

annual report
laporan tahunan **2004**



PARAGON UNION BERHAD
286457 - V

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Notice of Annual General Meeting



NOTICE IS HEREBY GIVEN THAT the Eleventh Annual General Meeting of the Company will be held at the Classics 2 Room, Level 3, Holiday Villa, No 9 Jalan SS12/1, Subang Jaya, 47500 Petaling Jaya, Selangor Darul Ehsan on Wednesday, 22 June 2005 at 11.00 a.m. for the following purposes:

A G E N D A

ORDINARY BUSINESS

- | | |
|--|---------------------|
| 1. To receive the Audited Financial Statements for the year ended 31 December 2004 together with the Directors' and Auditors' Reports thereon. | Resolution 1 |
| 2. To approve the payment of Directors' fees for the year ended 31 December 2004. | Resolution 2 |
| 3. To approve a First and Final Dividend of 1% less tax at 28% for the year ended 31 December 2004. | Resolution 3 |
| 4. To re-elect Mr. Michael Lim Hee Kiang who is retiring as Director of the Company in accordance with Article 75 of the Company's Articles of Association. | Resolution 4 |
| 5. To re-elect Mr. Teoh Tek Siong who is retiring as Director of the Company in accordance with Article 75 of the Company's Articles of Association. | Resolution 5 |
| 6. To re-elect Tan Sri Dato' Kamaruzzaman Bin Shariff who is retiring as Director of the Company in accordance with Article 81 of the Company's Articles of Association. | Resolution 6 |
| 7. To re-appoint Messrs. Moores Rowland, the retiring Auditors and to authorise the Board of Directors to fix their remuneration. | Resolution 7 |

SPECIAL BUSINESS

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

Ordinary Resolution

- Authority for Directors to Allot and Issue Shares

Resolution 8

"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 to be in force until the conclusion of the next Annual General Meeting of the Company."

Special Resolution No. 1

- Proposed Amendment to Article 4(d) of the Articles of Association of the Company

Resolution 9

THAT the existing Article 4(d) of the Company be replaced with the following new Article 4(d):-

"No Director shall participate in a share scheme for employees unless members in general meeting have approved of the specific allotment to be made to such Director."

Notice of Annual General Meeting



Special Resolution No. 2

- Proposed Amendment to Article 100 of the Articles of Association of the Company

Resolution 10

THAT the existing Article 100 of the Company be replaced with the following new Article 100:-

“The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. A meeting of the Directors may be held anywhere in the world. Any Director may at any time and the Secretary shall on the requisition of any of the Directors, summon a meeting of the Directors. The Directors may participate in a Board meeting by means of a conference between Directors who are not all in one place, but each is able, directly or by telephonic, video or other electronic communications to communicate with each of the others simultaneously. Such participation shall be deemed to be present in person. The participating Directors must confirm the matters resolved during such a meeting by signing the minutes of the meeting. For avoidance of doubt, such a meeting shall be deemed to be held at the place where the Chairman of the meeting is at the start of the meeting.”

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 1% less tax at 28% in respect of the financial year ended 31 December 2004 will be payable on 8 August 2005 to Depositors registered in the Record of Depositors at the close of business on 20 July 2005.

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 20 July 2005 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

Ng Yim Kong (LS 0008343)
Company Secretary

Petaling Jaya
Date: 31 May 2005

Notes:

1. 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.
2. 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.
3. A member may appoint more than one(1) proxy to attend the same meeting. Where a member appoints two(2) or more proxies, he shall specify the proportion of his shareholdings to be represented by each proxy.
4. The Form of Proxy shall be signed by the appointor or his (her) attorney duly authorised in writing or, if the member is a corporation, must be executed under its common seal or by its duly authorised attorney or officers.
5. The instrument appointing a proxy must be deposited at the Registered Office of the Company at Unit 07-02, Level 7, Menara Luxor, 6B Persiaran Tropicana, 47410 Petaling Jaya, Selangor Darul Ehsan, not less than 48 hours before the time appointed for holding the meeting or adjourned meeting.

Notice of Annual General Meeting



EXPLANATORY NOTES ON SPECIAL BUSINESS

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

The proposed Ordinary Resolution under item 8 of the Agenda 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.

- b) Resolution pursuant to the Proposed Amendment to Article 4(d) of the Articles of Association of the Company

The proposed Special Resolution No. 1 under item 8 of the Agenda above, if passed, will also allow the Non-Executive Directors (including Independent Directors) to participate in the Employees' Share Option Scheme of the Company.

- c) Resolution pursuant to the Proposed Amendment to Article 100 of the Articles of Association of the Company

The proposed Special Resolution No. 2 under item 8 of the Agenda above, if passed, will allow the Directors of the Company to participate in a Board Meeting by way of teleconferencing or other electronic communications.

Statement Accompanying Notice Of Annual General Meeting



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

- | | |
|---|----------------|
| i. Mr. Michael Lim Hee Kiang | (Resolution 4) |
| ii. Mr. Teoh Tek Siong | (Resolution 5) |
| iii. Tan Sri Dato' Kamaruzzaman Bin Shariff | (Resolution 6) |

2. Details of attendance of Directors at Board Meetings

There were 4 Board of Directors' Meetings held during the financial year ended 31 December 2004. Attendance for each Director is as follows:

Name of Director	Attendance
Tan Sri Dato' Kamaruzzaman Bin Shariff	2/2
Mr. Tan Onn Poh	4/4
Mr. Tan Hong Kien	4/4
Mr. Yap Kiang Siang	4/4
Mr. Michael Lim Hee Kiang	4/4
Mr. Teoh Tek Siong	4/4
Dato' Zainol Abidin Bin Haji A. Hamid	4/4

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

Date of Meeting	Time of Meeting	Place of Meeting
22 June 2005	11.00 a.m.	Classics 2 Room Level 3, Holiday Villa No 9 Jalan SS12/1 Subang Jaya 47500 Petaling Jaya Selangor Darul Ehsan

Directors' Report

For The Year Ended 31 December 2004



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 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiary companies are indicated in Note 3 to the financial statements.

