

# 2009

ANNUAL  
REPORT



**PARAGON UNION BERHAD**  
*A Model of Excellence in Carpets*

(286457-V)

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# NOTICE OF 16TH ANNUAL GENERAL MEETING

PARAGON UNION BERHAD (286457-V)

NOTICE IS HEREBY GIVEN THAT the Sixteenth (16th) Annual General Meeting of the Company will be held at the Classics 2, Holiday Villa, No. 9 Jalan SS12/1, Subang Jaya, 47500 Petaling Jaya, Selangor Darul Ehsan on Monday, 28 June 2010 at 10.00 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 2009 together with the Directors' and Auditors' Reports thereon.      |              |
| 2. | To approve the payment of Directors' Fees for the year ended 31 December 2009.   | RESOLUTION 1 |
| 3. | To re-elect Mr. Toh Hong Wooi who is retiring as Director of the Company in accordance with Article 75 of the Company's Articles of Association. | RESOLUTION 2 |
| 4. | To re-appoint Messrs. Anuarul Azizan Chew & Co., the retiring Auditors and to authorise the Board of Directors to fix their remuneration.        | RESOLUTION 3 |

### SPECIAL BUSINESS

- |     |   |              |
|-----|---|--------------|
| 5.  | To consider and, if thought fit, to pass with or without modifications, the following Resolution:-  |              |
| 5.1 | <b>Ordinary Resolution</b>  | RESOLUTION 4 |
|     | <ul style="list-style-type: none"><li><b>Authority For Directors To Allot And Issue Shares</b></li></ul>  |              |
|     | <p>"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."</p> |              |

# NOTICE OF 16TH ANNUAL GENERAL MEETING

PARAGON UNION BERHAD (286457-V)

## 5.2 Special Resolution

## RESOLUTION 5

- **Proposed Amendment to the Articles of Association**

“THAT the existing Article 129 in the Articles of Association of the Company be deleted in its entirety and the following be substituted in lieu thereof:

Any dividend or other money payable in cash on or in respect of a share may be paid by cheque or warrant sent through post to the registered address of the member or person entitled thereto, or, if several persons are entitled in consequence of the death or bankruptcy of the holder, to any one of such persons or to such persons and such address as such persons may by writing direct or by directly crediting the dividend entitlement into the member's bank account as provided to the Central Depository from time to time. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent or such person as the holder may direct and payment of the cheque or the direct crediting to the member's bank account shall be a good discharge to the Company. Every such cheque or warrant shall be sent or directly credited to the member's bank account at the risk of the person entitled to the money represented thereto. Where the members have provided to the Central Depository the relevant contact details for purposes of electronic notifications, the Company shall notify them electronically once the Company has paid the cash dividends into the member's bank account.”

## ANY OTHER BUSINESS

To transact any other 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.

BY ORDER OF THE BOARD  
PARAGON UNION BERHAD

NG YIM KONG (LS 0009297)

Company Secretary

Petaling Jaya

Date: 4 June 2010

# NOTICE OF 16TH ANNUAL GENERAL MEETING

PARAGON UNION BERHAD (286457-V)

## 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) Authority For Directors To Allot And Issue Shares

The proposed Resolution 4 under item 5.1 of the Agenda, if passed, will empower the Directors of the Company, from the date of the above Annual General Meeting, with the authority to allot and issue shares in the Company up to an amount not exceeding in total 10% of the issued capital of the Company for such purposes as the Directors consider would be in the best interest of the Company. This authority, unless revoked or varied at a general meeting, will expire at the next Annual General Meeting.

The general mandate sought to grant authority to Directors to allot and issue of shares is a renewal of the mandate that was approved by the shareholders at the Fifteenth Annual General Meeting held on 29 June 2009. The renewal of the general mandate is to provide flexibility to the Company to issue new shares without the need to convene a separate general meeting to obtain shareholders' approval so as to avoid incurring additional cost and time. The purpose of this general mandate is for possible fund raising exercises including but not limited to further placement of shares for purpose of funding current and/or future investment projects, working capital and/or acquisitions.

