

annual report  
laporan tahunan **2003**



**PARAGON UNION BERHAD**  
286467 - V



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# NOTICE OF TENTH ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** the Tenth Annual General Meeting of the Company will be held at the Cempaka Raya Room, Equatorial Hotel, Jalan Sultan Ismail, 50250 Kuala Lumpur on Monday, 21 June 2004 at 11 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 2003 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 2003.  | <b>Resolution 2</b> |
| 3. To approve a First and Final Dividend of 3% less tax at 28% for the year ended 31 December 2003.  | <b>Resolution 3</b> |
| 4. To re-elect Mr. Tan Onn Poh 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 Dato' Zainol Abidin Bin Haji A Hamid 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-appoint Messrs. Moores Rowland, the retiring Auditors and to authorise the Board of Directors to fix their remuneration.                                      | <b>Resolution 6</b> |

### SPECIAL BUSINESS

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

- |   |                     |
|---|---------------------|
| 7. Ordinary Resolution-                             | <b>Resolution 7</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 DIVIDEND ENTITLEMENT

**NOTICE IS HEREBY GIVEN THAT** the First and Final Dividend of 3% less tax at 28% in respect of the financial year ended 31 December 2003 will be payable on 6 August 2004 to Depositors registered in the Record of Depositors at the close of business on 19 July 2004.

# NOTICE OF TENTH ANNUAL GENERAL MEETING

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 19 July 2004 in respect of ordinary transfers; and
- b) Shares bought on the Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of the Bursa Malaysia Securities Berhad.

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

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

Company Secretaries

Kuala Lumpur  
Date: 28 May 2004

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 Level 17, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, 50490 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 7 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 Tenth Annual General Meeting

- i. Mr. Tan Onn Poh (Resolution 4)
- ii. Dato' Zainol Abidin bin Haji A Hamid (Resolution 5)

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

There were 7 Board of Directors' Meetings held during the financial year ended 31 December 2003. Attendance for each Director is as follows:

Name of Director	Attendance
Mr. Wong Thiam Loy (Deceased on 2 September 2003)	5/6
Mr. Tan Onn Poh	7/7
Mr. Tan Hong Kien	7/7
Mr. Yap Kiang Siang	7/7
Mr. Michael Lim Hee Kiang	7/7
Mr. Teoh Tek Siong	7/7
Dato' Zainol Abidin bin Haji A. Hamid	5/7

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

Date of Meeting	Time of Meeting	Place of Meeting
21 June 2004	11.00 a.m.	Cempaka Raya Room Equatorial Hotel Jalan Sultan Ismail 50250 Kuala Lumpur

## DIRECTORS' PROFILE

**Tan Onn Poh** ----- Aged 58, Malaysian  
**Executive Chairman & Managing Director**

Mr Tan Onn Poh who was appointed to the Board of Paragon on 3 March 1999 as the Managing Director was also appointed as the Executive Chairman of Paragon on 21 November 2003. He graduated with a Bachelor of Engineering (Hons.) degree in Mechanical Engineering from University of Malaya in 1971 and has more than 29 years of experience in trading, commerce and manufacturing 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 36, 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 51, 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 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. On 8 September 2003, he was appointed as the Executive Director of Stone World Sdn Bhd. 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.

## DIRECTORS' PROFILE

**Michael Lim Hee Kiang** ----- Aged 56, 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 26 years. He sits on the Board of Selangor Properties Berhad, Dijaya Corporation Berhad, Diethelm Holdings (Malaysia) Berhad, Insas Berhad and Major Team 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.

**Teoh Tek Siong** ----- Aged 49, 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 1985 to 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 of T.S. Teoh & Partners. He is currently an Independent Non-Executive Director of Major Team 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.

**Dato' Zainol Abidin bin Haji A. Hamid**  
----- Aged 62, Malaysian  
**Independent Non-Executive Director**

Dato' Zainol Abidin bin Haji A. Hamid was appointed to the Board as the Independent Non-Executive Director of Paragon on 28 July 2000. He obtained 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 1981. He was a General Manager and Director of Kedah Cement Sdn Bhd (presently known as Kedah Cement Berhad) from 1981 to 1996. He was also the Managing Director for Kedah Cement Marketing Sdn Bhd from 1984 to 1986. Presently, he is the President of Malay Chambers of Commerce in Kedah Branch (Dewan Perniagaan Melayu Malaysia Negeri Kedah Darul Aman). He is currently a Director of SBC Corporation 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.

## 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**

Tan Onn Poh	<i>(Executive Chairman &amp; 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)*

### **AUDITORS**

Moores Rowland (AF 0539)  
Chartered Accountants  
  
Wisma Selangor Dredging  
7<sup>th</sup> Floor South Block  
142-A Jalan Ampang  
50450 Kuala Lumpur

### **COMPANY SECRETARIES**

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

Tel: 603 - 21615222  
Fax: 603 - 21613909

### **REGISTERED OFFICE**

Level 17 Menara Milenium  
Jalan Damanlela  
Pusat Bandar Damansara  
50490 Kuala Lumpur

### **SOLICITORS**

Shearn Delamore & Co  
T S Teoh & Partners

Tel: 603 - 27181551  
Fax: 603 - 27157655

### **STOCK EXCHANGE LISTING**

Bursa Malaysia Securities Berhad  
Second Board

### **PRINCIPAL BANKERS**

Bumiputra - Commerce Bank Berhad  
Malayan Banking Berhad  
Alliance Bank Malaysia Berhad

### **PRINCIPAL PLACE OF BUSINESS**

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

### **REGISTRARS**

Signet Share Registration Services Sdn Bhd (506293-D)  
Level 26, Menara Multi Purpose  
Capital Square  
No 8 Jalan Munshi Abdullah  
50100 Kuala Lumpur

Tel: 603 - 90744405  
Fax: 603 - 90744416

Tel: 603 - 27212222  
Fax: 603 - 27212530



## CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, I am pleased to present the Group's Annual Report & Audited Financial Statements for the year ended 31st December 2003.

### Performance & Finance Reviews

For the year under review, the Group has achieved a Turnover of RM49.7 million compared to RM48.8 million in the previous year. Faced with a more challenging business environment as a result of the global economic and political uncertainties and the overall declining Malaysian automotive market for the year, the Group has managed to improve its turnover and has registered a pre-tax profit of RM3.0 million compared to RM3.1 million in the preceding year. The stronger performance of the commercial carpets division has mitigated the negative effects of the declining automotive segment.

### Dividend

The Board is pleased to recommend a First and Final Dividend of 3% less 28% tax for the financial year ended 31st December 2003 subject to shareholders' approval at the forthcoming Tenth Annual General Meeting.

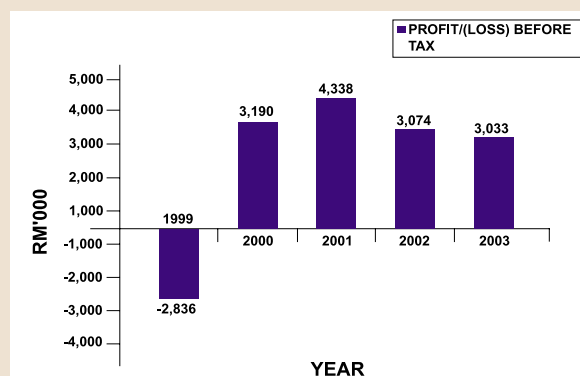
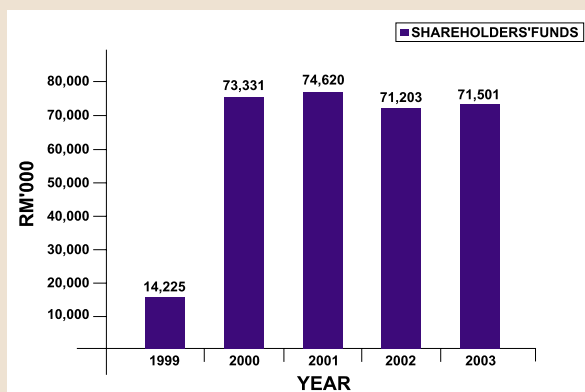
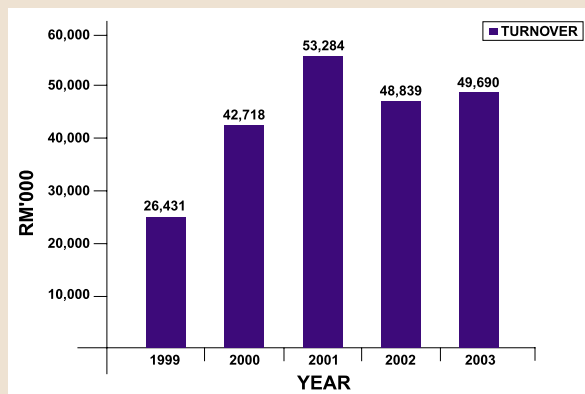
### Quality Commitments

Having successfully achieved QS 9000 (International Automotive Standards), ISO 9001 (Quality Management Systems), ISO 14001 (Environmental Management Systems) and OHSAS 18001 (Occupational Health & Safety), the Group through its automotive carpet division, Paragon Car Carpets & Components Sdn Bhd (PCCC) toward the end of the year has embarked on the mission to achieve TS 16949 which is the highest internationally renowned standard in the automotive industry. This standard when achieved would enhance the stature of PCCC as an international supplier of automotive carpets & components. The numerous awards received by PCCC from Honda, Perodua and the selection by Ford for PCCC to be assessed to their high standards of Q1 are testimonies to our stringent quality commitments.

### Leadership

Although AFTA and its low tariff regime would only come in the year 2005, its competitive effects are already felt. Quality yet cost-effective products are now a prerequisite in the ever-competitive carpet industry with emphasis on continuous improvements in quality, cost and delivery.

Despite this highly competitive nature of the automotive carpets and components business, PCCC has maintained its leadership with Proton, Honda, Perodua, Mercedes Benz, BMW, Toyota, Nissan, Kia, Ford, Volvo and many more marques. With the achievement of the internationally accepted quality standards and standards in environmental maintenance and protection and health and occupational hazard, PCCC is well placed to bid for car models assembled in Malaysia for the regional market.



## CHAIRMAN'S STATEMENT



Plenary Hall ..... Putrajaya Convention Centre (*Putrajaya*)

On the commercial carpet sector, Paragon Carpetmaker Sdn Bhd (PCM) is the leading local manufacturer and we are honoured to be manufacturer and supplier of carpets to Istana Darul Ehsan, Parliament House, Jabatan Perdana Menteri, Putrajaya Convention Centre, Berjaya Times Square, Mutiara Hotel, Renaissance Hotel - Melaka, The Legend Hotel, Eastin Hotel and many others. Our beautifully woven axminster carpets complemented by our tufted carpets also adorn projects in China, India, Singapore, Brunei, Philippines and Cambodia.