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

RESULTS

	Group	Company
Net profit for the year	RM1,055,801	RM689,609

DIVIDENDS

Dividend paid or declared by the Company since the end of the previous financial year were as follows:

- (a) In respect of the year ended 31 December 2003 as disclosed in the directors' report of that financial year -

First and final dividend of 3% less 28% tax paid on 6 August 2004	RM1,450,008
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- (b) In respect of the year ended 31 December 2004 -

The directors now recommend the payment of a first and final dividend of 1% less 28% tax amounting to RM483,336 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 expired on 21 June 2004 and has not been renewed at the 10th Annual General Meeting held on the same date. Consequently, this authority had expired at the conclusion of the

Directors' Report

10th Annual General Meeting and the board of directors will be seeking the renewal of the authority from the shareholders of the Company in respect of the share buy-back at the forthcoming Annual General Meeting.

To date, the Company had 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
	<u>2,870,000</u>		<u>2,918,712</u>

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 2004, 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:

Directors' Report



	Number of options over ordinary shares	
	At exercise price of RM1.55	At exercise price of RM1.21
At 1 January 2004	2,392,000	302,000
Forfeiture due to resignations	(87,000)	(35,000)
At 31 December 2004	2,305,000	267,000

DIRECTORS

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

Tan Sri Dato' Kamaruzzaman Bin Shariff (appointed on 19-7-2004)
 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

In accordance with Article 75 of the Company's Articles of Association, Messrs Michael Lim Hee Kiang and Teoh Tek Siong retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 81 of the Company's Articles of Association, Tan Sri Dato' Kamaruzzaman Bin Shariff, the director who was appointed to the board subsequent to the date of the last Annual General Meeting, retires at the forthcoming Annual General Meeting and, being eligible, offers himself 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:

The Company	Number of ordinary shares of RM1 each			
	At 1-1-2004	Bought	Sold	At 31-12-2004
Mr Tan Onn Poh - Deemed interest	32,063,194	-	-	32,063,194
Mr Teoh Tek Siong - Direct interest	21,000	-	-	21,000
Mr Yap Kiang Siang - Direct interest	10,000	-	-	10,000

Directors' Report



Asia Avenue Sdn Bhd (Holding Company)	Number of ordinary shares of RM1 each		
	At 1-1-2004	Bought	Sold
Mr Tan Onn Poh - Direct interest	12,500	-	-

The Company	Number of options over ordinary shares		
	At 1-1-2004	Granted	Exercised
Mr Tan Onn Poh	500,000	-	-
Mr Tan Hong Kien	350,000	-	-

DIRECTORS' BENEFITS

Since the end of the previous financial year, no director of the Company has received or become entitled to receive any benefit (other than as disclosed in Notes 22 and 28 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 values as shown in the accounting records of the Company and of the Group had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances:
 - (i) which would render the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Company and of the Group inadequate to any substantial extent, or
 - (ii) which would render the values attributed to the current assets in the financial statements of the Company and of the Group misleading, or
 - (iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Company and of the Group misleading or inappropriate.

Directors' Report



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

ULTIMATE HOLDING COMPANY

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

AUDITORS

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

Signed on behalf of the directors in accordance
with a resolution of the directors

TAN ONN POH
Director

TAN HONG KIEN
Director

19 April 2005

Report Of The Auditors To The Members

Financial Statement - 31 December 2004

We have audited the financial statements set out on pages 34 to 70. 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 2004 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, 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

GAN MORN GHUAT
No. 1499/5/05 (J)
Partner

19 April 2005

Balance Sheets

31 December 2004



	Note	Group		Company	
		2004 RM	2003 RM	2004 RM	2003 RM
PROPERTY, PLANT AND EQUIPMENT	2	34,199,850	36,090,054	-	-
SUBSIDIARY COMPANIES	3	-	-	13,297,231	11,597,231
LAND HELD FOR PROPERTY DEVELOPMENT	4	-	28,411,986	-	-
OTHER INVESTMENTS	5	4,003,435	5,589,955	-	-
GOODWILL ON ACQUISITION	6	2,743,926	2,743,926	-	-
CURRENT ASSETS					
Property development costs	7	36,717,523	-	-	-
Inventories	8	10,340,346	9,316,680	-	-
Trade and other receivables	9	38,703,157	33,890,435	17,771,000	17,771,000
Amount owing by subsidiary companies	10	-	-	39,520,505	41,060,746
Tax recoverable		239,491	200,018	25,956	16,220
Fixed deposits	11	1,822,797	1,518,110	-	-
Cash and bank balances	12	2,271,872	2,466,148	1,020,191	1,261,932
		90,095,186	47,391,391	58,337,652	60,109,898
Less:					
CURRENT LIABILITIES					
Trade and other payables	13	13,621,696	8,207,869	240,546	212,497
Amount owing to a subsidiary company	10	-	-	660,104	-
Hire purchase liabilities	14	45,953	-	-	-
Bank borrowings	15	21,697,055	14,772,351	-	-
Tax payable		243,242	3,622	-	-
		35,607,946	22,983,842	900,650	212,497
NET CURRENT ASSETS		54,487,240	24,407,549	57,437,002	59,897,401
		95,434,451	97,243,470	70,734,233	71,494,632
Financed by:					
SHARE CAPITAL	16	70,000,000	70,000,000	70,000,000	70,000,000
RESERVES	17	951,504	1,043,332	-	-
RETAINED PROFIT		3,074,188	3,376,567	3,652,945	4,413,344
TREASURY SHARES	18	(2,918,712)	(2,918,712)	(2,918,712)	(2,918,712)
SHAREHOLDERS' EQUITY		71,106,980	71,501,187	70,734,233	71,494,632
BANK TERM LOANS	19	15,417,007	16,870,994	-	-
DEFERRED TAX LIABILITIES	20	8,735,690	8,871,289	-	-
HIRE PURCHASE LIABILITIES	14	174,774	-	-	-
		95,434,451	97,243,470	70,734,233	71,494,632

Notes to and forming part of the financial statements are set out on pages 41 to 70
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Income Statements

For The Year Ended 31 December 2004



		Group		Company	
	Note	2004 RM	2003 RM	2004 RM	2003 RM
Gross revenue	21	54,011,400	49,689,623	1,300,000	1,666,667
Cost of sales		(45,575,157)	(39,695,630)	-	-
Gross profit		8,436,243	9,993,993	1,300,000	1,666,667
Other operating income		613,452	455,182	-	-
Selling and distribution costs		(3,967,467)	(3,384,913)	-	-
Administrative and general expenses		(3,314,135)	(3,950,547)	(256,127)	(432,299)
Profit from operations	22	1,768,093	3,113,715	1,043,873	1,234,368
Finance costs	23	(905,877)	(420,935)	-	-
Gain on disposal of other investments		482,580	339,812	-	-
Profit before tax		1,344,796	3,032,592	1,043,873	1,234,368
Tax expense	24	(288,995)	(677,812)	(354,264)	(468,102)
Net profit for the year		1,055,801	2,354,780	689,609	766,266
Net dividend per share (sen)		0.72	2.2	0.72	2.2
Earnings per share (sen)	25				
- basic		1.57	3.5		
- fully diluted		-	-		

