ANNUAL REPORT 2006

PARAGON UNION BERHAD
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NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Thirteenth Annual General Meeting of the Company will be held at the Victorian I, Holiday Villa, No. 9 Jalan SS12/1, Subang Jaya, 47500 Petaling Jaya, Selangor Darul Ehsan on Tuesday, 26 June 2007 at 11.00 a.m. for the following purposes:

A G E N D A

ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the year ended 31 December 2006 together with the Directors' and Auditors' Reports thereon. — Resolution 1

2. To approve the payment of Directors' Fees for the year ended 31 December 2006. — Resolution 2

3. To approve a First and Final Dividend of 1% less tax at 27% for the year ended 31 December 2006. — Resolution 3

4. To re-elect Mr. Tan Onn Poh who is retiring as Director of the Company in accordance with Article 75 of the Company's Articles of Association. — Resolution 4

5. To re-elect Mr. Teoh Tek Siong who is retiring as Director of the Company in accordance with Article 75 of the Company's Articles of Association. — Resolution 5

6. To re-elect Dato' Zainol Abidin Bin Haji A. Hamid who is retiring as Director of the Company in accordance with Article 75 of the Company's Articles of Association. — Resolution 6

7. To re-appoint Messrs. Moores Rowland, the retiring Auditors and to authorise the Board of Directors to fix their remuneration. — Resolution 7

SPECIAL BUSINESS

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

   Ordinary Resolution 1 — Resolution 8
   - **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 Twelfth Annual General Meeting of the Company held on 22 June 2006, 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 RM4,830,100.00 for the financial year ended 31 December 2006.

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 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 (3).

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 Resolution 9

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

"**THAT** pursuant to Section 132D of the Companies Act, 1965, the Directors be and are hereby authorised to issue shares in the Company at any time until the conclusion of the next Annual General Meeting 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 to be issued does not exceed 10% of the issued and paid-up share capital of the Company for the time being, subject always to the approvals of the relevant regulatory authorities."

Special Resolution Resolution 10

- **Amendments To Articles Of Association**

"**THAT** the proposed alterations, modifications, amendments or deletions to the Articles of Association of the Company as contained in Appendix A be and are hereby approved."

ANY OTHER BUSINESS

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

NOTICE OF ANNUAL GENERAL MEETING

NOTICE OF DIVIDEND ENTITLEMENT

NOTICE IS HEREBY GIVEN THAT the First and Final Dividend of 1% less tax at 27% in respect of the financial year ended 31 December 2006 will be payable on 8 August 2007 to Depositors registered in the Record of Depositors at the close of business on 20 July 2007.

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 2007 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: 4 June 2007

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 to the Company.
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(she) shall specify the proportion of his(her) 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

The proposed Resolution 8 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 4 June 2007 which is despatched together with the Company's Annual Report 2006 for additional information.

b) Authority For Directors To Allot And Issue Shares

The proposed Resolution 9 above, if passed, will give the Directors of the Company authority to issue and allot shares for such purposes as the Directors in their absolute discretion consider to be in the interest of the Company without having to convene a general meeting. This authority, unless revoked or varied by the Company in general meeting, will expire at the next Annual General Meeting of the Company.

c) Amendments To Articles Of Association

The proposed Resolution 10 is to amend the Company's Articles of Association in line with the amendments to the Listing Requirements of Bursa Malaysia Securities Berhad. The details of the amendments are set out in the circular to shareholders dated 4 June 2007 which is despatched together with the Company's Annual Report 2006 for additional information.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

Details of Directors who are standing for re-election in Agenda 4 (Mr. Tan Onn Poh), Agenda 5 (Mr. Teoh Tek Siong) and Agenda 6 (Dato' Zainol Abidin Bin Haji A. Hamid) of the Notice of the Thirteenth Annual General Meeting are laid out in pages 6 to 7 of this Annual Report.

DIRECTORS' PROFILE

Tan Sri Dato' Kamaruzzaman Bin Shariff
Aged 65, 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., Metronic Global Berhad, Kontena Nasional Berhad and Bintai Kinden Corporation Berhad as well as several private limited companies. He has no family relationship with any Director and/or substantial shareholders of Paragon and his directorship in Paragon does not give rise to any conflict of interest situation. He has no conviction for any offences within the past ten years.

Tan Onn Poh
Aged 61, 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 32 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 substantial shareholders of Paragon and his directorship in Paragon does not give rise to any conflict of interest situation. He has no conviction for any offences within the past ten years.

Tan Hong Kien
Aged 39, 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 substantial shareholders of Paragon and his directorship in Paragon does not give rise to any conflict of interest situation. He has no conviction for any offences within the past ten years.

Yap Kiang Siang
Aged 54, 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 23 years of working experience in the construction, property development and related business both overseas and locally. He worked in Maltby & Partners, a professional quantity surveying firm in New Zealand from 1976 to 1980 and Baharuddin Ali & Low Sdn Bhd, a local professional quantity surveying firm from 1980 to 1984. He was involved in the senior management of various construction and property development companies, which had successfully completed numerous high-rise commercial buildings and residential projects within the Klang Valley. He was formerly the Executive Director (Properties) of Econstates Berhad. He has no family relationship with any Director and/or substantial shareholders of Paragon and his directorship in Paragon does not give rise to any conflict of interest situation. He has no conviction for any offences within the past ten years.

Michael Lim Hee Kiang
Aged 59, 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 29 years. He sits on the Board of Directors of DKSH Holdings (Malaysia) Berhad, Dijaya Corporation Berhad, Major Team Holdings Berhad, Selangor Properties Berhad and Wawasan TKH Holdings Berhad as well as various private companies. He has no family relationship with any Director and/or substantial shareholders of Paragon and his directorship in Paragon does not give rise to any conflict of interest situation. He has no conviction for any offences within the past ten years.

Teoh Tek Siong
Aged 52, 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 substantial shareholders of Paragon and his directorship in Paragon does not give rise to any conflict of interest situation. He has no conviction for any offences within the past ten years.

Dato' Zainol Abidin Bin Haji A. Hamid
Aged 65, 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 substantial shareholders of Paragon and his directorship in Paragon does not give rise to any conflict of interest situation. He has no conviction 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

Malayan Banking Berhad
CIMB Bank Berhad
Alliance Bank Malaysia Berhad
AmBank (M) 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 : 603-90861100
Fax : 603-90861107

DOMICILE

Malaysia

LEGAL FORM AND PLACE OF INCORPORATION

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

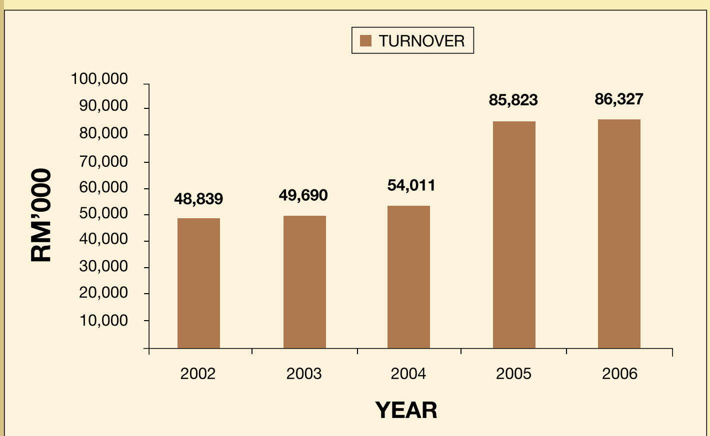
CHAIRMAN'S STATEMENT

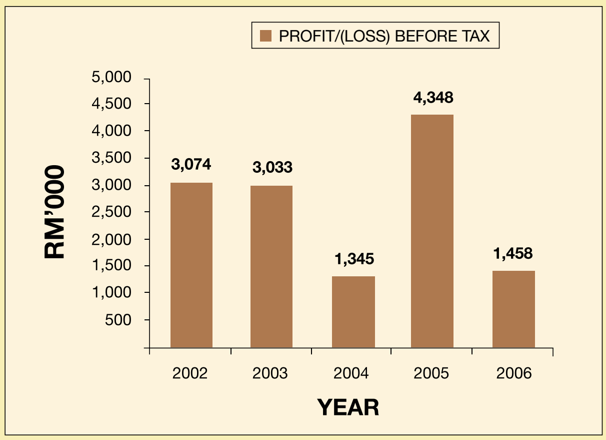
On behalf of the Board of Directors, I am pleased to present the Group's Annual Report & Audited Financial Statements for the year ended 31 December 2006.

Performance & Finance Reviews

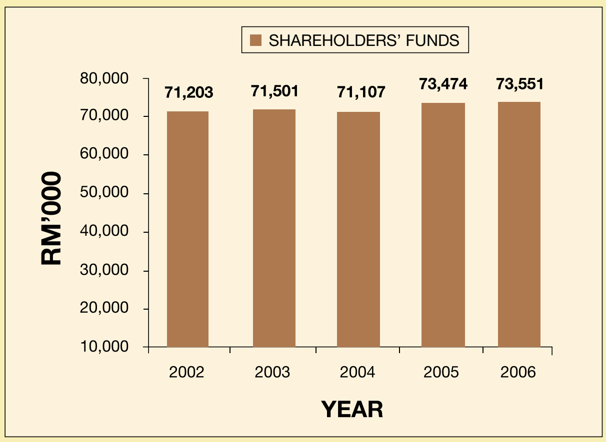
The Group achieved a Turnover of RM86.3 million as compared to RM85.8 million for the preceding year. Although the Property Division achieved a 27% growth and Commercial Carpet Division achieved a 6% growth, the Automotive Carpet Division saw a contraction of 24% during the year. The prolonged sluggishness of the automotive industry coupled with higher finance and material cost together with the impairment of goodwill have resulted in lower profit before taxation for the Group in 2006.