### Prospects & Outlook

The aggressive launching of various new car models and the low interest rates charged by the banks and financial institutions, easing of car financing terms, the Government's move to stimulate consumer spending and the forecast of improving economic growth rate of more than 6% for year 2004 auger well for the company. With the continuous management emphasis for better manufacturing efficiency, quality improvement and cost reduction, and the country's stable political climate, and barring unforeseen circumstances, the carpet segment of our business is expected to show satisfactory performance.



Dewan Istirehat Utama ..... Istana Darul Ehsan (*Putrajaya*)



Lounge ..... The Legend Hotel (*Kuala Lumpur*)



## CHAIRMAN'S STATEMENT

**Diamond Ballroom Foyer .....**  
**Mandarin Oriental (Kuala Lumpur)**



**Chinese Restaurant .....** Eastin Hotel (Petaling Jaya)



In order to further enhance earnings and to increase shareholders' values, the Group's diversification into the property development business via the acquisition of Paragon Property Development Sdn Bhd (PPD), (formerly known as Gapurna Property Development Sdn Bhd), is considered a right and timely move. PPD owns a 34 acre piece of prime development land in Bukit Jalil (within Federal Territory) and the planning for this development is well on track. This property development project is expected to be launched in the second half of 2004 and upon its successful launch, will contribute significantly to the Group's earnings in the coming years.

### Acknowledgement

The untimely demise of our late chairman, Mr Wong Thiam Loy has been a great loss both to his family and the Group. I have since assumed the chairmanship until such time when we can identify a suitable candidate for this position. Meanwhile, we would continue to strive to fulfil the goals and aspirations of the Group.

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.

### TAN ONN POH

Chairman & Managing Director

**Floor Carpet for Honda City**



**Floor Carpet for  
Gen - 2**



**Floor Carpet for  
Naza - Ria**



## STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors of Paragon Union Berhad (“Paragon”) appreciates the importance of practising good corporate governance to direct the businesses of the Paragon Group (“Group”) towards enhancing business and long-term value for its shareholders. The Board is fully committed to ensuring that the high standards of corporate governance are practised throughout the Group.

The Board is pleased to report on how the Group has applied the principles of corporate governance and the extent of compliance with the best practices set out in the Malaysian Code on Corporate Governance (“Code”) during the financial year ended 31 December 2003.

### **DIRECTORS**

#### **Responsibilities**

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

#### **Composition and Balance**

The Board currently has six members, comprising three Executive Directors and three Non-Executive Directors. This composition complies with the Listing Requirements of Bursa Malaysia (“BM”) that at least 1/3 of the Board of Directors are Independent Directors. The composition of such ensures that no individual or small group of individuals can dominate the Board’s decision making. The Directors abstain as and when matters affecting their own interests are discussed.

The Directors, with their different backgrounds and specialisations contribute wide range of skills, finance and operational 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 the Directors are set out on pages 5 to 6 .

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

The positions of Chairman and Managing Director were previously separated but after the untimely demise of the late chairman, both these positions are currently vested in Mr Tan Onn Poh until a suitable candidate is identified. The Managing Director is primarily responsible for the orderly conduct and the working of the Board, day-to-day management of the business and implementation of the Board’s decisions and policies. The presence of independent non-executive directors has provided unbiased and independent views, advice and judgements as well to safeguard the interest of other parties such as minority shareholders. The Board will continue to review this composition in the future.

#### **Board Committees**

The Board delegates certain functions and responsibilities to the following committees: -

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

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

The committee reports to the Board on matters considered and their recommendations thereon. The ultimate responsibility for the final decision on all matters, however, lies with the Board.

# STATEMENT ON CORPORATE GOVERNANCE

## 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)

### Meetings

The Directors meet regularly and all the proceedings at the Board meetings are properly minuted and signed by the Chairman. The Board follows formal schedules for meetings and members are adequately provided with status report and Board papers to assist them in making decisions for the best interest of the Group at all times. 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 2003, seven Board meetings were held. Attendance at the Board meetings held during the financial year is set out below:

<b>Executive Director</b>	<b>Total</b>
Wong Thiam Loy (deceased on 2/9/03 )	5/6
Tan Onn Poh	7/7
Tan Hong Kien	7/7
Yap Kiang Siang	7/7
<b>Non-Executive Director</b>	<b>Total</b>
Michael Lim Hee Kiang	7/7
Teoh Tek Siong	7/7
Dato' Zainol Abidin bin Haji A. Hamid	5/7

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 agenda and Board papers containing information relevant to the business of the meeting, including information on major financial, operational and corporate matters as well as activities and performance of the Company. These documents are issued to the Directors on a timely basis to enable them to obtain further explanation, where necessary, in order to be adequately informed before the meeting.

All the 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.

### Appointments and Re-elections to the Board

The Board has the responsibility for assessing and considering the reappointment of existing Directors as well as for identifying and selecting potential new Directors to the Board. 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 and formed the Nomination Committee on 21 November 2003 for the purpose of evaluating the experience, skills and qualities of the new and existing Directors to ensure a good balance of skills amongst the Directors.



# STATEMENT ON CORPORATE GOVERNANCE

The Nomination Committee comprises the following members: -

## **Nomination Committee Member**

Dato' Zainol Abidin bin Haji A.Hamid  
Mr. Michael Lim Hee Kiang  
Mr. Teoh Tek Siong

Independent Non-Executive (Chairman)  
Independent Non-Executive  
Independent Non-Executive

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 completed the Mandatory Accreditation Programme conducted by the Research Institute of Investment Analysis Malaysia as required by the Listing Requirements of BM.

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

## **DIRECTORS' REMUNERATION**

The Company has adopted the objective as recommended by the Code in determining the remuneration of Directors so as to ensure that it attracts and retains the Directors required to operate the business successfully.

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 and formed the Remuneration Committee on 21 November 2003 for the purpose of determining the remuneration packages payable to Executive and Non-Executive Directors. The recommended Directors' fees are to be approved by shareholders at the AGM.

The remuneration of directors reflects the level of responsibility and commitment that goes with the Board's membership. In the case of Executive Directors, the component parts of the remuneration are structured so as to link rewards to the individual and the Group's performance. For Non-Executive Directors, the remuneration is reflective of their individual experience and level of responsibilities.

The Remuneration Committee comprises the following members: -

## **Remuneration Committee Member**

Mr. Michael Lim Hee Kiang  
Mr. Teoh Tek Siong  
Mr. Tan Hong Kien  
Dato' Zainol Abidin bin Haji A.Hamid

Independent Non-Executive (Chairman)  
Independent Non-Executive  
Executive  
Independent Non-Executive

# STATEMENT ON CORPORATE GOVERNANCE

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

	Executive Director RM'000	Non-Executive Director RM'000
Salaries	760	-
Bonuses	150	-
Fees	60	48
Benefits-In-Kind	48	-
Total	1,018	48

Remuneration Range	Number of Directors	
	Executive	Non-Executive
Less than RM50,000	-	3
RM150,001 to RM200,000	1	-
RM250,001 to RM300,000	2	-
RM300,001 to RM350,000	1	-

## SHAREHOLDERS

The Board believes in clear communication and recognises the importance to have timely and equal dissemination of relevant information to its shareholders and investors. The annual report and quarterly financial results of the Company and the Group are published on the BM website at [announcements.bursamalaysia.com](http://announcements.bursamalaysia.com). Additional information of the Company is available on the website at [www.paragon.com.my](http://www.paragon.com.my).

The Company also encourages shareholders to attend its AGM as this is the principal forum for dialogue and interaction with shareholders. At each AGM, the Directors provide adequate time to attend to questions and comments of shareholders. The Board will provide a written answer to any question that cannot be answered readily at the meeting. In this regard, information is disseminated in strict adherence to the disclosure requirements of BM.

## ACCOUNTABILITY AND AUDIT

The Audit Committee supports the Board in its responsibility to oversee the financial reporting and the effectiveness of the internal controls of the Group. The Audit Committee comprises three Directors, the majority of whom are independent. The terms of reference and activities of the Audit Committee are set out in the Audit Committee Report on pages 18 to 21 of this Annual Report

### Financial Reporting

The Board aims to provide and present a balanced and understandable assessment of the Group's financial position, 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 in the Annual Report. The Board discusses and reviews the recommendations proposed by the Audit Committee prior to adoption of the financial statements of the Group and of the Company.

### Statement of Directors' Responsibility For Preparing The Financial Statements

The Directors are required by the Companies Act, 1965 to prepare the financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group at the end of financial year and of the results and cash flows of the Company and of the Group for the financial year then ended.

The Directors are satisfied that in preparing the financial statements of the Company and of the Group for the financial year ended 31 December 2003, the Company and the Group have used the appropriate accounting policies and applied them consistently and prudently. The Directors also consider that all relevant approved accounting standards have been followed in the preparation of these financial statements.

# STATEMENT ON CORPORATE GOVERNANCE

## **Internal Control**

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

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 external and internal auditors through the Audit Committee. The Audit Committee has been explicitly accorded the power to communicate directly and independently with the auditors.

## **Additional Compliance Information**

The following is provided in compliance with the BM Listing Requirements:

### **1. Non-audit fees**

The amount of non-audit fees paid by the Group to the external auditors during the financial year amounted to RM4,600.

### **2. Material contracts**

There were no material contracts entered into by the Company and/or its subsidiaries that involve Directors' or major shareholders' interests either still subsisting at the end of the financial year ended 31 December 2003 or entered into since the end of the previous financial year.

### **3. Sanctions/ penalties**

There were no sanctions and/or penalties imposed on the Company or its subsidiaries, Directors or Management by any relevant regulatory bodies during the financial year.

### **4. Revaluation of landed properties**

The Company and the Group did not have a policy on regular revaluation of land and buildings.

### **5. American Depositary Receipt ("ADR") or Global Depositary Receipt ("GDR") programme**

During the financial year, the Company did not sponsor any ADR or GDR programme.

### **6. Variation in results**

There was no variance of more than 10% between the results for the financial year and the unaudited results previously announced. The Company did not make any release on the profit estimate, forecast or projections for the financial year.

### **7. Profit guarantee**

No profit guarantee was given by the Company in respect of the financial year.