Notes to and forming part of the financial statements are set out on pages 41 to 70
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Consolidated Statement Of Changes In Equity

For The Year Ended 31 December 2004

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 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 adjustment (Note 26)	-	-	-	(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 in income statement								
- 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

Consolidated Statement Of Changes In Equity

For The Year Ended 31 December 2004

Group	Share capital RM	Share premium RM	Merger reserve RM	Asset valuation reserve RM	Undistributed RM	Retained profit Proposed dividend RM	Sub-total RM	Treasury shares RM	Total RM
At 1 January 2004	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
Transfer of share premium to merger reserve	-	(2,928,750)	2,928,750	-	-	-	-	-	-
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	-	-	-	-	1,055,801	-	1,055,801	-	1,055,801
Dividend paid - balance brought forward	-	-	-	-	-	(1,450,008)	(1,450,008)	-	(1,450,008)
Proposed first and final dividend of 1% less 28% tax	-	-	-	-	(483,336)	483,336	-	-	-
At 31 December 2004	70,000,000	-	(4,618,481)	5,569,985	2,590,852	483,336	3,074,188	(2,918,712)	71,106,980

Notes to and forming part of the financial statements are set out on pages 41 to 70
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Statement Of Changes In Equity

For The Year Ended 31 December 2004



Company	Share capital RM	Retained profit		Sub-total RM	Treasury shares RM	Total RM
		Undistributed RM	Proposed dividend RM			
At 1 January 2003	70,000,000	3,647,078	1,933,402	5,580,480	(2,795,047)	72,785,433
Net profit for the year	-	766,266	-	766,266	-	766,266
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	2,963,336	1,450,008	4,413,344	(2,918,712)	71,494,632
Net profit for the year	-	689,609	-	689,609	-	689,609
Dividend paid - balance brought forward	-	-	(1,450,008)	(1,450,008)	-	(1,450,008)
Proposed first and final dividend of 1% less 28% tax	-	(483,336)	483,336	-	-	-
At 31 December 2004	70,000,000	3,169,609	483,336	3,652,945	(2,918,712)	70,734,233

Notes to and forming part of the financial statements are set out on pages 41 to 70
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Cash Flow Statements

For The Year Ended 31 December 2004



	Group		Company	
	2004 RM	2003 RM	2004 RM	2003 RM
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax	1,344,796	3,032,592	1,043,873	1,234,368
Adjustments for:				
Depreciation	3,412,423	3,324,482	-	-
Gain on disposal of property, plant and equipment	(22,931)	(951)	-	-
Property, plant and equipment written off	690	-	-	-
Gain on disposal of other investments	(482,580)	(339,812)	-	-
Allowance for doubtful debts	313,407	683,013	-	-
Allowance for doubtful debts written back	(410,493)	(305,262)	-	-
Bad debts written off	-	2,395	-	-
Dividend income	(87,350)	(102,750)	(1,300,000)	(1,666,667)
Interest income	(68,191)	(18,461)	-	-
Interest expenses	897,896	420,935	-	-
Hire purchase term charges	7,981	-	-	-
Operating profit/(loss) before working capital changes	4,905,648	6,696,181	(256,127)	(432,299)
Changes in property development costs	(6,551,684)	(473,630)	-	-
Changes in inventories	(1,023,666)	(1,825,082)	-	-
Changes in receivables	(4,715,636)	(1,111,753)	-	2,000
Changes in payables	7,320,532	(11,991,114)	28,049	(85,771)
Cash utilised in operations	(64,806)	(8,705,398)	(228,078)	(516,070)
Dividend received	-	-	936,000	1,200,000
Interest received	68,191	18,461	-	-
Interest paid	(2,651,749)	(859,291)	-	-
Tax refunded	214,824	-	-	-
Tax paid	(414,813)	(319,400)	-	-
Net cash (used in)/from operating activities	(2,848,353)	(9,865,628)	707,922	683,930
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(1,303,879)	(1,562,913)	-	-
Proceeds from disposal of property, plant and equipment	43,300	2,289	-	-
Acquisition of subsidiary company, net of cash (Note 27)	-	(14,292,100)	-	-
Purchase of additional of shares in a subsidiary company	-	-	(1,700,000)	(299,998)
Purchase of other investments	-	(3,896,207)	-	-
Proceeds from disposal of other investments	2,069,100	2,649,499	-	-
Repayment from subsidiary companies	-	-	1,540,241	2,851,939
Dividends received	62,892	73,980	-	-
Net cash from/(used in) investing activities	871,413	(17,025,452)	(159,759)	2,551,941

Cash Flow Statements

For The Year Ended 31 December 2004



	Group		Company	
	2004 RM	2003 RM	2004 RM	2003 RM
CASH FLOWS FROM FINANCING ACTIVITIES				
Advances from a subsidiary company	-	-	660,104	-
Bank term loans raised	3,414,457	20,000,000	-	-
Repayment of term loans	(2,132,240)	-	-	-
Dividend paid	(1,450,008)	(1,933,402)	(1,450,008)	(1,933,402)
Repurchase of shares	-	(123,665)	-	(123,665)
Payment of hire purchase instalments	(18,672)	-	-	-
Hire purchase term charges paid	(7,981)	-	-	-
Net cash (used in)/from financing activities	(194,444)	17,942,933	(789,904)	(2,057,067)
NET CHANGES IN CASH AND CASH EQUIVALENTS				
	(2,171,384)	(8,948,147)	(241,741)	1,178,804
CASH AND CASH EQUIVALENTS BROUGHT FORWARD				
	(5,143,531)	3,804,616	1,261,932	83,128
CASH AND CASH EQUIVALENTS CARRIED FORWARD				
	(7,314,915)	(5,143,531)	1,020,191	1,261,932
Represented by:				
FIXED DEPOSITS	1,822,797	1,518,110	-	-
CASH AND BANK BALANCES	2,271,872	2,466,148	1,020,191	1,261,932
BANK OVERDRAFTS	(11,409,584)	(9,127,789)	-	-
	(7,314,915)	(5,143,531)	1,020,191	1,261,932

During the financial year, the Group purchased property, plant and equipment amounting to RM1,543,278 of which RM239,399 was financed under hire purchase and the balance of RM1,303,879 was paid by cash.