Pre-function Area
Impiana KLCC Hotel & Spa
Kuala Lumpur





Ballroom & Foyer
Renaissance Hotel
Kuala Lumpur



CHAIRMAN'S STATEMENT

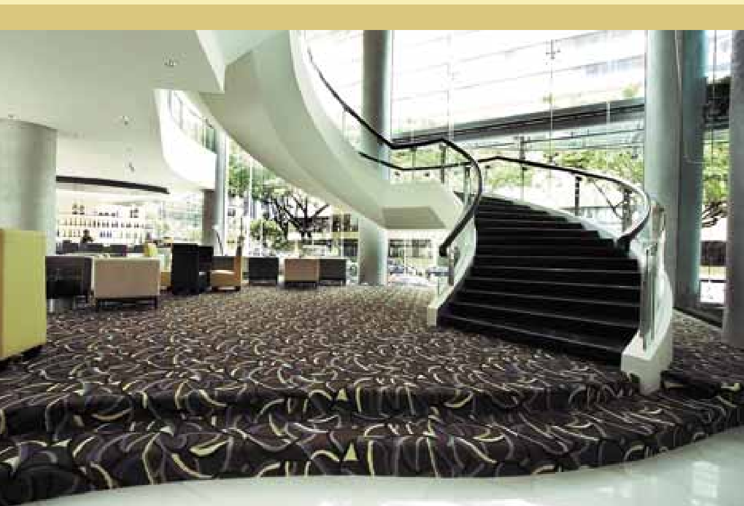
Foyer
Kompleks Kraf
Kuala Lumpur

Dividend

The Board is pleased to recommend a First and Final Dividend of 1% less 27% tax for the financial year ended 31 December 2006 subject to shareholders' approval at the forthcoming Thirteenth Annual General Meeting.

Carpets Division

Our reputable automotive customers during the year include Proton, Perodua, Mercedes Benz, Honda, Naza Kia, Nissan, Mazda, Ford, Volvo, Daihatsu and Isuzu.



Lobby Lounge
Novotel Hydro Majestic Hotel
Kuala Lumpur

The notable commercial carpet projects include the new MATRADE HQ, Kuala Lumpur International Airport (KLIA), Renaissance Hotel, Genting Group of Hotels, Holiday Villa Group of Hotels, Novotel Hydro Majestic Hotel, Masjid Sultan Salahuddin Abdul Aziz Shah, Selangor and Masjid Negara.

The Company also exports to countries such as USA, Middle East, India, China, Hong Kong, Vietnam, Cambodia, Philippines, Thailand, Brunei and Singapore during the year.

Property Development Division

Phase I of Paragon Heights, Bukit Jalil, Kuala Lumpur, has been completed with CF and handed over to purchasers during the 4th Quarter of 2006. Phase II was launched in 1st Quarter of 2007 and within a 3-month period has achieved sales of almost 60%!

Prospects & Outlook

With more stringent financing terms and higher hire purchase interest rates coupled with the reduction on secondhand cars trade-in values, the performance of the automotive industry will depend on the various new models that will be launched in 2007 and the potential tie-ups of the

Auditorium
Universiti Putra Malaysia
Selangor

local automotive players with strong technical partners.

On the commercial carpet division, the forecast of economic growth rate of 6.0% for the year 2007 and the expected private sector upgrading and refurbishment of hotels in anticipation of Visit Malaysia Year 2007 will be a positive factor.

Escalating cost brought about by the increased interest rates, fluctuating fuel prices and higher building material costs have affected our cost of manufacturing and construction. The Group has to continuously increase its operational efficiency and effectiveness and cost management in order to weather these challenges.

However, on a more positive note, the Company shall be supplying substantial quantities of carpet products for the export market commencing 4th Quarter of 2007.

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

Prayer Hall
Masjid Sultan Salahuddin Abdul Aziz Shah
Shah Alam

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 ensure 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 2006.

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. The composition of such ensures that no individual or small group of individuals can dominate the Board's decision making. The Directors abstain as and when matters affecting their own interests are discussed.

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

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

Mr. Tan Onn Poh	*Managing Director (Chairman)*
Mr. Tan Hong Kien	*Executive Director*
Mr. Teoh Tek Siong	*Independent Non-Executive Director*
Mr. 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 2006, seven Board meetings were held. Attendance at the Board meetings held during the financial year is set out below:

Executive Directors	Total
Tan Onn Poh	7/7
Tan Hong Kien	7/7
Yap Kiang Siang	7/7
Non-Executive Directors	**Total**
Tan Sri Dato' Kamaruzzaman Bin Shariff	6/7
Michael Lim Hee Kiang	7/7
Teoh Tek Siong	7/7
Dato' Zainol Abidin bin Haji A. Hamid	7/7

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 in the next Board meeting.

Supply of Information

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

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

Appointments and Re-elections to the Board

The 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 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.

STATEMENT ON CORPORATE GOVERNANCE

The Nomination Committee comprises the following members: -

Nomination Committee Members

Dato' Zainol Abidin bin Haji A.Hamid	*Independent Non-Executive Director (Chairman)*
Mr. Michael Lim Hee Kiang	*Independent Non-Executive Director*
Mr. Teoh Tek Siong	*Independent Non-Executive Director*

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.

As the Continuing Education Programme has been repealed by Bursa Malaysia Securities Berhad with effect from 1 January 2005, the Board shall be responsible for determining the training needs of their Directors. The Board of Directors had attended trainings on changes or amendments to the Listing Requirements of Bursa Malaysia Securities Berhad conducted by the Company Secretary.

The 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	*Independent Non-Executive Director (Chairman)*
Mr. Teoh Tek Siong	*Independent Non-Executive Director*
Mr. Tan Hong Kien	*Executive Director*
Dato' Zainol Abidin bin Haji A. Hamid	*Independent Non-Executive Director*

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	1,016,400	-
Bonuses	190,575	-
Fees	60,000	108,000
Benefits-In-Kind	58,425	22,700
Total	1,325,400	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 the 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 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.

STATEMENT ON CORPORATE GOVERNANCE

The Directors are satisfied that in preparing the financial statements of the Company and of the Group for the financial year ended 31 December 2006, 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 RM12,300.00.

2. **Material contracts**

   There were no material contracts entered into by the Company and/or its subsidiaries that involve Directors' or substantial shareholders' interests either still subsisting at the end of the financial year ended 31 December 2006 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 Depository Receipt ("ADR") or Global Depository Receipt ("GDR") programme**

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

6. **Variation in results**

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

7. Profit guarantee

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

8. Share Buy-Back

During the financial year, the total share bought-back by the Company amounted to RM491,883.46 for 825,500 ordinary shares with an average price of RM0.60 per share.

SCHEDULE OF SHARE BUY-BACK FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

Monthly Breakdown	No. of Shares Purchased and Retained As Treasury Shares	Purchase Price Per Share (RM)		Average Cost Purchase (RM)	Total Cost (RM)
		Lowest	Highest		
January 2006	142,700	0.630	0.680	0.651	92,830.91
February 2006	281,400	0.540	0.710	0.663	186,622.99
March 2006	78,000	0.600	0.650	0.626	48,849.94
April 2006	34,900	0.600	0.650	0.630	21,993.20
May 2006	42,900	0.525	0.650	0.583	24,992.39
June 2006	30,000	0.500	0.580	0.533	16,001.67
July 2006	27,800	0.485	0.580	0.528	14,688.68
August 2006	36,900	0.450	0.500	0.476	17,573.96
September 2006	15,500	0.450	0.490	0.481	7,461.13
October 2006	10,000	0.460	0.480	0.473	4,726.29
November 2006	35,000	0.440	0.480	0.462	16,161.87
December 2006	90,400	0.420	0.470	0.442	39,980.43
Total	**825,500**	**0.420**	**0.710**	**0.596**	**491,883.46**

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 2006 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.

- 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	**Designation**
Mr. Michael Lim Hee Kiang	Chairman and Independent Non-Executive Director
Mr. Teoh Tek Siong	Independent Non-Executive Director
Mr. Tan Hong Kien	Executive Director

2. Terms of Reference of Audit Committee

2.1 Membership

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

At least one member of the Audit Committee:

i) must be a member of the Malaysian Institute of Accountants; or

ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years' working experience and:

(a) he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or

(b) he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967.

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

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

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

2.2 Authority

The Audit Committee shall, in accordance with 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

(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.

AUDIT COMMITTEE REPORT

2.4 Meetings

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

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

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

The Company Secretary shall be the Secretary of the Committee.

2.5 Reporting Procedures

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

2.6 Audit Committee Report

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

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 Bursa Malaysia Securities Berhad.

3. Meetings

There were five Meetings of the Audit Committee held during the financial year ended 31 December 2006 to which all the Committee Members attended. The record of attendance of each Committee Member is as follows:-

Committee Member	Attendance
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 2006, the activities of the Audit Committee included:-

- Reviewed the unaudited quarterly financial results of the Group prior to the Board of Directors' approval and subsequent announcements.

