



ANNUAL REPORT **2005** LAPORAN TAHUNAN



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PARAGON UNION BERHAD 286457 - V

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NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Twelfth Annual General Meeting of the Company will be held at the Ivory 12, Level 4, Holiday Villa, No. 9 Jalan SS12/1, Subang Jaya, 47500 Petaling Jaya, Selangor Darul Ehsan on Thursday, 22 June 2006 at 11.00 a.m. for the following purposes:

AGENDA

ORDINARY BUSINESS

- | | |
|---|---------------------|
| 1. To receive the Audited Financial Statements for the year ended 31 December 2005 together with the Directors' and Auditors' Reports thereon. | Resolution 1 |
| 2. To approve the payment of Directors' Fees for the year ended 31 December 2005. | Resolution 2 |
| 3. To approve a First and Final Dividend of 1% less tax at 28% for the year ended 31 December 2005. | Resolution 3 |
| 4. To re-elect Mr. Tan Hong Kien who is retiring as Director of the Company in accordance with Article 75 of the Company's Articles of Association. | Resolution 4 |
| 5. To re-elect Mr. Yap Kiang Siang 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-appoint Messrs. Moores Rowland, the retiring Auditors and to authorise the Board of Directors to fix their remuneration. | Resolution 6 |

SPECIAL BUSINESS

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

Ordinary Resolution 1

Resolution 7

● Renewal Of Shareholders' Approval For The Proposed Share Buy-Back

"THAT subject to the Companies Act, 1965, the Memorandum and Articles of Association of the Company, Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") and all other prevailing laws, rules, regulations and orders issued and/or amended from time to time by the relevant regulatory authorities, the Company be and is hereby authorised to renew the approval granted by the shareholders of the Company at the Extraordinary General Meeting of the Company held on 22 June 2005, authorising the Company to purchase and/or hold up to 10% of the issued and paid-up share capital of the Company ("Proposed Share Buy-Back") as may be determined by the Directors of the Company from time to time through Bursa Securities upon such terms and conditions as the Directors of the Company may deem fit and expedient in the interest of the Company and an amount not exceeding the retained profits of the Company, be allocated by the Company for the Proposed Share Buy-Back. The audited retained profits of the Company stood at RM3,734,547.00 for the financial year ended 31 December 2005.

AND THAT upon completion of the purchase by the Company of its own shares, the Directors be and are hereby authorised to cancel such shares or retain such shares as the treasury shares or a combination of both. The Directors are further authorised

NOTICE OF ANNUAL GENERAL MEETING

to resell the treasury shares on Bursa Securities or distribute the treasury shares as dividends to the shareholders of the Company or subsequently cancel the treasury shares or any combination of the three.

AND FURTHER THAT the Directors be and are hereby authorised to carry out the Proposed Share Buy-Back immediately upon the passing of this resolution until:

- (a) the conclusion of the next Annual General Meeting (“AGM”) of the Company, unless by ordinary resolution passed at the meeting, the authority is renewed, either unconditionally or subject to conditions;
- (b) the expiration of the period within which the next AGM is required by law to be held; or
- (c) revoked or varied by ordinary resolution passed by the shareholders of the Company in a general meeting,

whichever occur first but not so as to prejudice the completion of purchase(s) by the Company before the aforesaid expiry date and to take all steps as are necessary and/or to do all such acts and things as the Directors may deem fit and expedient in the interest of the Company to give full effect to the Proposed Share Buy-Back with full powers to assent to any conditions, modifications, amendments and/or variations as may be imposed by the relevant authorities.”

Ordinary Resolution 2

- **Authority For Directors To Allot And Issue Shares**

“**THAT** pursuant to Section 132D of the Companies Act, 1965, the Directors be and are hereby empowered 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, in their absolute discretion, deem fit, provided that the aggregate number of shares issued pursuant to this resolution in any one financial year does not exceed 10% of the issued capital of the Company for the time being and that the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on Bursa Malaysia Securities Berhad and that such authority shall continue to be in force until the conclusion of the next Annual General Meeting of the Company.”

ANY OTHER BUSINESS

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

Resolution 8

NOTICE OF ANNUAL GENERAL MEETING

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 2005 will be payable on 8 August 2006 to Depositors registered in the Record of Depositors at the close of business on 20 July 2006.

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 2006 in respect of ordinary transfers; and
- b) Shares bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

BY ORDER OF THE BOARD
PARAGON UNION BERHAD

NG YIM KONG (LS 0008343)
Company Secretary

Petaling Jaya
Date: 31 May 2006

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 forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting.

EXPLANATORY NOTES ON SPECIAL BUSINESS

- a) **Renewal Of Shareholders' Approval For The Proposed Share Buy-Back**

For the proposed Resolution 7 under item 7 above, is to renew the shareholders' approval for the Company to purchase and/or hold up to 10% of the issued and paid-up share capital of the Company on Bursa Malaysia Securities Berhad.

Shareholders are requested to refer to the Share Buy-Back Statement dated 31 May 2006 which is despatched together with the Company's Annual Report 2005 for additional information.

- b) **Authority For Directors To Allot And Issue Shares**

The proposed Resolution 8 under item 7 above, if passed, will empower the Directors of the Company, from the date of the above Annual General Meeting, authority to allot and issue shares in the Company up to an amount not exceeding in total 10% of the issued capital of the Company for such purposes as the Directors consider would be in the interest of the Company. This authority unless revoked or varied at a General Meeting will expire at the next Annual General Meeting.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

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

- | | |
|-------------------------|----------------|
| i. Mr. Tan Hong Kien | (Resolution 4) |
| ii. Mr. Yap Kiang Siang | (Resolution 5) |

2. Details of attendance of Directors at Board Meetings

There were six Board of Directors' Meetings held during the financial year ended 31 December 2005. Attendance for each Director is as follows:

Name of Director	Attendance
Tan Sri Dato' Kamaruzzaman Bin Shariff	6/6
Mr. Tan Onn Poh	6/6
Mr. Tan Hong Kien	6/6
Mr. Yap Kiang Siang	6/6
Mr. Michael Lim Hee Kiang	6/6
Mr. Teoh Tek Siong	6/6
Dato' Zainol Abidin Bin Haji A. Hamid	6/6

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

Date of Meeting	Time of Meeting	Place of Meeting
22 June 2006	11.00 a.m.	Ivory 12, Level 4 Holiday Villa No. 9 Jalan SS12/1 Subang Jaya 47500 Petaling Jaya Selangor Darul Ehsan

DIRECTORS' PROFILE

Tan Sri Dato' Kamaruzzaman Bin Shariff
Aged 64, Malaysian
Independent Non-Executive Chairman

Tan Sri Dato' Kamaruzzaman Bin Shariff was appointed to the Board of Paragon Union Berhad ("Paragon" or "Company") on 19 July 2004 as the Independent Non-Executive Chairman. He holds a Bachelor of Arts (Economics) degree from the University of Malaya (1963), a Diploma in Public Administration from Carleton University, Ottawa, Canada (1969) and a Master's degree in Public Administration from Syracuse University, United States of America (1979). He started his career as a Government Service Officer in 1964 in the position of Assistant Secretary in the Ministry of Education. He has held various senior positions during his 37 years of distinguished service. Amongst his last positions prior to retirement in 2001 from the public service was as the State Secretary of Pulau Pinang, the Secretary General of the Ministry of Defence and the Lord Mayor of Kuala Lumpur. He is presently Chairman / Executive Chairman / Director of Emas Kiara Industries Berhad, Mae Engineering Ltd., Magna Prima Berhad, Metronic Global Berhad and Kontena Nasional Berhad as well as several private limited companies. He has no family relationship with any Director and/or major shareholders of Paragon and his directorship in Paragon does not give rise to any conflict of interest situation. He has no convictions for any offences within the past ten years.

Tan Onn Poh
Aged 60, Malaysian
Managing Director / Chairman of Employees' Share Option Scheme Committee

Mr Tan Onn Poh was appointed to the Board of Paragon on 3 March 1999 as the Managing Director. He graduated with a Bachelor of Engineering (Hons.) degree in Mechanical Engineering from University of Malaya in 1971 and has more than 31 years of experience in trading, commerce and industry. He is a registered professional engineer ("P.E.") with the Board of Engineers, Malaysia. He worked as a mechanical engineer in Osborne & Chappel Mining and Consulting Engineers from 1971 to 1972 and in Federal Industrial Development Authority from 1972 to 1973 before joining the Hong Leong Group in 1973. He was with the Hong Leong Group until 1982, during which time he assumed the positions of Sales Manager, General Manager and later

Managing Director of various companies in the Group. He joined the Lion Group of companies in 1982 as Group Executive Director and was a Managing Director of several public listed companies in the Group until 1997. He was formerly a Director for Asia Commercial Finance (M) Bhd and is currently a Director of Silverstone Berhad. He has no family relationship with any Director and/or major shareholders of Paragon and his directorship in Paragon does not give rise to any conflict of interest situation. He has no convictions for any offences within the past ten years.

Tan Hong Kien
Aged 38, Malaysian
Executive Director / Member of Audit Committee, Remuneration Committee and Employees' Share Option Scheme Committee

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

Yap Kiang Siang
Aged 53, Malaysian
Executive Director

Mr Yap Kiang Siang was appointed to the Board of Paragon on 1 August 2002 as the Executive Director. He obtained his professional qualification from the Royal Institution of Chartered Surveyors, United Kingdom and the New Zealand Institute of Quantity Surveyors. He has more than 22 years of working experience in the construction, property development and related business both overseas and locally. He worked in Maltby & Partners, a

DIRECTORS' PROFILE

professional quantity surveying firm in New Zealand from 1976 to 1980 and Baharuddin Ali & Low Sdn Bhd, a local professional quantity surveying firm from 1980 to 1984. He was involved in the senior management of various construction and property development companies, which had successfully completed numerous high-rise commercial buildings and residential projects within the Klang Valley. He was formerly the Executive Director (Properties) of Econstates Berhad. He has no family relationship with any Director and/or major shareholders of Paragon and his directorship in Paragon does not give rise to any conflict of interest situation. He has no convictions for any offences within the past ten years.

Michael Lim Hee Kiang**Aged 58, Malaysian****Independent Non Executive Director / Chairman of Audit Committee and Remuneration Committee, Member of Nomination Committee**

Mr Michael Lim Hee Kiang was appointed to the Board of Paragon on 8 March 1999. He obtained a LLB with Honours and LLM with Distinction from the Victoria University of Wellington, New Zealand in 1972/1973. He was admitted as a Barrister and Solicitor to the Supreme Court of New Zealand in 1973. In 1974, he was admitted to the High Court, Sarawak and Brunei and subsequently to the High Court of Malaya in 1978. He was a lecturer at the Law Faculty, University of Malaya for three years from 1975 to 1977. He is currently an Advocate and Solicitor with Messrs. Shearn Delamore & Co. where he has been a partner with the firm for the last 28 years. He sits on the Board of Directors of Diethelm Holdings (Malaysia) Berhad, Dijaya Corporation Berhad, Major Team Holdings Berhad, Selangor Properties Berhad, Greatpac Holdings Berhad and Pantai Holdings Berhad as well as various private companies. He has no family relationship with any Director and/or major shareholders of Paragon and his directorship in Paragon does not give rise to any conflict of interest situation. He has no convictions for any offences within the past ten years.