## STATEMENT ON CORPORATE GOVERNANCE

### 8. Share Buy-Back

During the financial year, the details of share Buy-Back of the Company is as follows:

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		
Jan 2003	141,000	0.800	0.870	0.863	121,647.68
Jul 2003	1,000	1.040	1.040	1.040	1,054.42
Nov 2003	1,000	0.950	0.950	0.950	963.38

### 9. Options, warrants or convertible securities

There were no options, warrants or convertible securities being exercised during the financial year.

# STATEMENT ON INTERNAL CONTROL

## 1. Introduction

The Board of Directors (“Board”) acknowledges the importance of maintaining a sound system of internal controls to safeguard shareholders’ investments and the Group’s assets. The Board is pleased to outline the state of internal control of the Group for the financial year ended 31 December 2003 pursuant to Paragraph 15.27 (b) of the Listing Requirements of Bursa Malaysia (“BM”).

## 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. However, in view of the limitations that are inherent in any system of internal controls, the Board is aware that such system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement, frauds or loss.

## 3. Key Elements of Internal Controls

### a) Risk Management Framework

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, which has been in place for the year under review. This process is regularly reviewed by the Board and accords with the Statement on Internal Control: Guidance For Directors of Public Listed Companies.

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

### b) Internal Audit

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

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

### c) Other Key Elements of Internal Control

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

- The Group has an appropriate organisational structure, which enables adequate monitoring of the activities and ensures effective flow of information across the Group. In addition, lines of responsibility and delegations of authority are clearly defined.
- The Managing Director is actively participating in day-to-day running of the Group’s operations. This enables material issues to be effectively resolved on a timely basis.
- Key processes of the Group are governed by written policies and procedures.
- 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 accreditation of QS9000 standard, a quality system standard for car industry, ISO14001 for the environment and OHSAS18001 for the health and safety of the employees.
- The Management monitors the Group’s performance through key performance indicators and prepares monthly and quarterly management reports.
- The Board receives and reviews information on the Company’s financial status and performance.
- The Audit Committee meets at least four times a year and reviews the effectiveness of the Group’s system of internal controls. The Committee receives periodic management reports.

## 4. Control Weaknesses

The Management continues to take measures to strengthen the controls environment. During the 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

Michael Lim Hee Kiang  
Teoh Tek Siong  
Tan Hong Kien

### Designation

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 1<sup>st</sup> 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 1<sup>st</sup> 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.

## 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.

# AUDIT COMMITTEE REPORT

## 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 Bursa Malaysia Securities Berhad, the Audit Committee must promptly report such matter to the Bursa Malaysia Securities Berhad.

## 3. Meetings

There were five Meetings of the Audit Committee held during the financial year ended 31 December 2003 to which all the Committee Members attended. The details of attendance for each Committee Member are as follows:

<u>Committee Member</u>	<u>Attendance</u>
Mr. Michael Lim Hee Kiang	5/5
Mr. Teoh Tek Siong	5/5
Mr. Tan Hong Kien	5/5

## 4. Summary of Activities

During the year ended 31 December 2003, the activities of the Audit Committee included:-

- Reviewed the unaudited quarterly financial results of the Group prior to the Board of Directors' approval and subsequent announcements.
- Reviewed with the External Auditors the audited financial statements of the Company and the Group, the results of the audit and audit report prior to the Board of Directors' approval and subsequent announcements.
- Discussed and reviewed updates of new development on accounting standards issued by the Malaysian Accounting Standard Board.
- Reviewed pertinent issues of the Group which had a significant impact on the results of the Group.
- Reviewed the Internal Audit Reports and discussed the audit findings, recommendations and Management's response arising from the internal audit visits for the purpose of improving internal controls and operational efficiencies.

## 5. Internal Audit Functions

The responsibilities of the Internal Audit Function include the following:

- To assist in reviewing the adequacy, integrity and effectiveness of the Group's system of internal controls for the Board to prepare Internal Control Statement in the Annual Report;
- To support the Audit Committee in identifying and evaluating the existing internal control system and consequently to determine the future requirements for internal control system and co-develop a prioritised action plan;
- To perform a risk assessment of the Group to identify the business processes within the Group that internal audit function should focus on; and
- To allocate audit resources to areas within the Group that provide the Management and the Audit Committee with an efficient and effective level of audit coverage.

## AUDIT COMMITTEE REPORT

During the financial year, the internal audit function has carried out various risk-based audit reviews of the key processes of operations and these include production & scheduling controls, purchasing process, material & manpower requirements, quality control, maintenance & spare parts and inventory. The audit steps involved are as follows:

- Defined the audit objectives and audit scope based on the risk factors as identified in the Internal Audit Plan;
- Determined the resources required;
- Prepared an Audit Work Programme (“AWP”);
- Discussed the proposed AWP with the Management;
- Conducted the entrance conference with the Management in charge of the auditable unit;
- Performed the necessary tests based on the approved AWP;
- Conducted the exit conference and briefed the Management in charge of the findings; and
- Reported the findings and proposed a set of ‘best practices’ for improvement to the Management and Audit Committee.

## SUBSIDIARY COMPANIES EQUITY INTEREST

NAME OF COMPANY	2003	2002	PRINCIPAL ACTIVITIES
Paragon Car Carpets & Components Sdn Bhd (108988-M)	100%	100%	Manufacturing and distribution of car carpets and automotive component
*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 Expression Sdn Bhd (437303-P)	100%	100%	Investment holding and property development related activities
***Paragon Property Development Sdn Bhd (formerly known as Gapurna Property Development Sdn Bhd) (503011-P)	100%	-	Dealing in land, properties and other property development related activities
Paragon Precision Industries Sdn Bhd (277004-P)	78%	78%	Inactive
Paragon Metal Components Sdn Bhd (267454-U)	77%	77%	Inactive

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

\*\* Held through Paragon Carpetmaker Sdn Bhd (246013-P)

\*\*\* Held through Paragon Expression Sdn Bhd (437303-P)



## LIST OF PROPERTIES HELD BY THE GROUP AS AT 31st DECEMBER 2003

Location	Age of Building	Tenure	Description	Land Area (sq. m.)	Build-Up Area (sq. m.)	Cost / Revaluation (RM)	Net Book Value as at 31.12.2003 (RM)	Last Date of Revaluation
Lot No. PT 7637 14, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	13 years	Leasehold (Expiry 14.05.2088)	Leasehold Land, Factory & Office	8,094	3,190 (factory) 3,929 (office)	8,090,000	7,292,310	12.03.1998
Lot No. PT 7667 21, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	12 years	Leasehold (Expiry 14.05.2088)	Leasehold Land, Factory & Office	6,833	4,177 (factory) 873 (office)	5,725,820	5,181,638	13.02.1998
Lot No. PT 7641 11A, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	8 years	Leasehold (Expiry 14.05.2088)	Leasehold Land, Factory & Office	12,128	7,919 (factory)	8,441,936	7,656,962	12.03.1998
Lot No. PT 7601 Mukim Petaling Daerah Kuala Lumpur Negeri Wilayah Persekutuan Kuala Lumpur	-	Leasehold (Expiry 07.10.2100)	Leasehold Land, Property Development	137,600	-	11,704,159	11,704,159	-

## 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 2004

Size of Holdings	No. of Holders	No. of Shares	%
1 - 99	17	184	0.00
100 - 1,000	1,117	1,086,644	1.62
1,001 - 10,000	2,383	10,531,768	15.69
10,001 - 100,000	481	13,028,170	19.41
100,001 - 3,356,499*	28	10,055,234	14.98
3,356,500 and above	4	32,428,000	48.31
<b>Total</b>	<b>4,030</b>	<b>67,130,000 **</b>	<b>100.00</b>

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

\*\* The number of 67,130,000 ordinary shares was arrived at after deducting 2,870,000 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 2004

	Direct No. of Shares	Percentage (%)	Indirect No. of Shares	Percentage (%)
1 Asia Avenue Sdn Bhd	32,063,194	47.76	-	-
2 Wong Thiam Loy (Deceased)	-	-	32,063,194 <sup>a</sup>	47.76
3 Tan Onn Poh	-	-	32,063,194 <sup>b</sup>	47.76
4 Tan Choon Hock	3,428,000	5.11	-	-

<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 2004

Names	Direct No. of Shares	Percentage (%)	Indirect No. of Shares	Percentage (%)
Tan Onn Poh	-	-	32,063,194 <sup>a</sup>	47.76
Tan Hong Kien	-	-	-	-
Yap Kiang Siang	10,000	0.01	-	-
Michael Lim Hee Kiang	-	-	-	-
Teoh Tek Siong	21,000	0.03	-	-
Dato' Zainol Abidin Bin Haji A. Hamid	-	-	-	-

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

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

Names	Granted	Percentage (%)	Exercised as at 28 April 2004	Percentage (%)
Wong Thiam Loy (Deceased)	500,000	0.74	-	-
Tan Onn Poh	500,000	0.74	-	-
Tan Hong Kien	350,000	0.52	-	-

## ANALYSIS OF SHAREHOLDINGS

### Top 30 Shareholders as per the Record of Depositors as at 28 April 2004

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	Tan Choon Hock	3,428,000	5.11
5	Asia Avenue Sdn Bhd	3,063,194	4.56
6	Su Ming Keat	696,040	1.04
7	Low Joon Yong	620,000	0.92
8	TCL Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Sivanandam A/L Narayanasamy)	514,100	0.77
9	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Su Ming Keat (E-SS2/SEA)	500,000	0.74
10	Chong Ah Him @ Chong Kum Kwan	430,500	0.64
11	Cimsec Nominees (Tempatan) Sdn Bhd Eon Finance Berhad For Lee Poh Yee	409,700	0.61
12	Teo Yong Sai	402,000	0.60
13	RHB Nominees (Asing) Sdn Bhd GK Goh SPL for Low Boon Meng (9A/133041)	291,500	0.43
14	Low Wan Chin	275,000	0.41
15	Lee Soh Hong	223,000	0.33
16	Mayban Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lee Ah Kim (Rem 816-Margin)	214,500	0.32
17	SK Capital Sdn Bhd	202,000	0.30
18	Lim Chir Ching	200,000	0.30
19	Mayban Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Wong Pah Sang (222AB4023)	191,100	0.28
20	Cimsec Nominees (Tempatan) Sdn Bhd Eon Finance Berhad For Zarul Azham Bin Mohd Zulkifli	190,800	0.28
21	Mayban Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Tee Teck Khoon (Rem 867-Margin)	173,500	0.26
22	Chong Kok Choong	156,500	0.23
23	Chin Tung Leong	154,800	0.23
24	Yee Kwek Keong	140,000	0.21
25	Chong Tong Siew	134,000	0.20
26	Hong Leong Finance Berhad Pledged Securities Account for Chantika Holdings Sdn Bhd	130,000	0.19
27	Kenanga Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Sheah Kok Fah	130,000	0.19
28	Ho Wah Genting Kintron Sdn Bhd	130,000	0.19
29	Lim Chin Huat	128,000	0.19
30	Mustapha Bin Ab Wahid	120,000	0.18
<b>Total</b>		<b>42,248,234</b>	<b>62.93</b>



## DIRECTORS' REPORT

### FOR THE YEAR ENDED 31 DECEMBER 2003

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 2003.