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

5. Internal Audit 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 for the Board to prepare Statement on Internal Control in the Annual Report;
- To support the Audit Committee in identifying and evaluating the existing internal control system and consequently to determine the future requirements for internal control system and co-develop a prioritised action plan;
- To perform a risk assessment of the Group to identify the business processes within the Group that internal audit function should focus on; and
- To allocate audit resources to areas within the Group 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 Department, Quality Assurance Department and Maintenance Department and these include the production planning, scheduling and reporting, in-process inspection and final product quality inspection as well as preventive maintenance and machinery repair and service. 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	2006	2005	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 2006

Location	Age of Building	Tenure	Description	Land Area (sq. m.)	Build-Up Area (sq. m.)	Cost / Revaluation (RM)	Net Book Value as at 31.12.2006 (RM)	Last Date of Revaluation
Lot No. PT 7637 14, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	16 years	Leasehold (Expiry 14.05.2088)	Leasehold Land, Factory & Office	8,094	3,190 (factory) 3,929 (office)	8,090,000	6,880,040	12.03.1998
Lot No. PT 7667 21, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	15 years	Leasehold (Expiry 14.05.2088)	Leasehold Land, Factory & Office	6,833	4,177 (factory) 873 (office)	5,725,820	4,899,674	13.02.1998
Lot No. PT 7641 11A, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	11 years	Leasehold (Expiry 14.05.2088)	Leasehold Land, Factory & Office	12,128	7,919 (factory)	8,441,936	7,262,683	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 (1) Vote per Ordinary Share Held

ANALYSIS BY SIZE OF SHAREHOLDINGS AS AT 7 MAY 2007

Size of Holdings	No. of Shareholders	No. of Shares	Percentage (%)
1 - 99	20	403	0
100 - 1,000	883	848,662	1.29
1,001 - 10,000	1,984	9,005,401	13.67
10,001 – 100,000	454	12,278,400	18.63
100,001 – 3,294,569*	30	8,389,440	12.73
3,294,570 and above **	2	35,369,094	53.68
Total	3,373	65,891,400***	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 65,891,400 ordinary shares was arrived at after deducting 4,108,600 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 PER THE REGISTER OF DIRECTORS' SHAREHOLDINGS AS AT 7 MAY 2007

Names	Direct No. of Shares	Percentage (%)	Indirect No. of Shares	Percentage (%)
Tan Sri Dato' Kamaruzzaman Bin Shariff	-	-	-	-
Tan Onn Poh	-	-	31,941,094(1)	48.48
Tan Hong Kien	-	-	-	-
Yap Kiang Siang	10,000	0.02	-	-
Michael Lim Hee Kiang	-	-	-	-
Teoh Tek Siong	-	-	-	-
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 7 MAY 2007

Names	Granted	Percentage (%)	Exercise as at 7 May 2007	Percentage (%)
Tan Sri Dato' Kamaruzzaman Bin Shariff	250,000	3.84	-	-
Tan Onn Poh	1,000,000	15.36	-	-
Tan Hong Kien	500,000	7.68	-	-
Yap Kiang Siang	500,000	7.68	-	-
Michael Lim Hee Kiang	250,000	3.84	-	-
Teoh Tek Siong	250,000	3.84	-	-
Dato' Zainol Abidin Bin Haji A. Hamid	250,000	3.84	-	-

ANALYSIS OF SHAREHOLDINGS

SUBSTANTIAL SHAREHOLDERS AS PER THE REGISTER OF SUBSTANTIAL SHAREHOLDERS AS AT 7 MAY 2007

	Substantial Shareholders	Direct No. Of Shares	Percentage (%)	Indirect No. Of Shares	Percentage (%)
1.	Asia Avenue Sdn. Bhd.	31,941,094	48.48	-	-
2.	Estate of Wong Thiam Loy	-	-	31,941,094[(1)]	48.48
3.	Tan Onn Poh	-	-	31,941,094[(2)]	48.48
4.	Tan Choon Hock	3,428,000	5.20	-	-

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 7 MAY 2007

No.	Names	No. of Shares of RM1.00 Each	Percentage (%)
1.	Asia Avenue Sdn. Bhd.	31,941,094	48.48
2.	Tan Choon Hock	3,428,000	5.20
3.	Low Joon Yong	1,085,600	1.65
4.	Su Ming Keat	696,040	1.06
5.	Low Joon Yong	660,600	1.00
6.	CIMSEC Nominees (Tempatan) Sdn. Bhd. EON Finance Berhad for Lee Poh Yee	529,700	0.80
7.	Chong Ah Him @ Chong Kum Kwan	430,500	0.65
8.	CIMSEC Nominees (Asing) Sdn. Bhd. Pledged Securities Account for Philip Seong Chee Liang	420,100	0.64
9.	Lim Lai Chun @ Lim Lai Chan	358,400	0.54
10.	CIMSEC Nominees (Asing) Sdn. Bhd. Exempt An for CIMB-GK Securities Pte. Ltd.	347,500	0.53
11.	TCL Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Sivanandam A/L Narayanasamy	314,100	0.48
12.	CitiGroup Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Su Ming Keat	300,000	0.46
13.	Low Wan Chin	275,000	0.42
14.	Mayban Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Wong Pah Sang	257,100	0.39
15.	Ang Seo Hoon	254,800	0.39
16.	Mayban Securities Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Lee Ah Kim	214,500	0.33
17.	Public Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Su Ming Keat	200,000	0.30
18.	Lim Chir Ching	200,000	0.30
19.	Chin Tung Leong	154,800	0.23
20.	Lee Soh Hong	150,000	0.23
21.	Phong Chiew Khim	147,800	0.22
22.	Yee Kwek Keong	140,000	0.21
23.	Chong Tong Siew	134,000	0.20
24.	Mayban Securities Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Tee Teck Khoon	133,200	0.20
25.	A.A. Anthony Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Goh Tien Tow	131,000	0.20
26.	Chantika Holdings Sdn. Bhd.	130,000	0.20
27.	Ho Wah Genting Kintron Sdn. Bhd.	130,000	0.20
28.	Lim Chin Huat	128,000	0.19
29.	See Kee Hoot	126,700	0.19
30.	Mustapha Bin Ab. Wahid	120,000	0.18
	Total	**43,538,534**	**66.08**

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2006

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 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are indicated in Note 5 to the financial statements.

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

RESULTS

	Group	Company
Net profit for the year	RM1,045,740	RM1,572,498

DIVIDENDS

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

In respect of the year ended 31 December 2005	
- First and final dividend of 1% less 28% tax on 66,242,400 ordinary shares, paid on 8 August 2006	RM476,945

There was a decrease in dividend paid amounting to RM4,449 over the amount of RM481,394 as disclosed in the directors' report of the previous financial year. The reduction in dividend paid was due to the share buy-back of 617,900 ordinary shares from the open market prior to the date the dividend was paid.

The directors now recommend the payment of a first and final dividend of 1% less 27% tax on 66,034,800 ordinary shares amounting to RM482,054 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 four years at the shareholders' meeting. The share buy back was last approved at the Annual General Meeting ("AGM") of the Company held on 22 June 2006 and will expire at the conclusion of the forthcoming AGM of the Company.

The directors of the Company are committed to enchancing the value of the Company for its shareholders and believe that the repurchase plan can be applied in the best interests of the Company and its shareholders.

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

In year	No. of ordinary shares	Average price per share RM	Total cost RM
2001	2,681,000	1.03	2,758,037
2002	46,000	0.80	37,010
2003	143,000	0.86	123,665
2005	269,700	0.64	172,687
2006	825,500	0.60	491,883
	3,965,200		3,583,282

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 2006, the total number of treasury shares held by the Company is 3,965,200 ordinary shares.

EMPLOYEES' SHARE OPTION SCHEME ("ESOS")

In 2005, the Company obtained approval from the shareholders of the Company and the relevant authorities for the establishment of an ESOS known as Paragon Union Berhad Employees' Share Option Scheme ("ESOS" or "the Scheme"). The Scheme enables the Company to establish an 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
- Mr. Tan Onn Poh
- Mr. Tan Hong Kien
- Mr. Yap Kiang Siang

Independent non-executive directors
- Tan Sri Dato' Kamaruzzaman Bin Shariff
- Mr. Michael Lim Hee Kiang
- 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.

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.

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2006

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 1-1-2006	Granted	Exercised	Forfeited	At 31-12-2006
1 September 2005	1.00	6,200,000	-	-	(690,000)	5,510,000
22 September 2005	1.00	1,000,000	-	-	-	1,000,000
		7,200,000	-	-	(690,000)	6,510,000

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 1-1-2006	Granted	Exercised	Forfeited	At 31-12-2006
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, Mr Teoh Tek Siong, Mr Tan Onn Poh and Dato' Zainol Abidin Bin Haji A Hamid retire by rotation at the forthcoming AGM 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:

	----- Number of ordinary shares of RM1 each -----			
	At 1-1-2006	Bought	Sold	At 31-12-2006
The Company				
Mr Tan Onn Poh				
- Deemed interest	32,053,194	-	(112,100)	31,941,094
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 1-1-2006	Granted	Exercised	At 31-12-2006
Tan Sri Dato' Kamaruzzaman Bin Shariff	250,000	-	-	250,000
Mr Tan Onn Poh	1,000,000	-	-	1,000,000
Mr Tan Hong Kien	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 24 and 30 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
FOR THE YEAR ENDED 31 DECEMBER 2006

(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 subsidiaries 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 subsidiaries which has arisen since the end of the financial year.

(d) No contingent or other liability of the Company or its subsidiaries 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 subsidiaries 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

26 April 2007

REPORT OF THE AUDITORS TO THE MEMBERS

FINANCIAL STATEMENTS - 31 DECEMBER 2006

We have audited the financial statements of the Company set out on pages 34 to 80. 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 MASB Approved Accounting Standards for Entities Other Than Private Entities 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 2006 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 by 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	GAN MORN GHUAT
No. AF: 0539	No. 1499/5/07 (J)
Chartered Accountants	Partner

26 April 2007

BALANCE SHEETS
31 DECEMBER 2006

	Note	Group 2006 RM	Group 2005 RM	Company 2006 RM	Company 2005 RM
NON-CURRENT ASSETS					
Property, plant and equipment	3	32,816,565	33,013,392	-	-
Intangible asset	4	1,770,316	2,743,926	-	-
Investments in subsidiaries	5	-	-	13,297,231	13,297,231
Other investments	6	17,450	4,144,545	-	-
Deferred tax asset	7	94,721	25,721	-	-
		34,699,052	39,927,584	13,297,231	13,297,231
CURRENT ASSETS					
Property development costs	8	59,487,498	57,709,401	-	-
Inventories	9	11,196,674	13,650,456	-	-
Trade and other receivables	10	38,183,937	44,879,851	17,778,226	17,771,000
Amount owing by subsidiaries	5	-	-	38,984,849	39,212,654
Current tax assets		413,630	196,846	86,349	50,196
Fixed deposits	11	-	1,353,496	-	-
Cash and bank balances	12	3,746,543	2,454,249	1,351,148	576,889
		113,028,282	120,244,299	58,200,572	57,610,739
TOTAL ASSETS		147,727,334	160,171,883	71,497,803	70,907,970
EQUITY					
Share capital	13	70,000,000	70,000,000	70,000,000	70,000,000
Reserves	14	767,847	859,675	-	-
Retained profit		6,366,470	5,705,847	4,830,100	3,734,547
Treasury shares	15	(3,583,282)	(3,091,399)	(3,583,282)	(3,091,399)
TOTAL SHAREHOLDERS' EQUITY		73,551,035	73,474,123	71,246,818	70,643,148
NON-CURRENT LIABILITIES					
Bank term loans	16	9,157,298	15,676,875	-	-
Deferred tax liabilities	17	6,405,355	7,720,335	-	-
Hire purchase liabilities	18	697,460	519,918	-	-
		16,260,113	23,917,128	-	-
CURRENT LIABILITIES					
Trade and other payables	19	36,343,292	34,661,139	250,985	264,822
Hire purchase liabilities	18	333,317	205,646	-	-
Bank borrowings	20	19,860,574	26,341,342	-	-
Current tax liabilities		1,379,003	1,572,505	-	-
		57,916,186	62,780,632	250,985	264,822
TOTAL LIABILITIES		74,176,299	86,697,760	250,985	264,822
TOTAL EQUITY AND LIABILITIES		147,727,334	160,171,883	71,497,803	70,907,970