Teoh Tek Siong**Aged 51, Malaysian****Independent Non Executive Director / Member of Audit Committee, Remuneration Committee, Nomination Committee and Employees' Share Option Scheme Committee**

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

Dato' Zainol Abidin Bin Haji A. Hamid**Aged 64, Malaysian****Independent Non Executive Director / Chairman of Nomination Committee and Member of Remuneration Committee**

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

Tan Sri Dato' Kamaruzzaman Bin Shariff (*Independent Non-Executive Chairman*)
Tan Onn Poh (*Managing Director*)
Tan Hong Kien (*Executive Director*)
Yap Kiang Siang (*Executive Director*)
Michael Lim Hee Kiang (*Independent Non-Executive Director*)
Teoh Tek Siong (*Independent Non-Executive Director*)
Dato' Zainol Abidin Bin Haji A. Hamid (*Independent Non-Executive Director*)

AUDIT COMMITTEE

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

COMPANY SECRETARY

Ng Yim Kong (LS 0008343)

REGISTERED OFFICE

Unit 07-02, Level 7
Menara Luxor
6B Persiaran Tropicana
47410 Petaling Jaya
Selangor Darul Ehsan

Tel: 603 78045929
Fax: 603 78052559

PRINCIPAL BANKERS

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

REGISTRARS

Symphony Share Registrars Sdn Bhd (378993-D)
Level 26, Menara Multi-Purpose
Capital Square
No. 8 Jalan Munshi Abdullah
50100 Kuala Lumpur

Tel: 603 27212222
Fax: 603 27212530

AUDITORS

Moores Rowland (AF 0539)
Chartered Accountants

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

Tel: 603 21615222
Fax: 603 21613909

SOLICITORS

Shearn Delamore & Co
T S Teoh & Partners

STOCK EXCHANGE LISTING

Bursa Malaysia Securities Berhad
Second Board

PRINCIPAL PLACE OF BUSINESS

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

Tel: 603 90744405
Fax: 603 90744416

DOMICILE

Malaysia

LEGAL FORM AND PLACE OF INCORPORATION

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

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, I am pleased to present the Group's Annual Report & Audited Financial Statements for the year ended 31 December 2005.

Performance & Finance Reviews

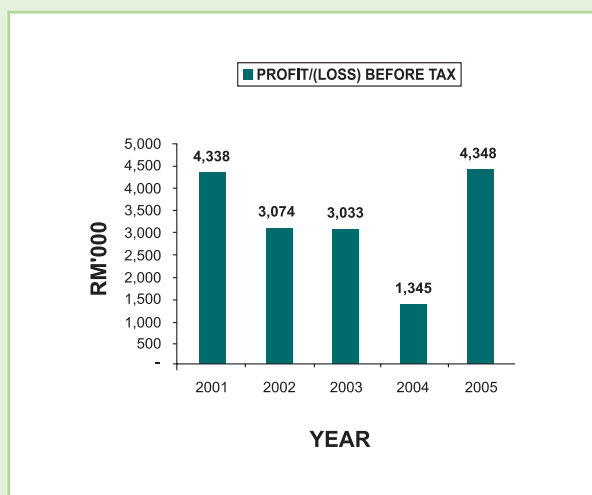
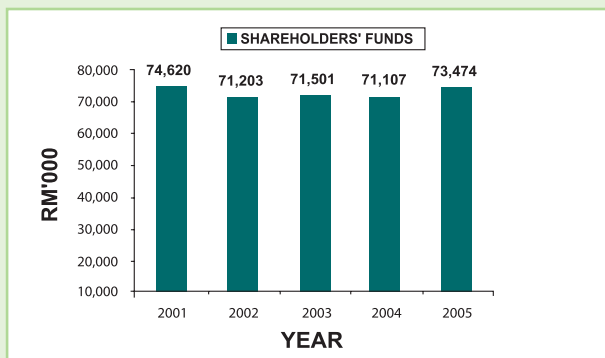
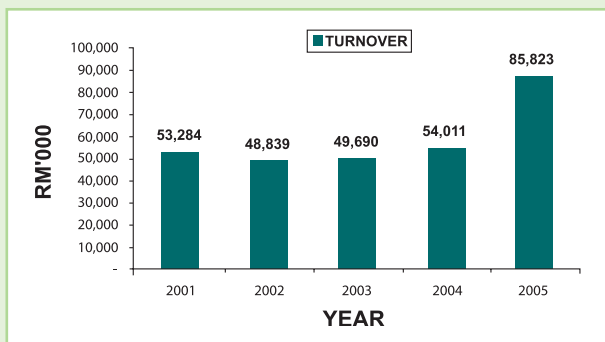
The financial year 2005 was a significant year for the Group as the property development division started its maiden contribution to the Group. The Group achieved a Turnover of RM85.8 million as compared to RM54.0 million for the preceding year. This is due to better sales performance in both the commercial carpet and automotive carpet divisions coupled with the contribution from property development. The Group registered a pre-tax profit of RM4.3 million as compared to RM1.3 million for the preceding year.



Actual view of Paragon Heights from Kinrara Golf Course

Dividend

The Board is pleased to recommend a First and Final Dividend of 1% less 28% tax for the financial year ended 31 December 2005 subject to shareholders' approval at the forthcoming Twelfth Annual General Meeting.



CHAIRMAN'S STATEMENT

New Honda City Floor Carpet



Automotive Carpet Division

Paragon Car Carpets & Components Sdn Bhd ('PCCC') is the FIRST car carpet manufacturer in Malaysia to be certified to ISO 9002, ISO 9001, ISO 14001, OHSAS 18001, QS 9000 and ISO / TS 16949. The commitment to these stringent quality standards has been instrumental in maintaining our leadership in the supply of automotive carpets and components to Proton, Perodua, Mercedes Benz, Honda, Naza Kia, Nissan, Ford, Volvo and many more marques.

The management believes that the signing in February 2006 of a Technical Collaboration & License Agreement

('TCLA') between PCCC and Toabo Material Co. Ltd., Japan will be beneficial to the Group in the long term. The technical collaboration will allow PCCC to access the latest technical know-how in manufacturing processes and superior technical materials from a leading Japanese car carpets and components supplier with a view to tap into the regional and global automotive carpets market.

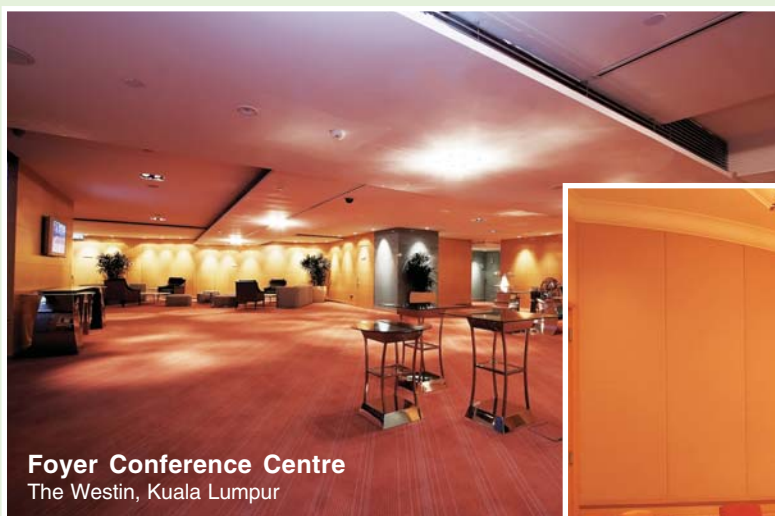
Commercial Carpet Division

Paragon Carpetmaker Sdn Bhd ('PCM') is the leading local manufacturer and has been successful in supplying carpets to Government projects, Hotels, Mosques, Dealers and overseas projects. Among the notable projects were Government Administrative offices in Putrajaya, Mandarin Oriental Hotel, Traders' Hotel, Impiana KLCC, The Legends, Concorde Shah Alam, Sutera Harbour Kota Kinabalu, Genting Group of Hotels, Equatorial Group of Hotels, The Westin Kuala Lumpur, Corus Hotel and many others. Our carpets also adorn Sultan of Brunei's Palace and Kuching International Airport. Beyond our shores, we have supplied to projects in United States of America, United Kingdom, Dubai, India, Sri Lanka, Maldives, Hong Kong, Thailand, Philippines, Brunei and Singapore.



Prayer Hall
Masjid Negara, Kuala Lumpur

CHAIRMAN'S STATEMENT



Foyer Conference Centre
The Westin, Kuala Lumpur

Property Development Division

Paragon Heights, Bukit Jalil, Kuala Lumpur, our maiden property project is nestled on a hilltop approximately 200 feet above sea-level and surrounded by lush greenery. Paragon Heights signature 3-storey hill homes boast of a commanding and breathtaking view of the nearby 18-hole Kinrara golf course. The Phase I of the project comprising 171 units with each featuring 6 rooms and 5 bathrooms, gross floor area of 3,388 sq feet, and pricing range from RM450,000 to RM900,000 is scheduled for completion in 3rd Quarter of 2006.

Marketing and promotional activities are being planned with the view of launching Phase II in the coming months. This project will contribute significantly to the Group's results in the near future.

Prospects & Outlook

The Government's move to promote a dynamic local automotive industry that is globally competitive through incentives and support, within the framework of the National Automotive Policy and the forecast of economic growth rate of 5.5% for the year 2006 and the expected private sector upgrading and refurbishment of hotels in anticipation of Visit Malaysia Year 2007 augur well for the Group. However, escalating cost brought about by the



Lai Po Heen Chinese Restaurant
Mandarin Oriental Hotel, Kuala Lumpur

increased interest rates and higher fuel prices have affected our cost of manufacturing and construction. We have to increase our operational efficiency and effectiveness and cost management in order to weather these challenges.

Acknowledgement

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

TAN SRI DATO' KAMARUZZAMAN BIN SHARIFF
Chairman

STATEMENT ON CORPORATE GOVERNANCE

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

The Board is pleased to report on how the Group has applied the principles of corporate governance and the extent of compliance with the best practices set out in the Malaysian Code on Corporate Governance ("Code") during the financial year ended 31 December 2005.

DIRECTORS

Responsibilities

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

Composition and Balance

The Board currently has seven members, comprising three Executive Directors and four Non-Executive Directors. This composition complies with the Listing Requirements of Bursa Malaysia Securities Berhad that at least 1/3 of the Board of Directors are Independent Directors. This also ensures that no individual or small group of individuals can dominate the Board's decision making. The Directors abstain as and when matters affecting their own interests are discussed.

The Directors, with their different backgrounds and specialisations contribute wide range of skills, finance and operational experience and technical expertise. The Board has endorsed that such good mix of skills, experience and expertise amongst the Executive and Non-Executive Directors allows each of them to bring his independent judgement to bear on the issues of strategy, performance, resources, including key appointments and standards of conduct. This ensures that the Group is effectively led and controlled. Brief biographies of the Directors are set out on pages 6 to 7.

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

The positions of Chairman and Managing Director are separated. The Chairman is primarily responsible for the orderly conduct and working of the Board while the Managing Director is responsible for the day-to-day management of the business and implementation of the Board's decisions and policies. The presence of Independent Non-Executive Directors has provided unbiased and independent views, advice and judgements as well to safeguard the interest of other parties such as minority shareholders. The Board will continue to review this composition in the future.

Board Committees

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

1) **Audit Committee**

Please refer to the Audit Committee Report on pages 20 to 23.