#### 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. During the financial year, the Company has acquired a subsidiary company that is principally involved in dealing in land, properties and other property development related activities.

Other than changes indicated above, there have been no significant changes in the nature of these activities during the financial year.

#### RESULTS

	Group RM	Company RM
Net profit for the year	2,354,780	766,266

#### DIVIDEND

(a) In respect of the year ended 31 December 2002 as disclosed in the directors' report of that financial year -

First and final dividend of 4% less 28% tax paid on 2 July 2003 RM1,933,402

(b) In respect of the year ended 31 December 2003 -

The directors recommend the payment of a first and final dividend of 3% less 28% tax amounting to RM1,450,008, 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, except as disclosed in the consolidated statement of changes in equity.

#### ISSUE OF SHARES AND DEBENTURES

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

#### 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 17 June 2003 and has been renewed at the 9th Annual General Meeting held on the same date. This authority will expire at the conclusion of the forthcoming Annual General Meeting.

## DIRECTORS' REPORT

The Company purchased the following ordinary shares of its issued and paid-up share capital from the open market:

In year	No. of ordinary shares	Average price per share RM	Total cost RM
2001	2,681,000	1.03	2,758,037
2002	46,000	0.80	37,010
2003	143,000	0.86	123,665
	<hr/> 2,870,000 <hr/>		<hr/> 2,918,712 <hr/>

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 2003, the total number of treasury shares held by the Company is 2,870,000 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 Tan Onn Poh, Mr Tan Hong Kien and the late Mr Wong Thiam Loy are the three eligible full time directors of the Company under the ESOS. Mr Tan Onn Poh and the late Mr Wong Thiam Loy 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 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 2003	2,439,000	527,000
Forfeiture due to resignations	(47,000)	(225,000)
At 31 December 2003	<hr/> 2,392,000 <hr/>	<hr/> 302,000 <hr/>



# DIRECTORS' REPORT

## DIRECTORS

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

Mr Tan Onn Poh  
 Mr Tan Hong Kien  
 Mr Yap Kiang Siang  
 Mr Michael Lim Hee Kiang  
 Mr Teoh Tek Siong  
 Dato' Zainol Abidin Bin Haji A Hamid  
 Mr Wong Thiam Loy (deceased on 2 September 2003)

In accordance with the Company's Articles of Association, Messrs Tan Onn Poh and Dato' Zainol Abidin Bin Haji A Hamid retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

## DIRECTORS' INTERESTS IN SHARES

According to the register of directors' shareholdings required to be kept under Section 134 of the Companies Act, 1965, 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 1-1-2003	Bought	Sold	At 31-12-2003
<b>The Company</b>				
Mr Tan Onn Poh - Deemed interest	32,063,194	-	-	32,063,194
Mr Teoh Tek Siong - Direct interest	31,000	-	10,000	21,000
Mr Yap Kiang Siang - Direct interest	10,000	-	-	10,000
Asia Avenue Sdn Bhd (Holding Company)				
Mr Tan Onn Poh - Direct interest	12,500	-	-	12,500

	----- Number of options over ordinary shares -----			
	At 1-1-2003	Granted	Exercised	At 31-12-2003
<b>The Company</b>				
Mr Tan Onn Poh	500,000	-	-	500,000
Mr Tan Hong Kien	350,000	-	-	350,000

# DIRECTORS' REPORT

## 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 20 and 26 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 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.
- (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.

## DIRECTORS' REPORT

- (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

9 April 2004

**TAN HONG KIEN**  
Director

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

### **FINANCIAL STATEMENTS - 31 DECEMBER 2003**

We have audited the financial statements set out on pages 32 to 60. 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 2003 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 the subsidiaries of which we acted as auditors have been properly kept in accordance with the provisions of the Act.

We have considered the financial statements and the auditors' reports of Paragon Expression Sdn Bhd and Paragon Property Development Sdn Bhd (formerly known as Gapurna Property Development Sdn Bhd), being the subsidiaries of which we have not acted as auditors.

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.

The auditors' 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

**GANMORN GHUAT**  
No. 1499/5/05 (J)  
Partner

9 April 2004

## BALANCE SHEETS - 31 DECEMBER 2003

	Note	Group		Company	
		2003 RM	2002 RM	2003 RM	2002 RM
<b>PROPERTY, PLANT AND EQUIPMENT</b>	2	36,090,054	37,852,961	-	-
<b>SUBSIDIARY COMPANIES</b>	3	-	-	11,597,231	11,297,233
<b>DEVELOPMENT PROPERTIES</b>	4	28,411,986	-	-	-
<b>OTHER INVESTMENTS</b>	5	5,589,955	4,003,435	-	-
<b>GOODWILL ON ACQUISITION</b>	6	2,743,926	-	-	-
<b>CURRENT ASSETS</b>					
Inventories	7	9,316,680	7,491,598	-	-
Trade and other receivables	8	33,890,435	33,158,828	17,771,000	17,773,000
Amount owing by subsidiary companies	9	-	-	41,060,746	43,912,685
Tax recoverable		200,018	176,921	16,220	17,655
Fixed deposit	10	1,518,110	-	-	-
Time deposits	11	-	1,500,000	-	-
Cash and bank balances		2,466,148	2,304,616	1,261,932	83,128
		47,391,391	44,631,963	60,109,898	61,786,468
Less:					
<b>CURRENT LIABILITIES</b>					
Trade and other payables	12	8,207,869	10,836,116	212,497	298,268
Bank borrowings	13	14,772,351	348,242	-	-
Tax payable		3,622	-	-	-
		22,983,842	11,184,358	212,497	298,268
<b>NET CURRENT ASSETS</b>		24,407,549	33,447,605	59,897,401	61,488,200
		97,243,470	75,304,001	71,494,632	72,785,433
Financed by:					
<b>SHARE CAPITAL</b>	14	70,000,000	70,000,000	70,000,000	70,000,000
<b>RESERVES</b>	15	1,043,332	1,135,160	-	-
<b>RETAINED PROFIT</b>		3,376,567	2,863,361	4,413,344	5,580,480
<b>TREASURY SHARES</b>	16	(2,918,712)	(2,795,047)	(2,918,712)	(2,795,047)
<b>SHAREHOLDERS' EQUITY</b>		71,501,187	71,203,474	71,494,632	72,785,433
<b>BANK TERMLOANS</b>	17	16,870,994	-	-	-
<b>DEFERRED TAX LIABILITIES</b>	18	8,871,289	4,100,527	-	-
		97,243,470	75,304,001	71,494,632	72,785,433

Notes to and forming part of the financial statements are set out on pages 39 to 60

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## INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

		Group		Company	
	Note	2003 RM	2002 RM	2003 RM	2002 RM
Gross revenue	19	49,689,623	48,838,847	1,666,667	2,777,778
Cost of sales		(39,695,630)	(37,845,002)	-	-
Gross profit		9,993,993	10,993,845	1,666,667	2,777,778
Other operating income		149,920	721,344	-	-
Selling and distribution costs		(3,384,913)	(3,201,184)	-	-
Administrative and general expenses		(3,267,534)	(3,492,995)	(432,299)	(494,990)
Allowance for doubtful debts		(377,751)	(674,744)	-	-
Profit from operations	20	3,113,715	4,346,266	1,234,368	2,282,788
Finance costs	21	(420,935)	(197,746)	-	-
Gain on disposal of other investments		339,812	-	-	-
Impairment loss on value of other investments		-	(1,074,964)	-	-
Profit before tax		3,032,592	3,073,556	1,234,368	2,282,788
Tax expense	22	(677,812)	(1,067,205)	(468,102)	(763,245)
Net profit for the year		2,354,780	2,006,351	766,266	1,519,543
Net dividend per share (sen)		2.2	2.9	2.2	2.9
Earnings per share (sen)	23				
- basic		3.5	3.0		
- fully diluted		-	-		

Notes to and forming part of the financial statements are set out on pages 39 to 60

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## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2003

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		
At 1 January 2002								
- As previously reported	70,000,000	2,928,750	(7,547,231)	8,892,003	680,886	2,423,484	3,104,370	(2,758,037) 74,619,855
- Prior year adjustments (Note 24)	-	-	-	(3,046,534)	84,296	-	84,296	- (2,962,238)
- As restated	70,000,000	2,928,750	(7,547,231)	5,845,469	765,182	2,423,484	3,188,666	(2,758,037) 71,657,617
Net gain not recognised in income statement								
- realisation of reserve on amortisation of revalued properties	-	-	-	(91,828)	91,828	-	91,828	- -
Net profit for the year (Note 24)	-	-	-	-	2,006,351	-	2,006,351	- 2,006,351
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	2,928,750	(7,547,231)	5,753,641	929,959	1,933,402	2,863,361	(2,795,047) 71,203,474

Notes to and forming part of the financial statements are set out on pages 39 to 60  
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## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2003

Group	Share capital RM	Share premium RM	Merger reserve RM	Asset valuation reserve RM	Retained profit		Sub-total RM	Treasury shares RM	Total RM
					Undistributed RM	Proposed dividend RM			
At 1 January 2003									
- As previously reported	70,000,000	2,928,750	(7,547,231)	8,892,003	1,258,124	1,933,402	3,191,526	(2,795,047)	74,670,001
- Prior year adjustments (Note 24)	-	-	-	(3,138,362)	(328,165)	-	(328,165)	-	(3,466,527)
- As restated	70,000,000	2,928,750	(7,547,231)	5,753,641	929,959	1,933,402	2,863,361	(2,795,047)	71,203,474
Net gain not recognised									
- realisation of reserve on amortisation of revalued properties	-	-	-	(91,828)	91,828	-	91,828	-	-
Net profit for the year	-	-	-	-	2,354,780	-	2,354,780	-	2,354,780
Dividend paid - balance brought forward	-	-	-	-	-	(1,933,402)	(1,933,402)	-	(1,933,402)
Proposed first and final dividend of 3% less 28% tax	-	-	-	-	(1,450,008)	1,450,008	-	-	-
Shares purchased during the year held as treasury shares	-	-	-	-	-	-	-	(123,665)	(123,665)
At 31 December 2003	70,000,000	2,928,750	(7,547,231)	5,661,813	1,926,559	1,450,008	3,376,567	(2,918,712)	71,501,187