Notes to and forming part of the financial statements are set out on pages 41 to 80
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INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	Group 2006 RM	Group 2005 RM	Company 2006 RM	Company 2005 RM
Gross revenue	21	86,326,527	85,823,336	2,500,000	1,250,000
Cost of sales	22	(75,850,078)	(72,399,425)	-	-
Gross profit		10,476,449	13,423,911	2,500,000	1,250,000
Other operating income		346,995	381,954	-	-
Selling and distribution costs		(3,938,078)	(4,244,582)	-	-
Administrative and general expenses		(3,940,005)	(3,532,965)	(290,502)	(359,302)
Finance costs	23	(1,802,654)	(1,821,285)	-	-
Gain on disposal of other investments		307,547	-	-	-
Allowance for diminution in value of other investments written back		7,905	141,110	-	-
Profit before tax	24	1,458,159	4,348,143	2,209,498	890,698
Tax expense	25	(412,419)	(1,324,977)	(637,000)	(325,760)
Net profit for the year		1,045,740	3,023,166	1,572,498	564,938
Earnings per share attributable to equity holders of the Company	26				
Basic (sen)		1.58	4.52		
Net dividend per ordinary share (sen)	27	0.72	0.72	0.72	0.72

Notes to and forming part of the financial statements are set out on pages 41 to 80
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006

Group	Share capital RM	Merger reserve RM	Asset valuation reserve RM	Retained 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
Realisation of reserve on amortisation of revalued properties	-	-	(91,829)	91,829	-	-
Net gain/(loss) recognised directly in equity	-	-	(91,829)	91,829	-	-
Net profit for the year	-	-	-	3,023,166	-	3,023,166
Total recognised income and expense for the year	-	-	(91,829)	3,114,995	-	3,023,166
Dividend paid (Note 27)	-	-	-	(483,336)	-	(483,336)
Shares 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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006

Group	Share capital RM	Merger reserve RM	Asset valuation reserve RM	Retained profit RM	Treasury shares RM	Total RM
At 1 January 2006	70,000,000	(4,618,481)	5,478,156	5,705,847	(3,091,399)	73,474,123
Realisation of reserve on amortisation of revalued properties	-	-	(91,828)	91,828	-	-
Net gain/(loss) recognised directly in equity	-	-	(91,828)	91,828	-	-
Net profit for the year	-	-	-	1,045,740	-	1,045,740
Total recognised income and expense for the year	-	-	(91,828)	1,137,568	-	1,045,740
Dividend paid (Note 27)	-	-	-	(476,945)	-	(476,945)
Shares purchased during the year held as treasury shares	-	-	-	-	(491,883)	(491,883)
At 31 December 2006	70,000,000	(4,618,481)	5,386,328	6,366,470	(3,583,282)	73,551,035

Notes to and forming part of the financial statements are set out on pages 41 to 80
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STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006

Company	Share capital RM	Retained profit RM	Treasury shares RM	Total RM
At 1 January 2005	70,000,000	3,652,945	(2,918,712)	70,734,233
Net profit for the year	-	564,938	-	564,938
Dividend paid (Note 27)	-	(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
Net profit for the year	-	1,572,498	-	1,572,498
Dividend paid (Note 27)	-	(476,945)	-	(476,945)
Shares purchased during the year held as treasury shares	-	-	(491,883)	(491,883)
At 31 December 2006	70,000,000	4,830,100	(3,583,282)	71,246,818

Notes to and forming part of the financial statements are set out on pages 41 to 80
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CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax	1,458,159	4,348,143	2,209,498	890,698
Adjustments for:				
Depreciation	2,008,814	3,256,239	-	-
(Gain)/loss on disposal of property, plant and equipment	(40,000)	7,455	-	-
Gain on disposal of other investments	(307,547)	-	-	-
Allowance for diminution in value of other investments written back	(7,905)	(141,110)	-	-
Impairment loss on goodwill	973,610	-	-	-
Allowance for doubtful debts	240,000	240,000	-	-
Allowance for doubtful debts written back	(182,877)	(229,090)	-	-
Dividend income	(6,000)	(75,600)	(2,500,000)	(1,250,000)
Interest income	(63,190)	(58,854)	-	-
Interest expenses	1,731,750	1,785,115	-	-
Hire purchase term charges	70,904	36,170	-	-
Operating profit/(loss) before working capital changes	5,875,718	9,168,468	(290,502)	(359,302)
Changes in property development costs	(550,842)	(19,613,797)	-	-
Changes in inventories	2,453,782	(3,310,110)	-	-
Changes in receivables	6,638,791	(6,187,604)	(7,226)	-
Changes in payables	1,869,731	20,800,449	(13,837)	24,276
Cash generated from/(utilised in) operations	16,287,180	857,406	(311,565)	(335,026)
Dividends received	-	-	1,800,000	900,000
Interest received	63,190	58,854	-	-
Interest paid	(369,000)	(941,338)	-	-
Tax refunded	51,847	-	26,847	-
Tax paid	(2,256,852)	(972,977)	-	-
Net cash from/(used in) operating activities	13,776,365	(998,055)	1,515,282	564,974
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(1,211,987)	(1,470,626)	-	-
Proceeds from disposal of property, plant and equipment	40,000	77,000	-	-
Proceeds from disposal of other investments	4,442,547	-	-	-
Repayment from subsidiaries	-	-	227,805	307,851
Dividends received	4,320	54,432	-	-
Net cash from/(used in) investing activities	3,274,880	(1,339,194)	227,805	307,851

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
CASH FLOWS FROM FINANCING ACTIVITIES				
Repurchase of shares	(491,883)	(172,687)	(491,883)	(172,687)
Dividend paid	(476,945)	(483,336)	(476,945)	(483,336)
Bank term loans raised	3,000,000	14,085,546	-	-
Repayment of bank term loans	(12,554,357)	(7,873,530)	-	-
Term loans interests paid	(2,590,005)	(2,221,858)	-	-
Payment of hire purchase instalments	(294,787)	(178,773)	-	-
Hire purchase term charges paid	(70,904)	(36,170)	-	-
Repayment to a subsidiary	-	-	-	(660,104)
Net cash (used in)/from financing activities	(13,478,881)	3,119,192	(968,828)	(1,316,127)
NET CHANGES IN CASH AND CASH EQUIVALENTS	3,572,364	781,943	774,259	(443,302)
CASH AND CASH EQUIVALENTS BROUGHT FORWARD	(6,532,972)	(7,314,915)	576,889	1,020,191
CASH AND CASH EQUIVALENTS CARRIED FORWARD	(2,960,608)	(6,532,972)	1,351,148	576,889
Represented by:				
FIXED DEPOSITS	-	1,353,496	-	-
CASH AND BANK BALANCES	3,746,543	2,454,249	1,351,148	576,889
BANK OVERDRAFTS	(6,707,151)	(10,340,717)	-	-
	(2,960,608)	(6,532,972)	1,351,148	576,889

During the financial year, the Group acquired property, plant and equipment amounting to RM1,811,987 (2005 : RM2,154,236) of which RM600,000 (2005 : RM683,610) was financed under hire purchase and the balance of RM1,211,987 (2005 : RM1,470,626) was paid by cash.

Notes to and forming part of the financial statements are set out on pages 41 to 80
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1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements comply with the provisions of the Companies Act, 1965 and applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board. At the beginning of the current financial year, the Group and the Company had adopted the following new and revised Financial Reporting Standards ("FRSs") which are mandatory and applicable to the Group and the Company for financial periods beginning on or after 1 January 2006:

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 132	Financial Instruments : Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets

In the opinion of the directors, the adoption of these FRSs other than as described below, does not result in significant changes in the accounting policies of the Group and the Company, or has significant impact on the financial statements of the Group and the Company except for the presentation of the balance sheets of the Group and the Company upon the adoption of FRS 101. The principal changes in accounting policies and their effects resulting from the adoption of the following FRSs are discussed below:

(i) FRS 2 : Share-based Payment

Prior to 1 January 2006, no compensation expense was recognised in the income statement for share options granted. Upon the adoption of FRS 2, the fair value of share options granted to employees is recognised as an employee expense with a corresponding increase in share option reserve within equity over the vesting period. The total amount to be recognised as compensation expense, if any, is determined by reference to the fair value of the share options at date of the grant and the number of share options to be vested by vesting date. At balance sheet date, the Group's revised estimate is included in the income statement and a corresponding adjustment to equity over the remaining vesting period.

The Group has applied the transitional provisions of FRS 2, which allow the change in accounting policy to be applied to share options that were granted after 31 December 2004 and had not yet vested on 1 January 2006. Based on the fair value of the Company's share options granted, the change in accounting policy had no impact on the financial statements of the Company for the year ended 31 December 2006 and for prior periods. Accordingly, the comparatives are not restated.

(ii) FRS 3, Business Combinations, FRS 136, Impairment of Assets and FRS 138, Intangible Assets

FRS 3 has resulted in consequential amendments to two other accounting standards, FRS 136 and FRS 138. In accordance with the transitional provisions, FRS 3 has been applied for business combinations for which the agreement date is on or after 1 January 2006.