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

STATEMENT ON CORPORATE GOVERNANCE**2) Employees' Share Option Scheme ("ESOS") Committee**

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

Members

Tan Onn Poh *Managing Director (Chairman)*

Tan Hong Kien *Executive Director*

Teoh Tek Siong *Independent Non-Executive Director*

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

Meetings

The Directors meet regularly and all the proceedings at the Board meetings are properly minuted and signed by the Chairman. The Board follows formal schedules for meetings and members are adequately provided with status report and Board papers to assist them in making decisions for the best interest of the Group at all times. It has been the practice of the Group to require the Board decision on matters relating to the acquisition and disposal of major capital expenditure, investment in capital projects and corporate exercise.

During the financial year ended 31 December 2005, six Board meetings were held. Attendance at the Board meetings held during the financial year is set out below:

Executive Directors	Total
Tan Onn Poh	6/6
Tan Hong Kien	6/6
Yap Kiang Siang	6/6
Non-Executive Directors	Total
Tan Sri Dato' Kamaruzzaman Bin Shariff	6/6
Michael Lim Hee Kiang	6/6
Teoh Tek Siong	6/6
Dato' Zainol Abidin Bin Haji A. Hamid	6/6

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

Supply of Information

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

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

Appointments and Re-elections to the Board

The Nomination Committee has the responsibility for assessing and considering the reappointment of existing Directors as well as for identifying and selecting potential new Directors to the Board. The Board recognises the importance to have formal and transparent written procedures for the appointment of new

STATEMENT ON CORPORATE GOVERNANCE

Directors and reappointment of existing Directors. The Nomination Committee is also responsible in evaluating the experience, skills and qualities of the new and existing Directors to ensure a good balance of skills amongst the Directors.

The Nomination Committee comprises the following members: -

Nomination Committee Members

Dato' Zainol Abidin Bin Haji A.Hamid	<i>Independent Non-Executive Director (Chairman)</i>
Mr. Michael Lim Hee Kiang	<i>Independent Non-Executive Director</i>
Mr. Teoh Tek Siong	<i>Independent Non-Executive Director</i>

In accordance with the Company's Articles of Association, every Director is required to retire by rotation at intervals of not less than three years at each Annual General Meeting ("AGM"). The Directors to retire in each year are the Directors who have been longest in office since their appointment or re-appointment. A retiring Director is eligible for re-appointment. The details of the retiring Directors are set out in the Statement accompanying Notice of AGM on page 5 of the Annual Report.

Directors' Training

All the Directors had attended and completed the Mandatory Accreditation Programme and accumulated the requisite Continuing Education Programme points prescribed by Bursa Malaysia Securities Berhad.

In compliance with the revised Listing Requirements of Bursa Malaysia Securities Berhad on continuous training for Directors, the Board of Directors had attended a briefing on Deferred Tax and Cash Flow Statement conducted by Moores Rowland.

The Board of Directors will continue to undergo other relevant training programmes, where appropriate, to further enhance their knowledge and keep abreast with the changing business developments.

DIRECTORS' REMUNERATION

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

The Board endorses the importance to have formal and transparent procedures for developing policy on executive remuneration and fixing the remuneration packages of individual Director. The Remuneration Committee is responsible in determining the remuneration packages payable to Executive and Non-Executive Directors. The recommended Directors' fees are to be approved by shareholders at the AGM.

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

The Remuneration Committee comprises the following members: -

Remuneration Committee Members

Mr. Michael Lim Hee Kiang	<i>Independent Non-Executive Director (Chairman)</i>
Mr. Teoh Tek Siong	<i>Independent Non-Executive Director</i>
Mr. Tan Hong Kien	<i>Executive Director</i>
Dato' Zainol Abidin Bin Haji A.Hamid	<i>Independent Non-Executive Director</i>

STATEMENT ON CORPORATE GOVERNANCE

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

	Executive Director RM	Non-Executive Director RM
Salaries	924,000	-
Bonuses	192,500	-
EPF	133,980	-
Fees	60,000	108,000
Benefits-In-Kind	30,425	22,700
Total	1,340,905	130,700

Remuneration Range	Number of Directors	
	Executive	Non-Executive
Less than RM50,000	-	3
RM50,001 to RM100,000	-	1
RM350,001 to RM400,000	2	-
RM550,001 to RM600,000	1	-

SHAREHOLDERS

The Board believes in clear communication and recognises the importance to have timely and equal dissemination of relevant information to its shareholders and investors. The annual report and quarterly financial results of the Company and the Group are published on Bursa Malaysia Securities Berhad website at www.bursamalaysia.com. Additional information of the Company is available on the website at www.paragon.com.my.

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

ACCOUNTABILITY AND AUDIT

The Audit Committee supports the Board in its responsibility to oversee the financial reporting and the effectiveness of the internal controls of the Group. The Audit Committee comprises three Directors, the majority of whom are independent. The terms of reference and activities of the Audit Committee are set out in the Audit Committee Report on page 20 to 23 of this Annual Report.

Financial Reporting

The Board aims to provide and present a balanced and understandable assessment of the Group's financial position, performance and prospects at the end of the financial year primarily through the annual financial statements and quarterly announcement of results to shareholders as well as the Chairman's Statement in the Annual Report. The Board discusses and reviews the recommendations proposed by the Audit Committee prior to adoption of the financial statements of the Company and of the Group.

STATEMENT ON CORPORATE GOVERNANCE

Statement of Directors' Responsibility for Preparing the Financial Statements

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

The Directors are satisfied that in preparing the financial statements of the Company and of the Group for the financial year ended 31 December 2005, the Company and the Group have used the appropriate accounting policies and applied them consistently and prudently. The Directors also consider that all relevant approved accounting standards have been followed in the preparation of these financial statements.

Internal Control

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

The Company's Statement on Internal Control is set out on pages 18 to 19 of the Annual Report.

Relationship with the Auditors

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

Additional Compliance Information

The following is provided in compliance with the Listing Requirements of Bursa Malaysia Securities Berhad:

1. Non-audit fees

The amount of non-audit fees paid by the Group to the external auditors during the financial year amounted to RM12,300.

2. Material contracts

There were no material contracts entered into by the Company and/or its subsidiaries that involve Directors' or major shareholders' interests either still subsisting at the end of the financial year ended 31 December 2005 or entered into since the end of the previous financial year.

3. Sanctions/ penalties

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

4. Revaluation of landed properties

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

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

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

STATEMENT ON CORPORATE GOVERNANCE

6. Variation in results

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

7. Profit guarantee

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

8. Share Buy-Back

During the financial year, the total shares bought-back by the Company amounted to RM172,687.00 for 269,700 ordinary shares with an average price of RM0.64 per share.

SCHEDULE OF SHARE BUY-BACK FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

Monthly Breakdown	No. of Shares Purchased and Retained As Treasury Shares	Purchase Price Per Share (RM)		Average Cost Per Share (RM)	Total Cost (RM)
		Lowest	Highest		
January 2005	-	-	-	-	-
February 2005	-	-	-	-	-
March 2005	-	-	-	-	-
April 2005	-	-	-	-	-
May 2005	-	-	-	-	-
June 2005	-	-	-	-	-
July 2005	-	-	-	-	-
August 2005	-	-	-	-	-
September 2005	-	-	-	-	-
October 2005	21,000	0.640	0.660	0.653	13,714.00
November 2005	132,900	0.625	0.670	0.651	86,559.65
December 2005	115,800	0.620	0.650	0.625	72,413.35
Total	269,700	0.628	0.660	0.640	172,687.00

9. Options, warrants or convertible securities

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

STATEMENT ON INTERNAL CONTROL

1. Introduction

The Board of Directors ("Board") acknowledges the importance of maintaining a sound system of internal controls to safeguard shareholders' investments and the Group's assets. The Board is pleased to outline the state of internal control of the Group for the financial year ended 31 December 2005 pursuant to Paragraph 15.27 (b) of the Listing Requirements of Bursa Malaysia Securities Berhad.

2. Board's Responsibility

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

3. Key Elements of Internal Controls

a) Risk Management Framework

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

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

b) Internal Audit

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

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

c) Other Key Elements of Internal Control

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

- The Group has an appropriate organisational structure, which enables adequate monitoring of the activities and ensures effective flow of information across the Group. In addition, lines of responsibility and delegations of authority are clearly defined.
- The Managing Director is actively participating in day-to-day running of the Group's operations. This enables material issues to be effectively resolved on a timely basis.
- Key processes of the Group are governed by written policies and procedures.

STATEMENT ON INTERNAL CONTROL

- The Group's operations are accredited with ISO9001 international quality system standards and such quality management systems provide the Group with improved control of key processes and a foundation for improving quality and customer satisfaction. The quality management system of the Group is further enhanced with its accreditation of QS9000 standard, a quality system standard for car industry, ISO14001 for the environment and OHSAS18001 for the health and safety of the employees. The Group has also attained accreditation of TS16949 standard, an advanced quality system standard for automotive industry.
- The Management monitors the Group's performance through key performance indicators and prepares monthly and quarterly management reports.
- The Board receives and reviews information on the Company's financial status and performance.
- The Audit Committee meets at least four times a year and reviews the effectiveness of the Group's system of internal controls. The Committee receives periodic management reports.

4. Control Weaknesses

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

AUDIT COMMITTEE REPORT

1. Composition

Members of the Committee

Michael Lim Hee Kiang
Teoh Tek Siong
Tan Hong Kien

Designation

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

2. Terms of Reference of Audit Committee

2.1 Membership

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

At least one member of the Audit Committee:

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

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

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

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

2.2 Authority

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

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

AUDIT COMMITTEE REPORT

- (f) be able to convene meetings with the external auditors, excluding the attendance of the executive members of the Committee, whenever deemed necessary.

2.3 Functions

The functions of the Committee shall be:

- (a) to review:

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

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

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

2.4 Meetings

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

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

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

The Company Secretary shall be the Secretary of the Committee.