Notes to and forming part of the financial statements are set out on pages 39 to 60  
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## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2003

Company	Share capital RM	Retained profit		Treasury shares RM	Total RM
		Undistributed RM	Proposed dividend RM		
At 1 January 2002	70,000,000	4,060,937	2,423,484	(2,758,037)	73,726,384
Net profit for the year	-	1,519,543	-	-	1,519,543
Dividend paid - balance brought forward	-	-	(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	(2,795,047)	72,785,433
Net profit for the year	-	766,266	-	-	766,266
Dividend paid - balance brought forward	-	-	(1,933,402)	-	(1,933,402)
Proposed first and final dividend of 3% less 28% tax	-	(1,450,008)	1,450,008	-	-
Shares purchased during the year held as treasury shares	-	-	-	(123,665)	(123,665)
At 31 December 2003	70,000,000	2,963,336	1,450,008	(2,918,712)	71,494,632

Notes to and forming part of the financial statements are set out on pages 39 to 60  
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## CASH FLOW STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2003

	Group		Company	
	2003	2002	2003	2002
	RM	RM	RM	RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before tax	3,032,592	3,073,556	1,234,368	2,282,788
Adjustments for:				
Depreciation	3,324,482	3,044,323	-	-
Gain on disposal of property, plant and equipment	(951)	(12,568)	-	-
Gain on disposal of other investments	(339,812)	-	-	-
Impairment loss on value of other investments	-	1,074,964	-	-
Allowance for doubtful debts	683,013	674,744	-	-
Allowance for doubtful debts written back	(305,262)	(598,399)	-	-
Bad debts written off	2,395	-	-	-
Dividend income	(102,750)	(60,150)	(1,666,667)	(2,777,778)
Interest income	(18,461)	(7,762)	-	-
Interest expenses	420,935	195,152	-	-
Hire purchase and finance lease term charges	-	2,594	-	-
Operating profit/(loss) before working capital changes	6,696,181	7,386,454	(432,299)	(494,990)
Changes in development properties	(692,808)	-	-	-
Changes in inventories	(1,825,082)	(436,756)	-	-
Changes in receivables	(1,111,753)	(123,691)	2,000	(1,998)
Changes in payables	(11,991,114)	3,163,080	(85,771)	35,931
Cash (utilised in)/generated from operations	(8,924,576)	9,989,087	(516,070)	(461,057)
Dividend received	-	-	1,200,000	2,000,000
Interest received	18,461	7,762	-	-
Interest paid	(640,113)	(195,152)	-	-
Tax paid	(319,400)	(325,541)	-	(55,735)
Net cash (used in)/from operating activities	(9,865,628)	9,476,156	683,930	1,483,208
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment	(1,562,913)	(6,169,345)	-	-
Proceeds from disposal of property, plant and equipment	2,289	22,150	-	-
Acquisition of subsidiary company, net of cash (Note 25)	(14,292,100)	-	-	-
Purchase of additional of shares in a subsidiary company	-	-	(299,998)	-
Purchase of other investments	(3,896,207)	-	-	-
Proceeds from disposal of other investments	2,649,499	-	-	-
Repayment from subsidiary companies	-	-	2,851,939	940,920
Dividends received	73,980	43,308	-	-
Net cash (used in)/from investing activities	(17,025,452)	(6,103,887)	2,551,941	940,920



## CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

	<b>Group</b>		<b>Company</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Bank term loans raised	20,000,000	-	-	-
Dividend paid	(1,933,402)	(2,423,484)	(1,933,402)	(2,423,484)
Repurchase of shares	(123,665)	(37,010)	(123,665)	(37,010)
Payment of hire purchase instalments	-	(48,898)	-	-
Hire purchase and finance lease term charges paid	-	(2,594)	-	-
Net cash from/(used in) financing activities	17,942,933	(2,511,986)	(2,057,067)	(2,460,494)
<b>NET CHANGES IN CASH AND CASH EQUIVALENTS</b>	(8,948,147)	860,283	1,178,804	(36,366)
<b>CASH AND CASH EQUIVALENTS BROUGHT FORWARD</b>	3,804,616	2,944,333	83,128	119,494
<b>CASH AND CASH EQUIVALENTS CARRIED FORWARD</b>	(5,143,531)	3,804,616	1,261,932	83,128
Represented by:				
<b>FIXED DEPOSIT</b>	1,518,110	-	-	-
<b>TIME DEPOSITS</b>	-	1,500,000	-	-
<b>CASH AND BANK BALANCES</b>	2,466,148	2,304,616	1,261,932	83,128
<b>BANK OVERDRAFT</b>	(9,127,789)	-	-	-
	(5,143,531)	3,804,616	1,261,932	83,128

Notes to and forming part of the financial statements are set out on pages 39 to 60

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## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of preparation

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.

The measurement bases applied in the preparation of the financial statements include cost, amortised cost, recoverable value, realisable value and fair value as indicated in the accounting policies set out below. Accounting estimates are used in measuring these values.

#### (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 less accumulated impairment loss. The investments are written down when there is an impairment loss 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 inter-company transactions and balances are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised gains on transactions are eliminated in full and unrealised losses are also eliminated in full unless cost cannot be recovered. The financial statements of the 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 in accordance with the provisions of Malaysian Accounting Standard ("MAS") No. 2 - Accounting for Acquisitions and Mergers. The Group has chosen to adopt the provisions of MASB 21 - Business Combinations prospectively, as permitted under the transitional provisions of MASB 21. Accordingly, the effects of the merger method of accounting under MAS No. 2 have been retained.

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, if any, 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. 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. 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 year of acquisition. The carrying amount and amortisation period are reviewed annually, and goodwill is written down when its value has deteriorated or when it ceases to have a useful life. The policy for the recognition and measurement of impairment loss is in accordance with note 1(k).

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### (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 applied 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 surrogate cost. 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 amount of 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) Development properties

Development properties are stated at cost plus attributable profits less progress billings. Cost consists of cost of land and development expenditure which includes borrowing costs incurred during the period of development. Development expenditure is only shown as current assets when significant development work has been undertaken and is expected to be completed within the normal operating cycle.

Profit from development properties is recognised on the percentage of completion method, which method is applied in circumstances where the outcome of development can be reliably determined. The stage of completion is determined by the proportion of costs incurred to-date bear to estimated total costs that reflect actual development work performed are included as costs incurred to-date.

Where the outcome of a development cannot be reasonably estimated, no development revenue is recognised.

Where it is probable that the total costs will exceed total revenue, the foreseeable loss is immediately recognised in the income statement irrespective of whether development work has commenced or not, or the state of completion of development activity or the amounts of profits expected to arise on other unrelated development projects.

### (g) Other investments

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

### (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.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### (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 received.

### (k) 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 the estimated net selling price of the asset and its value in use. Value in use is measured by discounted future cash flows expected to be generated from continuing use of the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

An impairment loss is recognised whenever the carrying amount of an item of asset or the cash generating unit to which it belongs exceeds its recoverable amount. The impairment loss, if any, is charged to the income statement.

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 asset.

### (l) 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 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 measured at 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.

### (m) Revenue recognition

Revenue 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.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### (n) Borrowing costs

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of finance costs.

Finance costs comprise interests paid and payable on borrowings. Borrowing costs incurred on development properties that take a substantial period of time for completion are capitalised into the carrying value of the assets. Capitalisation of borrowing costs will cease when the assets are completed or during extended periods in which active development is interrupted. The amount of borrowing costs eligible for capitalisation is the actual borrowing costs incurred on borrowings obtained specifically for the purpose of the development.

The interest component of hire purchase payments are recognised in the income statement over the hire purchase periods so as to give a constant periodic rate of interest on the remaining hire purchase liability.

### (o) Tax expense

The tax expense in the income statement comprises current tax and deferred tax. Current tax is an estimate of tax payable at current tax rate based on profit earned during the year. Deferred taxation is recognised in full, based on the liability method for taxation deferred in respect of all material temporary differences arising from differences between the tax bases of the assets and liabilities and their carrying amounts in the financial statements.

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

Deferred tax is calculated at the tax rate that is expected to apply to the period when the asset is realised or the liability is settled. Current and deferred tax is recognised as an income or an expense and included in the income statement.

The Group adopted the above accounting policy during the financial year under review. In prior years, deferred taxation was provided on the liability method for taxation deferred in respect of all material timing differences except where it was thought reasonably probable that the tax effects of such deferral will continue in the foreseeable future. Deferred tax benefits were only recognised where there was a reasonable expectation of their realisation. The effects of the change in the accounting policy in respect of deferred taxation have been accounted for retrospectively and the effects of this change are disclosed in Note 24 to the financial statements.

### (p) Employee benefits

#### (i) *Short term benefits*

Salaries, bonuses and allowances and social security contributions are recognised as an expense in the financial year in which the services are rendered by the employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlements to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur. Non-monetary benefits such as medical care and other staff related expenses are charged to the income statement as and when incurred.

#### (ii) *Defined contribution plan*

As required by law, companies in Malaysia make contributions to the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statement in the financial year to which they relate.

#### (iii) *Termination benefits*

Employee termination benefits are recognised only either after an agreement is in place with the appropriate employee representatives specifying the terms of redundancy or after individual employees have been advised of the specific terms.



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### (iv) *Equity compensation benefits*

The Company operates an ESOS which allow full time employees (including full time executive directors) of the Company and its subsidiaries to acquire shares of the Company. No compensation cost or obligation is recognised. When the options are exercised, equity is increased by the amount of the proceeds received.

### (q) 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 the rates of exchange ruling at the date of the transactions.

The closing rate used in translation is USD1 = RM3.80 (2002 : USD 1 = RM3.80).

### (r) Cash equivalents

Cash equivalents comprise cash and bank balances, deposits held on call with banks, bank overdrafts and other 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.

### (s) Financial instruments

#### (i) *Financial instruments recognised in the balance sheets*

The recognised financial instruments of the Group comprise cash and cash equivalents, receivables and payables that arise directly from its operations, non-trade receivables and payables arising from transactions entered into in the normal course of business, bank borrowings 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. All the financial instruments are denominated in Ringgit Malaysia, unless otherwise stated. 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.