Up to the date of this Notice, the Company did not issue any shares pursuant to the mandate granted to the Directors at the Fifteenth Annual General Meeting because there was no need for any fund raising activity for the purpose of investment, acquisition or working capital.

### b) Proposed Amendment To The Articles Of Association

The proposed Resolution 5 under item 5.2 of the Agenda is to amend Article 129 of the Company's Articles of Association in line with the amendments to the Listing Requirements of Bursa Malaysia Securities Berhad in relation to the implementation of eDividend.

# STATEMENT ACCOMPANYING NOTICE OF 16TH ANNUAL GENERAL MEETING

PARAGON UNION BERHAD (286457-V)

Details of Director who is standing for re-election in Agenda 3 (Mr. Toh Hong Wooi) of the Notice of the Sixteenth Annual General Meeting is laid out in page 6 of this Annual Report.



## CHIN NAM ONN

**Aged 66, Malaysian**  
**Independent Non-Executive Chairman**  
**Chairman of Audit Committee,**  
**Remuneration Committee, Nomination**  
**Committee and Employees' Share Option**  
**Scheme Committee**

Mr Chin Nam Onn was appointed to the Board of Paragon Union Berhad ("Paragon") on 28 April 2009 as the Independent Non-Executive Chairman. He is a member of the Institute of Chartered Accountants in Australia since 1969 and the Malaysian Institute of Accountants since 1971. He was the Company Secretary and Unit Trust Manager of South East Asia Development Corporation Berhad (a public listed company) during the five years from 1971 to 1975, the General Manager of Kuala Lumpur Stock Exchange during the five years from 1976 to 1980, an Executive Director of Malaysian Resources Corporation Berhad (a public listed company) during the ten years from 1981 to 1990, an Executive Director of Econstates Berhad (a public listed company) during the four years from 1991 to 1994 and an Executive Director of Metro Kajang Holdings Berhad (a public listed company) during the eleven years from 1997 to 2007. He was appointed as an Independent Non-Executive Director of Major Team Holdings Berhad on 28 April 2009. 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 convictions for any offences within the past ten years.

## TOH HONG WOUI

**Aged 50, Malaysian**  
**Executive Director**  
**Member of Employees' Share Option**  
**Scheme Committee**

Mr Toh Hong Woui was appointed to the Board of Paragon on 6 April 2009 as the Independent Non-Executive Director and subsequently re-designated as Executive Director on 21 July 2009. He obtained his Masters in Business Administration from Institute of Finance and Management Studies, England. He also obtained his BA Urban Planning Studies from the University of Westminster London, England. He has more than twenty years of working experience in both international consulting and corporate sectors. He has been involved in strategy services, business planning and development, development planning, real estate, hospitality and tourism consulting. 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 convictions for any offences within the past ten years.

## GOH CHEE HENG

**Aged 43, Malaysian  
Independent Non-Executive Director  
Member of Audit Committee and  
Nomination Committee**

Mr Goh Chee Heng was appointed to the Board of Paragon on 6 April 2009. He is a Member of Malaysian Institute of Accountants - CA (M), Fellow Member of the Association of Chartered Certified Accountants, England - FCCA, (UK). He obtained his Diploma in Commerce (Financial Accounting) from TAR College and Advance Diploma in Taxation from HELP Institute. He commenced his career in 1991 with E.S. Lim & Co. as an Audit Assistant. He has since gained experience in auditing a wide range of enterprise engaged in manufacturing, investment holding, property development, construction, education institution, plantation and trading. Beside assurance works, he is exposed to corporate restructuring exercises and special audits for proposed mergers and acquisitions. He has also gained working knowledge in taxation and secretarial matters. In 2001, he was admitted as an Assurance Partner of E.S. Lim & Co. and a Tax Director of ESL Tax Services Sdn Bhd until he left in January 2007. Presently, he is a partner of GT Associates, a public accounting firm. 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 convictions for any offences within the past ten years.