Prior to 1 January 2006, goodwill was capitalised in the financial statements where it was considered to be capable of generating future economic benefits and was not amortised. Negative goodwill, if any, was retained in the consolidated balance sheet and credited to the income statement over a suitable period in relation to the particular circumstances which gave rise to it. At each balance sheet date, the Group assessed if there was any indication of impairment of the cash-generating unit in which the goodwill is attached.

In accordance with the transitional provisions of FRS 3, the Group has applied the revised accounting policy for goodwill prospectively from 1 January 2006. The new accounting policy on the recognition and measurement of goodwill is disclosed in Note 1(e).

The Group has not opted for early adoption of the following new and revised FRSs which are applicable to the Group:

(i) FRS 117, Leases and FRS 124, Related Party Disclosures, which are effective for financial periods beginning on or after 1 October 2006; and

(ii) FRS 139, Financial Instruments : Recognition and Measurement, which has been deferred to an effective date yet to be announced.

The measurement bases applied in the presentation of the financial statements of the Group and the Company include 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.

The financial statements of the Group and the Company are presented in Ringgit Malaysia (“RM”) which is also the functional currency of the Group and the Company.

(b) Use of estimates and judgements

The preparation of financial statements in conformity with FRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 3 : Depreciation of plant and machinery
- Note 4 : Measurement of the recoverable amount of cash-generating units containing goodwill
- Note 10 : Measurement of the recoverable amount of other receivables
- Note 13 and 28 : Measurement of share-based payment

(c) Subsidiaries

Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

In the Company's balance sheet, investments in subsidiaries are stated at cost less accumulated impairment losses, unless the investment is classified as held for sale or included in a disposal group that is classified as held for sale. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in income statement.

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and all its subsidiaries made up to the end of the financial year. Uniform accounting policies are adopted for like transactions and events in similar circumstances. The financial statements of the subsidiaries are prepared for the same reporting date as the Company.

All subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All intra-group balances, transactions, income and expenses are eliminated in full on consolidation and the consolidated financial statements reflect external transactions only. Unrealised profits and losses resulting from intra-group transactions that are recognised in assets are also eliminated in full. The temporary differences arising from the elimination of unrealised profits and losses are recognised in accordance with Note 1(s).

Acquisitions of subsidiaries are accounted for using the purchase 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 Standards ("MAS") No. 2 - Accounting for Acquisitions and Mergers. The Group has applied the transitional provisions of FRS 3 : Business Combinations prospectively, for which the agreement date is on or after 1 January 2006. Accordingly, the effects of the merger method of accounting under MAS No. 2 have been retained.

The purchase method of accounting involves allocating the cost of a business combination to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed and equity instruments issued, plus any costs directly attributable to the acquisition. The excess of the cost of a business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. Any excess of Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities recognised, over the Group's cost of a business combination is recognised immediately in the consolidated income statement after reassessment.

Under the merger method of accounting, the results of the subsidiaries 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 subsidiaries acquired is reflected as merger reserve within equity.

Minority interests, if any, represent the portion of profit or loss and net assets of subsidiaries, attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the Company. Minority interests are presented separately in the consolidated balance sheet within equity while minority interests in the profit or loss of the Group are separately disclosed in the consolidated income statement.

(e) Intangible asset

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but instead, it is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(f) Property, plant and equipment

(i) Measurement basis

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

Subsequent to initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses, except for the long term leasehold land and building which are stated at valuation carried out in 1998 less accumulated depreciation and accumulated impairment losses.

The Company has applied the transitional provision of FRS 116 : 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 their previous revaluation as surrogate cost. Accordingly, this valuation has not been update.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use of disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the income statement.

(ii) Depreciation

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

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

Buildings and improvements	2%
Plant and machinery	3.33% - 15%
Motor vehicles	10% - 20%
Furniture, fittings and equipment	10% - 30%
Electrical installation and renovation	10%

The residual values, useful lives and depreciation method are revalued at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

(iii) Changes in estimates

The expected economic useful lives of certain items of plant and machinery and the residual values of motor vehicles of the Group were revised during the year and these changes are disclosed in Note 3.

(g) Leases

(i) Finance Leases - assets acquired under hire purchase agreements

Assets financed by hire purchase arrangements which transfer substantially all the risk 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 values and the present values of the minimum hire purchase payments at the inception of the hire purchase agreements. 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.

(ii) Operating leases

Operating leases are those leases other than finance leases. Lease payments under operating leases are charged to the income statement on a straight line basis over the period of the lease.

(h) Other investments

Other investments which represent quoted equity shares, are stated at cost less any diminution in value of the investments. An allowance for diminution in value is made if the directors are of the opinion that there is a decline in the value of such investments which is other than temporary. The diminution in value is charged to the income statement. On disposal of an investment, the difference between net disposal proceeds and its carrying amount is recognised in the income statement.

(i) Property development costs

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

Property development revenue and expenses are recognised in the income statement using the percentage of completion method, which is applied in circumstances where the outcome of the development activities can be reliably estimated. The stage of completion is estimated by the proportion of costs incurred to-date bear to estimated total cost, 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.

Any expected loss on a 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.

The excess of revenue recognised in the income statement over billings to purchasers is classified as accrued billings within trade receivables and the excess of billings to purchasers over revenue recognised in the income statement is classified as progress billings within trade payables.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is determined on the first in first out basis. Cost comprises the landed costs of goods purchased and in the case of work-in-progress and finish goods, comprises materials, direct labour, other direct charges and an appropriate proportions of production overheads.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(k) Receivables

Receivables are stated at anticipated realisable values. Known bad debts are written off and an estimate is made for doubtful debts based on a review of all outstanding amounts at the balance sheet date.

(l) Impairment of assets

The carrying amounts of assets other than financial assets, other investments, deferred tax asset and inventories 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. For goodwill that has an indefinite useful life, the recoverable amount is estimated at each balance sheet date or more frequently when indicators of impairment are identified.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are charged to the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in unit or groups of units on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the higher of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments to the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill, is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each balance sheet date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

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.

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) Payables

Payables are stated at cost and are recognised when there is a contractual obligation to deliver cash or another financial asset to settle the obligation.

(o) Foreign currencies

Transactions in currencies other than the Group's functional currency, which is the currency of the primary economic environment in which the Company operates, are recorded in the functional currency using the exchange rates prevailing at the date of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in the income statement for the year.

Exchange differences arising on the translation of non-monetary items carried at fair value are recognised in income statement for the year except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

(p) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and the Company and when the revenue can be measured realiably, on the following bases:

(i) Sale of goods

Revenue from sale of goods is measured at the fair value of the consideration received or receivable, net of returns and discounts and is recognised in the income statement when significant risks and rewards of the ownership have been transferred to the customers.

(ii) Sale of development properties

Revenue from 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 financial year.

(iii) Dividend income

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

(iv) Interest income

Interest income is recognised on a time proportion basis using the effective interest rate method.

(q) 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, housing, 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) Share-based compensation

The Paragon Union Berhad Employees' Share Option Scheme ("ESOS"), an equity-settled share-based compensation plan, allows full time employees (including full time executive directors) as well as independent non-executive directors of the Company and its subsidiaries to acquire ordinary shares of the Company. The total fair value of share options granted to employees, if any, is recognised as an employee cost with a corresponding increase in the share option reserve within equity over the vesting period and taking into account the probability that the options will vest. The fair value of share options is measured at grant date, taking into account the market vesting conditions upon which the options were granted but excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable on vesting date.

At each balance sheet date, the Company revises its estimates of the number of options that are expected to become exercisable on vesting date. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. The equity amount is recognised in the share option reserve until the option is exercised, upon which it will be transferred to share premium, or until the option expires, upon which it will be transferred directly to unappropriated profit.

The proceeds received net of any directly attributable transaction costs are credited to equity when the options are exercised.

(iv) 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.

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

The interest component of hire purchase payments is 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.

(s) Tax expense

The tax expense in the income statement comprises current tax and deferred tax. Current tax is an estimate of tax payable in respect of taxable profit for the year based on tax rate enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred tax 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 is not recognised if the temporary difference arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit.

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, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Current and deferred tax is recognised as an income or an expense in the income statement or is credited or charged directly to equity if the tax relates to items that are credited or charged, whether in the same or different period, directly to equity.

(t) 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.

(u) Financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

(i) Financial instruments recognised in the balance sheets

The recognised financial instruments of the Group comprise other investments, cash and cash equivalents, receivables, payables, bank borrowings and hire purchase liabilities 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 subsidiaries 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.

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

The Group has been financing its operations mainly from bank borrowings as well as internally generated funds. The Group does not find it necessary to enter into derivative transactions based on its current level of transactions.

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 financial 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.

The entire financial assets of the Group are exposed to credit risk except for cash and bank balances 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.

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.

(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's exposure to interest rate risk in respect of its bank borrowings and hire purchase liabilities.

Interest rate risk arising from bank borrowings is subject to floating interest rate with the interest rates spread above the banks' base lending rates agreed before the facilities are accepted.

The Group does not considers interest rate risk arising from hire purchase financing, which carries fixed interest rates, as having significant impact on the financial statements of the Group as the amounts financed are not significant.

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

(iii) 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 prices.

The Group's exposure to market risk arises from changes in market price of its quoted investments. The investments are monitored regularly and subject to periodic review. The investments are assessed for any diminution in the carrying values and allowances are made for such diminution in value which is other than temporary.

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

(iv) Foreign currency exchange risk

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

(v) Liquidity and cash flow risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through the adequate amount of committed credit facilities. The Group's exposure to liquidity and cash flow risk is monitored on an ongoing basis. Due to the nature of the business, the Group aims at maintaining flexibility in funding by keeping committed credit lines available to meet its liquidity requirement while ensuring an effective working capital requirement within the Group.