AUDIT COMMITTEE REPORT

2.5 Reporting Procedures

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

2.6 Audit Committee Report

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

2.7 Reporting of Breaches to the Exchange

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

3. Meetings

There were five Meetings of the Audit Committee held during the financial year ended 31 December 2005 to which all the Committee Members attended. The record of attendance of each Committee Member is as follows:

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

4. Summary of Activities

During the year ended 31 December 2005, the activities of the Audit Committee included:-

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

AUDIT COMMITTEE REPORT**5. Internal Audit Function**

The responsibilities of the Internal Audit Function include the following:

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

During the financial year, the internal audit function has carried out various risk-based audit reviews of the key processes of production & logistics operations and these include the production reporting and quality control reporting system as well as production input and output processes. The audit steps involved are as follows:

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

SUBSIDIARY COMPANIES EQUITY INTEREST

NAME OF COMPANY	2005	2004	PRINCIPAL ACTIVITIES
Paragon Car Carpets & Components Sdn Bhd (108988-M)	100%	100%	Manufacturing and distribution of car carpets and automotive components
* Paragon Carpetmaker Sdn Bhd (246013-P)	100%	100%	Manufacturing and trading in car carpets and commercial carpets
** Paragon Carpet Distributor Sdn Bhd (162824-P)	100%	100%	Distribution and trading of commercial carpets
Paragon Expression Sdn Bhd (437303-P)	100%	100%	Investment holding and property development related activities
*** Paragon Property Development Sdn Bhd (503011-P)	100%	100%	Dealing in land, properties and other property development related activities
Paragon Precision Industries Sdn Bhd (277004-P)	78%	78%	Inactive
Paragon Metal Components Sdn Bhd (267454-U)	77%	77%	Inactive

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

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

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

LIST OF PROPERTIES HELD BY THE GROUP

As At 31 December 2005

Location	Age of Building	Tenure	Description	Land Area (sq. m.)	Build-Up Area (sq. m.)	Cost / Revaluation (RM)	Net Book Value as at 31.12.2005 (RM)	Last Date of Revaluation
Lot No. PT 7637 14, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	15 years	Leasehold (Expiry 14.05.2088)	Leasehold Land, Factory & Office	8,094	3,190 (factory) 3,929 (office)	8,090,000	7,017,463	12.03.1998
Lot No. PT 7667 21, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	14 years	Leasehold (Expiry 14.05.2088)	Leasehold Land, Factory & Office	6,833	4,177 (factory) 873 (office)	5,725,820	4,993,662	13.02.1998
Lot No. PT 7641 11A, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	10 years	Leasehold (Expiry 14.05.2088)	Leasehold Land, Factory & Office	12,128	7,919 (factory)	8,441,936	7,394,109	12.03.1998
PN 30936 Lot 38821 Mukim Petaling Daerah Kuala Lumpur Negeri Wilayah Persekutuan Kuala Lumpur	-	Leasehold (Expiry 07.10.2100)	Leasehold Land, Property Development	137,600	-	11,704,159	11,704,159	-

ANALYSIS OF SHAREHOLDINGS

Class of Shares : Ordinary Shares of RM1.00 Each

Voting Rights : One Vote per Ordinary Share Held

ANALYSIS BY SIZE OF SHAREHOLDINGS AS AT 30 APRIL 2006

Size Of Holdings	No.Of Shareholders	No. Of Shares	Percentage (%)
1 - 99	18	266	0.00
100 - 1,000	968	933,562	1.41
1,001 - 10,000	2,097	9,364,068	14.12
10,001 – 100,000	438	11,986,670	18.07
100,001 – 3,316,389*	33	8,664,140	13.06
3,316,390 and above **	4	35,379,094	53.34
Total	3,558	66,327,800***	100.00

Notes : * Less than 5% of the issued and paid-up share capital

** 5% and above of the issued and paid-up share capital

*** The number of 66,327,800 ordinary shares was arrived at after deducting 3,672,200 treasury shares retained by the Company from the issued and paid-up share capital of 70,000,000 ordinary shares as per the Record of Depositors

DIRECTORS' SHAREHOLDINGS AS AT 30 APRIL 2006

Names	Direct No. of Shares	Percentage (%)	Indirect No. of Shares	Percentage (%)
Tan Sri Dato' Kamaruzzaman Bin Shariff	-	-	-	-
Tan Onn Poh	-	-	31,951,094 ⁽¹⁾	48.17
Tan Hong Kien	-	-	-	-
Yap Kiang Siang	10,000	0.02	-	-
Michael Lim Hee Kiang	-	-	-	-
Teoh Tek Siong	21,000	0.03	-	-
Dato' Zainol Abidin Bin Haji A. Hamid	-	-	-	-

Notes : ⁽¹⁾ Deemed interest by virtue of his substantial shareholdings in Asia Avenue Sdn. Bhd.

OPTIONS ALLOCATED TO THE DIRECTORS PURSUANT TO THE EMPLOYEES' SHARE OPTION SCHEME AS AT 30 APRIL 2006

Names	Granted	Percentage (%)	Exercised as at 30 April 2006	Percentage (%)
Tan Sri Dato' Kamaruzzaman Bin Shariff	250,000	3.47	-	-
Tan Onn Poh	1,000,000	13.89	-	-
Tan Hong Kien	500,000	6.94	-	-
Yap Kiang Siang	500,000	6.94	-	-
Michael Lim Hee Kiang	250,000	3.47	-	-
Teoh Tek Siong	250,000	3.47	-	-
Dato' Zainol Abidin Bin Haji A. Hamid	250,000	3.47	-	-

ANALYSIS OF SHAREHOLDINGS

SUBSTANTIAL SHAREHOLDERS AS AT 30 APRIL 2006

Substantial Shareholders	Direct No. Of Shares	Percentage (%)	Indirect No. Of Shares	Percentage (%)
Asia Avenue Sdn. Bhd.	31,951,094	48.17	-	-
Estate of Wong Thiam Loy	-	-	31,951,094 ⁽¹⁾	48.17
Tan Onn Poh	-	-	31,951,094 ⁽²⁾	48.17
Tan Choon Hock	3,428,000	5.17	-	-

Notes : ⁽¹⁾ Deemed interest by virtue of Section 6A(4) of the Companies Act, 1965.

⁽²⁾ Deemed interest by virtue of his substantial shareholdings in Asia Avenue Sdn. Bhd.

THIRTY (30) LARGEST SHAREHOLDERS AS AT 30 APRIL 2006

No.	Names	No. Of Shares Of RM1.00 Each	Percentage (%)
1.	Asia Avenue Sdn. Bhd.	18,063,194	27.23
2.	AllianceGroup Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Asia Avenue Sdn. Bhd.	10,000,000	15.08
3.	AllianceGroup Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Asia Avenue Sdn. Bhd.	3,887,900	5.86
4.	Tan Choon Hock	3,428,000	5.17
5.	Low Joon Yong	1,085,600	1.64
6.	Su Ming Keat	696,040	1.05
7.	Low Joon Yong	660,600	1.00
8.	CIMSEC Nominees (Tempatan) Sdn. Bhd. EON Finance Berhad for Lee Poh Yee	529,700	0.80
9.	TCL Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Sivanandam A/L Narayanasamy	514,100	0.78
10.	Chong Ah Him @ Chong Kum Kwan	430,500	0.65
11.	CIMSEC Nominees (Asing) Sdn. Bhd. Exempt An for CIMB-GK Securities Pte Ltd	357,500	0.54
12.	CIMSEC Nominees (Tempatan) Sdn. Bhd. EON Finance Berhad for Zarul Azham Bin Mohd Zulkifli	302,800	0.46
13.	CitiGroup Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Su Ming Keat	300,000	0.45
14.	Low Wan Chin	275,000	0.41
15.	Mayban Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Wong Pah Sang	247,100	0.37
16.	Lee Soh Hong	223,000	0.34
17.	Mayban Securities Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Lee Ah Kim	214,500	0.32
18.	SK Capital Sdn. Bhd.	202,000	0.30
19.	Public Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Su Ming Keat	200,000	0.30
20.	Lim Chir Ching	200,000	0.30
21.	Ang Seo Hoon	168,800	0.25
22.	Chong Kok Choong	156,500	0.24
23.	Chin Tung Leong	154,800	0.23
24.	Phong Chiew Khim	147,800	0.22
25.	Yee Kwek Keong	140,000	0.21
26.	Chong Tong Siew	134,000	0.20
27.	Mayban Securities Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Tee Teck Khoon	133,200	0.20
28.	HLB Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Chantika Holdings Sdn. Bhd.	130,000	0.20
29.	Ho Wah Genting Kintron Sdn. Bhd.	130,000	0.20
30.	Lim Chin Huat	128,000	0.19
Total		43,240,634	65.19

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2005

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 2005.

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	<u>RM3,023,166</u>	<u>RM564,938</u>

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 2004 as disclosed in the directors' report of that financial year -

First and final dividend of 1% less 28% tax paid on 8 August 2005	<u>RM483,336</u>
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- (b) In respect of the year ended 31 December 2005 -

The directors now recommend the payment of a first and final dividend of 1% less 28% tax amounting to RM481,394 subject to the approval of the shareholders at the forthcoming Annual General Meeting. The proposed first and final dividend is in respect of all ordinary shares in issue at the date of the financial statements, excluding those ordinary shares held as treasury shares under share buy-back.

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 has been renewed consecutively for three years at the shareholders' meetings. The share buy-back was last approved at the Extraordinary General Meeting ("EGM") of the Company held on 22 June 2005.

To date, the Company had purchased the following ordinary shares of its issued and paid-up share capital from the open market:

DIRECTORS' REPORT

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
2005	269,700	0.64	172,687
	3,139,700		3,091,399

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 2005, the total number of treasury shares held by the Company is 3,139,700 ordinary shares.

EMPLOYEES' SHARE OPTION SCHEME ("ESOS")

In 2000, the Company 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.

The existing ESOS expired on 16 May 2005 and was not extended by the Company.

During the financial year, the Company obtained approval from the shareholders of the Company at an EGM of the Company held on 22 June 2005 and the relevant authorities for the establishment of a new ESOS known as Paragon Union Berhad Employees' Share Option Scheme ("ESOS" or "the Scheme"). The Scheme enables the Company to establish a new ESOS adopting the current flexibilities under the Listing Requirements on ESOS, for the benefits of the eligible employees as well as both executive and non-executive directors of the Group to subscribe up to 15% of the issued and paid-up share capital of the Company under the Scheme.

The eligible directors are as follows:

- | | |
|-----------------------|--|
| Full time directors | Independent non-executive directors |
| - Mr. Tan Onn Poh | - Tan Sri Dato' Kamaruzzaman Bin Shariff |
| - Mr. Tan Hong Kien | - Mr. Michael Lim Hee Kiang |
| - Mr. Yap Kiang Siang | - Mr. Teoh Tek Siong |
| | - Dato' Zainol Abidin Bin Haji A. Hamid |

The Scheme became operative on 1 September 2005 for all eligible employees and on 22 September 2005 for all eligible independent directors for a period of five years and the options may be exercised from 1 September 2005 for all eligible employees and 22 September 2005 for all eligible independent directors and the Scheme expires on 20 July 2010.

DIRECTORS' REPORT

The option price for each share shall be at a discount of not more than ten percent (10%) from the weighted average market price of the shares of the five (5) market days immediately preceding the date of offer or the par value of the shares, whichever is higher.

The consideration is payable in full on application and the options granted do not confer any rights to participate in any share issue of any other companies of the Group.

