## **AUDIT COMMITTEE**

Michael Lim Hee Kiang  
*(Chairman & Independent Non-Executive Director)*  
Teoh Tek Siong  
*(Independent Non-Executive Director)*  
Tan Hong Kien  
*(Executive Director)*

## **REGISTRARS**

Signet Share Registration Services  
Sdn Bhd (506293-D)  
11th Floor, Tower Block  
Kompleks Antarabangsa  
Jalan Sultan Ismail  
50250 Kuala Lumpur

## **COMPANY SECRETARIES**

Lim Phooi Kee (MIA 2759)  
Ng Yim Kong (LS 0008343)

Tel: 603-2145 4337  
Fax: 603-2142 1353

## **REGISTERED OFFICE**

10th Floor, Tower Block  
Kompleks Antarabangsa  
Jalan Sultan Ismail  
50250 Kuala Lumpur

Tel: 603-2145 4337  
Fax: 603-2141 5757

## **AUDITORS**

Moore Rowland (AF 0539)  
Chartered Accountants

Wisma Selangor Dredging  
7th Floor South Block  
142-A Jalan Ampang  
50450 Kuala Lumpur

Tel: 603-2161 5222  
Fax: 603-2161 3909

## **PRINCIPAL PLACE OF BUSINESS**

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

Tel: 603-9074 4405  
Fax: 603-9074 4416

## **SOLICITORS**

Shearn Delamore & Co  
T S Teoh & Partners

## **STOCK EXCHANGE LISTING**

Kuala Lumpur Stock Exchange  
Second Board

## **PRINCIPAL BANKERS**

Malayan Banking Berhad  
Hong Leong Bank Berhad  
Alliance Bank Malaysia Berhad



## CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, I have pleasure in presenting the Annual Report & Financial Statements for the year ended 31st December 2002.

### Performance & Finance Reviews

The Group recorded a Turnover of RM48.8 million in the current financial year compared to RM53.3 million in year 2001. Profit before taxation stood at RM3.1 million compared to RM4.3 million in the preceding year.

The decrease in profit before tax was mainly due to adjustments of impairment loss on value of other investments of RM1.1 million at the end of the year to reflect the fair value of certain investments and in compliance with Malaysian Accounting Standards Board (MASB-23).

### Dividend

The Board is pleased to recommend a First and Final Dividend of 4% less tax 28% for the financial year ended 31st December 2002.

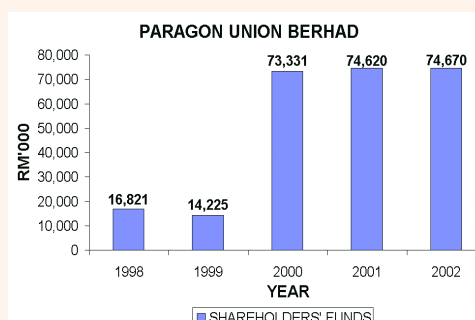
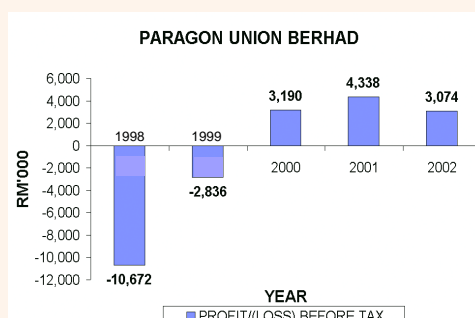
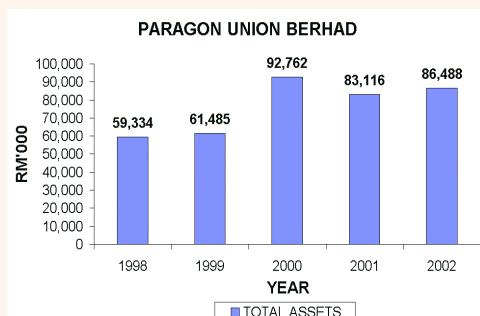
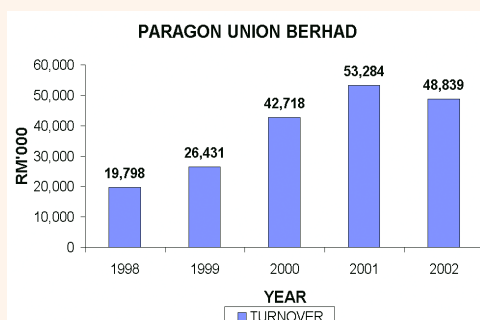
### Quality, Environment and Safety

During the year, Paragon's automotive division through Paragon Car Carpets & Components Sdn Bhd (PCCC) has successfully achieved QS 9000, the highest Quality Standards in the international automotive industry. In addition to that and in line with our commitment to protect the environment that we operate in and to safeguard the health and safety of our employees, PCCC has also achieved the prestigious ISO 14001 and OHSAS 18001 simultaneously. The Board is pleased with the level of commitment shown by the management staff and employees towards international quality standards.

### Challenges

We foresee tougher challenges when the automotive market is liberalized in 2005 under the Asean Free Trade Areas's (AFTA) low tariff regime. It will be a free-for-all in the automotive industry including our automotive carpet division. We have taken various measures to gear up ourselves to face these challenges.

Over the years, we have been improving our skills, expertise and introducing better technology for our manufacturing processes. With continuous improvement and continued cost down on our manufacturing and the commitment of our management team, we are prepared for the challenges ahead.



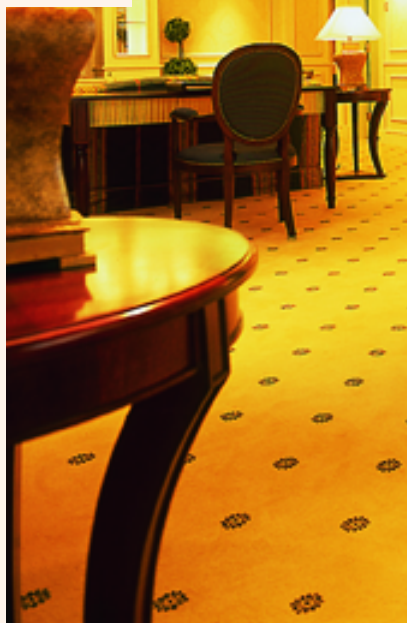
## CHAIRMAN'S STATEMENT



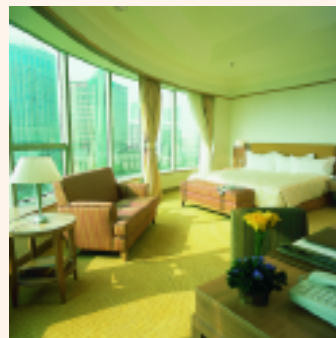
Lounge . . . VIPguest house,  
Hydepark, London



Exhibition Hall . . . Muzium Padi,  
Kedah



Palace suite . . . Marriott Hotel, Putrajaya



Deluxe Executive suite . . . Prince Hotel,  
Kuala Lumpur

### Leadership

We have achieved and are determined to maintain our leadership position in supplying to Proton, Perodua, Mercedes Benz, BMW, Honda, Toyota, Nissan, Kia, Ford, Volvo and many more marques. During the year PCCC continues to explore regional opportunities.

We are confident of achieving improved sales volume in the commercial carpet sector despite the commercial carpet industry already being under the low tariff regime and we are proud to be the manufacturer and supplier of carpets to Istana Arau, Masjid Negeri Pulau Pinang, Mandarin Oriental KL, IOI Resorts, Prince Hotel, Shangri-La Tanjung Aru, Maybank Berhad, MIDA, DBKL and many others.

For the export market, we are honoured to work with the Malaysian Embassies in Beijing, London, Brunei and Cuba; Lemi Hotel, Nanjing Hotel and Jinjiang Hotel in China and Sheraton Hotel in India. Our export marketing team continues to expand our presence on the international market.



## CHAIRMAN'S STATEMENT

### Prospects & Outlook

The management is mindful of the tough global political, economic and health scenario that might affect our economy. However, with the sound preventive measures taken by the Government to cushion the adverse external effects and the proactive steps taken to stimulate the economy coupled with the commitment and hard work of the management staff and employees, the performance of the Group is expected to remain satisfactory.

As a long term plan, Paragon Union Berhad has sought to diversify its activities into the property development sector to further enhance its earnings base through the acquisition of Gapurna Property Development Sdn Bhd which own a 34 acres piece of approved residential development land.



*TYT office . . . Malacca Governor Office*

*Mezzanine gallery . . . MIDA Kuala Lumpur.*



This project is expected to be launched by the first quarter of year 2004 and would bring in very substantial profits for year 2004 and year 2005 on its successful launch. With this as the first property development project, Paragon Union Berhad seeks to expand its property development portfolio to further enhance its earnings and increase shareholder value.

### Acknowledgement

On behalf of the Board, I would like to take this opportunity to thank the management and staff for their continuous efforts and dedication to the Group. Our sincere appreciation also goes to our shareholders, valued customers, bankers, business partners and Government authorities for their support and confidence in the Group.

**WONG THIAM LOY**  
Executive Chairman



*Corridor . . . Shangri - la Tanjung Aru Resort,  
Kota Kinabalu*

## STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors of Paragon Union Berhad ("Paragon" or "Company") endorses that good corporate governance is fundamental to the Board in discharging its fiduciary responsibilities and enhances high standards of business integrity and corporate accountability with the ultimate objective of realising shareholders' value.

The Board is therefore committed to ensuring that the high standards of corporate governance are practised throughout the Group. Accordingly, the Board is pleased to report on how the Board of Directors has applied the Principles and the extent of compliance with the Best Practices of the Malaysian Code on Corporate Governance during the financial year ended 31 December 2002.

### DIRECTORS

#### Responsibilities

The Board of Directors acknowledges their responsibilities for setting the strategic direction of Paragon and ensuring it is properly managed and continuously improving its performance so as to protect and enhance shareholders' value. In addition, the Board also acknowledges their responsibilities for the Group's standards of conduct, risk management, succession planning, investor relations programme and system of internal controls in discharging their stewardship responsibilities. These are in line with the 6 principal responsibilities specified under Best Practice AAI of the Code.

#### Composition and Balance

The Company presently has 3 Non-Executive Directors and 4 Executive Directors. Such composition has complied with the KLSE Listing Requirements that at least 1/3 of the Board of Directors are Independent Directors. This is to ensure that no individual or small group of individuals can dominate the board's decision making.

There is a clear division of responsibility between the Chairman and the Managing Director to ensure that there is a balance of power and authority. The roles of the Chairman and Managing Director are not combined. The Chairman is primarily responsible for running the Board while the Managing Director is accountable to the Board and is overall responsible for the day-to-day management of the business and implementation of the Board's decisions and policies.

The Executive Directors have direct responsibilities for business operations whereas the Non-Executive Directors have the responsibilities to bring independent and objective judgement on Board decision. All Non-Executive Directors are independent of management and free from any relationship which could interfere with their independent judgement.

The Directors, with their different backgrounds and specializations contribute wide range of skills, finance and legal experience and technical expertise. The Board has endorsed that such good mix of skills, experience and expertise amongst the Executive and Non-Executive Directors allows each of them to bring his independent judgement to bear on the issues of strategy, performance, resources, including key appointments and standards of conduct. This ensures that the Group is effectively led and controlled. Brief biographies of Directors are set out from pages 5 to 6.