Notes to and forming part of the financial statements as set out on pages 41 to 70
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Notes To And Forming Part Of The Financial Statements

For The Year Ended 31 December 2004



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.

Notes To And Forming Part Of The Financial Statements



(d) Goodwill or discount on consolidation

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

(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) Assets acquired under hire purchase

Assets financed by hire purchase agreements which transfer substantially all the risks and rewards of ownership to the Group are capitalised as property, plant and equipment and the corresponding obligations are treated as liabilities. On initial recognition, assets acquired by way of hire purchase are stated at an amount equal to the lower of their fair value and the present values of the minimum hire purchase payments at the inception of the hire purchase arrangements. The property, plant and equipment capitalised are depreciated on the same basis as owned assets.

Notes To And Forming Part Of The Financial Statements



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

(g) Land held for property development

Land held for property development consists of land where no development activities have been carried out or where development activities are not expected to be completed within the normal operating cycle. Such land is classified under non-current assets and is stated at cost less accumulated impairment loss. The policy for the recognition and measurement of impairment loss is in accordance with Note 1(m).

Land held for property development is reclassified as property development costs at the point when development activities have commenced and where it can be demonstrated that the development activities can be completed within the normal operating cycle.

(h) Property development costs

Property development costs comprise land and development costs which includes costs directly attributable to the development activities and other costs that can be allocated on a reasonable basis to such activities as well as interest expenses incurred during the period of development.

Property development revenue and expenses are recognised in the income statement using the percentage of completion method, which is applied in circumstances where the outcome of the development activities can be reliably be estimated. The state of completion is estimated by the proportion of cost incurred to-date bear to estimated total costs, and for this purpose only those costs that reflect actual development work performed are included as costs incurred to-date.

Where the outcome of a development activity cannot be reliably estimated, property development revenue is recognised only to the extent of property development costs incurred that is probable will be recoverable and property development costs on properties sold are recognised as an expense in the period in which they are incurred.

An expected loss on development project, including costs to be incurred over the defects liability period, is recognised as an expense immediately.

Property development costs which are not recognised as an expense, are recognised as an asset and are measured at net realisable value at the lower of cost and net realisable value.

(i) Other investments

Other investments which are held for long term, 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.

Notes To And Forming Part Of The Financial Statements



(j) Inventories

(i) Raw materials, work-in-progress and finished goods

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.

(ii) Inventory of unsold properties

Inventory of unsold properties is stated at the lower of cost and net realisable value. Cost comprises proportionate cost of land and development expenditure.

(k) 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.

(l) 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.

(m) 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 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.

(n) 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.

Notes To And Forming Part Of The Financial Statements



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.

(o) 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 (2003 : USD 1 = RM3.80).

(p) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and the Company and when the revenue 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) Sale of development properties

Sale of development properties is recognised on the percentage of completion method and represent the proportionate sales value of development properties sold attributable to the percentage of development work performed during the year.

(iii) Dividend income

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

(iv) 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



(q) 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 property development activities 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 liabilities.

(r) 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.

(s) Employee benefits

(i) Short term benefits

Salaries, wages, bonuses, 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.

Notes To And Forming Part Of The Financial Statements



(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.

(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.

(t) 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.

(u) Financial instruments

(i) Financial instruments recognised in the balance sheets

The recognised financial instruments of the Group comprise cash and cash equivalents, receivables, payables, hire purchase liabilities, 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	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
2004					
Cost/Valuation					
At 1 January					
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
Additions	-	921,391	318,844	303,043	1,543,278
Disposals	-	(94,500)	(113,000)	-	(207,500)
Write-off	-	-	-	(1,479)	(1,479)
At 31 December					
Cost	47,756	23,901,646	2,674,862	8,296,927	34,921,191
Valuation	22,210,000	-	-	-	22,210,000
	22,257,756	23,901,646	2,674,862	8,296,927	57,131,191
Accumulated depreciation					
At 1 January	2,126,846	11,519,102	1,315,696	4,745,194	19,706,838
Charge for the year	362,839	1,769,384	504,765	775,435	3,412,423
Disposals	-	(74,131)	(113,000)	-	(187,131)
Write-off	-	-	-	(789)	(789)
At 31 December	2,489,685	13,214,355	1,707,461	5,519,840	22,931,341
Net book value at 31 December					
Cost	43,992	10,687,291	967,401	2,777,087	14,475,771
Valuation	19,724,079	-	-	-	19,724,079
	19,768,071	10,687,291	967,401	2,777,087	34,199,850
2003					
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
Depreciation charge for the year	362,838	1,738,185	459,191	764,268	3,324,482

Notes To And Forming Part Of The Financial Statements



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 RM12,003,244 (2003 : RM12,231,866).

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:

	Group	
	2004 RM	2003 RM
Long leasehold land and building	7,525,536	7,656,963
Plant and machinery	5,472,925	5,664,158
Motor vehicles	168,952	98,567
	<hr/>	<hr/>
	13,167,413	13,419,688
	<hr/>	<hr/>

Included in the net book value of the property, plant and equipment of the Group are the following assets which are acquired under hire purchase:

	2004 RM	2003 RM
Plant and machinery	112,068	-
Motor vehicles	143,758	-
	<hr/>	<hr/>
	255,826	-
	<hr/>	<hr/>

3. SUBSIDIARY COMPANIES

	Company	
	2004 RM	2003 RM
Unquoted shares, at cost	14,511,655	12,811,655
Less:		
Impairment loss	1,214,424	1,214,424
	<hr/>	<hr/>
	13,297,231	11,597,231
	<hr/>	<hr/>

Notes To And Forming Part Of The Financial Statements



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

	Group's effective interest		Principal activities
	2004	2003	
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 Expression Sdn Bhd @	100%	100%	Investment holding and property development related activities
*** Paragon Property Development Sdn Bhd @	100%	100%	Dealing in land, properties and other property development related activities
Paragon Precision Industries Sdn Bhd	78%	78%	Inactive
Paragon Metal Components Sdn Bhd	77%	77%	Inactive
* 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			

4. LAND HELD FOR PROPERTY DEVELOPMENT

	Group	
	2004 RM	2003 RM
Long term leasehold land, at cost		
At 1 January	11,704,159	-
Acquisition of a subsidiary company	-	11,704,159
Transfer to property development costs (Note 7)	(11,704,159)	-
At 31 December	-	11,704,159
Development costs		
At 1 January	16,707,827	-
Acquisition of a subsidiary company	-	16,010,769
Additions during the year	-	697,058
Transfer to property development costs (Note 7)	(16,707,827)	-
At 31 December	-	16,707,827
	-	28,411,986

Notes To And Forming Part Of The Financial Statements



Included in the development costs of the previous financial year was interest on bank term loans capitalised amounting to RM438,356.