The movements in the options during the financial year to take up unissued new ordinary shares of RM1 each and the exercise price are as follows:

Date option granted	Exercise Price RM	Number of options over ordinary shares				
		At 1-1-2005	Expired	Granted	Exercised	At 31-12-2005
17 May 2000	1.55	2,305,000	2,305,000	-	-	-
6 September 2001	1.21	267,000	267,000	-	-	-
1 September 2005	1.00	-	-	6,200,000	-	6,200,000
22 September 2005	1.00	-	-	1,000,000	-	1,000,000
		<u>2,572,000</u>	<u>2,572,000</u>	<u>7,200,000</u>	<u>-</u>	<u>7,200,000</u>

The Company obtained exemption of the Companies Commission of Malaysia from having to disclose the names of option holders granted less than 250,000 options each and details of their option holdings during the year. The names of option holders who have been granted options of 250,000 and more are as follows:

	Number of options over ordinary shares				
	At 1-1-2005	Granted	Exercised	Forfeited	At 31-12-2005
Ngau Poo	-	250,000	-	-	250,000
Borhan A. Halim	-	250,000	-	-	250,000
Poh Tzu Seng	-	250,000	-	-	250,000

DIRECTORS

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

Tan Sri Dato' Kamaruzzaman Bin Shariff
 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 Mr Tan Hong Kien and Mr Yap Kiang Siang retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS

According to the register of directors' shareholdings required to be kept under section 134 of the Companies Act, 1965, none of the directors held any shares or had any interests in shares in the Company and its related corporations during the financial year except as follows:

DIRECTORS' REPORT

The Company	Number of ordinary shares of RM1 each			
	At 1-1-2005	Bought	Sold	At 31-12-2005
Mr Tan Onn Poh - Deemed interest	32,063,194	-	10,000	32,053,194
Mr Yap Kiang Siang - Direct interest	10,000	-	-	10,000
Mr Teoh Tek Siong - Direct interest	21,000	-	-	21,000
Asia Avenue Sdn Bhd (Holding Company)				
Mr Tan Onn Poh - Direct interest	12,500	-	-	12,500

The following directors had an interest in share options under the ESOS of the Company during the financial year as follows:

	Number of options over ordinary shares				
	At 1-1-2005	Expired	Granted	Exercised	At 31-12-2005
Tan Sri Dato' Kamaruzzaman Bin Shariff	-	-	250,000	-	250,000
Mr Tan Onn Poh	500,000	500,000	1,000,000	-	1,000,000
Mr Tan Hong Kien	350,000	350,000	500,000	-	500,000
Mr Yap Kiang Siang	-	-	500,000	-	500,000
Mr Michael Lim Hee Kiang	-	-	250,000	-	250,000
Mr Teoh Tek Siong	-	-	250,000	-	250,000
Dato' Zainol Abidin Bin Haji A Hamid	-	-	250,000	-	250,000

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 27 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 there were no known bad debts but that adequate allowance had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise in the ordinary course of business their 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.

DIRECTORS' REPORT

- (b) At the date of this report, the directors are not aware of any circumstances:
- (i) which would render it necessary to write off any debt or the amount of the allowance for doubtful debts in the financial statements of the Company and of the Group inadequate to any substantial extent, or
 - (ii) which would render the values attributed to the current assets in the financial statements of the Company and of the Group misleading, or
 - (iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Company and of the Group misleading or inappropriate.
- (c) At the date of this report, there does not exist:
- (i) any charge on the assets of the Company or its subsidiary companies which has arisen since the end of the financial year which secures the liabilities of any other person, or
 - (ii) any contingent liability of the Company or its subsidiary companies which has arisen since the end of the financial year.
- (d) No contingent or other liability of the Company or its subsidiary companies has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may affect the ability of the Company or its subsidiary companies to meet their obligations as and when they fall due.
- (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

21 April 2006

REPORT OF THE AUDITORS TO THE MEMBERS

FINANCIAL STATEMENTS - 31 DECEMBER 2005

We have audited the financial statements of the Company set out on pages 34 to 72. These financial statements are the responsibility of the Company's directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

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 in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:
 - (i) the state of affairs of the Company and of the Group at 31 December 2005 and of their results and cash flows for the year ended on that date; and
 - (ii) 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; and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 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. 1499/5/07 (J)
Partner

21 April 2006

BALANCE SHEETS

31 DECEMBER 2005

	Note	Group		Company	
		2005 RM	2004 RM	2005 RM	2004 RM
PROPERTY, PLANT AND EQUIPMENT	2	33,013,392	34,199,850	-	-
SUBSIDIARY COMPANIES	3	-	-	13,297,231	13,297,231
OTHER INVESTMENTS	4	4,144,545	4,003,435	-	-
GOODWILL ON ACQUISITION		2,743,926	2,743,926	-	-
DEFERRED TAX ASSET	5	25,721	-	-	-
CURRENT ASSETS					
Property development costs	6	57,709,401	36,717,523	-	-
Inventories	7	13,650,456	10,340,346	-	-
Trade and other receivables	8	44,879,851	38,703,157	17,771,000	17,771,000
Amount owing by subsidiary companies	9	-	-	39,212,654	39,520,505
Tax recoverable		196,846	239,491	50,196	25,956
Fixed deposits	10	1,353,496	1,822,797	-	-
Cash and bank balances	11	2,454,249	2,271,872	576,889	1,020,191
		120,244,299	90,095,186	57,610,739	58,337,652
Less:					
CURRENT LIABILITIES					
Trade and other payables	12	34,661,139	13,621,696	264,822	240,546
Amount owing to a subsidiary company	9	-	-	-	660,104
Hire purchase liabilities	13	205,646	45,953	-	-
Bank borrowings	14	26,341,342	21,697,055	-	-
Tax payable		1,572,505	243,242	-	-
		62,780,632	35,607,946	264,822	900,650
NET CURRENT ASSETS		57,463,667	54,487,240	57,345,917	57,437,002
		97,391,251	95,434,451	70,643,148	70,734,233
Financed by:					
SHARE CAPITAL	15	70,000,000	70,000,000	70,000,000	70,000,000
RESERVES	16	859,675	951,504	-	-
RETAINED PROFIT		5,705,847	3,074,188	3,734,547	3,652,945
TREASURY SHARES	17	(3,091,399)	(2,918,712)	(3,091,399)	(2,918,712)
SHAREHOLDERS' EQUITY		73,474,123	71,106,980	70,643,148	70,734,233
BANK TERM LOANS	18	15,676,875	15,417,007	-	-
DEFERRED TAX LIABILITIES	19	7,720,335	8,735,690	-	-
HIRE PURCHASE LIABILITIES	13	519,918	174,774	-	-
		97,391,251	95,434,451	70,643,148	70,734,233

Notes to and forming part of the financial statements are set out on pages 41 to 72

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INCOME STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

		Group		Company	
	Note	2005 RM	2004 RM	2005 RM	2004 RM
Gross revenue	20	85,823,336	54,011,400	1,250,000	1,300,000
Cost of sales	21	(72,399,425)	(45,575,157)	-	-
Gross profit		13,423,911	8,436,243	1,250,000	1,300,000
Other operating income		381,954	613,452	-	-
Selling and distribution costs		(4,244,582)	(3,967,467)	-	-
Administrative and general expenses		(3,532,965)	(3,314,135)	(359,302)	(256,127)
Profit from operations	22	6,028,318	1,768,093	890,698	1,043,873
Finance costs	23	(1,821,285)	(905,877)	-	-
Gain on disposal of other investments		-	482,580	-	-
Impairment loss on value of other investments written back		141,110	-	-	-
Profit before tax		4,348,143	1,344,796	890,698	1,043,873
Tax expense	24	(1,324,977)	(288,995)	(325,760)	(354,264)
Net profit for the year		3,023,166	1,055,801	564,938	689,609
Net dividend per share (sen)		0.72	0.72	0.72	0.72
Earnings per share (sen)	25				
- basic		4.52	1.57		
- fully diluted		-	-		

Notes to and forming part of the financial statements are set out on pages 41 to 72
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2005

Group	Share capital RM	Share premium RM	Merger reserve RM	Asset valuation reserve RM	Unappropriated profit RM	Treasury shares RM	Total RM
At 1 January 2004	70,000,000	2,928,750	(7,547,231)	5,661,813	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	-	-
Net profit for the year	-	-	-	-	1,055,801	-	1,055,801
Dividend paid (Note 26)	-	-	-	-	(1,450,008)	-	(1,450,008)
At 31 December 2004	70,000,000	-	(4,618,481)	5,569,985	3,074,188	(2,918,712)	71,106,980

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2005

Group	Share capital RM	Merger reserve RM	Asset valuation reserve RM	Unappropriated profit RM	Treasury shares RM	Total RM
At 1 January 2005	70,000,000	(4,618,481)	5,569,985	3,074,188	(2,918,712)	71,106,980
Net gain not recognised in income statement						
-realisation of reserve on amortisation of revalued properties	-	-	(91,829)	91,829	-	-
Net profit for the year	-	-	-	3,023,166	-	3,023,166
Dividend paid (Note 26)	-	-	-	(483,336)	-	(483,336)
Share purchased during the year held as treasury shares	-	-	-	-	(172,687)	(172,687)
At 31 December 2005	70,000,000	(4,618,481)	5,478,156	5,705,847	(3,091,399)	73,474,123

Notes to and forming part of the financial statements are set out on pages 41 to 72
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STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2005

Company	Share capital RM	Unappropriated profit RM	Treasury shares RM	Total RM
At 1 January 2004	70,000,000	4,413,344	(2,918,712)	71,494,632
Net profit for the year	-	689,609	-	689,609
Dividend paid (Note 26)	-	(1,450,008)	-	(1,450,008)
At 31 December 2004	70,000,000	3,652,945	(2,918,712)	70,734,233
Net profit for the year	-	564,938	-	564,938
Dividend paid (Note 26)	-	(483,336)	-	(483,336)
Shares purchased during the year held as treasury shares	-	-	(172,687)	(172,687)
At 31 December 2005	70,000,000	3,734,547	(3,091,399)	70,643,148

Notes to and forming part of the financial statements are set out on pages 41 to 72
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CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax	4,348,143	1,344,796	890,698	1,043,873
Adjustments for:				
Depreciation	3,256,239	3,412,423	-	-
Loss/(Gain) on disposal of property, plant and equipment	7,455	(22,931)	-	-
Property, plant and equipment written off	-	690	-	-
Gain on disposal of other investments	-	(482,580)	-	-
Impairment loss on value of investments written back	(141,110)	-	-	-
Allowance for doubtful debts	240,000	313,407	-	-
Allowance for doubtful debts written back	(229,090)	(410,493)	-	-
Dividend income	(75,600)	(87,350)	(1,250,000)	(1,300,000)
Interest income	(58,854)	(68,191)	-	-
Interest expenses	1,785,115	897,896	-	-
Hire purchase term charges	36,170	7,981	-	-
Operating profit/(loss) before working capital changes	9,168,468	4,905,648	(359,302)	(256,127)
Changes in property development costs	(19,613,797)	(6,551,684)	-	-
Changes in inventories	(3,310,110)	(1,023,666)	-	-
Changes in receivables	(6,187,604)	(4,715,636)	-	-
Changes in payables	20,800,449	7,320,532	24,276	28,049
Cash generated from/(utilised in) operations	857,406	(64,806)	(335,026)	(228,078)
Dividends received	-	-	900,000	936,000
Interest received	58,854	68,191	-	-
Interest paid	(2,319,419)	(2,651,749)	-	-
Tax refunded	-	214,824	-	-
Tax paid	(972,977)	(414,813)	-	-
Net cash (used in)/from operating activities	(2,376,136)	(2,848,353)	564,974	707,922
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(1,470,626)	(1,303,879)	-	-
Proceeds from disposal of property, plant and equipment	77,000	43,300	-	-
Purchase of additional shares in a subsidiary company	-	-	-	(1,700,000)
Proceeds from disposal of other investments	-	2,069,100	-	-
Repayment from subsidiary companies	-	-	307,851	1,540,241
Dividends received	54,432	62,892	-	-
Net cash (used in)/from investing activities	(1,339,194)	871,413	307,851	(159,759)

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
CASH FLOWS FROM FINANCING ACTIVITIES				
(Repayment to)/Advances from a subsidiary company	-	-	(660,104)	660,104
Bank term loans raised	14,085,546	3,414,457	-	-
Repayment of term loans	(7,873,530)	(2,132,240)	-	-
Term loans interest paid	(843,777)	-	-	-
Payment of hire purchase instalments	(178,773)	(18,672)	-	-
Hire purchase term charges paid	(36,170)	(7,981)	-	-
Repurchase of shares	(172,687)	-	(172,687)	-
Dividend paid	(483,336)	(1,450,008)	(483,336)	(1,450,008)
Net cash from/(used in) financing activities	4,497,273	(194,444)	(1,316,127)	(789,904)
NET CHANGES IN CASH AND CASH EQUIVALENTS	781,943	(2,171,384)	(443,302)	(241,741)
CASH AND CASH EQUIVALENTS BROUGHT FORWARD	(7,314,915)	(5,143,531)	1,020,191	1,261,932
CASH AND CASH EQUIVALENTS CARRIED FORWARD	(6,532,972)	(7,314,915)	576,889	1,020,191
Represented by:				
FIXED DEPOSITS	1,353,496	1,822,797	-	-
CASH AND BANK BALANCES	2,454,249	2,271,872	576,889	1,020,191
BANK OVERDRAFTS	(10,340,717)	(11,409,584)	-	-
	(6,532,972)	(7,314,915)	576,889	1,020,191

During the financial year, the Group purchased property, plant and equipment amounting to RM2,154,236 (2004 : RM1,543,278) of which RM683,610 (2004 : RM239,399) was financed under hire purchase and the balance of RM1,470,626 (2004 : RM1,303,879) was paid by cash.