The Board is satisfied that the current Board composition fairly reflects the investment of minority shareholders.

The Board does not consider it necessary to nominate a recognised Senior Independent Non-Executive Director of the Board to whom any concerns may be conveyed in view of the present independent element of the Board composition and the separation of the roles of Chairman and Managing Director.



## STATEMENT ON CORPORATE GOVERNANCE

### Meetings

The Directors meet regularly and all the proceedings at the Board meetings are properly minuted and signed by the Chairman. The Board does not have a formal schedule of matters reserved to itself for decision, however, it has been the practice of the Group to require the Board decision on matters relating to the acquisition and disposal of major capital expenditure; investment in capital projects; and corporate exercise.

During the financial year ended 31 December 2002, six Board meetings were held. Details of the Directors attendance at the meeting held during the financial year are set out on page 4.

In the intervals between Board meetings, for any matters requiring Board decisions, board approvals are obtained through circular resolutions. The resolutions passed by way of circular resolutions are noted in the next Board meeting.

### Supply of Information

Prior to the Board meetings, the Directors receive all agendas and board papers containing information relevant to the business of the meeting. The board papers include, a periodic financial and operational reports which focus on amongst other things, the overall Group performance as compared to the forecast; operational efficiency towards achieving higher quality products with lower cost; and market reaction together with the immediate industry outlook. In addition, from time to time, the Directors are provided with the shares-buy back report; and proposals for capital expenditure and investment to assist them in their decision making process. These are issued to the Directors on timely basis before each Board meeting to enable the Directors to obtain further explanation, where necessary, in order to be properly informed before the meeting. The Chairman seeks to ensure that all Directors are properly informed on issues arising at Board meetings.

All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that board procedures are followed. In addition, the Directors may obtain independent professional advice at the Company's expense, where necessary, in the furtherance of their duties.

### Committees

The Board has delegated specific responsibilities to the following committees: -

#### **1) Audit Committee**

Please refer to the Audit Committee Report on pages 18 to 21

#### **2) Employees' Share Option Scheme ("ESOS") Committee**

The ESOS Committee is responsible for administering the Paragon ESOS in accordance with the objectives and regulations as stated in the Bye-Laws of the ESOS

#### **Members**

Tan Onn Poh (*Chairman*)

Tan Hong Kien

Teoh Tek Siong

Thong Chee Kuan (*1 representative from the management*)

## **STATEMENT ON CORPORATE GOVERNANCE**

### **Appointments and Re-elections to the Board**

The Board has the responsibility for assessing and considering the reappointment of existing Directors; and for identifying and selecting potential new Directors to the Board. The Board considers the experience, skills and qualities of the new and existing Directors to ensure a good balance of skills amongst the Directors so as to continue to enhance the effectiveness of the Board. The Directors abstain when matters affecting their own interests are discussed.

The Board recognises the importance to have formal and transparent written procedures for the appointment of new Directors and reappointment of existing Directors.

The Board has considered the need for Nomination Committee, but has decided that it is not necessary to have the Nomination Committee at present due to the fact that the Company does not have an elaborate organisational structure. The Board will continue to assess and review such necessity.

In accordance with the Company's Articles of Association, every Director is required to retire by rotation at intervals of not less than three years at each Annual General Meeting ("AGM"). The Directors to retire in each year are the Directors who have been longest in office since their appointment or re-appointment. A retiring Director is eligible for re-appointment.

The details of the retiring Directors are set out in the Statement Accompanying Notice of AGM on page 4 of the Annual Report.

### **Directors' Training**

All the Directors had attended and successfully completed the Mandatory Accreditation Programme conducted by the Research Institute of Investment Analysis Malaysia as required by the Listing Requirements of the KLSE.

The Directors will continue to undergo other relevant training programmes to keep them abreast with relevant changes in laws and regulations and the commercial risk.

### ***DIRECTORS' REMUNERATION***

The Board of Directors undertakes the process of determining the remuneration, fee and other remuneration packages payable to Executive and Non-Executive Directors on a competitive scale with other organisations within the same industry and in accordance with current best practices.

The Board as a whole recommends the Directors' fees to be approved by the shareholders at the AGM and determines the other emoluments of the Directors with the individual Director concerned abstaining from decisions in respect of his personal remuneration.

The Board endorses the importance to have formal and transparent procedures for developing policy on executive remuneration and fixing the remuneration packages of individual Director.

The Board has considered the need for Remuneration Committee, but has decided that it is not necessary to have the Remuneration Committee at present due to the fact that the Company does not have an elaborate organizational structure. The Board will continue to assess and review such necessity.



## STATEMENT ON CORPORATE GOVERNANCE

The remuneration of Directors, in aggregation and analysed into bands of RM50,000 is as follows:-

	Executive Director RM'000	Non-Executive Director RM'000
Salaries	735	-
Bonuses	180	-
Fees	80	48
Benefits-In-Kind	65	-
Other Emoluments	-	-
Total	1,060	48

Range of remuneration	Number of Directors	
	Executive	Non-Executive
Less than RM50,000	-	3
RM100,001 to RM150,000	1	-
RM250,001 to RM300,000	1	-
RM300,001 to RM350,000	1	-
RM350,001 to RM400,000	1	-

### SHAREHOLDERS

The Board recognises the need to communicate with shareholders and investors on all material business matters of the Group. The results of Paragon and the Group are published quarterly via the KLSE website at [announcements.klse.com.my](http://announcements.klse.com.my). In addition, Company information is available on the Company's website at [www.paragon.com.my](http://www.paragon.com.my).

The Company also encourages shareholders to attend its Annual General Meeting as this is the principal forum for dialogue and interaction with shareholders. At each Annual General Meeting, the Directors usually provide adequate time to attend to questions and comments of shareholders. Notices of each meeting are issued on a timely manner to all shareholders.

### ACCOUNTABILITY AND AUDIT

#### Financial Reporting

The Board aims to provide and present a balanced and understandable assessment of the Group's financial performance and prospects at the end of the financial year, primarily through the annual financial statements and quarterly announcement of results to shareholders as well as the Chairman's Statement and review of operations in the annual report.

#### Directors' Responsibility Statement

The Directors are required by the Companies Act, 1965 to prepare the financial statements so as to give a true and fair view of the state of affairs of the Company and the Group at the financial year end and of the results and cashflows of the Company and the Group for the financial year.

## **STATEMENT ON CORPORATE GOVERNANCE**

The Directors have used suitable accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable; and applied applicable accounting standards during the preparation of the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act, 1965.

In addition, the Directors are also responsible for taking reasonable steps to safeguard the assets of the Group and to detect and prevent any fraud as well as any other irregularities.

### **Internal Control**

The Board acknowledges its responsibility for maintaining a system of internal controls, which provides reasonable assurance of effective and efficient operations and compliance with laws and regulations.

The Group's internal audit provides independent and objective reports on the Group's management, records, accounting policies and controls to the Audit Committee. The internal audits include evaluation of the processes by which risks are identified, assessed and managed and ensure that controls which are instituted are appropriate and can effectively address acceptable risk exposures. The Group's internal audit also ensures that recommendations to improve controls are followed through by management.

The Company's Statement on Internal Control is set out on page 17 of the Annual Report.

### **Relationship with the Auditors**

A transparent and appropriate relationship is maintained with the Company's auditors through the Audit Committee. The Audit Committee has been explicitly accorded the power to communicate directly with both external auditors and internal auditors.

The Audit Committee Report is set out in pages 18 to 21.

### **ADDITIONAL INFORMATION**

During the financial year under review:

- a) there were no
  - options, warrants or convertible securities exercised
  - American Depositary Receipt (ADR) or Global Depositary Receipt (GDR) programmes sponsored by the Company
  - sanctions and/or penalties imposed on the Company or its subsidiaries, Directors or Management by any relevant authority
  - profit estimates, forecasts or projections or unaudited results released which differ by 10 per cent or more from the audited results
  - profit guarantees given in respect of the Company
  - material contracts between the Company and its subsidiaries that involve Directors' or major shareholders' interests
  - loans between the Company and its subsidiaries that involve Directors' or major shareholders' interests



## STATEMENT ON CORPORATE GOVERNANCE

- b) The Company and the Group did not have a policy on regular revaluation of land and buildings.
- c) There were no non-audit fees paid to the external auditors during the financial year.
- d) Schedule of Share Buy-Back for the financial year ended 31 December 2002.

Monthly breakdown	No. of shares purchased and retained as treasury shares	Purchase price per share RM		Average cost per share RM	Total cost RM
		Lowest	Highest		
Dec 2002	46,000	0.725	0.810	0.805	37,009.59

During the financial year, all the shares purchased by the Company were retained as treasury shares.

- e) During the financial year, the Company has obtained approvals from the Securities Commission, Ministry of International Trade and Industry, Foreign Investment Committee and the Kuala Lumpur Stock Exchange to undertake a proposed Private Placement of up to 7,000,000 new ordinary shares of RM1 each, representing 10% of the Company's existing issued and paid-up share capital of 70,000,000 ordinary shares of RM1 each at an issue price to be determined based on a discount of not more than 10% to the five (5) days weighted average market price of the shares immediately preceding the date on which the issue price of the Proposed Private Placement will be fixed. The proceeds arising from the Proposed Private Placement will be utilised for capital expenditure and working capital purposes for the Group. The Proposed Private Placement has not been implemented to-date.

Subsequent to year end, the Company has obtained approval from the Securities Commission for an extension of time up till 17 July 2003 to complete the Proposed Private Placement.

## STATEMENT ON INTERNAL CONTROL

### 1. Introduction

The Board of Paragon Union Berhad has prepared the following statement which outlines the state of internal control of the Group for the period under review, in accordance with Paragraph 15.27 (b) of the KLSE Listing Requirements.

### 2. Board's Responsibility

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

### 3. Risk Management Framework

Following the publication of Statement on Internal Control: Guidance For Directors of Public Listed Companies, the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, that has been in place for the year under review and up to the date of approval of the Annual Report and accounts, and that this process is regularly reviewed by the Board and accords with the guidance.

During the financial year, the Group had outsourced its internal audit function to an external consultant. The consultant had conducted various structured interviews and risk assessment workshops with the management of the Group for identifying key business risks associated with the process objectives. The risks identified were properly weighted and prioritized after taking into consideration of their impact and likelihood of the business risk occurring.

The risks identified were later incorporated into the internal audit plan as a basis to continuously assess and monitor the effectiveness and adequacy of the controls in managing the key business risks identified. Any significant weaknesses identified during reviews were reported to the Audit Committee and improvement measures were recommended to strengthen controls.

### 4. Other Key Elements of Internal Control

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

- (a) The Group is committed to high standards of business conduct and seeks to maintain these standards across all of its operations. The Group has an organizational structure for planning, executing, controlling and monitoring business operations in order to achieve Group's objectives. Lines of responsibility and delegations of authority are clearly defined.
- (b) The Group's operations are accredited with ISO9001 international quality system standard and such quality management system provides the Group with improved control of key processes and a foundation for improving quality and customer satisfaction. The quality management system of the Group is further enhanced with its recent accreditation of QS9000 standard, a quality system standard for car industry. In addition, ISO14001 for the environment as well as OHSAS18001 for the health and safety of the employees were achieved by the Group during the year.
- (c) The Management monitors the Group's performance via key performance indicators and monthly management reports.
- (d) The Managing Director and Executive Director maintain close contact with the employees of all levels which enable timely and effective communication.