## BOARD OF DIRECTORS

Chin Nam Onn (*Independent Non-Executive Chairman*)

Toh Hong Wooi (*Executive Director*)

Goh Chee Heng (*Independent Non-Executive Director*)

Tan Hong Kien (*Executive Director*) Resigned on 19-05-2010

Dato' Zainol Abidin Bin Haji A. Hamid (*Independent Non-Executive Director*) Demised on 19-04-2010

## AUDIT COMMITTEE

Chin Nam Onn

(*Chairman & Independent Non-Executive Chairman*)

Goh Chee Heng

(*Independent Non-Executive Director*)

Dato' Zainol Abidin Bin Haji A. Hamid

(*Independent Non-Executive Director*) Demised on 19-04-2010

## COMPANY SECRETARY

Ng Yim Kong (LS 0009297)

## REGISTERED OFFICE

Unit 07-02, Level 7

Menara Luxor

6B Persiaran Tropicana

47410 Petaling Jaya

Selangor Darul Ehsan

Tel: 603-7804 5929

Fax: 603-7805 2559

## PRINCIPAL BANKERS

Alliance Bank Malaysia Berhad

AmBank (M) Berhad

CIMB Bank Berhad

Malayan Banking Berhad

OCBC Bank (Malaysia) Berhad

Standard Chartered Bank Berhad

## REGISTRARS

Symphony Share Registrars Sdn Bhd (378993-D)

Level 6 Blok D13 Symphony House

Pusat Dagangan Dana 1

Jalan PJU 1A/46

47301 Petaling Jaya

Tel: 603-7841 8000

Fax: 603-7841 8150

## AUDITORS

Anuarul Azizan Chew & Co (AF 0791)

No 18 Jalan 1/64

Off Jalan Kolam Air

Jalan Ipoh

51200 Kuala Lumpur

Tel: 603-4048 2888

Fax: 603-4048 2999

## SOLICITORS

Shearn Delamore & Co

Kamarudin & Partners

T S Teoh & Partners

## STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia

Securities Berhad

## PRINCIPAL PLACE OF BUSINESS

Lot 14, Jalan Satu

Kawasan Perindustrian Cheras Jaya

Batu 11, Cheras

43200 Selangor Darul Ehsan

Tel: 603-9086 1100

Fax: 603-9086 1107

## DOMICILE

Malaysia

## LEGAL FORM AND PLACE OF INCORPORATION

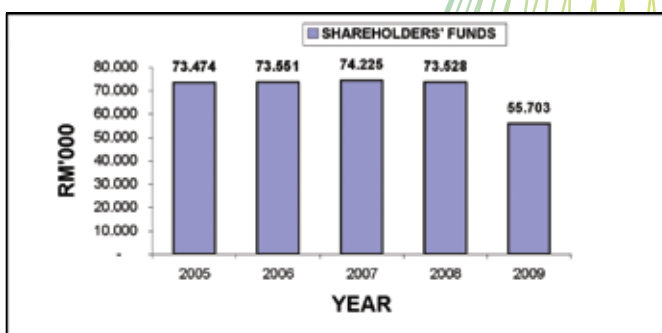
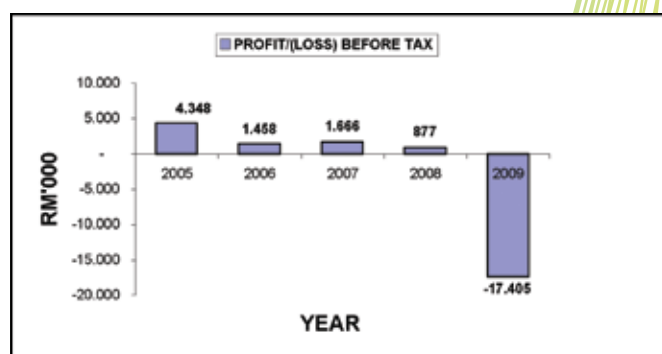
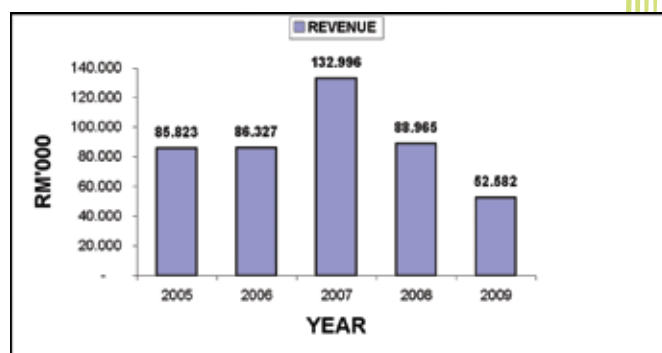
A public listed company incorporated in Malaysia under the Companies Act, 1965 and limited by shares.