Notes to and forming part of the financial statements are set out on pages 41 to 72
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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005

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 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 FRS 122₂₀₀₄ (formerly known as MASB 21): Business Combinations prospectively, as permitted under the transitional provisions of FRS 122₂₀₀₄. Accordingly, the effects of the merger method of accounting under MAS No. 2 have been retained.

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

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

(d) Goodwill or discount on consolidation

The difference, if any, between the acquisition cost and the fair values of attributable net assets is reflected as goodwill or discount on acquisition as appropriate. Where goodwill is considered to be capable of generating future economic benefits, it is capitalised in the financial statements

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

and is not amortised. 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 is 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(l).

(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 FRS 116²⁰⁰⁴ (formerly known as 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 arrangements

Assets financed by hire purchase arrangements 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.

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

(g) 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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 estimated. The stage 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 the lower of cost and net realisable value.

(h) 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.

(i) 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.

(j) 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.

(k) 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.

(l) Impairment of assets

The carrying amounts of assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated. The recoverable amount is the higher of 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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.

(m) Share capital

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

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

Dividends on ordinary shares, when declared or proposed by the directors of the Company are disclosed in the notes to the financial statements. 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.

(n) Foreign currencies

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

The closing rate used in translation is USD1 = RM3.80 (2004 : USD 1 = RM3.80).

(o) 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 represents 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(iv) Interest income

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

(p) 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.

(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 Employees' Share Option Scheme ("ESOS") which allows full time employees (including full time executive directors) as well as independent non-executive directors of the Company and its subsidiaries to acquire shares of the Company. No compensation cost or obligation is recognised. When the options are exercised, equity is increased by the amount of the proceeds received.

(q) Borrowing costs

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of finance costs except to the extent that they are directly attributable to the acquisition and construction of development properties, in which case they are capitalised as part of the property development 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 charged to the income statement over the hire purchase periods so as to give a constant periodic rate of interest on the remaining hire purchase liabilities.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(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, 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) Cash and cash equivalents

Cash and 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.

(t) 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 2005	Long term leasehold land, buildings and building improvements RM	Plant and machinery RM	Motor vehicles RM	Renovations, electrical installation, furniture, fittings and equipment RM	Total RM
Cost/Valuation					
At 1 January					
Cost	47,756	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
Additions	-	1,605,981	42,000	506,255	2,154,236
Disposals	-	(123,500)	(71,610)	-	(195,110)
At 31 December					
Cost	47,756	25,384,127	2,645,252	8,803,182	36,880,317
Valuation	22,210,000	-	-	-	22,210,000
	22,257,756	25,384,127	2,645,252	8,803,182	59,090,317
Accumulated depreciation					
At 1 January	2,489,685	13,214,355	1,707,461	5,519,840	22,931,341
Charge for the year	362,839	1,672,027	481,279	740,094	3,256,239
Disposals	-	(102,300)	(8,355)	-	(110,655)
At 31 December	2,852,524	14,784,082	2,180,385	6,259,934	26,076,925
Net book value at 31 December					
Cost	43,036	10,600,045	464,867	2,543,248	13,651,196
Valuation	19,362,196	-	-	-	19,362,196
	19,405,232	10,600,045	464,867	2,543,248	33,013,392

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Group 2004	Long term leasehold land, buildings and building improvements RM	Plant and machinery RM	Motor vehicles RM	Renovations, electrical installation, furniture, fittings and equipment RM	Total RM
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
Depreciation charge for the year	362,839	1,769,384	504,765	775,435	3,412,423

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 RM11,774,622 (2004: RM12,003,244).

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

	Group	
	2005 RM	2004 RM
Long term leasehold land and buildings	12,387,771	7,525,536
Plant and machinery	5,097,519	5,472,925
Motor vehicles	54,524	168,952
	17,539,814	13,167,413

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:

	2005 RM	2004 RM
Plant and machinery	993,481	72,678
Motor vehicles	91,902	183,148
	1,085,383	255,826

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

3. SUBSIDIARY COMPANIES

	Company	
	2005 RM	2004 RM
Unquoted shares, at cost	14,511,655	14,511,655
Less:		
Impairment loss	1,214,424	1,214,424
	13,297,231	13,297,231

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

	Group's effective interest		
	2005	2004	Principal activities
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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

4. OTHER INVESTMENTS

	Group	
	2005 RM	2004 RM
Shares quoted in Malaysia, at cost	5,071,294	5,071,294
Loan stocks quoted in Malaysia, at cost	59,206	59,206
	<hr/>	<hr/>
	5,130,500	5,130,500
Less:		
Impairment loss		
- on quoted shares	936,294	1,074,668
- on loan stocks	49,661	52,397
	<hr/>	<hr/>
	985,955	1,127,065
	<hr/>	<hr/>
	4,144,545	4,003,435
	<hr/>	<hr/>
Market value of:		
- shares quoted in Malaysia	4,135,000	3,802,000
- loan stocks quoted in Malaysia	9,545	15,213
	<hr/>	<hr/>
	4,144,545	3,817,213
	<hr/>	<hr/>

Included in other investments of the Group are quoted shares with a net carrying amount of RM663,000 (2004 : RM432,000) charged to a licensed bank for banking facilities granted to a subsidiary company, Paragon Expression Sdn Bhd.

5. DEFERRED TAX ASSET

	Group	
	2005 RM	2004 RM
At 1 January	-	-
Transfer from income statement	25,721	-
	<hr/>	<hr/>
At 31 December	25,721	-
	<hr/>	<hr/>
The deferred tax asset comprises:		
Deductible temporary difference on allowance for doubtful debts	62,664	-
Taxable temporary differences between net book value and tax written down value of property, plant and equipment	(36,943)	-
	<hr/>	<hr/>
	25,721	-
	<hr/>	<hr/>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

6. PROPERTY DEVELOPMENT COSTS

	Group 2005 RM	2004 RM
Long term leasehold land, at cost		
At 1 January	11,704,159	-
Transfer from land held for development	-	11,704,159
At 31 December	11,704,159	11,704,159
Development costs		
At 1 January	25,013,364	-
Transfer from land held for development	-	16,707,827
Costs incurred during the year	42,290,929	8,305,537
At 31 December	67,304,293	25,013,364
	79,008,452	36,717,523
Less:		
Costs recognised as an expense in the income statement during the year	21,299,051	-
	57,709,401	36,717,523

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

	Group 2005 RM	2004 RM
Finance costs	1,378,081	1,753,853
Director's remuneration other than fees	357,280	336,000

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

7. INVENTORIES

Inventories stated at cost comprise:

	Group 2005 RM	2004 RM
Raw materials	5,806,914	4,381,063
Work-in-progress	2,151,320	1,249,291
Finished goods	5,692,222	4,709,992
	13,650,456	10,340,346

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

8. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Gross trade receivables	27,587,435	21,187,424	-	-
Less:				
Allowance for doubtful debts	1,090,328	1,249,481	-	-
	26,497,107	19,937,943	-	-
Other receivables	668,538	843,830	1,000	1,000
Less:				
Allowance for doubtful debts	263,984	263,984	-	-
	404,554	579,846	1,000	1,000
Sundry deposits	17,886,689	17,861,278	17,770,000	17,770,000
Prepayments	91,501	324,090	-	-
	44,879,851	38,703,157	17,771,000	17,771,000
The currency exposure profiles of trade receivables are as follows:				
Ringgit Malaysia	26,655,367	20,089,099		
US Dollar	932,068	1,098,325		
	27,587,435	21,187,424		

Trade receivables represent amounts receivable from the sale of goods and development properties to customers. Other receivables, deposits and prepayments are from the normal business transactions of the Group. All trade receivables are granted credit periods of between 21 and 90 days.

Included in deposits of the Group and the Company is an amount of RM17,770,000 (2004 : RM17,770,000) representing deposits and advances paid pursuant to separate conditional agreements entered into by the Company in 1997 for the acquisition of the entire equity interest comprising 9,985,735 ordinary shares of RM1.00 each in an unquoted company, namely, KINMA Holdings Sdn Bhd ("KINMA"). The original total purchase consideration for the acquisition was RM57,000,000, but this was reduced to RM48,735,000 pursuant to new conditional agreements entered into with the vendors in 1998. Under the new conditional agreements, the purchase consideration is to be satisfied by the issuance of 21,678,500 new ordinary shares of RM1.00 each by the Company to the vendors at an issue price of RM1.00 per share, with the balance of RM27,056,500 to be paid in cash.

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

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

In 1999, the Company terminated the conditional agreements for the above acquisition and instructed its solicitors to commence legal proceedings against the vendors for the recovery of deposits and advances paid totalling RM17,770,000. The outcome of the legal proceeding is still pending. Based on legal advice from the Company's solicitors, the directors are of the opinion that it is reasonably probable that the above amounts would be recovered, and accordingly, allowance for doubtful recovery of the deposits is not required.

9. AMOUNT OWING BY/TO SUBSIDIARY COMPANIES

	Company	
	2005 RM	2004 RM
Gross amount owing by subsidiary companies	41,067,998	41,375,849
Less:		
Allowance for doubtful debts	1,855,344	1,855,344
	<u>39,212,654</u>	<u>39,520,505</u>

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

10. 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 between 2.6% and 3.65% (2004 : 2.5% and 3.45%) per annum.

11. CASH AND BANK BALANCES

Included in cash and bank balances of the Group is an amount of RM873,830 (2004 : RM336,068) 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

12. TRADE AND OTHER PAYABLES

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Trade payables	29,330,744	5,191,029	-	-
Progress billings	450,487	-	-	-
Other payables	1,815,132	1,875,741	83,322	81,746
Accruals	3,051,976	3,951,613	181,500	158,800
Deposits	12,800	2,603,313	-	-
	<u>34,661,139</u>	<u>13,621,696</u>	<u>264,822</u>	<u>240,546</u>
The currency exposure profiles of trade payables are as follows:				
Ringgit Malaysia	28,044,923	4,194,926		
US Dollar	1,285,821	996,103		
	<u>29,330,744</u>	<u>5,191,029</u>		

Trade payables represent amounts outstanding from trade purchases, sub-contractors claims on contract works performed and retention sums payable. Progress billings represent excess of billings to purchasers of development units over revenue recognised in the income statement. Other payables, accruals and deposits are from the normal business transactions of the Group.