5. OTHER INVESTMENTS

	Group	
	2004 RM	2003 RM
Shares quoted in Malaysia, at cost	5,071,294	6,657,814
Loan stocks quoted in Malaysia, at cost	59,206	59,206
	<hr/> 5,130,500	<hr/> 6,717,020
Less:		
Impairment loss		
- on quoted shares	1,074,668	1,074,668
- on loan stocks	52,397	52,397
	<hr/> 1,127,065	<hr/> 1,127,065
	<hr/> 4,003,435	<hr/> 5,589,955
Market value of:		
- shares quoted in Malaysia	3,802,000	5,435,000
- loan stocks quoted in Malaysia	15,213	10,065
	<hr/> 3,817,213	<hr/> 5,445,065

Included in other investments of the Group are quoted shares with a net carrying amount of RM432,000 (2003 : RM Nil) charged to a licensed bank for banking facilities granted to a subsidiary company, Paragon Expression Sdn Bhd.

6. GOODWILL ON ACQUISITION

	Group	
	2004 RM	2003 RM
Cost		
At 1 January	2,743,926	-
Acquisition of subsidiary company	-	2,743,926
	<hr/> 2,743,926	<hr/> 2,743,926
At 31 December		

Notes To And Forming Part Of The Financial Statements



7. PROPERTY DEVELOPMENT COSTS

	Group	
	2004 RM	2003 RM
Long term leasehold land, at cost		
At 1 January	-	-
Transfer from land held for development (Note 4)	11,704,159	-
At 31 December	11,704,159	-
Development costs		
At 1 January	-	-
Transfer from land held for development (Note 4)	16,707,827	-
Costs incurred during the year	8,305,537	-
At 31 December	25,013,364	-
	36,717,523	-

Included in the property development costs during the financial year are as follows:

	Group	
	2004 RM	2003 RM
Finance costs	1,753,853	-
Director's remuneration other than fees	300,000	-

The long leasehold land included in property development costs of the Group is charged to a licensed bank for banking facilities granted to a subsidiary company.

8. INVENTORIES

Inventories stated at cost comprise:

	Group	
	2004 RM	2003 RM
Raw materials	4,381,063	4,134,384
Work-in-progress	1,249,291	1,385,924
Finished goods	4,709,992	3,796,372
	10,340,346	9,316,680

Notes To And Forming Part Of The Financial Statements



9. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2004 RM	2003 RM	2004 RM	2003 RM
Gross trade receivables	21,187,424	16,977,994	-	-
Less:				
Allowance for doubtful debts	1,249,481	1,654,804	-	-
	19,937,943	15,323,190	-	-
Other receivables	843,830	898,664	1,000	1,000
Less:				
Allowance for doubtful debts	263,984	263,984	-	-
	579,846	634,680	1,000	1,000
Sundry deposits	17,861,278	17,848,559	17,770,000	17,770,000
Prepayments	324,090	84,006	-	-
	38,703,157	33,890,435	17,771,000	17,771,000
The currency exposure profiles of trade receivables are as follows:				
- Ringgit Malaysia	20,089,099	16,605,137	-	-
- US Dollar	1,098,325	372,857	-	-
	21,187,424	16,977,994	-	-

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 (2003 : 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.

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.

Notes To And Forming Part Of The Financial Statements



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 it is reasonably probable that the above amounts would be recovered, and accordingly, allowance for doubtful recovery of the deposits is not required.

10. AMOUNT OWING BY/TO SUBSIDIARY COMPANIES

	Company	
	2004 RM	2003 RM
Gross amount owing by subsidiary companies	41,375,849	42,916,090
Less:		
Allowance for doubtful debts	1,855,344	1,855,344
	<u>39,520,505</u>	<u>41,060,746</u>

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

11. FIXED DEPOSITS

The fixed deposits of a subsidiary company are placed with a licensed bank and are pledged to the said bank for banking facilities granted to the said subsidiary company. The fixed deposits have maturity periods of less than one year and earn effective interest rates of 2.5% to 3.45% (2003 : 3.47%) per annum.

12. CASH AND BANK BALANCES

Included in cash and bank balances of the Group is an amount of RM336,068 (2003 : RM Nil) which is maintained in a housing development account in accordance with Regulation 4 of the Housing Developers (Housing Development Account) Regulations 1991.

Notes To And Forming Part Of The Financial Statements



13. TRADE AND OTHER PAYABLES

	Group		Company	
	2004 RM	2003 RM	2004 RM	2003 RM
Trade payables	5,191,029	3,232,800	-	-
Other payables	1,875,741	1,265,519	81,746	96,997
Accruals	3,951,613	3,709,550	158,800	115,500
Deposits	2,603,313	-	-	-
	<u>13,621,696</u>	<u>8,207,869</u>	<u>240,546</u>	<u>212,497</u>
The currency exposure profiles of trade payables are as follows:				
- Ringgit Malaysia	4,194,926	2,638,606	-	-
- US Dollar	996,103	594,194	-	-
	<u>5,191,029</u>	<u>3,232,800</u>	<u>-</u>	<u>-</u>

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

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

14. HIRE PURCHASE LIABILITIES

	Group	
	2004 RM	2003 RM
Outstanding hire purchase instalments due:		
- not later than one year	61,128	-
- later than one year and not later than five years	196,314	-
	<u>257,442</u>	<u>-</u>
Less:		
Unexpired term charges	36,715	-
	<u>220,727</u>	<u>-</u>
Outstanding principal amount due		
Less:		
Outstanding principal amount due not later than one year (included current liabilities)	45,953	-
	<u>174,774</u>	<u>-</u>

The effective interest rates of the hire purchase liabilities are between 3.4% and 4.5% per annum.