3. PROPERTY, PLANT AND EQUIPMENT

Group 2006	Long term leasehold land, buildings and building improvements RM	Plant and machinery RM	Motor vehicles RM	Furniture, fittings and equipment RM	Electrical installation and renovation RM	Total RM
Cost/Valuation						
At 1 January						
Cost	47,756	25,384,127	2,645,252	5,256,866	3,546,316	36,880,317
Valuation	22,210,000	-	-	-	-	22,210,000
	22,257,756	25,384,127	2,645,252	5,256,866	3,546,316	59,090,317
Additions	-	989,586	697,465	124,936	-	1,811,987
Disposals	-	(80,000)	(100,884)	-	-	(180,884)
At 31 December						
Cost	47,756	26,293,713	3,241,833	5,381,802	3,546,316	38,511,420
Valuation	22,210,000	-	-	-	-	22,210,000
	22,257,756	26,293,713	3,241,833	5,381,802	3,546,316	60,721,420
Accumulated depreciation						
At 1 January	2,852,524	14,784,082	2,180,385	4,197,608	2,062,326	26,076,925
Charge for the year	362,837	792,398	244,249	356,613	252,717	2,008,814
Disposals	-	(80,000)	(100,884)	-	-	(180,884)
At 31 December	3,215,361	15,496,480	2,323,750	4,554,221	2,315,043	27,904,855
Net book value at 31 December						
Cost	42,081	10,797,233	918,083	827,581	1,231,273	13,816,251
Valuation	19,000,314	-	-	-	-	19,000,314
	19,042,395	10,797,233	918,083	827,581	1,231,273	32,816,565

Group 2005	Long term leasehold land, buildings and building improvements RM	Plant and machinery RM	Motor vehicles RM	Furniture, fittings and equipment RM	Electrical installation and renovation RM	Total RM
Cost/Valuation						
At 1 January						
Cost	47,756	23,901,646	2,674,862	4,832,603	3,464,324	34,921,191
Valuation	22,210,000	-	-	-	-	22,210,000
	22,257,756	23,901,646	2,674,862	4,832,603	3,464,324	57,131,191
Additions	-	1,605,981	42,000	424,263	81,992	2,154,236
Disposals	-	(123,500)	(71,610)	-	-	(195,110)
At 31 December						
Cost	47,756	25,384,127	2,645,252	5,256,866	3,546,316	36,880,317
Valuation	22,210,000	-	-	-	-	22,210,000
	22,257,756	25,384,127	2,645,252	5,256,866	3,546,316	59,090,317
Accumulated depreciation						
At 1 January	2,489,685	13,214,355	1,707,461	3,718,435	1,801,405	22,931,341
Charge for the year	362,839	1,672,027	481,279	479,173	260,921	3,256,239
Disposals	-	(102,300)	(8,355)	-	-	(110,655)
At 31 December	2,852,524	14,784,082	2,180,385	4,197,608	2,062,326	26,076,925
Net book value at 31 December						
Cost	43,036	10,600,045	464,867	1,059,258	1,483,990	13,651,196
Valuation	19,362,196	-	-	-	-	19,362,196
	19,405,232	10,600,045	464,867	1,059,258	1,483,990	33,013,392

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 land and buildings of the Group that would have been included in the financial statements had these properties been carried at cost less accumulated depreciation is RM11,546,001 (2005 : RM11,774,622).

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

	Group	
	2006	**2005**
	RM	**RM**
Long term leasehold land and buildings	12,162,357	12,387,771
Plant and machinery	5,069,509	5,097,519
Motor vehicles	30,664	54,524
	17,262,530	17,539,814

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:

	2006	**2005**
	RM	**RM**
Plant and machinery	952,544	993,481
Motor vehicles	714,606	91,902
	1,667,150	1,085,383

During the financial year, the Group revised the estimated economic useful lives of certain items of plant and machinery from between 7 years and 20 years to 30 years. In addition, the Group has also revised the residual values of its motor vehicles. The revisions for both the plant and machinery and motor vehicles were accounted for prospectively as a change in accounting estimates and as a result, the depreciation charges for plant and machinery and motor vehicles for the current financial year have been reduced accordingly. The effect on future periods for the Group in respect of plant and machinery will be reduced accordingly. The effect on future periods on motor vehicles is not disclosed as it is impracticable to estimate the revised residual values of motor vehicles for future periods.

The cost of plant and machinery for the manufacture of car carpets, commercial carpets and automotive components is depreciated on a straight line basis over the assets useful lives. The management estimates the useful lives of these plant and machinery to be within 10 to 30 years. These are common life expectancies applied in the carpet industry. Any changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore, future depreciation charges could be revised. However, the management does not expect such changes to have significant impact on the financial statements of the Group.

4. INTANGIBLE ASSET

Goodwill

	Group	
	2006	2005
	RM	RM
Cost		
At 1 January	2,743,926	2,743,926
Addition/Disposal	-	-
At 31 December	2,743,926	2,743,926
Accumulated impairment losses		
At 1 January	-	-
Impairment loss recognised during the year	973,610	-
At 31 December	973,610	-
Net carrying amount at 31 December	1,770,316	2,743,926

(a) Impairment test for cash-generating unit ("CGU") containing goodwill

For the purpose of impairment testing, the above goodwill has been allocated to the Group's development project at which the goodwill is monitored.

(b) Key assumptions used in value-in-use calculations

The recoverable amount of a CGU is determined based on value-in-use calculations using cash flow projections based on financial budgets approved by the directors covering a five-year period. The key assumptions used for value-in-use calculations are as follows:

Gross margin	23.52%
Growth rate	N/A
Pre-tax discount rate	8.33%

The key assumptions on which the directors have based its cash flow projections to undertake impairment testing are as follows:

(i) Gross margin - Budgeted value based on the average margins achieved in the year immediately before the budgeted year, increased for expected efficiency improvements and market development.

(ii) Growth rate - Not applicable as the cash flow projections made is for a period of 5 years, in accordance with the expected lifecycle of the CGU.

(iii) Pre-tax discount rate - Rate that reflect specific risks relating to the relevant CGU.

c) Impairment loss recognised during the financial year

During the financial year, the Group has recognised an impairment loss of RM973,610 (2005 : Nil) in respect of the goodwill as this goodwill is directly related to the development project undertaken by a subsidiary and the expected completion of the project is within the next 5 years. The recoverable amount was based on value-in-use and was determined at the CGU, which is the Group's development project. In determining value-in-use for the CGU, the cash flows were discounted at a rate of 8.33% on a pre-tax basis. The impairment loss is included in the administrative and general expenses of the Group and is also disclosed in Note 24.

5. INVESTMENTS IN SUBSIDIARIES

	Company	
	2006	**2005**
	RM	**RM**
Unquoted shares, at cost	14,511,655	14,511,655
Less:		
Accumulated impairment losses	1,214,424	1,214,424
	13,297,231	13,297,231

The amount owing by the subsidiaries comprise:

Advances	40,840,193	41,067,998
Less:		
Allowance for doubtful debts	1,855,344	1,855,344
	38,984,849	39,212,654

The amount owing by the subsidiaries is unsecured, interest free and has no fixed terms of repayment.

The subsidiaries, which are all incorporated in Malaysia, are as follows:

	Group's effective interest 2006	Group's effective interest 2005	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 ("PPI")	78%	78%	Inactive
Paragon Metal Components Sdn Bhd ("PMC")	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*

In the previous financial years, the Company had recognised impairment losses amounting to RM1,214,424 in respect of its entire investments in PPI and PMC as both the two subsidiaries had ceased operations and had deficits in their shareholders' equity. As these two subsidiaries had since remained inactive, the Company does not expect to derive any future economic benefits from their activities or from their disposal.

6. OTHER INVESTMENTS

	Group	
	2006	**2005**
	RM	**RM**
Shares quoted in Malaysia, at cost	59,206	5,130,500
Less:		
Allowance for diminution in value	41,756	985,955
	17,450	4,144,545
Market value of quoted shares	17,450	4,144,545

Included in other investments of the Group of the previous financial year was quoted shares with a net carrying amount of RM663,000 charged to a licensed bank for banking facilities granted to a subsidiary, Paragon Expression Sdn Bhd.

7. DEFERRED TAX ASSET

	Group	
	2006	**2005**
	RM	**RM**
At 1 January	25,721	-
Transfer from income statement	69,000	25,721
At 31 December	94,721	25,721

The deferred tax asset comprises:

Deductible temporary difference on allowance for doubtful debts	123,504	62,664
Taxable temporary differences between net book value and tax written down value of property, plant and equipment	(28,783)	(36,943)
	94,721	25,721

At 31 December 2006, the Group has not recognised deferred tax assets of certain subsidiaries arising from the following deductible temporary differences as it is not probable that future taxable profit will be available against which the assets can be utilised:

	Group	
	2006	2005
	RM	RM
Unused tax losses	252,634	252,634
Unabsorbed capital allowances	322,088	322,088
	574,722	574,722

8. PROPERTY DEVELOPMENT COSTS

	Group	
	2006	2005
	RM	RM
Long term leasehold land, at cost	11,704,159	11,704,159
Development costs		
At 1 January	67,304,293	25,013,364
Costs incurred during the year	31,335,006	42,290,929
At 31 December	98,639,299	67,304,293
	110,343,458	79,008,452
Less:		
Costs recognised as an expense in the income statement:		
Recognised in previous financial years	21,299,051	-
Recognised during the year	29,556,909	21,299,051
	50,855,960	21,299,051
	59,487,498	57,709,401

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

	Group	
	2006	2005
	RM	RM
Finance costs	1,227,255	1,378,081
Director's remuneration other than fees	745,372	357,280

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.

9. INVENTORIES

	Group	
	2006	2005
	RM	RM
Raw materials	4,213,057	5,806,914
Work-in-progress	1,690,460	2,151,320
Finished goods	5,293,157	5,692,222
	11,196,674	13,650,456

10. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Gross trade receivables	20,848,317	27,587,435	-	-
Less:				
Allowance for doubtful debts	1,070,520	1,090,328	-	-
Balance carried forward	19,777,797	26,497,107	-	-

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Balance brought forward	19,777,797	26,497,107	-	-
Other receivables	720,377	668,538	8,226	1,000
Less:				
Allowance for doubtful debts	263,984	263,984	-	-
	456,393	404,554	8,226	1,000
Rental, utility and other deposits	17,894,781	17,886,689	17,770,000	17,770,000
Prepayments	54,966	91,501	-	-
	38,183,937	44,879,851	17,778,226	17,771,000
The currency exposure profiles of trade receivables are as follows:				
Ringgit Malaysia	20,092,968	26,655,367		
US Dollar	755,349	932,068		
	20,848,317	27,587,435		

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

Included in deposits of the Group and the Company is an amount of RM17,770,000 (2005 : RM17,770,000) representing deposits and advances paid pursuant to separate conditional agreements entered into by the Company in 1997 for the acquisition of the entire equity interest comprising 9,985,735 ordinary shares of RM1.00 each in an unquoted company, namely, KINMA Holdings Sdn Bhd ("KINMA"). The original total purchase consideration for the acquisition was RM57,000,000, but this was reduced to RM48,735,000 pursuant to new conditional agreements entered into with the vendors in 1998. Under the new conditional agreements, the purchase consideration is to be satisfied by the issuance of 21,678,500 new ordinary shares of RM1.00 each by the Company to the vendors at an issue price of RM1.00 per share, with the balance of RM27,056,500 to be paid in cash.