The normal credit periods granted by trade suppliers and sub-contractors range from 60 to 120 days whereas retention sums are payable upon the expiry of the defect liability period of the construction contracts. The defect liability periods of the construction contracts are within 12 months from the date of issuance of certification of practical completion.

13. HIRE PURCHASE LIABILITIES

	Group	
	2005 RM	2004 RM
Outstanding hire purchase instalments due:		
- not later than one year	247,524	61,128
- later than one year and not later than five years	560,091	196,314
	<u>807,615</u>	<u>257,442</u>
Less: Unexpired term charges	82,051	36,715
Outstanding principal amount due	<u>725,564</u>	<u>220,727</u>
Less:		
Outstanding principal amount due not later than one year (included current liabilities)	205,646	45,953
Outstanding principal amount due later than one year but not later than five years	<u>519,918</u>	<u>174,774</u>

The effective interest rates of the hire purchase liabilities are between 3.4% and 3.45% (2004 : 3.4% and 3.45%) per annum.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

14. BANK BORROWINGS

	Group 2005 RM	2004 RM
Bills payable		
- secured	3,520,267	3,400,930
- unsecured	663,000	1,021,331
	4,183,267	4,422,261
Bank overdrafts		
- secured	4,641,055	5,436,454
- unsecured	5,699,662	5,973,130
	10,340,717	11,409,584
Current portion of bank term loans (Note 18)	11,817,358	5,865,210
	26,341,342	21,697,055

The secured bills payable and bank overdrafts of the Group totalling RM8,161,322 (2004 : RM8,837,384) 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 between 4.5% and 8.7% (2004 : 4.3% and 8.7%) per annum.

15. SHARE CAPITAL

	2005 RM	2004 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, 3,139,700 (2004 : 2,870,000) ordinary shares are held as treasury shares by the Company. At 31 December 2005, the number of ordinary shares in issue after deducting treasury shares held is 66,860,300 (2004 : 67,130,000) ordinary shares of RM1 each.

In 2000, the Company 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

The salient features of the above ESOS are as follows:

- (a) 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.
- (b) 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.
- (c) 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.
- (d) 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, or "Bursa Malaysia") 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.
- (e) 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.
- (f) 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.
- (g) 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.
- (h) 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.

The existing ESOS expired on 16 May 2005 and was not extended by the Company.

During the financial year, the Company implemented a new Paragon Union Berhad Employee's Share Option Scheme ("ESOS" or "the Scheme") for eligible employees as well as both executive and non-executive directors of the Group. The Scheme is governed by the Bye-Laws of the ESOS and was approved by the shareholders of the Company and the relevant authorities.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

The salient features of the new Scheme are as follows:

- (a) The maximum number of new ordinary shares that may be made available under the Scheme, shall not exceed in aggregate fifteen percent (15%), or any such amount or percentage as may be permitted by the relevant authorities, of the total issued and paid-up share capital of the Company at any one time during the existence of the Scheme.
- (b) The ESOS shall be administered by a committee ("Option Committee") in such manner as it shall at its discretion deem fit and with such powers and duties as conferred upon it by the board of directors of the Company.
- (c) The ESOS shall be opened for participation to the eligible employees of the Group. Subject to certain provisions set by the By-Laws, an eligible employee must be a confirmed employee with at least 12 months of continuous service as at the date of offer. Eligible executive who have accepted the offer shall not be eligible to participate in another employees' share option scheme implemented or to be implemented by any other company within the Group. The Option Committee at its discretion at any time and from time to time within the duration of the ESOS, makes one or more offer to any eligible employee whom the Option Committee may at its discretion select in accordance with the terms of the ESOS, provided always that an offer shall not be less than one hundred (100) ordinary shares or the minimum board lot for shares as may be prescribed by Bursa Securities from time to time.
- (d) No option shall be granted to any eligible director of the Group unless specific grant of options to that eligible director shall have previously been approved by the shareholders of the Company in a general meeting. In determining the criteria for allocation, the seniority, length of service and such other factors that may deem relevant, subject always to the following:
 - (i) the aggregate allocation to the eligible directors and senior management of the Group, save for the companies which are dormant, shall not exceed fifty percent (50%) of the new ordinary shares under the Scheme; and
 - (ii) the allocation to any eligible employee who, either singly or collectively, through persons connected to him, hold twenty percent (20%) or more of the issued and paid-up capital of the Company, shall not exceed ten percent (10%) of the new ordinary shares under the Scheme.
- (e) The option price shall be determined by the Option Committee based on the five (5) day weighted average market price of the Company's shares immediately preceding the date of offer of the option, with a discount of not more than ten percent (10%), or at the par value of the Company's shares, whichever is higher.
- (f) An offer shall be valid for a period of 30 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 payment of RM1.00 as non-refundable consideration for the option 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.
- (g) The option may be exercised by the Grantee by notice in writing to the Company in the prescribed form during the option period, provided that where an option is exercised in respect of a part of the new ordinary shares comprised therein, the number of new ordinary shares of which such option may be exercised shall be in multiples of and not less than one hundred (100) new shares or such board lot as may be prescribed by Bursa Securities from time to time.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

- (h) The ESOS shall continue to be in force for a duration of five (5) year (or such further extension as approved by authorities) commencing from the date of receipt of the last of the requisite approvals.
- (i) The new ordinary shares to be issued and allotted to a Grantee pursuant to the exercise of any options will not be subject to any retention period, unless the Grantee is a non-executive director, in which case, he must not sell, transfer or assign the new ordinary shares obtained through the exercise of the options offered to him pursuant to the Scheme within one (1) year from the offer date.
- (j) The number of shares under option or the exercise price both, so far as the option remains unexercised, may be adjusted following any variation in the issued share capital of the Company by way of capitalisation of profits or reserves, rights issues, consolidation of shares and sub-division or reduction of the Company's share capital.
- (k) The new ordinary shares to be allotted and issued upon any exercise of the option under the ESOS shall, upon allotment and issue, rank pari passu in all respects with the then existing ordinary shares. However, the ordinary shares so issued shall not be entitled to any dividends or other distributions declared, made or paid prior to the date of allotment of such shares.
- (l) These options may be exercised at any date during the option period not later than 20 July 2010 in accordance with the following table:

Number of shares exercisable				
Year 1	Year 2	Year 3	Year 4	Year 5
20%	20%	20%	20%	20%

Options which are exercisable in a particular year but not exercised may be carried forward to subsequent years but not later than 20 July 2010. All unexercised options shall be exercisable in the last year of the option period. Any options which remain unexercised at the expiry of the option period shall be automatically terminated.

The movements in the options during the financial year to take up unissued new ordinary shares of RM1 each in the Company were as follows:

	Number of options over ordinary shares	
	2005	2004
At 1 January 2005	2,572,000	2,694,000
Expired/Lapsed	(2,572,000)	(122,000)
Granted	7,300,000	-
Non-acceptance	(100,000)	-
Exercised	-	-
At 31 December 2005	7,200,000	2,572,000

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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

Exercised period	Exercise price RM	Number of share options outstanding	
		2005	2004
17-05-2000 to 16-05-2005	1.55	-	2,305,000
06-09-2001 to 16-05-2005	1.21	-	267,000
01-09-2005 to 20-07-2010	1.00	6,200,000	-
22-09-2005 to 20-07-2010	1.00	1,000,000	-
At 31 December 2005		<u>7,200,000</u>	<u>2,572,000</u>

16. RESERVES

	Group	
	2005 RM	2004 RM
Non-distributable:		
Asset valuation reserve	5,478,156	5,569,985
Merger reserve	(4,618,481)	(4,618,481)
	<u>859,675</u>	<u>951,504</u>

17. TREASURY SHARES

	Group/Company	
	2005 RM	2004 RM
At 1 January	2,918,712	2,918,712
Shares purchased during the year	172,687	-
At 31 December	<u>3,091,399</u>	<u>2,918,712</u>

During the financial year, the Company purchased a total of 269,700 ordinary shares of its issued share capital from the open market at a total cost of RM172,687. The average price paid for the shares purchased was RM0.64 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

At 31 December 2005, the number of treasury shares held is 3,139,700 (2004 : 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.

18. BANK TERM LOANS

	2005 RM	Group 2004 RM
Bank term loans bearing effective interest rate of 8.25% (2004 : 8.0%) per annum, repayable by redemption proceeds from sale of development units	14,190,476	17,867,760
Bridging loan from a bank bearing effective interest rate of 8.25% (2004 : 8.0%) per annum, repayable by redemption proceeds from sale of development units	7,303,757	1,914,457
Bank term loan under Al-Tarkhis facility bearing an internal rate of return of 8.7% (2004 : 8.7%) per annum, repayable by 48 monthly instalments commencing on the month of the full drawdown	1,500,000	1,500,000
Bank term loan bearing effective interest rate of 8.2% per annum, repayable by 60 monthly instalments commencing April 2005	4,500,000	-
	<hr/> 27,494,233	<hr/> 21,282,217
Less:		
Repayments due within 12 months (included in current liabilities, Note 14)	<hr/> 11,817,358	<hr/> 5,865,210
Repayments due after 12 months	<hr/> 15,676,875	<hr/> 15,417,007
The bank term loans are repayable as follows:		
- not later than one year		
(included under current liabilities)	11,817,358	5,865,210
- later than one year but not later than five years	15,676,875	15,417,007
	<hr/> 27,494,233	<hr/> 21,282,217

The bank term loans of RM14,190,476 (2004 : RM17,867,760) 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 6. The bank term loans are also secured by a pledged over the fixed deposits of the said subsidiary company referred to in Note 10.

The bridging loan of the same subsidiary company 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

The bank term loan under Al-Tarkhis facility of the same subsidiary company 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 4 and 17.

The bank term loan of RM4,500,000 of another subsidiary company is secured by a first legal charge over certain leasehold land and buildings of the said subsidiary company referred to in Note 2.

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

19. DEFERRED TAX LIABILITIES

	Group 2005 RM	2004 RM
At 1 January	8,735,690	8,871,289
Transfer to income statement	(1,015,355)	(135,599)
	<hr/>	<hr/>
At 31 December	7,720,335	8,735,690
	<hr/>	<hr/>
The deferred tax liabilities comprise:		
Taxable temporary differences		
- relating to surplus arising from revaluation of leasehold properties	2,130,395	2,166,106
- relating to surplus arising from fair value adjustment to the development properties of subsidiary company acquired	3,702,012	4,421,645
- between net book value and tax written down value of property, plant and equipment	2,884,583	2,947,352
	<hr/>	<hr/>
	8,716,990	9,535,103
Less:		
Deductible temporary differences		
- unused tax losses	282,924	388,806
- unabsorbed capital allowances	713,731	410,607
	<hr/>	<hr/>
	7,720,335	8,735,690
	<hr/>	<hr/>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

At 31 December 2005, 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	
	2005 RM	2004 RM
Unused tax losses	252,634	252,634
Unabsorbed capital allowances	322,088	322,088
	<u>574,722</u>	<u>574,722</u>

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

20. GROSS REVENUE

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Sales of carpets	60,373,668	54,011,400	-	-
Property development revenue from sale of development units	25,449,668	-	-	-
Dividend income	-	-	1,250,000	1,300,000
	<u>85,823,336</u>	<u>54,011,400</u>	<u>1,250,000</u>	<u>1,300,000</u>

21. COST OF SALES

	Group	
	2005 RM	2004 RM
Cost of carpets sold	51,100,374	45,575,157
Property development costs relating to development units sold	21,299,051	-
	<u>72,399,425</u>	<u>45,575,157</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

22. PROFIT FROM OPERATIONS

Profit from operations is stated after charging:	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Allowance for doubtful debts	240,000	313,407	-	-
Auditors' remuneration				
- current year	62,000	54,800	9,000	7,800
- underestimated in prior year	1,200	-	1,200	-
Depreciation	3,256,239	3,412,423	-	-
Directors' remuneration				
- fees	168,000	138,000	168,000	138,000
- other emoluments	893,200	840,000	-	-
Fees paid to firms in which two directors of the Company are partners	8,510	13,840	-	1,297
Loss on disposal of property, plant and equipment	7,455	-	-	-
Property, plant and equipment written off	-	690	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
and crediting:				
Allowance for doubtful debts written back	229,090	410,493	-	-
Gain on disposal of property, plant and equipment	-	22,931	-	-
Gross dividend income from -subsidiary companies	-	-	1,250,000	1,300,000
- investments quoted in Malaysia	75,600	87,350	-	-
Interest income from fixed deposits	58,854	68,191	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

The estimated monetary value of benefits-in-kind received by the directors otherwise than in cash from the Group and the Company amounted to RM53,125 and RM22,700 (2004 : RM39,658 and RM12,833) respectively.