### 5. Controls Weaknesses

The Management continues to take measures to strengthen the controls environment and during the current financial year, there were no major internal control weaknesses which resulted in material losses, contingencies or uncertainties that would require disclosure in the Company's Annual Report.



# AUDIT COMMITTEE REPORT

## 1. Composition

### Members of the Committee

### Designation

Michael Lim Hee Kiang  
Teoh Tek Siong  
Tan Hong Kien

Chairman and Independent Non-Executive Director  
Independent Non-Executive Director  
Executive Director

## 2. Terms of Reference of Audit Committee

### 2.1 Membership

The Committee shall be appointed by the Board from amongst the Directors of the Company and shall consist of not less than three members of whom the majority shall be non-executive independent directors. No Alternate Director shall be appointed as a member of the Audit Committee.

At least one member of the audit committee:

- i) must be a member of the Malaysian Institute of Accountants; or
- ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years' working experience and:
  - (a) he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
  - (b) he must be a member of one of the association of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967.

The members of the Committee shall select a Chairman from among their members who shall be an independent Director.

If a member of the Committee resigns, dies or for any other reason ceases to be a member with the result that the number of members is reduced below 3, the Board of Directors shall, within 3 months of the events, appoint such number of new members as may be required to make up the minimum number of 3 members.

The term of office and performance of Committee members should be reviewed by the Board in every three years.

### 2.2 Authority

The Audit Committee shall, in accordance with a procedure to be determined by the Board of Directors and at the cost of the Company:

- (a) have authority to investigate any matter within its terms of reference;
- (b) have the resources which are required to perform its duties;
- (c) have full and unrestricted access to any information pertaining to the Company;
- (d) have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity (if any);
- (e) be able to obtain independent professional or other advice; and
- (f) be able to convene meetings with the external auditors, excluding the attendance of the executive members of the Committee, whenever deemed necessary.

## AUDIT COMMITTEE REPORT

### 2.3 Functions

The functions of the Committee shall be:

(a) to review:

- (i) with the external auditor, the audit plan;
- (ii) with the external auditor, his evaluation of the system of internal accounting controls;
- (iii) with the external auditor, his audit report;
- (iv) the assistance given by the employees of the Company to the external auditor;
- (v) the adequacy of the scope, functions and resources of the internal audit functions and that it has the necessary authority to carry out its work;
- (vi) the internal audit programme, processes, the results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function;
- (vii) the quarterly results and year end financial statements, prior to the approval of the Board of Directors, focusing particularly on:
  - (aa) changes in or implementation of major accounting policy changes;
  - (bb) significant and unusual events; and
  - (cc) compliance with accounting standards and other legal requirements;
- (viii) any related party transaction and conflict of interest situation that may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity;
- (ix) any letter of resignation from the external auditors of the Company; and
- (x) whether there is reason (supported by grounds) to believe that the Company's external auditor is not suitable for re-appointment; and

(b) to recommend the nomination of a person or persons as external auditors,

together with such other functions as may be agreed to by the Audit Committee and the Board of Directors.

### 2.4 Meetings

Meetings shall be held not less than four times a year. The external auditor may request a meeting if they consider that one is necessary. The Chairman shall convene a meeting whenever any member of the Committee requests for a meeting. Written notice of the meeting together with the agenda shall be given to the members of the Committee and the external auditor. Any other Directors and employees intending to attend any particular audit committee meeting may do so only at the Committee's invitation, specific to the relevant meeting.

The external auditor shall have the right to appear and be heard at any meeting.

The quorum for a meeting shall be two of which the majority of members present must be independent Directors and any decision shall be by a simple majority. The Chairman shall not have a casting vote.

The Company Secretary shall be the Secretary of the Committee.



## **AUDIT COMMITTEE REPORT**

### **2.5 Reporting Procedures**

The Company Secretary shall circulate the minutes of meetings of the Committee to all members of the Board.

### **2.6 Audit Committee Report**

The Committee shall prepare an Audit Committee report at the end of each financial year.

### **2.7 Reporting of Breaches to the Exchange**

Where the Audit Committee is of the view that a matter reported by it to the Board of Directors has not been satisfactorily resolved resulting in a breach of the Listing Requirements of the Kuala Lumpur Stock Exchange, the Audit Committee must promptly report such matter to the Exchange.

## **3. Meetings**

There were four Meetings of the Audit Committee held during the financial year ended 31 December 2002 to which all the Committee Members attended. The details of attendance for each Committee Member are as follows:

<u><b>Committee Member</b></u>	<u><b>Attendance</b></u>
Mr. Michael Lim Hee Kiang	4/4
Mr. Teoh Tek Siong	4/4
Mr. Tan Hong Kien	4/4

## **4. Summary of Activities**

During the year ended 31 December 2002, the activities of the Audit Committee included:-

- Reviewed the audited financial statements of the Company and the Group prior to the submission to the Board for their consideration and approval.
- Reviewed the quarterly unaudited financial statements announcements before recommending them for the Board's approval.
- Reviewed the Company's compliance with the listing requirements and other relevant legal and regulatory requirements.
- Reviewed pertinent issues of the Group which had a significant impact on the results of the Group.
- Reviewed the extent of the Group's compliance with the provisions set out under the Code for the purpose of the Corporate Governance Statement pursuant to the KLSE Listing Requirements.
- Reviewed the Internal Audit Plan prepared by the internal audit function.
- Reviewed the audit findings and the recommendations presented by the internal auditors.

## **AUDIT COMMITTEE REPORT**

### **5. Internal Audit Functions**

The Group has outsourced the internal audit function to an external professional firm which reports to the Audit Committee.

During the year under review, the following were the activities of the internal audit function:

- Carried out a risk assessment exercise to identify significant risks associated with the key processes. The prioritised risks identified were later incorporated into the Audit Plan for the Group.
- Prepared a risk based Internal Audit Plan.
- Carried out the audit work based on the approved Audit Plan.
- Presented audit findings arising from the audit work carried out and recommendations to the Committee.



## SUBSIDIARY COMPANIES EQUITY INTEREST

NAME OF COMPANY	2002	2001	PRINCIPAL ACTIVITIES
Paragon Car Carpets & Components Sdn Bhd (108988-M)	100%	100%	Manufacturing and distribution of car carpets and automotive components
* Paragon Carpetmaker Sdn Bhd (246013-P)	100%	100%	Manufacturing and trading in car carpets and commercial carpets
@ Paragon Carpet Distributor Sdn Bhd (162824-P)	100%	100%	Distribution and trading of commercial carpets
Paragon Precision Industries Sdn Bhd (277004-P)	78%	78%	Inactive
Paragon Metal Components Sdn Bhd (267454-U)	77%	77%	Inactive
Paragon Expression Sdn Bhd (437303-P)	100%	100%	Inactive

\* Held through Paragon Car Carpets & Components Sdn Bhd (108988-M)

@ Held through Paragon Carpetmaker Sdn Bhd (246013-P)

## LIST OF PROPERTIES HELD BY THE GROUP

As At 31st December 2002

Location	Age of Building	Tenure	Description	Land Area (sq. m.)	Build-Up Area (sq. m.)	Cost / Revaluation (RM)	Net Book Value as at 31.12.2002 (RM)	Last Date of Revaluation
Lot No. PT 7637 14, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	12 years	Leasehold (Expiry 14.05.2088)	Leasehold Land, Factory & Office	8,094	3,190 (factory) 3,929 (office)	8,090,000	7,429,733	12.03.1998
Lot No. PT 7667 21, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	11 years	Leasehold (Expiry 14.05.2088)	Leasehold Land, Factory & Office	6,833	4,177 (factory) 873 (office)	5,725,820	5,275,626	13.02.1998
Lot No. PT 7641 11A, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	7 years	Leasehold (Expiry 14.05.2088)	Leasehold Land, Factory & Office	12,128	7,919 (factory)	8,441,936	7,788,388	12.03.1998



## ANALYSIS OF SHAREHOLDINGS

Class of Shares : Ordinary Shares of RM1.00 each

Voting Rights : One vote per RM1.00 share

### Distribution of Shareholdings as per the Record of Depositors as at 28 April 2003

Size of Holdings	No. of Holders	No. of Shares	%
Less than 1,000	62	21,475	0.03
1,000 - 10,000	3,596	11,798,921	17.58
10,001 - 100,000	470	12,815,370	19.09
100,001 - 3,356,599*	27	13,496,234	20.10
3,356,600 and above	3	29,000,000	43.20
Total	<u>4,158</u>	<u>67,132,000 **</u>	<u>100.00</u>

\* Less than 5% of issued and paid-up shares.

\*\* The number of 67,132,000 ordinary shares was arrived at after deducting 2,868,000 treasury shares retained by the Company from the issued and paid-up share capital of 70,000,000 ordinary shares.

### Substantial Shareholders as per the Register of Substantial Shareholders as at 28 April 2003

	Direct No. of Shares	Percentage (%)	Indirect No. of Shares	Percentage (%)
1 Asia Avenue Sdn Bhd	32,063,194	47.76	-	-
2 Wong Thiam Loy	-	-	32,063,194 <sup>a</sup>	47.76
3 Tan Onn Poh	-	-	32,063,194 <sup>b</sup>	47.76

<sup>a</sup> Deemed interest by virtue of Section 6A(4) of the Companies Act, 1965.

<sup>b</sup> Deemed interest by virtue of having substantial shareholdings in Asia Avenue Sdn Bhd.

### Directors' Shareholdings as per the Register of Directors' Shareholdings as at 28 April 2003

Names	Direct No. of Shares	Percentage (%)	Indirect No. of Shares	Percentage (%)
Wong Thiam Loy	-	-	32,063,194 <sup>a</sup>	47.76
Tan Onn Poh	-	-	32,063,194 <sup>b</sup>	47.76
Tan Hong Kien	-	-	-	-
Yap Kiang Siang	10,000	0.02	-	-
Michael Lim Hee Kiang	-	-	-	-
Teoh Tek Siong	31,000	0.05	-	-
Dato' Zainol Abidin bin Haji A. Hamid	-	-	-	-

<sup>a</sup> Deemed interest by virtue of Section 6A(4) of the Companies Act, 1965.

<sup>b</sup> Deemed interest by virtue of having substantial shareholdings in Asia Avenue Sdn Bhd.