Notes To And Forming Part Of The Financial Statements



15. BANK BORROWINGS

	Group	
	2004 RM	2003 RM
Bills payable		
- secured	3,400,930	1,724,208
- unsecured	1,021,331	791,348
	4,422,261	2,515,556
Bank overdrafts		
- secured	5,436,454	5,079,531
- unsecured	5,973,130	4,048,258
	11,409,584	9,127,789
Current portion of bank term loans (Note 19)	5,865,210	3,129,006
	21,697,055	14,772,351

The secured bills payable and bank overdrafts of the Group totalling RM8,837,384 (2003 : RM6,803,739) 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 bank borrowings of the Group bear effective interest rates of 4.3% to 8.7% (2003 : 4.55% to 8.50%) per annum.

16. SHARE CAPITAL

	2004 RM	2003 RM
Authorised		
100,000,000 ordinary shares of RM1 each	100,000,000	100,000,000
Issued and fully paid		
70,000,000 ordinary shares of RM1 each	70,000,000	70,000,000

Of the total 70,000,000 issued and fully paid ordinary shares, 2,870,000 (2003 : 2,870,000) ordinary shares are held as treasury shares by the Company. At 31 December 2004, the number of outstanding shares in issue after deducting treasury shares held is 67,130,000 (2003 : 67,130,000) ordinary shares of RM1 each.

In 2000, the Company has implemented an 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.

Notes To And Forming Part Of The Financial Statements



- (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.
- (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 Bursa Malaysia Securities Berhad ("Bursa Malaysia", formerly known as Malaysia Securities Exchange Berhad) for the day of the Company's shares as shown on the Daily Official List issued by the Bursa Malaysia 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:

	Number of options over ordinary shares	
	2004	2003
At 1 January	2,694,000	2,966,000
Granted	-	-
Exercised	-	-
Lapsed	(122,000)	(272,000)
At 31 December	2,572,000	2,694,000

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

Notes To And Forming Part Of The Financial Statements



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

Exercised period	Exercise price RM	Number of share options outstanding	
		2004	2003
17-05-2000 to 16-05-2005	1.55	2,305,000	2,392,000
06-09-2001 to 16-05-2005	1.21	267,000	302,000
		<u>2,572,000</u>	<u>2,694,000</u>

17. RESERVES

	Group	
	2004 RM	2003 RM
Non-distributable:		
Share premium	-	2,928,750
Asset valuation reserve	5,569,985	5,661,813
Merger reserve	(4,618,481)	(7,547,231)
	<u>951,504</u>	<u>1,043,332</u>

18. TREASURY SHARES

	Group/Company	
	2004 RM	2003 RM
At 1 January	2,918,712	2,795,047
Shares purchased during the year	-	123,665
	<u>2,918,712</u>	<u>2,918,712</u>

In 2003, the Company purchased a total of 143,000 ordinary shares of its issued share capital from the open market at a total cost of RM123,665. The average price paid for the shares purchased was RM0.86 per share. The repurchase transactions were financed by internally generated funds. The repurchased shares were being held as treasury shares and carried at cost in accordance with the requirements of Section 67A of the Companies Act, 1965. Treasury shares had no rights to voting, dividends and participation in other distribution.

At 31 December 2004, the number of treasury shares held is 2,870,000 (2003 : 2,870,000) ordinary shares. During the financial year, these treasury shares are charged to a licensed bank for banking facilities granted to a subsidiary company, Paragon Expression Sdn Bhd.

Notes To And Forming Part Of The Financial Statements



19. BANK TERM LOANS

	2004 RM	Group 2003 RM
Bank term loans bearing effective interest rate of 8.0% (2003 : 8.0%) per annum, repayable by 36 to 42 monthly instalments commencing six to twelve months after the full drawdown	17,867,760	20,000,000
RM25 million bridging loan from a bank bearing effective interest rate of 8.0% per annum, repayable by a period of 36 months from the date of first disbursement	1,914,457	-
Bank term loan under Al-Tarkhis facility bearing an internal rate of return of 8.7% per annum, repayable by 48 monthly instalments commencing on the month of the full drawdown	1,500,000	-
	<u>21,282,217</u>	<u>20,000,000</u>
Less:		
Repayments due within 12 months (included in current liabilities, Note 15)	5,865,210	3,129,006
Repayments due after 12 months	<u>15,417,007</u>	<u>16,870,994</u>
The bank term loans are repayable as follows:		
- not later than one year (included under current liabilities)	5,865,210	3,129,006
- later than one year but not later than five years	9,035,147	5,910,755
- later than five years	6,381,860	10,960,239
	<u>21,282,217</u>	<u>20,000,000</u>

The bank term loans of a subsidiary company are secured over a first legal charge over the long term leasehold land under development of another subsidiary company referred to in Note 7. The bank term loans are also secured by a pledged over the fixed deposits of the said subsidiary company referred to in Note 11.

The bridging loan of the same subsidiary company obtained during the year is secured over a second legal charge over the long term leasehold land held under development as mentioned above and a debenture incorporating a fixed and floating charge over all the assets of the said subsidiary company.

The bank term loan under Al-Tarkhis facility of the same subsidiary company obtained during the year is secured by a third party memorandum of deposit of quoted shares of another subsidiary company and the treasury shares of the Company referred to in Notes 5 and 18.

All the bank term loans are also guaranteed by the Company.

Notes To And Forming Part Of The Financial Statements



20. DEFERRED TAX LIABILITIES

	Group	
	2004 RM	2003 RM
At 1 January		
- As previously reported	8,871,289	634,000
- Prior year adjustment (Note 26)	-	3,466,527
- As restated	8,871,289	4,100,527
Acquisition of subsidiary company	-	4,421,645
Transfer (to)/from income statement	(135,599)	349,117
At 31 December	8,735,690	8,871,289

The deferred tax liabilities comprise:

Taxable temporary differences		
- relating to surplus arising from revaluation of leasehold properties	2,166,106	2,201,816
- relating to surplus arising from fair value adjustment to the development properties of subsidiary company acquired	4,421,645	4,421,645
- between net book value and tax written down value of property, plant and equipment	2,947,352	2,765,828
	9,535,103	9,389,289
Less:		
Deductible temporary differences		
- unused tax losses	388,806	518,000
- unabsorbed capital allowances	410,607	-
	8,735,690	8,871,289

At 31 December 2004, the Group has not recognised deferred tax assets of certain subsidiary companies 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:

	Group	
	2004 RM	2003 RM
Unused tax losses	252,634	252,634
Unabsorbed capital allowances	322,088	322,088
	574,722	574,722

These items are not available to be used to offset taxable profit of other subsidiary companies.