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

	Group	
	2005 RM	2004 RM
Directors' remuneration other than fees	1,250,480	1,176,000
Less:		
Director's remuneration other than fees capitalised under property development costs (Note 6)	357,280	336,000
	<hr/>	<hr/>
	893,200	840,000
	<hr/>	<hr/>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

23. FINANCE COSTS

	Group	
	2005 RM	2004 RM
Finance costs incurred during the financial year comprise:		
Interest on bank term loans	2,221,858	1,753,853
Other bank interests	941,338	897,896
Hire purchase term charges	36,170	7,981
	<u>3,199,366</u>	<u>2,659,730</u>
Less:		
Finance costs capitalised under property development costs (Note 6)		
- Interest on bank term loans	1,378,081	1,753,853
	<u>1,821,285</u>	<u>905,877</u>

24. TAX EXPENSE

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Current tax expense				
- current year	2,263,168	446,638	337,000	364,000
- under/(over) estimated in prior year	102,885	(22,044)	(11,240)	(9,736)
	<u>2,366,053</u>	<u>424,594</u>	<u>325,760</u>	<u>354,264</u>
Deferred income relating to origination and reversal of temporary differences during the year	(1,034,682)	(153,710)	-	-
Deferred tax expense (over)/underestimated in prior year	(6,394)	18,111	-	-
	<u>(1,041,076)</u>	<u>(135,599)</u>	<u>-</u>	<u>-</u>
	<u>1,324,977</u>	<u>288,995</u>	<u>325,760</u>	<u>354,264</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Accounting profit	4,348,143	1,344,796	890,698	1,043,873
Tax at the average tax rate of 25.66% (2004 : 25.53%) for the Group and 28% (2004 : : 28%) for the Company	1,115,522	343,302	249,395	292,284
Add:				
Tax effect of expenses not deductible in determining taxable profit:				
Depreciation of non-qualifying property, plant and equipment	182,423	198,618	-	-
Other non-deductible expenses	251,606	203,269	87,605	71,716
	1,549,551	745,189	337,000	364,000
Less:				
Tax effect of income not taxable in determining taxable profit:				
Gain on disposal of other investments	-	123,203	-	-
Other non-taxable income	38,745	-	-	-
Tax effect on reinvestment allowances utilised during the year	246,609	293,347	-	-
Crystallisation of deferred tax liabilities on amortisation on revalued properties	35,711	35,711	-	-
	1,228,486	292,928	337,000	364,000
Add/(Less):				
Current tax expense under/ (over)estimated in prior year	102,885	(22,044)	(11,240)	(9,736)
Deferred tax expense (over)/ underestimated in prior year	(6,394)	18,111	-	-
Tax expense for the year	1,324,977	288,995	325,760	354,264

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

25. EARNINGS PER SHARE

(a) Basic earnings per share

The basic earnings per share has been calculated based on the consolidated net profit for the year of RM3,023,166 (2004 : RM1,055,801) and on 66,860,300 (2004 : 67,130,000) number of ordinary shares in issue during the year after deducting treasury shares as follows:

	2005	2004
Number of ordinary shares in issue at beginning and end of the year	70,000,000	70,000,000
Less: Treasury shares	3,139,700	2,870,000
Number of ordinary shares after deducting treasury shares	<u>66,860,300</u>	<u>67,130,000</u>

(b) 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. DIVIDEND PAID

	2005 RM	Group 2004 RM
First and final dividend of 1% less 28% tax for the financial year ended 31 December 2004 (2004 : first and final dividend of 3% less 28% tax for the financial year ended 31 December 2003)	<u>483,333</u>	<u>1,450,008</u>

At the forthcoming Annual General Meeting, a first and final dividend of 1% less 28% tax amounting to RM481,394 in respect of the financial year ended 31 December 2005 will be proposed for approval by the shareholders of the Company. The proposed first and final dividend is in respect of all ordinary shares in issue at the date of the financial statements, excluding those ordinary shares held as treasury shares under share buy-back. These financial statements do not reflect this dividend which will be accounted for in the shareholders' equity as an appropriation of unappropriated profit in the financial year in which the dividend is paid.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

27. 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	
	2005 RM	2004 RM	2005 RM	2004 RM
Transactions with the respective firms are as follows:				
Fees paid to:				
- Shearn Delamore & Co	-	1,297	-	1,297
- T.S. Teoh & Partners	8,510	12,543	-	-

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

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

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Outstanding advances owing by				
- Paragon Car Carpets & Components Sdn Bhd	-	-	11,720,798	14,063,373
- Paragon Carpetmaker Sdn Bhd	-	-	15,909,179	15,033,978
- Paragon Carpet Distributor Sdn Bhd	-	-	170,000	-
- Paragon Expression Sdn Bhd	-	-	10,160,026	10,421,154
- Paragon Property Development Sdn Bhd	-	-	1,245,690	-
Outstanding advances owing to				
- Paragon Carpet Distributor Sdn Bhd	-	-	-	660,104

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

28. EMPLOYEES INFORMATION

	Group	
	2005 RM	2004 RM
Staff costs		
Salaries, wages, allowances and bonuses	8,954,991	8,296,101
Defined contribution plan - EPF contributions	834,416	762,518
Social security costs - SOCSO contributions	87,162	71,517
Other staff related expenses	504,760	302,472
	<u>10,381,329</u>	<u>9,432,608</u>
	2005	2004
Number of employees, including 3 (2004 : 3) full time directors for the Group at the end of the financial year	<u>467</u>	<u>454</u>

29. HOLDING COMPANY

The holding company is Asia Avenue Sdn Bhd, a company incorporated in Malaysia, which holds 47.94% (2004 : 47.76%) of the issued and paid-up share capital of the Company.

30. CONTINGENT LIABILITIES

	Group		Company	
	2005 RM	2004 RM	2005 RM	2004 RM
Unsecured corporate guarantees in respect of banking facilities granted to subsidiaries	<u>-</u>	<u>-</u>	<u>81,177,700</u>	<u>75,377,700</u>

31. SEGMENT ANALYSIS

Segmental reporting

Primary reporting format - business segment

The Group's operations comprise the following business segments:

- Carpets - Manufacturing and sale of carpets
- Properties - Property development

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Transactions between segments were entered into in the normal course of business and were established on terms and conditions that are not materially different from that obtainable in transactions with unrelated parties. The effects of such inter-segmental transactions are eliminated on consolidation.

Year ended 31 December 2005	Carpets RM	Properties RM	Group RM
Revenue			
Sales	60,373,668	25,449,668	85,823,336
Less: Inter-segment sales	-	-	-
External sales	60,373,668	25,449,668	85,823,336
Results			
Segment operating profit	1,890,087	4,138,231	6,028,318
(Less)/Add: Finance costs			(1,821,285)
Impairment loss on value of other investments written back			141,110
Profit from ordinary activities before tax			4,348,143
Less: Tax expense			1,324,977
Net profit for the year			3,023,166
Other information			
Segment assets	92,134,473	68,037,410	160,171,883
Segment liabilities	34,149,994	52,547,766	86,697,760
Capital expenditure	2,112,236	42,000	2,154,236
Depreciation	3,251,569	4,670	3,256,239

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Year ended 31 December 2004	Carpets RM	Properties RM	Group RM
Revenue			
Sales	54,011,400	-	54,011,400
Less: Inter-segment sales	-	-	-
External sales	54,011,400	-	54,011,400
Results			
Segment operating profit	1,737,546	30,547	1,768,093
Add/(Less): Finance costs			(905,877)
Gain on disposal of other investments			482,580
Profit from ordinary activities before tax			1,344,796
Less: Tax expense			288,995
Net profit for the year			1,055,801
Other information			
Segment assets	88,935,141	42,107,256	131,042,397
Segment liabilities	31,548,993	28,386,424	59,935,417
Capital expenditure	1,539,178	4,100	1,543,278
Depreciation	3,412,286	137	3,412,423

Information on Group's operations by geographical segment is not provided separately as the Group business is entirely carried out in Malaysia.

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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.

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 progress billings are raised and sales are made on deferred credit 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 also manages its credit risk exposure in respect of trade receivables relating to its housing development activities by maintaining its name as the registered owner of the development properties until full settlement by the purchaser of the self-financed portion of the purchase consideration and upon undertaking of end-financing by the purchaser's end-financier.

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.

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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 this foreign currency exposure as 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 is 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.

(b) Fair values

The carrying amounts of the financial assets and liabilities of the Group and the Company at 31 December 2005 approximated their fair values.

33. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements of the Group and of the Company were authorised for issue by directors on 21 April 2006.

STATEMENT BY DIRECTORS

In the opinion of the directors, the financial statements set out on pages 34 to 72 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 2005 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



TAN HONG KIEN
Director

21 April 2006

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 72 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 21 April 2006)	
)	
)	
)	
Before me :)	TAN HONG KIEN
)	

ABAS BIN HASAN
W392
Commissioner for Oaths



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 * the Chairman of the meeting or

of _____
or failing whom _____
of _____
as my/our proxy/proxies to vote for me/us and on my/our behalf at the Twelfth Annual General Meeting of the Company to be held at Ivory 12, Level 4, Holiday Villa, No. 9 Jalan SS12/1, Subang Jaya, 47500 Petaling Jaya, Selangor Darul Ehsan on Thursday, 22 June 2006 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 2005 together with the Directors' and Auditors' Reports thereon.		
2.	Approval of Directors' Fees for the year ended 31 December 2005.		
3.	Approval of the First and Final Dividend of 1% less tax at 28% for the year ended 31 December 2005.		
4.	Re-election of Mr. Tan Hong Kien as Director of the Company.		
5.	Re-election of Mr. Yap Kiang Siang as Director of the Company.		
6.	Re-appointment of Auditors.		
7.	Renewal of Shareholders' Approval for the Proposed Share Buy-Back.		
8.	Authority for the Directors to Allot and Issue Shares.		

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

Dated this _____ day of _____, 2006

Number of shares held: _____

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

[*Delete if not applicable]

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 forty-eight (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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