## ANALYSIS OF SHAREHOLDINGS

### Options allocated to the Directors pursuant to the Employees Share Option Scheme

Names	Granted	Percentage (%)	Exercised as at 28 April 2003	Percentage (%)
Wong Thiam Loy	500,000	0.74	-	-
Tan Onn Poh	500,000	0.74	-	-
Tan Hong Kien	350,000	0.52	-	-

### Top 30 Shareholders as per the Record of Depositors as at 28 April 2003

No.	Name	Shareholdings	%
1	HLB Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Asia Avenue Sdn Bhd (SBJ 2788-8)	15,000,000	22.34
2	AllianceGroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Asia Avenue Sdn Bhd	10,000,000	14.90
3	AllianceGroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Asia Avenue Sdn Bhd	4,000,000	5.96
4	Asia Avenue Sdn Bhd	3,063,194	4.56
5	Hong Leong Finance Berhad Pledged Securities Account for Ang Swee Kin	2,522,000	3.76
6	Amsec Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Tan Choon Hock	1,407,000	2.10
7	HLG Nominee (Tempatan) Sdn Bhd Pledged Securities Account for Wang Lian Sea	800,000	1.19
8	Su Ming Keat	696,040	1.04
9	Low Joon Yong	530,000	0.79
10	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Su Ming Keat (E-SS2/SEA)	500,000	0.74
11	Affin-UOB Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Chin Lih Lih (SXB170)	445,000	0.66
12	Teo Yong Sai	402,000	0.60
13	Inter-Pacific Equity Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Wong Leong Ming (ZW1745)	307,000	0.46
14	Lee Soh Hong	285,000	0.42
15	Low Wan Chin	275,000	0.41
16	See Yong Hin	202,000	0.30
17	Lim Chir Ching	200,000	0.30
18	Chei Kim Leng @ Cheah Kim Leng	189,000	0.28
19	Alliance Group Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Ang Seng Wong (100231)	180,000	0.27
20	RHB Nominees (Asing) Sdn Bhd GK Goh SPL for Low Boon Meng (9A/133041)	167,000	0.25
21	Mayban Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Wong Pah Sang (222AB4023)	162,000	0.24
22	Yee Kwek Keong	140,000	0.21
23	Affin-UOB Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Ong Keng Seng (SXA056)	137,000	0.20
24	Chong Tong Siew	134,000	0.20
25	Hong Leong Finance Berhad Pledged Securities Account for Chantika Holdings Sdn Bhd	130,000	0.19
26	Kenanga Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Sheah Kok Fah	130,000	0.19
27	Ho Wah Genting Kintron Sdn Bhd	130,000	0.19
28	Lim Chin Huat	128,000	0.19
29	Mustapha bin AB Wahid	120,000	0.18
30	Wong Yoke Choo	115,000	0.17
<b>Total</b>		<b>42,496,234</b>	<b>63.30</b>



## ***DIRECTORS' REPORT***

FOR THE YEAR ENDED 31 DECEMBER 2002

The directors have pleasure in submitting their report together with the audited financial statements of the Company and of the Group for the year ended 31 December 2002.

### **PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment holding.

The principal activities of the subsidiary companies are the manufacturing and distribution of commercial and car carpets and automotive components.

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

### **RESULTS**

	Group	Company
Net profit for the year	<u>RM2,510,640</u>	<u>RM1,519,543</u>

### **DIVIDEND**

- (a) In respect of the year ended 31 December 2001 as disclosed in the directors' report of that financial year -

First and final dividend of 5% less 28% tax paid on  
6 June 2002

RM2,423,484

- (b) In respect of the year ended 31 December 2002 -

The directors recommend the payment of a first and final dividend of 4% less 28% tax amounting to RM1,933,402, subject to the approval of the shareholders at the forthcoming Annual General Meeting.

### **RESERVES AND PROVISIONS**

There were no material transfers to or from reserves or provisions during the financial year.

### **ISSUE OF SHARES AND DEBENTURES**

The Company did not issue any shares or debentures during the financial year.

## DIRECTORS' REPORT

### REPURCHASE OF SHARES

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 for the share buy-back expired on 23 May 2002 and has been renewed at the 8th Annual General Meeting held on the same date. This authority will expire at the conclusion of the forthcoming Annual General Meeting.

In 2001, the Company purchased a total of 2,681,000 ordinary shares of its issued and paid-up share capital from the open market at a total cost of RM2,758,037, at an average price of RM1.03 per share.

During the financial year, the Company purchased a total of 46,000 ordinary shares of its issued and paid-up share capital from the open market at a total cost of RM37,010 at an average price of RM0.80 per share.

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.

At 31 December 2002, the total number of treasury shares held by the Company is 2,727,000 ordinary shares.

### EMPLOYEES' SHARE OPTION SCHEME ("ESOS")

In 2000, the Company had granted share options to eligible full time employees including three full time directors of the Company to subscribe for 2,637,000 ordinary shares of RM1 each under the ESOS approved by the shareholders and the relevant authorities. Mr Wong Thiam Loy, Mr Tan Onn Poh and Mr Tan Hong Kien are the three eligible full time directors of the Company under the ESOS. Mr Wong Thiam Loy and Mr Tan Onn Poh had each been granted 500,000 ordinary shares of RM1 each while Mr Tan Hong Kien had been granted 350,000 ordinary shares of RM1 each. The options may be exercised between 17 May 2000 and 16 May 2005 at RM1.55 per share.

In 2001, the Company granted new share options to eligible full time employees to subscribe for a total of 819,000 new ordinary shares of RM1 each at an exercise price of RM1.21 per share. The new share options may be exercised between 6 September 2001 and 16 May 2005.

The options granted do not confer any rights to participate in any share issue of any other companies of the Group.

Movements in the share options to take up unissued new ordinary shares of RM1 each and the price at which the employees are entitled to exercise their options are as follows:

	Number of options over ordinary shares	
	At exercise price of RM1.55	At exercise price of RM1.21
At 1 January 2002	2,468,000	747,000
Forfeiture due to resignations	(29,000)	(220,000)
At 31 December 2002	<u>2,439,000</u>	<u>527,000</u>



## DIRECTORS' REPORT

### DIRECTORS

The directors in office since the date of the last report are:

Mr Wong Thiam Loy  
 Mr Tan Onn Poh  
 Mr Michael Lim Hee Kiang  
 Mr Teoh Tek Siong  
 Mr Tan Hong Kien  
 Dato' Zainol Abidin Bin Haji A Hamid  
 Mr Yap Kiang Siang (appointed on 1-8-2002)

In accordance with the Company's Articles of Association, Mr Yap Kiang Siang, who was appointed to the board subsequent to the date of the last Annual General Meeting, retires at the forthcoming Annual General Meeting together with Mr Teoh Tek Siong and Mr Tan Hong Kien who retire by rotation. All the retiring directors, being eligible, offer themselves for re-election.

### DIRECTORS' INTERESTS IN SHARES

None of the directors who held office at the end of the financial year held any shares or had any interests in shares in the Company and its related corporations except as follows:

	-- Number of ordinary shares of RM1 each --			
	At 1-1-2002/ Date of appointment	Bought	Sold	At 31-12-2002
<b>The Company</b>				
Mr Wong Thiam Loy				
- Deemed interest	36,064,194	-	4,001,000	32,063,194
Mr Tan Onn Poh				
- Deemed interest	36,064,194	-	4,001,000	32,063,194
Mr Teoh Tek Siong				
- Direct interest	26,000	5,000	-	31,000
Mr Yap Kiang Siang				
- Direct interest	10,000	-	-	10,000
<b>Asia Avenue Sdn Bhd (Holding Company)</b>				
Mr Wong Thiam Loy				
- Direct interest	-	37,500	-	37,500
- Deemed interest	50,000	-	50,000	-
Mr Tan Onn Poh				
- Direct interest	-	12,500	-	12,500
- Deemed interest	50,000	-	50,000	-

## DIRECTORS' REPORT

The Company	----- Number of options over ordinary shares -----			
	At 1-1-2002	Granted	Exercised	At 31-12-2002
Mr Wong Thiam Loy	500,000	-	-	500,000
Mr Tan Onn Poh	500,000	-	-	500,000
Mr Tan Hong Kien	350,000	-	-	350,000

### 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 as disclosed in Notes 18 and 23 to 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 arrangements whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

### OTHER STATUTORY INFORMATION

- (a) Before the income statements and balance sheets of the Company and of the Group were made out, the directors took reasonable steps:
- (i) to ascertain the action 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
  - (ii) to ensure that any current assets which were unlikely to realise in the ordinary course of business their value as shown in the accounting records of the Company and of the Group 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) which would render the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Company and of the Group inadequate to any substantial extent, or
  - (ii) which would render the values attributed to the current assets in the financial statements of the Company and of the Group misleading, or
  - (iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Company and of the Group misleading or inappropriate.



## **DIRECTORS' REPORT**

- (c) At the date of this report, there does not exist:
- (i) any charge on the assets of the Company or its subsidiary companies which has arisen since the end of the financial year which secures the liabilities of any other person, or
  - (ii) any contingent liability of the Company or its subsidiary companies which has arisen since the end of the financial year.
- (d) No contingent or other liability of the Company or its subsidiary companies has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may affect the ability of the Company or its subsidiary companies to meet their obligations as and when they fall due.
- (e) At the date of this report, the directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Company and of the Group which would render any amount stated in the respective financial statements misleading.
- (f) In the opinion of the directors:
- (i) the results of the operations of the Company and of the Group for the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and
  - (ii) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Company and of the Group for the financial year in which this report is made.

### **ULTIMATE HOLDING COMPANY**

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

### **AUDITORS**

The auditors, Moores Rowland, Chartered Accountants, have expressed their willingness to continue in office.

On behalf of the Directors

TAN ONN POH  
Director

TAN HONG KIEN  
Director

28 April 2003

## **REPORT OF THE AUDITORS TO THE MEMBERS**

FINANCIAL STATEMENTS - 31 DECEMBER 2002

We have audited the financial statements set out on pages 32 to 59. The preparation of the financial statements is the responsibility of the Company's directors. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with approved auditing standards issued by the Malaysian Institute of Accountants. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the directors as well as an evaluation of the overall presentation of the financial statements. We believe our audit has provided us with a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been properly drawn up:
  - (i) so as to give a true and fair view of the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Company and of the Group;
  - (ii) in accordance with the provisions of the Act so as to give a true and fair view of the state of affairs of the Company and of the Group at 31 December 2002 and of their results and cash flows for the year ended on that date; and
  - (iii) in accordance with applicable approved accounting standards; and
- (b) 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 Act.

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 consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

Our audit reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under Section 174(3) of the Act.