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 2009.

## PERFORMANCE AND FINANCIAL REVIEWS

For the financial year 2009, the Group achieved a Turnover of RM52.6 million compared to RM88.9 million for the preceding year. The decrease in turnover was mainly attributed to Paragon Heights development which was at its project end. The Financial crisis couple with fluctuation of price of rubber and petroleum based raw materials has affected the Group's performance. The Group was able to achieve a total of RM52.6 million as compared to RM88.9 million for the preceding year.

The Group loss for the year 2009 stood at RM17.4 million compared to profit before tax of RM0.8 million in the preceding year. The Group recorded a profit from operations of RM0.7 million for the current financial year however due to the high finance costs of RM1.6 million thus resulting in loss before exceptional item and taxation of RM0.9 million whereas loss before taxation for the year was mainly due to general provision of doubtful debt of non-trade nature amounting to RM16.5 million.



## CARPETS DIVISION



Although the Group was able to expand our clientele for the car carpet components to Australia, Japan, Indonesia and South Korea, we are nevertheless affected by the global economic slowdown. This has resulted a 12% decrease in our automotive turnover.

Our new clientele include General Motors, Subaru and Suzuki in addition of our existing list of clientele such as Proton, Mercedes Benz, Honda, Nissan, Daihatsu and Isuzu.

The Commercial Carpet Division experienced a downturn of 17% in turnover during the year 2009. We are proud to be the appointed carpet supplier to the various hotels and institutions such as 1 Borneo, Kota Kinabalu, Everly Resort Malacca, Pavilion Hotel, Bukit Kiara Apartment, Concorde Hotel, Istana Sri Menanti, UKM, G Hotel, UiTM, Lanson Place, Malaysian Airport Berhad, Petronas Tower, UEM HQ, Dewan Undangan Negeri Johor, Maybank HQ and Genting Hotel.

The Group also exports commercial carpets to countries such as USA, India, China, Vietnam, Thailand, Australia, Brunei and Singapore.

## PROPERTY DEVELOPMENT DIVISION

Property Development Division have successfully completed the Paragon Height Bukit Jalil with 100% sales, the success prompted the division to identify new and potential projects for future development.







## PROSPECTS AND OUTLOOK

The tighter financing terms coupled with the increased of hire purchase rates may influence the local automotive market. MAA has forecasted an increase of 2.4% in vehicle sales for year 2010. The expected local and global economic upturn would hopefully increase our prospect of sales increase for the automotive sector.

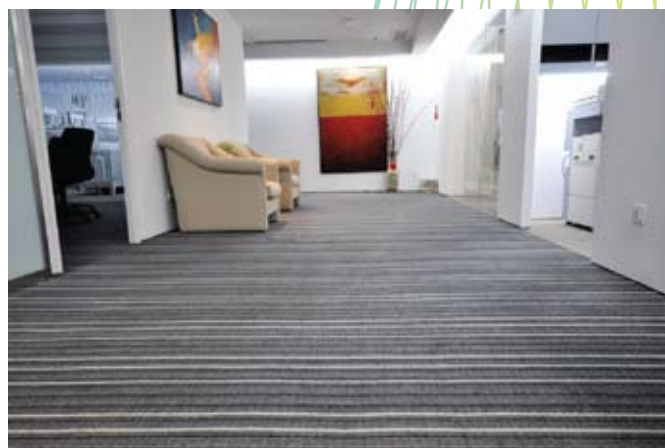
On our commercial carpet division, the higher forecast economic growth rate for the year 2010 will be seen as a sales potential for the Group. We shall increase our operational efficiency, effectiveness and cost management in order to capitalise on the potential prospects ahead. In addition, our recent acquired machineries would enable us to focus more on profitable areas of the carpet business.