#### (ii) *Financial instruments not recognised in the balance sheets*

##### Unsecured guarantees

The Company has provided unsecured guarantees in respect of banking facilities granted to subsidiary companies which represent present obligations existed at the balance sheet date but are not recognised in the financial statements at inception because it is not probable that an outflow of economic benefits will be required to settle the obligations.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 2. PROPERTY, PLANT AND EQUIPMENT

Group 2003	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	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
Additions	-	712,268	56,548	794,097	1,562,913
Disposals	-	(65,827)	-	(5,684)	(71,511)
At 31 December					
Cost	47,756	23,074,755	2,469,018	7,995,363	33,586,892
Valuation	22,210,000	-	-	-	22,210,000
	22,257,756	23,074,755	2,469,018	7,995,363	55,796,892
Accumulated depreciation					
At 1 January	1,764,008	9,846,744	856,505	3,985,272	16,452,529
Charge for the year	362,838	1,738,185	459,191	764,268	3,324,482
Disposals	-	(65,827)	-	(4,346)	(70,173)
At 31 December	2,126,846	11,519,102	1,315,696	4,745,194	19,706,838
Net book value at 31 December					
Cost	44,947	11,555,653	1,153,322	3,250,169	16,004,091
Valuation	20,085,963	-	-	-	20,085,963
	20,130,910	11,555,653	1,153,322	3,250,169	36,090,054
<b>2002</b>					
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
Depreciation charge for the year	362,336	1,548,097	419,674	714,216	3,044,323

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 leasehold properties of the Group that would have been included in the financial statements had these properties been carried at cost less accumulated depreciation is RM12,231,866 (2002 : RM12,460,487).

## 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>2003</b>	<b>2002</b>
	<b>RM</b>	<b>RM</b>
Long leasehold land and building	7,656,963	7,788,389
Plant and machinery	5,664,158	6,189,879
Motor vehicles	98,567	140,250
	<hr/>	<hr/>
	13,419,688	14,118,518
	<hr/>	<hr/>

### 3. SUBSIDIARY COMPANIES

	<b>Company</b>	
	<b>2003</b>	<b>2002</b>
	<b>RM</b>	<b>RM</b>
Unquoted shares, at cost	12,811,655	12,511,657
Less:		
Impairment loss	1,214,424	1,214,424
	<hr/>	<hr/>
	11,597,231	11,297,233
	<hr/>	<hr/>

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

	<b>Group's effective interest</b>		<b>Principal activities</b>
	<b>2003</b>	<b>2002</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
Paragon Precision Industries Sdn Bhd	78%	78%	Inactive
Paragon Metal Components Sdn Bhd	77%	77%	Inactive
Paragon Expression Sdn Bhd @	100%	100%	Investment holding and property development related activities
*** Paragon Property Development Sdn Bhd (formerly known as Gapurna Property Development Sdn Bhd) @	100%	-	Dealing in land, properties and other property development related activities

\* Held through Paragon Car Carpets & Components Sdn Bhd

\*\* Held through Paragon Carpetmaker Sdn Bhd

\*\*\* Held through Paragon Expression Sdn Bhd

@ Subsidiaries not audited by Moores Rowland

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 4. DEVELOPMENT PROPERTIES

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<b>RM</b>	<b>RM</b>
Leasehold land, at cost		
At 1 January	-	-
Acquisition of a subsidiary company	11,704,159	-
At 31 December	11,704,159	-
Development expenditure		
At 1 January	-	-
Acquisition of a subsidiary company	16,010,769	-
Addition during the year	697,058	-
At 31 December	16,707,827	-
	28,411,986	-

Included in the development expenditure during the financial year is interest on bank term loans capitalised amounting to RM219,178.

### 5. OTHER INVESTMENTS

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<b>RM</b>	<b>RM</b>
Shares quoted in Malaysia, at cost	6,657,814	5,071,294
Loan stocks quoted in Malaysia, at cost	59,206	59,206
	6,717,020	5,130,500
Less:		
Impairment loss		
- on quoted shares	1,074,668	1,074,668
- on loan stocks	52,397	52,397
	1,127,065	1,127,065
	5,589,955	4,003,435
Market value of:		
- shares quoted in Malaysia	5,435,000	3,330,500
- loan stocks quoted in Malaysia	10,065	6,809
	5,445,065	3,337,309

### 6. GOODWILL ON ACQUISITION

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<b>RM</b>	<b>RM</b>
<b>Cost</b>		
At 1 January	-	-
Acquisition of subsidiary company	2,743,926	-
At 31 December	2,743,926	-

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Goodwill on acquisition arose from the acquisition of a subsidiary company referred to in Note 25. Goodwill on consolidation is not amortised during the financial year as the acquisition of the said subsidiary company was made towards the end of the financial year. Furthermore, the said subsidiary company is currently in its initial stage of preparing its land for development. The Group will commence amortisation of its goodwill in year 2004 as the development projects of the said subsidiary company are expected to be launched in the second half year of 2004.

### 7. INVENTORIES

Inventories stated at cost comprise:

	<b>Group</b>	
	<b>2003 RM</b>	<b>2002 RM</b>
Raw materials	4,134,384	3,651,016
Work-in-progress	1,385,924	1,271,415
Finished goods	3,796,372	2,569,167
	<u>9,316,680</u>	<u>7,491,598</u>

### 8. TRADE AND OTHER RECEIVABLES

	<b>Group</b>		<b>Company</b>	
	<b>2003 RM</b>	<b>2002 RM</b>	<b>2003 RM</b>	<b>2002 RM</b>
Gross trade receivables	16,977,994	16,319,045	-	-
Less:				
Allowance for doubtful debts	<u>1,654,804</u>	<u>1,531,519</u>	<u>-</u>	<u>-</u>
	15,323,190	14,787,526	-	-
Other receivables	898,664	684,131	1,000	3,000
Less:				
Allowance for doubtful debts	<u>263,984</u>	<u>263,984</u>	<u>-</u>	<u>-</u>
	634,680	420,147	1,000	3,000
Sundry deposits	17,848,559	17,854,208	17,770,000	17,770,000
Prepayments	<u>84,006</u>	<u>96,947</u>	<u>-</u>	<u>-</u>
	<u>33,890,435</u>	<u>33,158,828</u>	<u>17,771,000</u>	<u>17,773,000</u>
The currency exposure profiles of trade receivables are as follows:				
- Ringgit Malaysia	16,605,137	16,261,415	-	-
- US Dollar	<u>372,857</u>	<u>57,630</u>	<u>-</u>	<u>-</u>
	<u>16,977,994</u>	<u>16,319,045</u>	<u>-</u>	<u>-</u>

Trade receivables represent amounts receivable from the sale of goods to customers. Other receivables, deposits and prepayments are from the normal business transactions of the Group. All trade receivables are granted credit periods of 60 and 90 days.

Included in deposits of the Group and the Company is an amount of RM17,770,000 (2002 : 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 KINMA shares, (out of a total of 7,000,000 KINMA shares 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, and accordingly, allowance for doubtful recovery of the deposits is not required.

### 9. AMOUNT OWING BY SUBSIDIARY COMPANIES

	Company	
	2003 RM	2002 RM
Amount owing by subsidiary companies	42,916,090	45,768,029
Less:		
Allowance for doubtful debts	1,855,344	1,855,344
	<u>41,060,746</u>	<u>43,912,685</u>

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

### 10. FIXED DEPOSIT

The fixed deposit of a subsidiary company is placed with a licensed bank and is pledged to the said bank for term loan facilities granted to the said subsidiary company. The fixed deposit has maturity period of less than one year and earns an effective interest rate of 3.47% per annum.

### 11. TIME DEPOSITS

The time deposits of a subsidiary company in the previous financial year were placed with a licensed bank and had maturity periods of less than one month. The effective interest rate of the time deposits was 2.2% per annum.

### TRADE AND OTHER PAYABLES

	Group		Company	
	2003 RM	2002 RM	2003 RM	2002 RM
Trade payables	3,232,800	5,167,875	-	-
Other payables	1,265,519	2,033,332	96,997	163,068
Accruals	3,709,550	3,634,909	115,500	135,200
	<u>8,207,869</u>	<u>10,836,116</u>	<u>212,497</u>	<u>298,268</u>
The currency exposure profile of trade payables is as follows:				
- Ringgit Malaysia	2,638,606	3,748,922	-	-
- US Dollar	594,194	1,418,953	-	-
	<u>3,232,800</u>	<u>5,167,875</u>	<u>-</u>	<u>-</u>

Trade payables represent amounts outstanding from trade purchases. Other payables and accruals are from the normal business transactions of the Group.

The normal credit periods granted by trade creditors range from 60 to 120 days.



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 13. BANK BORROWINGS

	Group	
	2003 RM	2002 RM
Bills payable		
- secured	1,724,208	348,242
- unsecured	791,348	-
	<hr/> 2,515,556	<hr/> 348,242
Bank overdrafts		
- secured	5,079,531	-
- unsecured	4,048,258	-
	<hr/> 9,127,789	<hr/> -
Current portion of bank term loans (Note 17)	3,129,006	-
	<hr/> 14,772,351	<hr/> 348,242
	<hr/> <hr/>	<hr/> <hr/>

The bills payable and bank overdraft of the Group totalling RM6,803,739 (2002 : RM348,242) are secured by fixed and floating charges over the leasehold properties and all other assets of a subsidiary company. They are also guaranteed by the Company.

All the unsecured bank borrowings of the Group are guaranteed by the Company.

The bills payable and bank overdrafts of the Group bear effective interest rates of 4.55% to 8.5% (2002 : 4.55% to 8.9%) per annum.

### 14. SHARE CAPITAL

	2003 RM	2002 RM
Authorised		
100,000,000 ordinary shares of RM1 each	100,000,000	100,000,000
	<hr/>	<hr/>
Issued and fully paid		
70,000,000 ordinary shares of RM1 each	70,000,000	70,000,000
	<hr/>	<hr/>

Of the total 70,000,000 issued and fully paid ordinary shares, 2,870,000 (2002 : 2,727,000) ordinary shares are held as treasury shares by the Company. At 31 December 2003, the number of outstanding shares in issue after deducting treasury shares held is 67,130,000 (2002 : 67,273,000) ordinary shares of RM1 each.

In 2000, the Company has implemented an Employees Share Option Scheme ("ESOS") for eligible employees of the Group which is governed by the Bye-Laws of the ESOS and was approved by the shareholders of the Company and the relevant authorities.