MOORES ROWLAND  
No. AF: 0539  
Chartered Accountants

GAN MORN GHUAT  
No. 1499/5/03 (J)  
Partner

28 April 2003

## BALANCE SHEETS

31 DECEMBER 2002

	Note	Group 2002 RM	2001 RM	Company 2002 RM	2001 RM
PROPERTY, PLANT AND EQUIPMENT	3	37,852,961	34,737,521	-	-
SUBSIDIARY COMPANIES	4	-	-	11,297,233	11,297,233
OTHER INVESTMENTS	5	4,003,435	5,078,399	-	-
CURRENT ASSETS					
Inventories	6	7,491,598	7,054,842	-	-
Trade and other receivables	7	33,158,828	33,111,482	17,773,000	17,771,002
Amount owing by subsidiary companies	8	-	-	43,912,685	44,853,605
Tax recoverable		176,921	80,000	17,655	-
Time deposits	9	1,500,000	6,600	-	-
Cash and bank balances		2,304,616	3,046,846	83,128	119,494
		44,631,963	43,299,770	61,786,468	62,744,101
Less:					
CURRENT LIABILITIES					
Trade and other payables	10	10,836,116	6,857,077	298,268	262,337
Hire purchase and finance lease liabilities	11	-	48,898	-	-
Bank borrowings	12	348,242	1,273,314	-	-
Tax payable		-	67,546	-	52,613
		11,184,358	8,246,835	298,268	314,950
NET CURRENT ASSETS		33,447,605	35,052,935	61,488,200	62,429,151
		75,304,001	74,868,855	72,785,433	73,726,384
Financed by:					
SHARE CAPITAL	13	70,000,000	70,000,000	70,000,000	70,000,000
RESERVES, non-distributable	14	4,273,522	4,273,522	-	-
RETAINED PROFIT		3,191,526	3,104,370	5,580,480	6,484,421
TREASURY SHARES, at cost	15	(2,795,047)	(2,758,037)	(2,795,047)	(2,758,037)
SHAREHOLDERS' EQUITY		74,670,001	74,619,855	72,785,433	73,726,384
DEFERRED TAX LIABILITIES	16	634,000	249,000	-	-
		75,304,001	74,868,855	72,785,433	73,726,384

Notes to and forming part of the financial statements are set out on pages 38 to 59  
Auditors' Report - page 31



## INCOME STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

	Note	Group		Company	
		2002 RM	2001 RM	2002 RM	2001 RM
Gross revenue	17	48,838,847	53,283,595	2,777,778	5,555,556
Cost of sales		(37,845,002)	(41,454,300)	-	-
Gross profit		10,993,845	11,829,295	2,777,778	5,555,556
Other operating income		721,344	416,754	-	79,169
Selling and distribution costs		(3,201,184)	(3,480,814)	-	-
Administrative and general expenses		(3,492,995)	(3,164,061)	(494,990)	(504,743)
Allowance for doubtful debts		(674,744)	(778,995)	-	-
Profit from operations	18	4,346,266	4,822,179	2,282,788	5,129,982
Finance costs	19	(197,746)	(484,558)	-	-
Impairment loss on value of other investment		(1,074,964)	-	-	-
Profit before tax		3,073,556	4,337,621	2,282,788	5,129,982
Tax expense	20	(562,916)	(290,790)	(763,245)	(1,566,778)
Net profit for the year		2,510,640	4,046,831	1,519,543	3,563,204
Net dividend per share (sen)		2.9	3.6	2.9	3.6
Earnings per share (sen)	21				
- basic		3.7	6.0		
- fully diluted		-	-		

Notes to and forming part of the financial statements are set out on pages 38 to 59  
Auditors' Report - page 31

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2002

Group	Share capital RM	Share premium RM	Merger reserve RM	Asset valuation reserve RM	Retained profit				Treasury shares RM	Total RM
					Undistributed RM	Proposed dividend RM	Sub-total RM			
At 1 January 2001	70,000,000	2,928,750	(7,547,231)	8,892,003	(942,461)	-	(942,461)	-	-	73,331,061
Net profit for the year	-	-	-	-	4,046,831	-	4,046,831	-	-	4,046,831
Proposed first and final dividend of 5% less 28% tax	-	-	-	-	(2,423,484)	2,423,484	-	-	-	-
Shares purchased during the year held as treasury shares	-	-	-	-	-	-	-	(2,758,037)	(2,758,037)	(2,758,037)
At 31 December 2001	70,000,000	2,928,750	(7,547,231)	8,892,003	680,886	2,423,484	3,104,370	(2,758,037)	(2,758,037)	74,619,855
Net profit for the year	-	-	-	-	2,510,640	-	2,510,640	-	-	2,510,640
Dividend paid - balance brought forward	-	-	-	-	-	(2,423,484)	(2,423,484)	-	-	(2,423,484)
Proposed first and final dividend of 4% less 28% tax	-	-	-	-	(1,933,402)	1,933,402	-	-	-	-
Shares purchased during the year held as treasury shares	-	-	-	-	-	-	-	(37,010)	(37,010)	(37,010)
At 31 December 2002	70,000,000	2,928,750	(7,547,231)	8,892,003	1,258,124	1,933,402	3,191,526	(2,795,047)	(2,795,047)	74,670,001

Notes to and forming part of the financial statements are set out on pages 38 to 59  
Auditors' Report - page 31

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2002

Company	Retained profit					Total RM
	Share capital RM	Undistributed RM	Proposed dividend RM	Sub-total RM	Treasury shares RM	
At 1 January 2001	70,000,000	2,921,217	-	2,921,217	-	72,921,217
Net profit for the year	-	3,563,204	-	3,563,204	-	3,563,204
Proposed first and final dividend of 5% less 28% tax	-	(2,423,484)	2,423,484	-	-	-
Shares purchased during the year held as treasury shares	-	-	-	-	(2,758,037)	(2,758,037)
At 31 December 2001	70,000,000	4,060,937	2,423,484	6,484,421	(2,758,037)	73,726,384
Net profit for the year	-	1,519,543	-	1,519,543	-	1,519,543
Dividend paid - balance brought forward	-	-	(2,423,484)	(2,423,484)	-	(2,423,484)
Proposed first and final dividend of 4% less 28% tax	-	(1,933,402)	1,933,402	-	-	-
Shares purchased during the year held as treasury shares	-	-	-	-	(37,010)	(37,010)
At 31 December 2002	70,000,000	3,647,078	1,933,402	5,580,480	(2,795,047)	72,785,433

Notes to and forming part of the financial statements are set out on pages 38 to 59  
Auditors' Report - page 31



# CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

	Group		Company	
	2002 RM	2001 RM	2002 RM	2001 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before tax	3,073,556	4,337,621	2,282,788	5,129,982
Adjustments for:				
Depreciation	3,044,323	2,655,801	-	-
Gain on disposal of property, plant and equipment	(12,568)	(237,077)	-	-
Impairment loss on value of other investment	1,074,964	-	-	-
Allowance for doubtful debts written back	(598,399)	(26,580)	-	-
Allowance for doubtful debts	674,744	778,995	-	-
Bad debts written off	-	636	-	-
Dividend income	(60,150)	(55,600)	(2,777,778)	(5,555,556)
Interest income	(7,762)	(79,393)	-	(79,169)
Interest expenses	195,152	476,178	-	-
Hire purchase and finance lease term charges	2,594	8,380	-	-
Operating profit/(loss) before working capital changes	7,386,454	7,858,961	(494,990)	(504,743)
Changes in inventories	(436,756)	662,325	-	-
Changes in receivables	(123,691)	2,127,044	(1,998)	14,345
Changes in payables	3,163,080	(3,276,809)	35,931	(27,170)
Cash generated from/(utilised in) operations	9,989,087	7,371,521	(461,057)	(517,568)
Dividend received	-	-	2,000,000	2,000,000
Interest received	7,762	79,393	-	79,169
Interest paid	(195,152)	(476,178)	-	-
Tax paid	(325,541)	(100,067)	(55,735)	(20,000)
Net cash from operating activities	9,476,156	6,874,669	1,483,208	1,541,601
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment	(6,169,345)	(3,214,342)	-	-
Proceeds from disposal of property, plant and equipment	22,150	260,806	-	-
Advances to subsidiary companies	-	-	-	(7,399,724)
Repayment from subsidiary companies	-	-	940,920	-
Dividends received	43,308	40,032	-	-
Net cash (used in)/from investing activities	(6,103,887)	(2,913,504)	940,920	(7,399,724)

## CASH FLOW STATEMENTS

	Group		Company	
	2002 RM	2001 RM	2002 RM	2001 RM
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Dividend paid	(2,423,484)	-	(2,423,484)	-
Repurchase of shares	(37,010)	(2,758,037)	(37,010)	(2,758,037)
Repayment to a director	-	(199,362)	-	-
Payment of hire purchase instalments	(48,898)	(66,961)	-	-
Hire purchase and finance lease term charges paid	(2,594)	(8,380)	-	-
Net cash used in financing activities	(2,511,986)	(3,032,740)	(2,460,494)	(2,758,037)
<b>NET CHANGES IN CASH AND CASH EQUIVALENTS</b>	860,283	928,425	(36,366)	(8,616,160)
<b>CASH AND CASH EQUIVALENTS BROUGHT FORWARD</b>	2,944,333	2,015,908	119,494	8,735,654
<b>CASH AND CASH EQUIVALENTS CARRIED FORWARD</b>	3,804,616	2,944,333	83,128	119,494
Represented by:				
TIME DEPOSITS	1,500,000	6,600	-	-
CASH AND BANK BALANCES	2,304,616	3,046,846	83,128	119,494
BANK OVERDRAFT	-	(109,113)	-	-
	3,804,616	2,944,333	83,128	119,494

Notes to and forming part of the financial statements are set out on pages 38 to 59  
Auditors' Report - page 31

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

## 1. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

The financial statements are prepared under the historical cost convention modified to include the revaluation of certain property, plant and equipment, unless otherwise indicated in the accounting policies set out below.

The financial statements comply with applicable approved accounting standards issued or adopted by the Malaysian Accounting Standards Board ("MASB") and the provisions of the Companies Act, 1965.

### (b) Subsidiary companies

A subsidiary company is a company in which the Company has the power to control the financial and operating policies so as to obtain benefits from its activities.

The Company's interests in subsidiary companies are stated at cost, and are written down when there is an impairment loss that is other than temporary on the value of such investments. The impairment loss is charged to the income statement.

### (c) Basis of consolidation

The consolidated financial statements include the audited financial statements of the Company and all its subsidiary companies made up to the end of the financial year. All material inter-company transactions are eliminated on consolidation and the consolidated financial statements reflect external transactions only. The financial statements of all subsidiary companies are consolidated on the acquisition method of accounting except for Paragon Car Carpets & Components Sdn Bhd and its subsidiaries which are consolidated on the merger method of accounting.

Under the acquisition method of accounting, the results of the subsidiary companies acquired or disposed of during the financial year are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiary companies' net assets are determined and these values are reflected in the consolidated financial statements.

Under the merger method of accounting, the results of the subsidiary companies acquired during the year are accounted for on a full year basis irrespective of the date of merger. The difference between the nominal value of shares issued plus any cash paid as consideration for the merger and the nominal value of the share capital of the subsidiary companies acquired is reflected as merger reserve.

### (d) Goodwill or discount on consolidation

The difference, if any, between the acquisition cost and the fair values of attributable net assets is reflected as goodwill or discount on acquisition as appropriate. Where goodwill is considered to be capable of generating future economic benefits, it is capitalised in the financial statements and amortised on the straight line basis over its estimated useful life or 25 years, whichever is shorter; otherwise it is written off in the income statement in the



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

year of acquisition. The carrying amount and amortisation period is reviewed annually and goodwill is written down when its value has deteriorated or when it ceases to have a useful life. Discount on acquisition is retained in the consolidated balance sheet and will be credited to the income statement over a suitable period decided in relation to the particular circumstances which give rise to it.

### (e) Property, plant and equipment

#### (i) Measurement basis

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss except for the leasehold properties which are stated at valuation carried out in 1998 less accumulated depreciation and accumulated impairment loss.

The Group has availed the transitional provision of MASB 15 : Property, Plant and Equipment, to retain the revalued amount as if it is at the cost basis. It is not the Group's policy to carry out regular valuations of its property, plant and equipment. The revaluation carried out in 1998 was a one-off exercise, and the carrying amount of the revalued leasehold properties has been retained on the basis of its previous revaluation as though they have never been revalued. Accordingly, this valuation has not been updated.