Notes To And Forming Part Of The Financial Statements



21. 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.

22. PROFIT FROM OPERATIONS

Profit from operations is stated
after charging:

	Group		Company	
	2004 RM	2003 RM	2004 RM	2003 RM
Allowance for doubtful debts	313,407	683,013	-	-
Auditors' remuneration				
- current year	54,800	54,540	7,800	7,500
- underestimated in prior year	-	3,800	-	300
Bad debts written off	-	2,395	-	-
Depreciation	3,412,423	3,324,482	-	-
Directors' remuneration				
- fees	138,000	108,000	138,000	108,000
- other emoluments	750,000	910,000	-	-
Fees paid to firms in which two directors of the Company are partners	13,840	29,290	-	15,260
Loss on disposal of property, plant and equipment	-	793	-	-
Property, plant and equipment written off	690	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
and crediting:				
Allowance for doubtful debts written back	410,493	305,262	-	-
Gain on disposal of property, plant and equipment	22,931	1,744	-	-
Gross dividend income from				
- a subsidiary company	-	-	1,300,000	1,666,667
- investments quoted in Malaysia	87,350	102,750	-	-
Interest income from fixed deposits	68,191	18,461	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

Notes To And Forming Part Of The Financial Statements



The estimated monetary value of benefits-in-kind received by the directors otherwise than in cash from the Group and the Company amounted to RM39,658 and RM12,833 (2003 : RM47,892 and RM Nil) respectively.

The directors' remuneration other than fees of the Group incurred during the year is as follows:

	Group	
	2004 RM	2003 RM
Directors' remuneration other than fees	1,050,000	910,000
Less:		
Directors remuneration other than fees capitalised under property development costs (Note 7)	300,000	-
	<u>750,000</u>	<u>910,000</u>

23. FINANCE COSTS

	Group		Company	
	2004 RM	2003 RM	2004 RM	2003 RM
Finance costs incurred during the financial year comprise:				
- Interest on bank term loans	1,753,853	438,356	-	-
- Other bank interests	897,896	420,935	-	-
- Hire purchase term charges	7,981	-	-	-
	<u>2,659,730</u>	<u>859,291</u>	<u>-</u>	<u>-</u>
Less:				
Finance costs capitalised under property development costs (Notes 4 and 7)				
Bank interests	1,753,853	438,356	-	-
	<u>905,877</u>	<u>420,935</u>	<u>-</u>	<u>-</u>

Notes To And Forming Part Of The Financial Statements



24. TAX EXPENSE

	Group		Company	
	2004 RM	2003 RM	2004 RM	2003 RM
Current tax expense				
- current year	446,638	323,534	364,000	466,667
- (over)/under estimated in prior year	(22,044)	5,161	(9,736)	1,435
	424,594	328,695	354,264	468,102
Deferred tax (income)/ expense relating to origination and reversal of temporary differences during the year	(153,710)	354,862	-	-
Deferred tax expense under/ (over)estimated in prior year	18,111	(5,745)	-	-
	(135,599)	349,117	-	-
	288,995	677,812	354,264	468,102

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

	Group		Company	
	2004 RM	2003 RM	2004 RM	2003 RM
Accounting profit	1,344,796	3,032,592	1,043,873	1,234,368
Tax at the average tax rate of 25.53% (2003 : 28.22%) for the Group and 28% (2003 : 28%) for the Company	343,302	855,944	292,284	345,623
Add:				
Tax effect of expenses not deductible in taxable profit:				
Depreciation of non- qualifying property, plant and equipment	198,618	210,070	-	-
Other non-deductible expenses	203,269	209,466	71,716	121,044
Balance carried forward	745,189	1,275,480	364,000	466,667

Notes To And Forming Part Of The Financial Statements



	Group		Company	
	2004 RM	2003 RM	2004 RM	2003 RM
Balance brought forward	745,189	1,275,480	364,000	466,667
Less:				
Tax effect of income not taxable in determining taxable profit:				
Gain on disposal of other investments	123,203	95,147	-	-
Tax effect on reinvestment allowances utilised during the year	293,347	466,226	-	-
Crystalisation of deferred tax liabilities on amortisation on revalued properties	35,711	35,711	-	-
	292,928	678,396	364,000	466,667
Add/(Less):				
Current tax expense (over)/underestimated in prior year	(22,044)	5,161	(9,736)	1,435
Deferred tax expense under/(over)estimated in prior year	18,111	(5,745)	-	-
Tax expense for the year	288,995	677,812	354,264	468,102

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.

25. 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 RM1,055,801 (2003 : RM2,354,780) and on 67,130,000 (2003 : 67,130,000) number of ordinary shares in issue during the year after deducting treasury shares as follows:

	2004	2003
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	2,870,000
Number of ordinary shares after deducting treasury shares	67,130,000	67,130,000

Notes To And Forming Part Of The Financial Statements



(ii) Diluted earnings per share

The diluted earnings per share is not disclosed as the potential ordinary shares arising from the exercise of options under the ESOS at fair value have an anti-dilutive effect.

26. PRIOR YEAR ADJUSTMENT

In the previous 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. Prior to 2003, the Group and the Company accounted for deferred taxation under the partial basis. In the previous financial year, this policy had 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 had been applied retrospectively against the retained profit brought forward. Accordingly, the comparatives had 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 2003	8,892,003	(3,138,362)	5,753,641
Retained profit At 1 January 2003	3,191,526	(328,165)	2,863,361
Deferred tax liabilities At 1 January 2003	634,000	3,466,527	4,100,527

27. ANALYSIS OF ACQUISITION OF SUBSIDIARY COMPANY

In the previous financial year, 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 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 was RM2,743,926.