The salient features of the ESOS are as follows:

- (i) The maximum number of new ordinary shares that may be made available under the ESOS shall not exceed an aggregate of ten (10) percent of the issued and paid-up ordinary share capital of the Company at any point in time during the existence of the ESOS.
- (ii) The ESOS shall be opened for participation to the eligible employees of the Group. Subject to certain provisions of the Bye-Laws of the ESOS, an eligible employee must be a confirmed employee with at least 12 months of continuous service as at the date of offer. Where a foreign employee is serving the Group under an employment contract, the contract shall be for a duration of at least 3 years.
- (iii) No option shall be granted for less than 1,000 or for more than 500,000 new ordinary shares to any eligible employee. In determining the criteria for allocation, the seniority, length of service, performance and potential of the eligible employee will be taken into consideration.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

- (iv) The option price shall be based on the average of the mean market quotation (calculated as the average of the highest and lowest prices transacted on the Malaysia Securities Exchange Berhad ("MSEB," formerly known as the Kuala Lumpur Stock Exchange) for the day of the Company's shares as shown on the Daily Official List issued by the MSEB for the 5 market days immediately preceding the date of offer or the par value of each ordinary share of the Company, whichever is higher.
- (v) The ESOS shall continue to be in force for a duration of up to five (5) years (or such further extension as approved by authorities) commencing from the date of receipt of the last of the requisite approvals.
- (vi) The new ordinary shares to be allotted upon any exercise of options under the ESOS shall, upon allotment and issue, rank pari passu in all respects with the then existing ordinary shares. However, the new ordinary shares so issued shall not be entitled to any dividend or other distributions declared, made or paid prior to the date of allotment of such shares.
- (vii) An offer shall be valid for a period of 45 days from the date of offer and shall be accepted within the prescribed period by the eligible employee to whom the offer is made by written notice of such acceptance accompanied by the relevant payment to the Company. If the offer is not accepted in the manner aforesaid, such offer shall upon the expiry of the prescribed period automatically lapse and shall be null and void and be of no further force and effect.
- (viii) The ESOS shall be administered by a committee ("ESOS Committee") in such manner as it shall in its discretion deem fit and with such powers and duties as conferred upon it by the board of directors of the Company.

Movements in the share options to take up unissued ordinary shares of RM1 each in the Company are as follows:

	<b>Number of options over ordinary shares</b>	
	<b>2003</b>	<b>2002</b>
At 1 January	2,966,000	3,215,000
Granted	-	-
Exercised	-	-
Lapsed	(272,000)	(249,000)
At 31 December	<u>2,694,000</u>	<u>2,966,000</u>

There were no share options exercised during the financial year under review.

The terms of the share options outstanding at year end are as follows:

<b>Exercised period</b>	<b>Exercise price RM</b>	<b>Number of share options outstanding</b>	
		<b>2003</b>	<b>2002</b>
17-05-2000 to 16-05-2005	1.55	2,392,000	2,439,000
06-09-2001 to 16-05-2005	1.21	302,000	527,000
		<u>2,694,000</u>	<u>2,966,000</u>

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 15. RESERVES

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<b>RM</b>	<b>RM</b>
Non-distributable:		
Share premium	2,928,750	2,928,750
Asset valuation reserve	5,661,813	5,753,641
Merger reserve	(7,547,231)	(7,547,231)
	<u>1,043,332</u>	<u>1,135,160</u>

### 16. TREASURY SHARES

	<b>Group/Company</b>	
	<b>2003</b>	<b>2002</b>
	<b>RM</b>	<b>RM</b>
At 1 January	2,795,047	2,758,037
Shares purchased during the year	123,665	37,010
	<u>2,918,712</u>	<u>2,795,047</u>

During the financial year, the Company purchased a total of 143,000 (2002 : 46,000) ordinary shares of its issued share capital from the open market at a total cost of RM123,665 (2002 : RM37,010). The average price paid for the shares purchased was RM0.86 (2002 : 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. Treasury shares have no rights to voting, dividends and participation in other distribution.

At 31 December 2003, the number of treasury shares held is 2,870,000 (2002 : 2,727,000) ordinary shares.

### 17. BANK TERM LOANS

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<b>RM</b>	<b>RM</b>
Bank term loans bearing effective interest rate of 8.0% per annum, repayable by 36 to 42 monthly instalments commencing six to twelve month after the full drawdown	20,000,000	-
Less:		
Repayments due within 12 months (included in current liabilities, Note 13)	3,129,006	-
Repayments due after 12 months	<u>16,870,994</u>	<u>-</u>

The bank term loans are secured by a pledge on the fixed deposit of a subsidiary company referred to in Note 10. They are also guaranteed by the Company.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 18. DEFERRED TAX LIABILITIES

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<b>RM</b>	<b>RM</b>
At 1 January		
- As previously reported	634,000	249,000
- Prior year adjustments (Note 24)	3,466,527	2,962,238
- As restated	4,100,527	3,211,238
Acquisition of subsidiary company	4,421,645	-
Transfer from income statement	349,117	889,289
At 31 December	8,871,289	4,100,527
The deferred tax liabilities comprise:		
Taxable temporary differences		
- relating to surplus arising from revaluation of properties	2,201,816	2,237,527
- relating to surplus arising from fair value adjustment to the development properties of subsidiary company acquired	4,421,645	-
- between net book value and tax written down value of property, plant and equipment	2,765,828	2,581,386
	9,389,289	4,818,913
Deductible temporary differences		
- unused tax losses	(518,000)	(704,386)
- unabsorbed capital allowances	-	(14,000)
	8,871,289	4,100,527

At 31 December 2003, the Group has not recognised deferred tax assets arising from the following temporary differences as it is not probable that future taxable profit will be available against which the assets can be utilised:

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<b>RM</b>	<b>RM</b>
Unused tax losses	251,366	352,000
Unabsorbed capital allowances	322,088	451,000
	573,454	803,000

### 19. 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.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 20. PROFIT FROM OPERATIONS

Profit from operations is stated after charging:

	<b>Group</b>		<b>Company</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Allowance for doubtful debts	683,013	674,744	-	-
Auditors' remuneration				
- current year	54,540	47,200	7,500	7,200
- under/(over)estimated in prior year	3,800	(40)	300	-
Bad debts written off	2,395	-	-	-
Depreciation	3,324,482	3,044,323	-	-
Directors' remuneration				
- fees	108,000	128,000	108,000	128,000
- other emoluments	910,000	915,000	-	-
Fees paid to firms in which two directors of the Company are partners	29,290	63,086	15,260	28,694
Loss on disposal of property, plant and equipment	793	9,432	-	-
and crediting:				
Allowance for doubtful debts written back	305,262	598,399	-	-
Gross dividend income from				
- a subsidiary company	-	-	1,666,667	2,777,778
- investments quoted in Malaysia	102,750	60,150	-	-
Gain on disposal of property, plant and equipment	1,744	22,000	-	-
Interest income from fixed and time deposits	18,461	7,762	-	-

The estimated monetary value of benefits-in-kind received by the directors otherwise than in cash from the Group and the Company amounted to RM47,892 and RM13,325 (2002 : RM65,310 and RM9,980) respectively.

### 21. FINANCE COSTS

	<b>Group</b>		<b>Company</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Finance costs incurred during the financial year comprise:				
- Bank interests	640,113	195,152	-	-
- Hire purchase and finance lease term charges	-	2,594	-	-
	640,113	197,746	-	-
Less:				
Finance costs capitalised under development properties (Note 4)				
- Bank interests	219,178	-	-	-
	420,935	197,746	-	-

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 22. TAX EXPENSE

	Group		Company	
	2003	2002	2003	2002
	RM	RM	RM	RM
Current tax expense				
- current year	323,534	178,220	466,667	763,998
- under/(over)estimated in prior year	5,161	(304)	1,435	(753)
	328,695	177,916	468,102	763,245
Deferred tax expense relating to origination and reversal of temporary differences				
- current year	354,862	889,289	-	-
- overestimated in prior year	(5,745)	-	-	-
	349,117	889,289	-	-
	677,812	1,067,205	468,102	763,245

The numerical reconciliations between the tax expense and the product of accounting profit multiplied by the applicable tax rates are as follows:

	Group		Company	
	2003	2002	2003	2002
	RM	RM	RM	RM
Accounting profit	3,032,592	3,073,556	1,234,368	2,282,788
Tax at the applicable average tax rate of 28.22% (2002 : 27.96%) for the Group and 28% (2002 : 28%) for the Company	855,944	859,425	345,623	639,181
Add:				
Tax effect of expenses not deductible in taxable profit				
- Depreciation of non-qualifying property, plant and equipment	210,070	190,491	-	-
- Impairment loss on other investments	-	300,907	-	-
- Other non-deductible expenses	209,466	240,949	121,044	124,817
	1,275,480	1,591,772	466,667	763,998
Less:				
Tax effect of income not taxable in determining taxable profit				
- Gain on disposal of other investments	95,147	-	-	-
- Other non-taxable income	-	12,454	-	-
Tax effect on reinvestment allowances utilised during the year	466,226	476,098	-	-
Crystallisation of deferred tax liabilities on amortisation on revalued properties	35,711	35,711	-	-
	678,396	1,067,509	466,667	763,998
Add/(Less):				
Current tax expense under/ (over)estimated in prior year	5,161	(304)	1,435	(753)
Deferred tax expense overestimated in prior year	(5,745)	-	-	-
Tax expense for the year	677,812	1,067,205	468,102	763,245

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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

### 23. 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 RM2,354,780 (2002 : RM2,006,351) and on 67,130,000 (2002 : RM67,273,000) number of ordinary shares in issue during the year after deducting treasury shares as follows:

	2003	2002
Number of ordinary shares in issue at beginning and end of the year	70,000,000	70,000,000
Less:		
Treasury shares	2,870,000	2,727,000
Number of ordinary shares after deducting treasury shares	<u>67,130,000</u>	<u>67,273,000</u>

#### (ii) Diluted earnings per share

The diluted earnings per share is calculated based on the consolidated net profit for the year of RM2,354,780 (2002 : RM2,006,351) and on 67,130,000 (2002 : 67,273,000) 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.

### 24. PRIOR YEAR ADJUSTMENTS

During the financial year, the Group and the Company changed their accounting policy with respect to the recognition of deferred taxation in compliance with the new standard MASB 25 : Income Taxes. In prior years, the Group and the Company accounted for deferred taxation under the partial basis. In the current financial year, this policy has been changed to the comprehensive basis so as to comply with the new standard. The cumulative effects of this change in accounting policy are shown below and have been applied retrospectively against the retained profit brought forward. Accordingly, the comparatives have been amended to conform to this change in policy.