#### (ii) Depreciation

The leasehold land is amortised over the remaining lease period of 90 years.

Depreciation is calculated to write off the cost or valuation of other property, plant and equipment on the straight line basis over their expected useful lives at the following annual rates:

Buildings and improvements	2%
Plant and machinery	5% - 15%
Motor vehicles	20%
Furniture, fittings and equipment	10% - 30%
Electrical installation and renovations	10%

### (f) Assets acquired under hire-purchase and finance lease agreements

Assets financed by hire-purchase and finance lease agreements which transfer substantially all the risks and rewards of ownership to the Group are capitalised as property, plant and equipment and the corresponding obligations are treated as liabilities. The property, plant and equipment capitalised are depreciated on the same basis as owned assets.

In calculating the present value of the minimum hire-purchase and finance lease payments, the discount rate is the interest rate implicit in the lease, if this is practicable to determine; if not, the Group's incremental borrowing rates are used.

### (g) Other investments

Other investments are stated at cost and held for long term. The investments are written down when there is an impairment loss that is other than temporary on the value of such investments. The impairment loss is charged to the income statement.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### (h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in-first-out basis and in the case of work-in-progress and finished goods comprises materials, direct labour, other direct charges and an appropriate proportion of factory overheads.

### (i) Receivables

Receivables are stated at their nominal values and an allowance is made for any receivables considered to be doubtful of collection. Known bad debts are written off.

### (j) Payables

Payables are stated at their nominal values which are the fair values of the consideration to be paid in the future for goods and services rendered.

### (k) Share capital

Ordinary shares are recorded at the nominal value and proceeds in excess of the nominal value of shares issued, if any, are accounted for as share premium. Both ordinary shares and share premium are classified as equity. Cost incurred directly attributable to the issuance of the shares is accounted for as a deduction from share premium, otherwise, it is charged to the income statement.

When shares are repurchased, the amount of consideration paid, including directly attributable costs, is recognised as cost and set off against equity. Shares repurchased and not cancelled are classified as treasury shares.

Dividends on ordinary shares, when declared or proposed by the directors of the Company are disclosed within the components of equity. Upon approval and when paid, such dividends will be accounted for in the shareholders' equity as an appropriation of unappropriated profit in the financial year in which the dividends are paid.

### (l) Impairment of assets

The carrying amounts of assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated. The recoverable amount is the higher of an asset's net selling price and value in use. The value in use is measured by discounted future cash flows expected to be generated from continuing use of the asset.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. The impairment loss is charged to the income statement immediately. Any subsequent increase in recoverable amount of an asset is recognised as reversal of previous impairment loss and should not exceed the carrying amount that would have been determined (net of amortisation or depreciation, if applicable) had no impairment loss been previously recognised for the assets.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### (m) Income recognition

Income is recognised when it is probable that the economic benefits will flow to the Group and the Company and when the income can be measured reliably, on the following bases:

#### (i) Sale of goods

Sale of goods is recognised when significant risks and rewards of ownership have been transferred to the customers.

#### (ii) Dividend income

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

#### (iii) Interest income

Interest income is recognised on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

### (n) Foreign currencies

Transactions in foreign currencies during the financial year are converted to Ringgit Malaysia at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the closing rates. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies are translated to Ringgit Malaysia at rates of exchange ruling at the date of the transactions.

The closing rate used in translation is USD1 to RM3.80 (2001 : USD 1 to RM3.80).

### (o) Finance costs

Finance costs comprise interest paid and payable on borrowings. All interest and other costs incurred in connection with borrowings are expensed as incurred as part of finance costs. The interest components of hire purchase and finance lease payments are charged to the income statement over the hire purchase and finance lease periods so as to give a constant periodic rate of interest on the remaining hire purchase and finance lease liabilities.

### (p) Tax expense

The tax expense in the income statement represents taxation at current tax rate based on profit earned during the year.

Deferred taxation is provided on the liability method for taxation deferred in respect of all material timing differences except where it is thought reasonably probable that the tax effects of such deferrals will continue in the foreseeable future. Deferred tax benefits are only recognised where there is a reasonable expectation of realisation in the near future.



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### (q) Cash equivalents

Cash equivalents comprise cash and bank balances, deposits held on call with banks, bank overdraft and short term, highly liquid investments that are readily convertible to known amounts of cash, and which are subject to insignificant risk of changes in value.

### (r) Financial instruments

The recognised financial instruments of the Group comprise cash and liquid resources, bank borrowings, receivables and payables that arise directly from its operations, some trade and non-trade receivables and payables arising from transactions entered into in the normal course of business with companies within the Group and equity instruments held for long term strategic purposes as well as ordinary share capital. These financial instruments are recognised when a contractual relationship has been established. The accounting policies and methods adopted, including the criteria for recognition and the basis of measurement applied, are disclosed above. The information on the extent and nature of these recognised financial instruments, including significant terms and conditions that may affect the amount, timing and certainty of future cash flows are disclosed in the respective notes to the financial statements. There are no financial instruments not recognised in the balance sheet.

## 2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The financial risk management objectives and policies of the Group are consistent with those of its holding company.

The Group's overall financial risk management objectives are to ensure that the Group creates value and maximises returns to its shareholders.

Financial risk management is carried out through risk reviews, internal control systems, benchmarking the industry's best practices and adherence to Group's financial risk management policies.

Since incorporation, the Group has been financing its operations mainly through financing from licensed financial institutions and from internally generated funds. The Group does not find it necessary to enter into derivative transactions based on its current level of operations.

The main risks arising from the financial instruments of the Group are credit risk, interest rate risk and foreign currency exchange risk. The management of the Group monitors its financial position closely with an objective to minimise potential adverse effects on the performance of the Group. The management reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged during the financial year.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### *Credit risk*

Credit risk arises when sales are made on deferred terms and when surplus cash is invested.

The Group has a credit policy in place to manage the credit risk exposure. The risk is managed through the application of the Group's extensive credit management procedures which include the application of credit approvals, adherence to credit limits, regular monitoring and follow up procedures.

As regards to surplus cash, the Group invests its cash assets safely and profitably by depositing them with licensed financial institutions.

The Group considers the risk of material loss from the non-performance on the part of a financial counter-party to be negligible.

### *Interest rate risk*

The Group is exposed to interest rate risk in respect of its time deposits placed with financial institutions, bank borrowings and hire purchase and finance lease liabilities. This risk is managed through the use of fixed and floating interest rate financial instruments. It is the Group's policy not to trade in interest rate swap agreements.

### *Foreign currency exchange risk*

The Group is exposed to foreign currency risk as a result of transactions denominated in foreign currencies entered into by the Group.

The Group has not hedged against the translation exposure as it does not form a significant proportion of the Group's gross assets.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 3. PROPERTY, PLANT AND EQUIPMENT

Group 2002	Long leasehold land, buildings and building improvements RM	Plant and machinery RM	Motor vehicles RM	Renovations, electrical installation, furniture, fittings and equipment RM	Total RM
Cost/Valuation					
At 1 January					
Cost	20,456	18,438,187	1,577,330	6,000,717	26,036,690
Valuation	22,210,000	-	-	-	22,210,000
	22,230,456	18,438,187	1,577,330	6,000,717	48,246,690
Additions	27,300	4,081,767	835,140	1,225,138	6,169,345
Disposals	-	(91,640)	-	(18,905)	(110,545)
At 31 December					
Cost	47,756	22,428,314	2,412,470	7,206,950	32,095,490
Valuation	22,210,000	-	-	-	22,210,000
	22,257,756	22,428,314	2,412,470	7,206,950	54,305,490
Accumulated depreciation					
At 1 January	1,401,671	8,390,287	436,831	3,280,380	13,509,169
Charge for the year	362,336	1,548,097	419,674	714,216	3,044,323
Disposals	-	(91,640)	-	(9,323)	(100,963)
At 31 December	1,764,007	9,846,744	856,505	3,985,273	16,452,529
Net book value at 31 December					
Cost	45,947	12,581,570	1,555,965	3,221,677	17,405,159
Valuation	20,447,802	-	-	-	20,447,802
	20,493,749	12,581,570	1,555,965	3,221,677	37,852,961
<b>2001</b>					
Net book value at 31 December					
Cost	19,057	10,047,900	1,140,499	2,720,337	13,927,793
Valuation	20,809,728	-	-	-	20,809,728
	20,828,785	10,047,900	1,140,499	2,720,337	34,737,521
Depreciation charge for the year	353,914	1,464,588	276,639	560,660	2,655,801



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

The following property, plant and equipment of a subsidiary company stated at net book value are charged to licensed banks for banking facilities granted to the said subsidiary company:

	<b>Group</b>	
	<b>2002 RM</b>	<b>2001 RM</b>
Long leasehold land and building	7,788,388	7,919,815
Plant and machinery	6,189,878	4,972,023
Motor vehicles	140,250	181,933
	<u>14,118,516</u>	<u>13,073,771</u>

The leasehold land and buildings stated at valuation were revalued by the directors based on a valuation carried out by an independent firm of professional valuers in 1998 on the open market value basis.

The net book value of the revalued long leasehold land and buildings of the Group that would have been included in the financial statements had these properties been carried at cost less accumulated depreciation is RM12,460,487 (2001 : RM12,689,108).

Included in the net book value of property, plant and equipment of the Group in the previous financial year were office equipment acquired under hire purchase and finance lease amounting to RM129,202.

#### 4. SUBSIDIARY COMPANIES

	<b>Company</b>	
	<b>2002 RM</b>	<b>2001 RM</b>
Unquoted shares, at cost	12,511,657	12,511,657
Less:		
Impairment loss	<u>1,214,424</u>	<u>1,214,424</u>
	<u>11,297,233</u>	<u>11,297,233</u>

The subsidiary companies, which are all incorporated in Malaysia, are as follows:

	<b>Group's effective interest</b>		<b>Principal activities</b>
	<b>2002</b>	<b>2001</b>	
Paragon Car Carpets & Components Sdn Bhd	100%	100%	Manufacturing and distribution of car carpets and automotive components
* Paragon Carpetmaker Sdn Bhd	100%	100%	Manufacturing and trading in car carpets and commercial carpets
@ Paragon Carpet Distributor Sdn Bhd	100%	100%	Distribution and trading of commercial carpets

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

	Group's effective interest		Principal activities
	2002	2001	
Paragon Precision Industries Sdn Bhd	78%	78%	Inactive
Paragon Metal Components Sdn Bhd	77%	77%	Inactive
Paragon Expression Sdn Bhd	100%	100%	Inactive

\* Held through Paragon Car Carpets & Components Sdn Bhd  
 @ Held through Paragon Carpetmaker Sdn Bhd

### 5. OTHER INVESTMENTS

	Group	
	2002 RM	2001 RM
Shares quoted in Malaysia, at cost	5,071,294	5,071,294
Loan stocks quoted in Malaysia, at cost	59,206	59,206
	<u>5,130,500</u>	<u>5,130,500</u>
Less:		
Impairment loss	1,127,065	52,101
	<u>4,003,435</u>	<u>5,078,399</u>
Market value of:		
- shares quoted in Malaysia	3,330,500	2,599,500
- loan stocks quoted in Malaysia	6,809	9,177
	<u>3,337,309</u>	<u>2,608,677</u>

### 6. INVENTORIES

Inventories stated at cost comprise:

	Group	
	2002 RM	2001 RM
Raw materials	3,651,016	2,997,171
Work-in-progress	1,271,415	1,079,053
Finished goods	2,569,167	2,978,618
	<u>7,491,598</u>	<u>7,054,842</u>

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 7. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2002 RM	2001 RM	2002 RM	2001 RM
Gross trade receivables	16,319,045	15,489,551	-	-
Less:				
Allowance for doubtful debts	1,531,519	1,640,411	-	-
	14,787,526	13,849,140	-	-
Other receivables	684,131	683,675	3,000	1,002
Less:				
Allowance for doubtful debts	263,984	263,984	-	-
	420,147	419,691	3,000	1,002
Deposits	17,854,208	18,173,269	17,770,000	17,770,000
Prepayments	96,947	669,382	-	-
	33,158,828	33,111,482	17,773,000	17,771,002
The currency exposure profile of trade receivables is as follows:				
- Ringgit Malaysia	16,261,415	15,385,534	-	-
- US Dollar	57,630	104,017	-	-
	16,319,045	15,489,551	-	-

All non-trade receivables are denominated in Ringgit Malaysia. Trade receivables represent amounts receivable from the sales of goods to customers. Other receivables are from the normal business transactions of the Group.