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

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.

Significant judgement is required in determining the recoverability of the above amounts in the financial statements of the Company. In making the judgement, the directors have placed reliance on the advice of its solicitors since the recovery of these amounts are currently under legal proceeding. 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.

11. FIXED DEPOSITS

The fixed deposits of a subsidiary in the previous financial year was placed with a licensed bank and was pledged to the said bank for banking facilities granted to the said subsidiary. The fixed deposits had maturity periods of less than one year and earned effective interest rates of between 2.6% and 3.65% per annum.

12. CASH AND BANK BALANCES

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
The currency exposure profiles of cash and bank balances are as follows:				
Ringgit Malaysia	3,668,419	2,454,249	1,351,148	576,889
US Dollar	78,124	-	-	-
	3,746,543	2,454,249	1,351,148	576,889

Included in cash and bank balances of the Group is an amount of RM1,802,630 (2005 : RM873,830) which is maintained in a housing development account in accordance with Regulation 4 of the Housing Developers (Housing Development Account) Regulations 1991.

13. SHARE CAPITAL

	2006 RM	2005 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, 3,965,200 (2005 : 3,139,700) ordinary shares are held as treasury shares by the Company. At 31 December 2006, the number of ordinary shares in issue after deducting treasury shares held is 66,034,800 (2005 : 66,860,300) ordinary shares of RM1 each.

In 2005, the Company implemented a 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.

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 Bye-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.

(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		Weighted average exercise prices	
	2006	2005	2006 RM	2005 RM
Outstanding at 1 January	7,200,000	2,572,000	0.65	0.68
Expired/Lapsed	(690,000)	(2,572,000)	-	0.54
Granted	-	7,300,000	-	0.50
Non-acceptance	-	(100,000)	-	0.58
Exercised	-	-	-	-
Outstanding at 31 December	6,510,000	7,200,000	0.65	0.65

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

Exercised period	Exercise price RM	Weighted average exercise prices RM	Number of share options outstanding 2006	2005
01-09-2005 to 20-07-2010	1.00	0.50	5,510,000	6,200,000
22-09-2005 to 20-07-2010	1.00	0.58	1,000,000	1,000,000
At 31 December			6,510,000	7,200,000

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

The fair value of share options granted in the previous financial year were estimated by the directors of the Company using a binomial model, taking into account the terms and conditions upon which the options were granted. The fair value of share options measured at grant date and the assumptions are as follows:

Fair value of share options at the following grant dates (RM):	
1 September 2005	0.53
22 September 2005	0.59
Weighted average share price (RM)	0.45
Weighted average exercise price (RM)	1.00
Expected volatility (%)	7.83
Expected life (years)	5.00
Risk free rate (%)	3.87
Expected dividend yield (%)	2.22

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of the option grant were incorporated into the measurement of fair value.

14. RESERVES

	Group	
	2006 RM	2005 RM
Non-distributable:		
Asset valuation reserve	5,386,328	5,478,156
Merger reserve	(4,618,481)	(4,618,481)
	767,847	859,675

15. TREASURY SHARES

	Group/Company	
	2006 RM	2005 RM
At 1 January	3,091,399	2,918,712
Shares purchased during the year	491,883	172,687
At 31 December	3,583,282	3,091,399

During the financial year, the Company purchased a total of 825,500 ordinary shares of its issued share capital from the open market at a total cost of RM491,883. The average price paid for the shares purchased was RM0.60 per share. The repurchase transactions were financed by internally generated funds. The repurchased shares were being held as treasury shares and carried at cost in accordance with the requirements of section 67A of the Companies Act, 1965. Treasury shares had no rights to voting, dividends and participation in other distribution.

At 31 December 2006, the number of treasury shares held is 3,965,200 (2005 : 3,139,700) ordinary shares of which a total of 2,870,000 (2005 : 2,870,000) treasury shares are charged to a licensed bank for banking facilities granted to a subsidiary, Paragon Expression Sdn Bhd.

16. BANK TERM LOANS

	Group 2006 RM	Group 2005 RM
Bank term loans bearing effective interest rate of 8.75% (2005 : 8.25%) per annum, repayable by redemption proceeds from sale of development units	9,535,779	14,190,476
Bridging loan from a bank bearing effective interest rate of 8.75% (2005 : 8.25%) per annum, repayable by redemption proceeds from sale of development units	3,321,711	7,303,757
Bank term loan under Al-Tarkhis facility bearing an internal rate of return of 8.7% (2005 : 8.7%) per annum, repayable by 24 monthly instalments commencing November 2006	582,386	1,500,000
Bank term loan bearing effective interest rate of 8.2% (2005 : 8.2%) per annum, repayable by 60 monthly instalments commencing April 2005	4,500,000	4,500,000
	17,939,876	27,494,233
Less:		
Repayments due within 12 months (included in current liabilities, Note 20)	8,782,578	11,817,358
Repayments due after 12 months	9,157,298	15,676,875

	Group 2006 RM	Group 2005 RM
The bank term loans are repayable as follows:		
- not later than one year (included under current liabilities)	8,782,578	11,817,358
- later than one year but not later than five years	9,157,298	15,676,875
	17,939,876	27,494,233

The bank term loans of RM9,535,779 (2005 : RM14,190,476) are secured over a first legal charge over the long term leasehold land under development of a subsidiary referred to in Note 8. The bank term loans in the previous financial year was also secured by a pledged over the fixed deposits of the said subsidiary referred to in Note 11.

The bridging loan 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 a subsidiary.

The bank term loan under Al-Tarkhis facility is secured by a third party memorandum of the treasury shares of the Company referred to in Note 15. The said term loan in the previous financial year was also secured by deposits of quoted shares referred to in Note 6.

The bank term loan of RM4,500,000 is secured by a first legal charge over certain leasehold land and buildings of a subsidiary referred to in Note 3.

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

17. DEFERRED TAX LIABILITIES

	Group	
	2006	2005
	RM	RM
At 1 January	7,720,335	8,735,690
Transfer to income statement	(1,314,980)	(1,015,355)
At 31 December	6,405,355	7,720,335

The deferred tax liabilities comprise:

	2006 RM	2005 RM
Taxable temporary differences		
- relating to surplus arising from revaluation of leasehold properties	2,094,683	2,130,395
- relating to surplus arising from fair value adjustment to the development properties of subsidiary company acquired	2,810,287	3,702,012
- between net book value and tax written down value of property, plant and equipment	2,815,245	2,884,583
	7,720,215	8,716,990
Less:		
Deductible temporary differences		
- unused tax losses	381,043	282,924
- unabsorbed capital allowances	933,817	713,731
	6,405,355	7,720,335

18. HIRE PURCHASE LIABILITIES

	Group	
	2006 RM	2005 RM
Outstanding hire purchase instalments due:		
- not later than one year	383,424	247,524
- later than one year and not later than five years	742,916	560,091
	1,126,340	807,615
Less: Unexpired term charges	95,563	82,051
Outstanding principal amount due	1,030,777	725,564
Less:		
Outstanding principal amount due not later than one year (included current liabilities)	333,317	205,646
Outstanding principal amount due later than one year but not later than five years	697,460	519,918

The effective interest rates of the hire purchase liabilities are between 2.65% and 4.10% (2005 : 3.40% and 3.45%) per annum.

19. TRADE AND OTHER PAYABLES

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Trade payables	24,937,349	29,330,744	-	-
Progress billings	7,338,183	450,487	-	-
Other payables	1,579,534	1,815,132	74,585	83,322
Accruals	2,478,226	3,051,976	176,400	181,500
Deposits	10,000	12,800	-	-
	36,343,292	34,661,139	250,985	264,822

	Group	
	2006 RM	2005 RM
The currency exposure profiles of trade payables are as follows:		
Ringgit Malaysia	24,261,301	28,044,923
US Dollar	676,048	1,285,821
	24,937,349	29,330,744

Trade payables comprise 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.

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.

Other payables, accruals and deposits are from the normal business transactions of the Group.

20. BANK BORROWINGS

	Group	
	2006	**2005**
	RM	**RM**
Bills payable		
- secured	3,198,845	3,520,267
- unsecured	1,172,000	663,000
	4,370,845	4,183,267
Bank overdrafts		
- secured	3,777,314	4,641,055
- unsecured	2,929,837	5,699,662
	6,707,151	10,340,717
Current portion of bank term loans (Note 16)	8,782,578	11,817,358
	19,860,574	26,341,342

The secured bills payable and bank overdrafts of the Group totalling RM6,976,159 (2005 : RM8,161,322) are secured by fixed and floating charges over the leasehold properties and all other assets of a subsidiary. They are also guaranteed by the Company.

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

The bank borrowings of the Group bear effective interest rates of between 3.50% and 8.75% (2005 : 4.5% and 8.7%) per annum.