Group	As previously reported RM	Effects of change in accounting policy RM	As restated RM
Asset valuation reserve			
- at 1 January 2002	8,892,003	(3,046,534)	5,845,469
- at 1 January 2003	<u>8,892,003</u>	<u>(3,138,362)</u>	<u>5,753,641</u>
Retained profit			
- at 1 January 2002	3,104,370	84,296	3,188,666
- at 1 January 2003	<u>3,191,526</u>	<u>(328,165)</u>	<u>2,863,361</u>
Deferred tax liabilities			
- at 1 January 2002	249,000	2,962,238	3,211,238
- at 1 January 2003	<u>634,000</u>	<u>3,466,527</u>	<u>4,100,527</u>
Net profit for the year ended 31 December 2002	<u>2,510,640</u>	<u>(504,289)</u>	<u>2,006,351</u>



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 25. ANALYSIS OF ACQUISITION OF SUBSIDIARY COMPANY

On 1 October 2003, a wholly-owned subsidiary of the Company, Paragon Expression Sdn Bhd, acquired 100% equity interest in a new subsidiary company, Paragon Property Development Sdn Bhd (formerly known as Gapurna Property Development Sdn Bhd) at a cash consideration of RM14,292,100. The principal activity of the newly acquired subsidiary company is dealing in land, properties and other property development related activities. The acquisition was accounted for using the acquisition method of accounting and goodwill arising from the acquisition is RM2,743,926.

The effects of acquisition of subsidiary company in the current financial year on the consolidated net profit, the consolidated financial position and the consolidated cash flow statement are as follows:

(a) Effect on consolidated net profit:

	<b>RM</b>
Gross revenue	-
Administrative expenses	(2,007)
	<hr/>
Loss before tax	(2,007)
Tax expense	-
	<hr/>
Decrease in Group's net profit	(2,007)
	<hr/> <hr/>

(b) Effect on consolidated financial position:

	<b>RM</b>
Development properties	27,714,928
Goodwill on consolidation	2,743,926
Current assets	320,000
Current liabilities	(1,500)
Deferred tax liabilities	(4,421,645)
	<hr/>
Increase in Group's share of net assets	26,355,709
	<hr/> <hr/>

(c) Effect on consolidated cash flow statement:

	<b>RM</b>
Net assets acquired:	
Development properties	27,500,000
Goodwill on acquisition	2,743,926
Current liabilities	(11,530,181)
Deferred tax liabilities	(4,421,645)
	<hr/>
Total purchase consideration	14,292,100
Less:	
Cash and bank balances acquired	-
	<hr/>
Net cash flows on acquisition	14,292,100
	<hr/> <hr/>

### 26. 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.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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	
	2003	2002	2003	2002
	RM	RM	RM	RM
Transactions with the respective firms are as follows:				
Fees paid to:				
- Shearn Delamore & Co	15,260	28,694	15,260	28,694
- T.S. Teoh & Partners	14,030	34,392	-	-

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	
	2003	2002	2003	2002
	RM	RM	RM	RM
Outstanding advances owing by				
- Paragon Car Carpets & Components Sdn Bhd	-	-	24,096,579	26,962,685
- Paragon Carpetmaker Sdn Bhd	-	-	15,239,921	15,237,721
- Paragon Carpet Distributor Sdn Bhd	-	-	1,707,847	1,709,879
- Paragon Expression Sdn Bhd	-	-	14,400	2,100

### 27. EMPLOYEES INFORMATION

	Group	
	2003	2002
	RM	RM
Staff costs		
Salaries, bonuses and allowances	7,705,082	7,400,105
Defined contribution plan		
- EPF contributions	692,384	647,746
Social security costs		
- SOCSO contributions	65,353	59,281
Other staff related expenses	296,541	303,008
	8,759,360	8,410,140

Included in staff costs of the Group are executive directors' remuneration of RM910,000 (2002 : RM915,000) which is disclosed in Note 20.

	2003	2002
Number of employees at 31 December	418	381

### 28. HOLDING COMPANY

The holding company is Asia Avenue Sdn Bhd, a company incorporated in Malaysia, which holds 47.76% (2002 : 47.66%) of the issued and paid up share capital of the Company.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 29. CONTINGENT LIABILITIES

	Group		Company	
	2003	2002	2003	2002
	RM	RM	RM	RM
Unsecured corporate guarantees in respect of banking facilities granted to subsidiaries	-	-	42,877,000	22,877,000

### 30. FINANCIAL INSTRUMENTS

#### (a) *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 created 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 as well as 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, foreign currency exchange risk, market risk and liquidity and cash flow 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.

#### (i) *Credit risk*

Credit risk arises when sales are made on deferred terms and when surplus cash is invested. The Group invests its cash assets safely and profitably by depositing them with licensed financial institutions.

The entire financial assets of the Group are exposed to credit risk except for cash and bank balances and deposits which are placed with licensed financial institutions in Malaysia. The Group's exposure to credit risk is monitored on an ongoing basis. The risk is managed through the application of the Group's extensive credit management procedures which include the application of credit approvals whereby credit evaluations are performed on all customers requiring credit over a certain amount and period, adherence to credit limits, regular monitoring and follow up procedures. Concentration of credit risk with respect to trade receivables is limited due to a wide spread of customers in various industries.

The Group does not require collateral in respect of its financial assets and considers the risk of material loss from the non-performance on the part of financial counter-party to be negligible.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

#### (ii) *Interest rate risk*

Interest rate risk is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates.

The Group is exposed to interest rate risk in respect of its bank borrowings. Interest rate risk arising from bank borrowings is subject to floating interest rates with the interest rates spread above the bank's base lending rate agreed before the facilities are accepted.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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

It is the Group's policy not to trade in interest rate swap agreements.

### (iii) *Foreign currency exchange risk*

The Group is exposed to foreign currency exchange risk as a result of transactions denominated in foreign currencies entered into by the Group which is mainly denominated in US Dollar. The Group's exposure to foreign currency exchange risk is monitored on an ongoing basis.

The Group has not hedged against its foreign currency exposure as the US Dollar is pegged to Ringgit Malaysia and it does not form a significant proportion of the Group's gross assets.

### (iv) *Market risk*

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

The Group's exposure to market risk arises from changes in market price of its quoted investments. The investments are monitored and subject to periodic review. The investments are assessed for any potential impairment loss on the carrying values and allowance are made for such impairment as disclosed in the respective note to the financial statements.

The Group does not use derivative financial instruments to manage the risk as the investments are held for long term strategic purposes.

### (v) *Liquidity and cash flow risk*

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities.

The Group's exposure to liquidity and cash flow risk is mainly relating to its bank borrowings and is monitored on an ongoing basis. The Group considers its exposure to this risk is minimal as it maintains sufficient cash from its operations to meet the committed facilities.

### (b) *Fair values*

The carrying amounts of the financial assets and liabilities of the Group and the Company as at 31 December 2003 approximated their fair values except for other investments as stated below:

	<b>Group Carrying amount RM</b>	<b>Fair value RM</b>
Other investments	5,589,955	5,445,065

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

### 31. SEGMENTAL ANALYSIS

No segmental analysis is presented as the Group is principally involved in a single industry segment relating to the manufacturing of carpets during the financial year under review and the property development activity of the newly acquired subsidiary company has not commenced yet. The business of the Group is entirely carried out in Malaysia.

### 32. SIGNIFICANT EVENTS

#### (a) *Acquisition of new subsidiary company*

During the financial year, a subsidiary company, Paragon Expression Sdn Bhd, has completed the following transactions:

- (i) the acquisition of the entire issued and paid-up share capital of Paragon Property Development Sdn Bhd (“PPD”) (formerly known as Gapurna Property Development Sdn Bhd) comprising 200,000 ordinary shares of RM1.00 each from Gapurna Sdn Bhd and Dato’ Mohamad Salim bin Fateh Din (“the vendors”) at a total cash consideration of RM13,959,458; and
- (ii) settlement on behalf of PPD a sum of RM11,540,542 in accordance with a supplemental agreement with PPD and the vendors for advances previously given by the vendors, after which the vendors had agreed to give a full discharge to PPD upon receipt of the above settlement sum from Paragon Expression Sdn Bhd.

#### (b) *Proposed private placement*

In 2002, the Company had obtained approvals from the Securities Commission, the Ministry of International Trade and Industry, Foreign Investment Committee and the MASEB 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 would be fixed. The proceeds arising from the Proposed Private Placement would be utilised for capital expenditure and as working capital purposes for the Group.

During the financial year, the Company obtained approvals from the Securities Commission for an extension of time up till 17 July 2003 and 17 January 2004 to complete the Proposed Private Placement.

On 13 January 2004, the Company has announced that it has decided to abort the Proposed Private Placement and therefore, will not be seeking an extension of time for the said exercise.

### 33. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements of the Group and of the Company were authorised for issue by directors on 9 April 2004.

## **STATEMENT BY DIRECTORS**

In the opinion of the directors, the financial statements set out on pages 32 to 60 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 2003 and of their results and cash flows for the year then ended; and
- (b) in accordance with applicable approved accounting standards and the provisions of the Companies Act, 1965.

On behalf of the Directors

**TAN ONN POH**  
Director

9 April 2004

**TAN HONG KIEN**  
Director

## 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 60 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 9 April 2004 )

Before me : **ROBERT LIM HOCK KEE** )  
**W 092** )

**TAN HONG KIEN**

Commissioner for Oaths





**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 Tenth  
 Annual General Meeting of the Company to be held at Cempaka Raya Room, Equatorial Hotel, Jalan Sultan Ismail,  
 50250 Kuala Lumpur on Monday, 21 June 2004 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 2003 together with the Directors' and Auditors' Reports thereon.		
2. Approval of Directors' Fees for the year ended 31 December 2003.		
3. Approval of the First and Final Dividend of 3% less tax at 28% for the year ended 31 December 2003.		
4. Re-election of Mr. Tan Onn Poh as Director of the Company.		
5. Re-election of Dato' Zainol Abidin Bin Haji A Hamid. as Director of the Company		
6. Re-appointment of Auditors.		
7. 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.....2004

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 Level 17, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, 50490 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.

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Stamp

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

Level 17, Menara Milenium,  
Jalan Damanlela,  
Pusat Bandar Damansara,  
50490 Kuala Lumpur.

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