All trade receivables are granted credit periods of 60 to 90 days.

Included in deposits of the Group and the Company is an amount of RM17,770,000 (2001 : RM17,770,000) representing deposits and advances paid pursuant to separate conditional agreements entered into by the Company in 1997 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 original total purchase consideration for the acquisition was RM57,000,000, but this was reduced to RM48,735,000 pursuant to new conditional agreements entered into with the vendors in 1998. Under the new conditional agreements, the purchase consideration is to be satisfied by the issuance of 21,678,500 new ordinary shares of RM1.00 each by the Company to the vendors at an issue price of RM1.00 per share, with the balance of RM27,056,500 to be paid in cash.



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

In 1998, pursuant to one of the new conditional agreements, the vendor concerned transferred 5,492,154 KINMAshares, (out of a total of 7,000,000 KINMAshares which are the subject of that new conditional agreement) to the Company as security for the refund of deposits and advances paid to that vendor totalling RM16,540,000.

In 1999, the Company terminated the conditional agreements for the above acquisition and instructed its solicitors to commence legal proceedings against the vendors for the recovery of deposits and advances paid totalling RM17,770,000. The outcome of the legal proceeding is still pending. Based on legal advice from the Company's solicitors, the directors are of the opinion that the prospects of recovery are good.

### 8. AMOUNT OWING BY SUBSIDIARY COMPANIES

	Company	
	2002 RM	2001 RM
Amount owing by subsidiary companies	45,768,029	46,708,949
Less:		
Allowance for doubtful debts	1,855,344	1,855,344
	<u>43,912,685</u>	<u>44,853,605</u>

The amount owing by the subsidiary companies represents unsecured advances which are interest free and have no fixed terms of repayment.

### 9. TIME DEPOSITS

The time deposits of the Group in the current financial year are placed with a licensed bank and they have maturity periods of less than one month. The effective interest rate of the time deposits is 2.2% per annum.

The time deposit of the Group in the previous financial year was placed with a licensed bank and was pledged to the said bank for a bank guarantee facility granted to a subsidiary company. The effective interest rate of the time deposit was 3.3% per annum and the deposit had a maturity period of less than one year.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 10. TRADE AND OTHER PAYABLES

	Group		Company	
	2002 RM	2001 RM	2002 RM	2001 RM
Trade payables	5,167,875	2,896,931	-	-
Other payables	2,033,332	1,502,971	163,068	147,337
Accruals	3,634,909	2,457,175	135,200	115,000
	<u>10,836,116</u>	<u>6,857,077</u>	<u>298,268</u>	<u>262,337</u>
The currency exposure profile of trade payables is as follows:				
- Ringgit Malaysia	3,748,922	2,769,993	-	-
- US Dollar	1,418,953	126,938	-	-
	<u>5,167,875</u>	<u>2,896,931</u>	<u>-</u>	<u>-</u>

All non-trade payables are denominated in Ringgit Malaysia. Trade payables represent amounts outstanding from trade purchases. Other payables are from the normal business transactions of the Group. The normal credit periods granted by trade creditors range from 60 to 120 days.

### 11. HIRE PURCHASE AND FINANCE LEASE LIABILITIES

	Group	
	2002 RM	2001 RM
Outstanding hire purchase instalments and finance lease rentals due		
- not later than one year	-	51,491
- later than one year and not later than five years	-	-
	<u>-</u>	<u>51,491</u>
Less:		
Unexpired term charges	-	2,593
	<u>-</u>	<u>2,593</u>
Outstanding principal amount due	-	48,898
Less:		
Outstanding principal amount due not later than one year (included in current liabilities)	-	48,898
	<u>-</u>	<u>48,898</u>
Outstanding principal amount due later than one year and not later than five years	-	-
	<u>-</u>	<u>-</u>

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

The effective interest rate of the hire purchase and finance lease liabilities in the previous financial year was 8% per annum.

### 12. BANK BORROWINGS

	Group	
	2002 RM	2001 RM
Bills payable		
- secured	348,242	1,009,119
- unsecured	-	155,082
Bank overdraft		
- secured	-	109,113
	<u>348,242</u>	<u>1,273,314</u>

The bills payable and bank overdraft of the Group totalling RM348,242 (2001 : RM1,118,232) are secured by fixed and floating charges over the leasehold properties of a subsidiary company and all its other property, plant and equipment and other assets. They are also guaranteed by the Company.

All the unsecured bank borrowings of the Group are guaranteed by the Company. Additionally, an amount of RM116,082 of the Group in the previous financial year was also guaranteed by a director of the Company.

The bills payable and bank overdraft of the Group bear effective interest rates of 4.55% to 8.9% (2001 : 4.55% to 9.3%) per annum.

### 13. SHARE CAPITAL

	2002 RM	2001 RM
Authorised		
100,000,000 ordinary shares of RM1 each	<u>100,000,000</u>	<u>100,000,000</u>
Issued and fully paid		
70,000,000 ordinary shares of RM1 each	<u>70,000,000</u>	<u>70,000,000</u>

At 31 December 2002, there were 2,966,000 (2001 : 3,215,000) unissued shares under options granted pursuant to the ESOS.

Of the total 70,000,000 issued and fully paid ordinary shares, 2,727,000 ordinary shares are held as treasury shares by the Company. At 31 December 2002, the number of outstanding shares in issue after deducting treasury shares held is 67,273,000 (31-12-2001 : 67,319,000) ordinary shares of RM1 each.



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 14. RESERVES

	Group	
	2002 RM	2001 RM
Non-distributable:		
Share premium	2,928,750	2,928,750
Asset valuation reserve	8,892,003	8,892,003
Merger reserve	(7,547,231)	(7,547,231)
	<u>4,273,522</u>	<u>4,273,522</u>

### 15. TREASURY SHARES

	Group/Company	
	2002 RM	2001 RM
At 1 January	2,758,037	-
Shares purchased during the year	<u>37,010</u>	<u>2,758,037</u>
At 31 December	<u>2,795,047</u>	<u>2,758,037</u>

During the financial year, the Company purchased a total of 46,000 (2001 : 2,681,000) ordinary shares of its issued share capital from the open market at a total cost of RM37,010 (2001 : RM2,758,037). The average price paid for the shares purchased was RM0.80 (2001 : RM1.03) per share. 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. Treasury shares have no rights to voting, dividends and participation in other distribution.

At 31 December 2002, the number of treasury shares held is 2,727,000 (2001 : 2,681,000) ordinary shares.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 16. DEFERRED TAX LIABILITIES

	<b>2002 RM</b>	<b>Group 2001 RM</b>
At 1 January	249,000	-
Transfer from income statement	385,000	249,000
	<u>634,000</u>	<u>249,000</u>
At 31 December	<u>634,000</u>	<u>249,000</u>

The deferred tax liabilities of the Group comprise:

	<b>2002 RM</b>	<b>Group 2001 RM</b>
Taxable timing difference between net book value and tax written down value of property, plant and equipment	1,182,000	903,000
Deductible future tax benefits recognised on unutilised tax losses, unabsorbed capital and reinvestment allowances	(548,000)	(654,000)
	<u>634,000</u>	<u>249,000</u>

All material timing differences have been accounted for by the Group and the Company except that deferred taxation is not provided on the surplus arising from the revaluation of long leasehold land and buildings of the Group as it is not the intention of the directors to dispose of these properties.

At 31 December 2002, the Group has potential deferred tax benefits, the effects of which are not included in the financial statements as there is no assurance beyond any reasonable doubt that future taxable income will be sufficient to allow the benefits to be realised.

Details of potential deferred tax benefits of the Group not accounted for in the financial statements are as follows:

	<b>2002 RM</b>	<b>Group 2001 RM</b>
Unutilised tax losses	1,040,000	1,040,000
Unabsorbed capital allowances	1,020,000	1,255,000
Unabsorbed reinvestment allowances	1,024,000	693,000
Timing difference between net book value and tax written down value of property, plant and equipment	(1,337,000)	(1,110,000)
	<u>1,747,000</u>	<u>1,878,000</u>

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 17. GROSS REVENUE

Gross revenue of the Group represents the invoiced value of goods sold net of returns and discounts while that of the Company represents gross dividend income from subsidiary company.

### 18. PROFIT FROM OPERATIONS

Profit from operations is stated  
after charging:

	Group		Company	
	2002 RM	2001 RM	2002 RM	2001 RM
Allowance for doubtful debts	674,744	778,995	-	-
Auditors' remuneration				
- current year	47,200	47,040	7,200	7,000
- (over)/underestimated in prior year	(40)	1,300	-	(200)
Bad debts written off	-	636	-	-
Depreciation	3,044,323	2,655,801	-	-
Directors' remuneration				
- fees	128,000	108,000	128,000	108,000
- other emoluments	915,000	825,000	-	-
Fees paid to firms in which two directors of the Company are partners	63,086	17,551	28,694	12,154
and crediting:				
Allowance for doubtful debts written back	598,399	26,580	-	-
Gross dividend income from				
- a subsidiary company	-	-	2,777,778	5,555,556
- investments quoted in Malaysia	60,150	55,600	-	-
Gain on disposal of property, plant and equipment	12,568	237,077	-	-
Interest income	7,762	79,393	-	79,169

The estimated monetary value of benefits-in-kind received by the directors otherwise than in cash from the Group and the Company amounted to RM65,310 and RM9,980 (2001 : RM59,150 and RM Nil) respectively.



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 19. FINANCE COSTS

	Group		Company	
	2002 RM	2001 RM	2002 RM	2001 RM
Finance costs incurred during the financial year comprise:				
- Bank interests	195,152	476,178	-	-
- Hire purchase and finance lease term charges	2,594	8,380	-	-
	<u>197,746</u>	<u>484,558</u>	<u>-</u>	<u>-</u>

### 20. TAX EXPENSE

	Group		Company	
	2002 RM	2001 RM	2002 RM	2001 RM
Current tax expense				
- current year	178,220	41,790	763,998	1,566,778
- overestimated in prior year	(304)	-	(753)	-
	<u>177,916</u>	<u>41,790</u>	<u>763,245</u>	<u>1,566,778</u>
Deferred tax expense				
- current year	385,000	249,000	-	-
	<u>562,916</u>	<u>290,790</u>	<u>763,245</u>	<u>1,566,778</u>

The effective tax rate of the Group is low compared to the statutory rate because of the availability of current year's capital allowances and unabsorbed capital allowances, reinvestment allowances and unutilised tax losses brought forward in the Group of which a total amount of approximately RM7,205,000 (2001 : RM7,256,000) has been utilised in arriving at the taxable income.