21. GROSS REVENUE

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Sales of carpets	54,105,650	60,373,668	-	-
Property development revenue from sale of development units	32,220,877	25,449,668	-	-
Dividend income	-	-	2,500,000	1,250,000
	86,326,527	85,823,336	2,500,000	1,250,000

22. COST OF SALES

	Group	
	2006 RM	2005 RM
Cost of goods sold	46,293,169	51,100,374
Property development costs relating to development units sold	29,556,909	21,299,051
	75,850,078	72,399,425

23. FINANCE COSTS

	Group	
	2006 RM	2005 RM
Finance costs incurred during the financial year comprise:		
Interest on bank term loans	2,590,005	2,221,858
Other bank interests	369,000	941,338
Hire purchase term charges	70,904	36,170
	3,029,909	3,199,366
Less:		
Finance costs capitalised under property development costs (Note 8)		
- Interest on bank term loans	1,227,255	1,378,081
	1,802,654	1,821,285

24. PROFIT BEFORE TAX

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Profit before tax is stated after charging:				
Allowance for doubtful debts	240,000	240,000	-	-
Auditors' remuneration				
- current year	62,000	62,000	9,000	9,000
- underestimated in prior year	-	1,200	-	1,200
Depreciation	2,008,814	3,256,239	-	-
Directors' remuneration				
- fees	168,000	168,000	168,000	168,000
- other emoluments	541,475	893,200	-	-
Fees paid to a firm in which a director of the Company is a partner	3,675	8,510	-	-
Impairment loss on goodwill	973,610	-	-	-
Loss on disposal of property, plant and equipment	-	7,455	-	-
and crediting:				
Allowance for doubtful debts written back	182,877	229,090	-	-
Gain on disposal of property, plant and equipment	40,000	-	-	-
Gain on disposal of other investments	307,547	-	-	-
Allowance for diminution in value of other investments written back	7,905	141,110	-	-
Gross dividend income from				
- subsidiaries	-	-	2,500,000	1,250,000
- investments quoted in Malaysia	6,000	75,600	-	-
Interest income from fixed deposits	63,190	58,854	-	-

The estimated monetary value of benefits-in-kind received by the directors otherwise than in cash from the Group and the Company amounted to RM81,125 and RM22,700 (2005 : RM53,125 and RM22,700) respectively.

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

	Group	
	2006	2005
	RM	RM
Directors' remuneration other than fees	1,286,847	1,250,480
Less:		
Director's remuneration other than fees capitalised under property development costs (Note 8)	745,372	357,280
	541,475	893,200

25. TAX EXPENSE

	Group		Company	
	2006	2005	2006	2005
	RM	RM	RM	RM
Current tax expense				
- current year	1,806,000	2,263,168	637,000	337,000
- (over)/underestimated in prior year	(9,601)	102,885	-	(11,240)
	1,796,399	2,366,053	637,000	325,760
Deferred income relating to origination and reversal of temporary differences				
during the year	(1,372,436)	(1,034,682)	-	-
Deferred tax expense overestimated in prior year	(11,544)	(6,394)	-	-
	(1,383,980)	(1,041,076)	-	-
	412,419	1,324,977	637,000	325,760

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

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Accounting profit	1,458,159	4,348,143	2,209,498	890,698
Tax at the average tax rate of 20.71% (2005 : 25.66%) for the Group and applicable tax rate of 28% (2005 : : 28%) for the Company	301,917	1,115,522	618,659	249,395
Add:				
Tax effect of expenses not deductible in determining taxable profit	603,469	434,029	18,341	87,605
	905,386	1,549,551	637,000	337,000
Less:				
Tax effect of income not taxable in determining taxable profit	89,644	38,745	-	-
Tax effect on reinvestment allowances utilised during the year	346,467	246,609	-	-
Crystalisation of deferred tax liabilities on amortisation on revalued properties	35,711	35,711	-	-
	433,564	1,228,486	637,000	337,000
Add/(Less):				
Current tax expense (over)/underestimated in prior year	(9,601)	102,885	-	(11,240)
Deferred tax expense overestimated in prior year	(11,544)	(6,394)	-	-
Tax expense for the year	412,419	1,324,977	637,000	325,760

Based on estimated tax credits and tax exempt income available and the prevailing tax rate applicable to dividends, the entire retained profit of the Company at year end is available for distribution by way of dividends without incurring additional tax liability. However, out of the total retained profit of the Company at year end, an amount of RM3,583,122 (2005 : RM3,091,399) is unutilised for the purchase of the treasury shares and is considered as non-distributable.

26. 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 RM1,045,740 (2005 : RM3,023,166) and on 66,034,800 (2005 : 66,860,300) number of ordinary shares in issue during the year after deducting treasury shares as follows:

	2006	2005
Number of ordinary shares in issue at beginning and end of the year	70,000,000	70,000,000
Less:		
Treasury shares	3,965,200	3,139,700
Number of ordinary shares after deducting treasury shares	66,034,800	66,860,300

(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.

27. DIVIDEND PAID

	Group	
	2006 RM	2005 RM
First and final dividend of 1% less 28% tax on 66,242,400 ordinary shares for the financial year ended 31 December 2005 (2005 : first and final dividend of 1% less 28% tax on 67,130,000 ordinary shares for the financial year ended 31 December 2004) recognised as distribution to equity holders during the year	476,945	483,333
Net dividend per ordinary share (sen)	0.72	0.72

At the forthcoming Annual General Meeting, a first and final dividend of 1% less 27% tax on 66,034,800 ordinary share, amounting to RM482,054 in respect of the financial year ended 31 December 2006 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.

28. EMPLOYEE BENEFITS EXPENSE

	Group	
	2006	**2005**
	RM	**RM**
Salaries, wages, allowances and bonuses		
- Executive directors	1,286,847	1,250,480
- Other employees	7,609,423	8,157,491
Defined contribution plan - EPF contributions	785,291	834,416
Social security costs - SOCSO contributions	88,870	87,162
Other benefits	336,704	504,760
	10,107,135	10,834,309

Based on estimation made by the directors of the Company using the binomial model as disclosed in Note 13, there are no adjustment for share-based compensation cost to be recognised under the above employee benefits expense during the year.

29. HOLDING COMPANY

The holding company is Asia Avenue Sdn Bhd, a company incorporated in Malaysia, which holds 48.35% (2005 : 47.94%) of the issued and paid-up share capital of the Company.

30. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

The Group also has related party relationship with a legal firm namely, T.S. Teoh & Partners of which a director of the Company, Mr Teoh Tek Siong is a partner of the firm.

	Group		Company	
	2006	**2005**	**2006**	**2005**
	RM	**RM**	**RM**	**RM**
Transaction with the firm during the year is as follows:				
Fees paid to:				
- T.S. Teoh & Partners	3,675	8,510	-	-

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

Significant non-trade balances with related parties at year end are as follows:

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Outstanding advances owing by				
- Paragon Car Carpets & Components Sdn Bhd	-	-	6,690,343	11,720,798
- Paragon Carpetmaker Sdn Bhd	-	-	14,389,179	15,909,179
- Paragon Carpet Distributor Sdn Bhd	-	-	32,510	170,000
- Paragon Expression Sdn Bhd	-	-	16,285,026	10,160,026
- Paragon Property Development Sdn Bhd	-	-	1,575,690	1,245,690

31. CONTINGENT LIABILITIES

	Group		Company	
	2006 RM	2005 RM	2006 RM	2005 RM
Unsecured corporate guarantees in respect of banking facilities granted to subsidiaries	-	-	80,777,000	81,177,700

32. 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

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

Year ended 31 December 2006	**Carpets RM**	**Properties RM**	**Group RM**
Revenue			
Sales	54,105,650	32,220,877	86,326,527
Less:			
Inter-segment sales	-	-	-
External sales	54,105,650	32,220,877	86,326,527
Results			
Segment operating profit	1,225,371	1,719,990	2,945,361
(Less)/Add:			
Finance costs			(1,802,654)
Gain on disposal of other investments			307,547
Allowance for diminution in value of other investments written back			7,905
Profit from ordinary activities before tax			1,458,159
Less:			
Tax expense			412,419
Net profit for the year			1,045,740
Other information			
Segment assets	79,320,316	68,407,018	147,727,334
Segment liabilities	26,561,732	47,614,567	74,176,299
Capital expenditure	1,811,987	-	1,811,987
Depreciation	2,001,607	7,207	2,008,814

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)
Allowance for diminution in 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

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

33. FINANCIAL INSTRUMENTS

(a) Credit risk

At balance sheet date, the Group did not have any significant exposure to any individual customer or counterparty or any major concentration of credit risk related to any financial assets except for the exposure of credit risk on deposits amounting to RM17,770,000 as disclosed in Note 10.

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

(b) Fair values

The Company provides financial guarantees to banks for credit facilities extended to certain subsidiaries referred to in Note 31. The fair value of such financial guarantees is not expected to be material as the probability of the subsidiaries defaulting on the credit lines is remote.

The carrying amounts of the financial assets and liabilities of the Group and of the Company at 31 December 2006 approximated their fair values.

34. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements of the Group and the Company were authorised for issue by directors on 26 April 2007.

STATEMENT BY DIRECTORS

In the opinion of the directors, the financial statements set out on pages 34 to 80 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 2006 and of their results and cash flows for the year then ended; and

(b) in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards for Entities Other Than Private Entities.

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

TAN ONN POH
Director

TAN HONG KIEN
Director

26 April 2007

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 80 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 26 day of April 2007	)	
	)	
	)	
	)	TAN HONG KIEN
Before me :	)	

Robert Lim Hock Kee (W 092)
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 Thirteenth Annual General Meeting of the Company to be held at Victorian I, Holiday Villa, No. 9 Jalan SS12/1, Subang Jaya, 47500 Petaling Jaya, Selangor Darul Ehsan on Tuesday, 26 June 2007 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 2006 together with the Directors' and Auditors' Reports thereon.		
2.	Approval of Directors' Fees for the year ended 31 December 2006.		
3.	Approval of the First and Final Dividend of 1% less tax at 27% for the year ended 31 December 2006.		
4.	Re-election of Mr. Tan Onn Poh as Director of the Company.		
5.	Re-election of Mr. Teoh Tek Siong as Director of the Company.		
6.	Re-election of Dato' Zainol Abidin Bin Haji A. Hamid as Director of the Company.		
7.	Re-appointment of Auditors.		
8.	Renewal of Shareholders' Approval for the Proposed Share Buy-Back.		
9.	Authority for the Directors to Allot and Issue Shares.		
10.	Amendments to Articles of Association.		

[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 , 2007

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 to the Company.
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(she) shall specify the proportion of his(her) 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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