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

(a) Effect on consolidated net profit:

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

Notes To And Forming Part Of The Financial Statements



(b) Effect on consolidated financial position:

	RM
Land held for property development	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/>

(c) Effect on consolidated cash flow statement:

	RM
Net assets acquired:	
Land held for property development	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/>

28. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

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

	Group		Company	
	2004 RM	2003 RM	2004 RM	2003 RM
Transactions with the respective firms are as follows:				
Fees paid to:				
- Shearn Delamore & Co	1,297	15,260	1,297	15,260
- T.S. Teoh & Partners	12,543	14,030	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

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

Notes To And Forming Part Of The Financial Statements



Significant non-trade balances with subsidiary companies at year end are as follows:

	Group		Company	
	2004 RM	2003 RM	2004 RM	2003 RM
Outstanding advances owing by				
- Paragon Car Carpets & Components Sdn Bhd	-	-	14,063,373	24,096,579
- Paragon Carpetmaker Sdn Bhd	-	-	15,033,978	15,239,921
- Paragon Carpet Distributor Sdn Bhd	-	-	-	1,707,847
- Paragon Expression Sdn Bhd	-	-	10,421,154	14,400
Outstanding advances owing to				
- Paragon Carpet Distributor Sdn Bhd	-	-	660,104	-

29. EMPLOYEES INFORMATION

	Group	
	2004 RM	2003 RM
Staff costs		
Salaries, wages, allowances and bonuses	8,296,101	7,705,082
Defined contribution plan - EPF contributions	762,518	692,384
Social security costs - SOCSO contributions	71,517	65,353
Other staff related expenses	302,472	296,541
	9,432,608	8,759,360

Included in staff costs of the Group are executive directors' remuneration of RM750,000 (2003 : RM910,000) which is disclosed in Note 22.

	2004	2003
Number of employees at 31 December	453	418

30. HOLDING COMPANY

The holding company is Asia Avenue Sdn Bhd, a company incorporated in Malaysia, which holds 47.76% (2003 : 47.76%) of the issued and paid up share capital of the Company.

31. CONTINGENT LIABILITIES

	Group		Company	
	2004 RM	2003 RM	2004 RM	2003 RM
Unsecured corporate guarantees in respect of banking facilities granted to subsidiaries	-	-	75,377,700	42,877,000



32. 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 creates value and maximises returns to its shareholders. Financial risk management is carried out through risk reviews, internal control systems, benchmarking the industry's best practices and adherence to Group's financial risk management policies.

Since incorporation, the Group has been financing its operations mainly through financing from licensed financial institutions 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 stated below. 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 on 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.

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 a 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 fixed deposits, bank borrowings and hire purchase liabilities.

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Interest rate risk arising from fixed deposits placed with financial institutions is managed by sourcing for the highest interest rate in the market from amongst licensed financial institutions after taking into account the duration and availability of surplus funds from operations.

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.

The Group considers interest rate risk arising from hire purchase financing to be insignificant as the interest rates and the repayment terms are fixed at inception.

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 notes 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.

Notes To And Forming Part Of The Financial Statements



(b) Fair values

The carrying amounts of the financial assets and liabilities of the Group and the Company as at 31 December 2004 approximated their fair values except for other investments as stated below:

	Group Carrying amount RM	Fair value RM
Other investments	4,003,435	3,817,213

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.

33. 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 as the property development activities of a subsidiary company which commenced during the financial year, are at its preliminary stage. There are no contributions in both revenue and results from the said subsidiary company during the financial year under review. The business of the Group is entirely carried out in Malaysia.

34. SIGNIFICANT EVENT

In 2002, the Company undertook 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. The Company had decided to abort the Proposed Private Placement on 13 January 2004 and therefore, will not be seeking an extension of time for the said exercise.

35. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements of the Group and of the Company were authorised for issue by directors on 19 April 2005.

Statement By Directors



In the opinion of the directors, the financial statements set out on pages 34 to 70 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 2004 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.

Signed on behalf of the directors in accordance
with a resolution of the directors

TAN ONN POH
Director

19 April 2005

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 34 to 70 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 day of 19 April 2005.

Before me :

ROBERT LIM HOCK KEE
W 092

Commissioner for Oaths

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)
)
)
)
)
)
)

TAN HONG KIEN



PARAGON UNION BERHAD

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

FORM OF PROXY

I/We _____ of _____
being a Member of **PARAGON UNION BERHAD** hereby appoint _____
of _____ or failing whom _____ of _____
or failing whom, the Chairman of the Meeting as my/our proxy/
proxies to vote for me/us and on my/our behalf at the Eleventh Annual General Meeting of the Company to be
held at the Classics 2 Room, Level 3, Holiday Villa, No 9 Jalan SS12/1, Subang Jaya, 47500 Petaling Jaya,
Selangor Darul Ehsan on Wednesday, 22 June 2005 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 2004 together with the Directors' and Auditors' Reports thereon.		
2.	Approval of Directors' Fees for the year ended 31 December 2004.		
3.	Approval of the First and Final Dividend of 1% less tax at 28% for the year ended 31 December 2004.		
4.	Re-election of Mr. Michael Lim Hee Kiang as Director of the Company.		
5.	Re-election of Mr. Teoh Tek Siong as Director of the Company.		
6.	Re-election of Tan Sri Dato' Kamaruzzaman Bin Shariff as Director of the Company.		
7.	Re-appointment of Auditors.		
8.	Authority for the Directors to Allot and Issue Shares.		
9.	Proposed Amendment to Article 4(d) of the Articles of Association of the Company.		
10.	Proposed Amendment to Article 100 of the Articles of Association of the Company.		

[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 _____ 2005

Number of shares held: _____

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

Notes:

1. 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.
2. 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.
3. A member may appoint more than one(1) proxy to attend the same meeting. Where a member appoints two(2) or more proxies, he shall specify the proportion of his shareholdings to be represented by each proxy.
4. The Form of Proxy shall be signed by the appointor or his (her) attorney duly authorised in writing or, if the member is a corporation, must be executed under its common seal or by its duly authorised attorney or officers.
5. The Instrument appointing a proxy must be deposited at the Registered Office of the Company at Unit 07-02, Level 7, Menara Luxor, 6B Persiaran Tropicana, 47410 Petaling Jaya, Selangor Darul Ehsan, not less than 48 hours before the time appointed for holding the meeting or adjourned meeting.

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Stamp

**THE COMPANY SECRETARY
PARAGON UNION BERHAD
(COMPANY NO. 286457-V)
UNIT 07-02, LEVEL 7, MENARA LUXOR
6B PERSIARAN TROPICANA
47410 PETALING JAYA
SELANGOR DARUL EHSAN**

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