The effective tax rate of the Company is high compared to the statutory rate because certain expenses have been disallowed in arriving at the taxable income.

Based on estimated tax credits available and the prevailing tax rate applicable to dividends, the entire unappropriated profit of the Company is available for distribution by way of dividends without incurring additional tax liability.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 21. EARNINGS PER SHARE

#### (i) Basic earnings per share

The basic earnings per share has been calculated based on the consolidated net profit for the year of RM2,510,640 (2001 : RM4,046,831) and on 67,273,000 (2001 : 67,319,000) number of ordinary shares in issue during the year after deducting treasury shares as follows:

	2002	2001
Number of ordinary shares in issue at beginning and end of the year	70,000,000	70,000,000
Less:		
Treasury shares	<u>2,727,000</u>	<u>2,681,000</u>
Number of ordinary shares after deducting treasury shares	<u>67,273,000</u>	<u>67,319,000</u>

#### (ii) Diluted earnings per share

The diluted earnings per share is calculated based on the consolidated net profit for the year of RM2,510,640 (2001 : RM4,046,831) and on 67,273,000 (2001 : 67,319,000) weighted average number of ordinary shares in issue during the financial year.

The weighted average number of ordinary shares that would have been in issue after exercise of ESOS at fair value is anti-dilutive and is excluded in the computation of diluted earnings per share. Accordingly, there is no fully diluted earnings per share.

### 22. HOLDING COMPANY

The holding company is Asia Avenue Sdn Bhd, a company incorporated in Malaysia, which holds 47.66% (2001 : 53.57%) of the issued and paid up share capital of the Company.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 23. SIGNIFICANT RELATED PARTY TRANSACTIONS

The Group has controlling related party relationship with its holding company.

The Company also has controlling related party relationship with its subsidiary companies.

The Group also has related party relationship with two legal firms, namely, Shearn Delamore & Co and T.S. Teoh & Partners of which two directors of the Company, Mr Michael Lim Hee Kiang and Mr Teoh Tek Siong are partners of the respective firms.

	Group		Company	
	2002 RM	2001 RM	2002 RM	2001 RM
Transactions with the respective firms are as follows:				
Fees paid to:				
- Shearn Delamore & Co	28,694	9,654	28,694	9,654
- T.S. Teoh & Partners	34,392	7,897	-	2,500

The directors of the Company are of the opinion that the above transactions have been entered into in the normal course of business.

Significant non-trade balances with the subsidiary companies are as follows:

	Group		Company	
	2002 RM	2001 RM	2002 RM	2001 RM
Outstanding advances owing by				
- Paragon Car Carpets & Components Sdn Bhd	-	-	26,962,685	28,353,426
- Paragon Carpetmaker Sdn Bhd	-	-	15,237,721	14,787,721
- Paragon Carpet Distributor Sdn Bhd	-	-	1,709,879	1,710,058
- Paragon Expression Sdn Bhd	-	-	2,100	2,100

### 24. EMPLOYEES INFORMATION

	Group	
	2002	2001
Staff costs	RM8,410,140	RM8,460,823
Number of employees at year end	381	398

No staff costs were incurred by the Company as it did not have any employee.



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 25. CAPITAL COMMITMENT

	Group		Company	
	2002 RM	2001 RM	2002 RM	2001 RM
Approved capital expenditure contracted but not provided for in the financial statements	-	954,000	-	-

### 26. CONTINGENT LIABILITIES

	Group		Company	
	2002 RM	2001 RM	2002 RM	2001 RM
Unsecured corporate guarantees in respect of banking facilities granted to subsidiaries	-	-	22,877,000	22,877,000

### 27. FINANCIAL INSTRUMENTS

#### (a) Credit risk

The entire financial assets of the Group are exposed to credit risk except for cash in hand, cash at banks and deposits placed with financial institutions in Malaysia. The Group's exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount and period. Concentration of credit risk with respect to trade receivables is limited due to a wide spread of customers in the car and commercial carpets industries. The Group does not require collateral in respect of financial assets. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

#### (b) Interest rate risk

The Group is exposed to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates.

The effective interest rates for the interest earning financial assets and interest bearing financial liabilities at balance sheet date are disclosed in the respective notes to the financial statements.

#### (c) Fair values

The carrying amounts of the financial assets and liabilities of the Group and the Company as at 31 December 2002 approximated their fair values except for other investments as stated below:

	Group	
	Carrying amount RM	Fair value RM
Other investments	4,003,435	3,337,309

No impairment loss is made for certain investments in the financial statements of the Group as the directors of the Company consider that the impairment loss on the value of such investments is only temporary.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 28. SEGMENTAL ANALYSIS

No segmental analysis is presented as the Group is involved in a single industry segment relating to the manufacturing of carpets. The business of the Group is entirely carried out in Malaysia.

### 29. COMPARATIVE FIGURES

The following comparative figures have been restated to conform with the current year's presentation.

	<b>As stated RM</b>	<b>Group As previously reported RM</b>
Income Statement		
Cost of sales	41,454,300	41,545,404
Selling and distribution costs	3,480,814	3,343,730
Administration and general expenses	<u>3,164,061</u>	<u>3,210,041</u>

### 30. SIGNIFICANT EVENT

During the financial year, the Company has obtained approvals from the Securities Commission, the Ministry of International Trade and Industry, Foreign Investment Committee and the Kuala Lumpur Stock Exchange to undertake a Proposed Private Placement of up to 7,000,000 new ordinary shares of RM1 each, representing approximately 10% of the Company's existing issued and paid-up share capital of 70,000,000 ordinary shares of RM1 each at an issue price to be determined based on a discount of not more than 10% to the five (5) days weighted average market price of the shares immediately preceding the date on which the issue price of the Proposed Private Placement will be fixed. The proceeds arising from the Proposed Private Placement will be utilised for capital expenditure and as working capital purposes for the Group. The Proposed Private Placement has not been implemented to-date.

Subsequent to year end, the Company has obtained approval from the Securities Commission for an extension of time up till 17 July 2003 to complete the Proposed Private Placement.

## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

### **31. SUBSEQUENT EVENT**

Subsequent to year end, a subsidiary company, Paragon Expression Sdn Bhd, entered into the following:

- (i) a conditional sale and purchase agreement with Gapurna Sdn Bhd and Dato' Mohamad Salim bin Fateh Din ("the vendors") to acquire 200,000 ordinary shares of RM1 each, representing the entire issued and paid-up share capital of Gapurna Property Development Sdn Bhd ("GPD") at a cash consideration of RM13,959,458; and
- (ii) a supplemental agreement with GPD and the vendors to settle on behalf of GPD a sum of RM11,540,542 for advances previously given by the vendors, after which the vendors shall agree to give a full discharge to GPD upon receipt of the above settlement sum from Paragon Expression Sdn Bhd.

The proposed acquisition of GPD, which is the registered and beneficial owner of a lease hold vacant land held under PN 30936, Lot 38821 (formerly known as H.S (D) 100630, No. PT 7601), Mukim Petaling, Kuala Lumpur measuring in area of approximately 137,600 square meters, would enable the Group to embark into the property development sector.

### **32. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS**

The financial statements of the Group and of the Company were authorised for issue by directors on 28 April 2003.



## **STATEMENT BY DIRECTORS**

In the opinion of the directors, the financial statements set out on pages 32 to 59 are drawn up:

- (a) so as to give a true and fair view of the state of affairs of the Company and of the Group at 31 December 2002 and of their results and cash flows for the year then ended; and
- (b) in accordance with applicable approved accounting standards.

On behalf of the Directors

TAN ONN POH  
Director

TAN HONG KIEN  
Director

28 April 2003

## STATUTORY DECLARATION

I, Tan Hong Kien, being the director primarily responsible for the financial management of Paragon Union Berhad do solemnly and sincerely declare that to the best of my knowledge and belief, the financial statements set out on pages 32 to 59 are 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 at )  
Kuala Lumpur in the Federal Territory )

this 28 April 2003 )

Before me : )

ROBERT LIM HOCK KEE  
W092

Commissioner for Oaths

TAN HONG KIEN

This page has been deliberately left blank





**PARAGON UNION BERHAD**

(Company No. 286457 - V)

(Incorporated in Malaysia)

**FORM OF PROXY**

I/We.....of .....  
.....being a **Shareholder of PARAGON UNION BERHAD** hereby appoint  
..... of.....  
or failing whom ..... of.....  
.....as my/our proxy/proxies to vote for me/us and on my/our behalf  
at the Ninth Annual General Meeting of the Company to be held at Cempaka Raya Room, Equatorial Hotel,  
Jalan Sultan Ismail, 50250 Kuala Lumpur on Tuesday, 17 June 2003 at 11.00 a.m. and at any adjournment thereof.

My/our proxy/proxies is/are to vote as indicated below:

No. Resolutions	For	Against
1. Receive the Audited Financial Statements for the year ended 31 December 2002 together with the Directors' and Auditors' Reports thereon.		
2. Approval of Directors' Fees for the year ended 31 December 2002.		
3. Approval of the First and Final Dividend of 4% less tax at 28% for the year ended 31 December 2002.		
4. Re-election of Mr. Tan Hong Kien as Director of the Company.		
5. Re-election of Mr. Teoh Tek Siong as Director of the Company.		
6. Re-election of Mr. Yap Kiang Siang as Director of the Company.		
7. Re-appointment of Auditors.		
8. Authority for the Directors to Allot and Issue Shares.		

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

Dated this.....day of.....2003

Number of shares held:

.....  
[Signature/Common Seal of Shareholder]

**Notes:**

- A member of the Company entitled to attend and vote at the Meeting is entitled to appoint a Proxy to attend and vote on his/her behalf.
- A Proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Companies Act, 1965 shall not apply.
- A member may appoint more than one Proxy to attend the same meeting. Where a member appoints two or more Proxies, he shall specify the proportion of his shareholdings to be represented by each Proxy. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one Proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
- The Proxy Form shall be signed by the appointor or his/her attorney duly authorised in writing or, if the member is a corporation, must be executed under its common seal or by its duly authorised attorney or officers.
- The instrument appointing a Proxy must be deposited at the Registered Office of the Company at 10th Floor, Tower Block, Kompleks Antarabangsa, Jalan Sultan Ismail, 50250 Kuala Lumpur not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote and in default the instrument of proxy shall not be treated as valid.

*Please fold along this line*

Stamp

The Company Secretary  
**PARAGON UNION BERHAD**  
(Company No. 286457-V)

10th Floor, Tower Block  
Kompleks Antarabangsa  
Jalan Sultan Ismail  
50250 Kuala Lumpur

*Please fold along this line*



[www.paragon.com.my](http://www.paragon.com.my)