Furthermore the Group will continue to build on the success and reputation of the Paragon Heights project and to broaden the earnings base for the Group through acquisition of viable land for development or joint venture deals.

## 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.

**CHIN NAM ONN**  
INDEPENDENT NON-EXECUTIVE CHAIRMAN



# STATEMENT ON CORPORATE GOVERNANCE

PARAGON UNION BERHAD (286457-V)

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 2009.

## 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 A1 of the Code.

### Composition and Balance

The Board currently has three members, comprising one Executive Director and two Non-Executive Directors. This composition complies with the Listing Requirements of Bursa Malaysia Securities Berhad that at least one third of the Board of Directors are Independent Directors. The composition as 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 acknowledges that a 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 and 7 of this report.

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

The roles of Chairman and Executive Director are separate and clearly defined. The Chairman is primarily responsible for the orderly conduct and working of the Board while the Executive 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 as to safeguard the interest of other parties such as minority shareholders. The Board will continue to review this composition annually.

## 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 22 to 25 of this Annual Report.

The Audit Committee reports to the Board on matters that it has considered together with its 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. Chin Nam Onn	<i>Independent Non-Executive Chairman (Chairman)</i>
Mr. Tan Hong Kien	<i>Executive Director (Resigned on 19-5-2010)</i>
Mr. Toh Hong Wooi	<i>Executive Director</i>
Ms. Tee Chien Chin	<i>(1 representative from the Management)</i>

## 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 Directors are adequately provided with status report and Board papers to assist them in making decisions in the best interest of the Group at all times. It has been the practice of the Group to require the Board's decision on matters relating to the acquisition and disposal of major capital expenditure, investment in capital projects and corporate exercises.

During the financial year ended 31 December 2009, six Board meetings were held. Attendance at the Board meetings held during the financial year is set out below:

EXECUTIVE DIRECTORS	TOTAL
Tan Hong Kien (resigned on 19-5-2010)	6/6
Toh Hong Wooi (redesignated on 21-7-2009)	2/2
Quah Ban Hoo (resigned on 24-3-2009)	2/2
NON-EXECUTIVE DIRECTORS	TOTAL
Chin Nam Onn (appointed on 28-4-2009)	4/4
Goh Chee Heng (appointed on 6-4-2009)	4/4
Toh Hong Wooi (appointed on 6-4-2009)	2/2
Dato' Zainol Abidin bin Haji A. Hamid (demised on 19-4-2010)	6/6
Soong Kit Kong Julian (resigned on 24-3-2009)	2/2
Benny Soh Seow Leng (resigned on 24-3-2009)	2/2
Rohaizal bin Idris (resigned on 25-3-2009)	2/2



# STATEMENT ON CORPORATE GOVERNANCE

PARAGON UNION BERHAD (286457-V)

In 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.

The Nomination Committee comprises the following members: -

## **Nomination Committee Members**

Mr. Chin Nam Onn	<i>Independent Non-Executive Chairman (Chairman)</i>
Mr. Goh Chee Heng	<i>Independent Non-Executive Director</i>
Dato' Zainol Abidin bin Haji A.Hamid (Demised on 19-4-2010)	<i>Independent Non-Executive Director</i>

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

## **Directors' Training**

During the financial year under review, the Board of Directors had attended the briefing on "Key Amendments to the Listing Requirements of Bursa Malaysia Securities Berhad for the Main Market" given by the Company Secretary. In addition to that, the following Directors had attended the undermentioned conferences, seminars and/or training programmes:-

1. Chin Nam Onn
  - Latest Amendments to Companies Act and its Impact on Auditors, Directors & Secretaries 28 September 2009
2. Goh Chee Heng
  - Companies Tax Computation - The Advanced Planning Aspects (YA 2008 and 2009) 14 May 2009
  - National Tax Conference 2009 4 & 5 August 2009
  - Transfer Pricing and Thin Capitalisation Regime - The Tax Planning Approach 9 September 2009
  - Business Perspective on Budget 2010 24 October 2009
  - The 2010 Budget Seminar 3 November 2009

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

## 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. Chin Nam Onn	<i>Independent Non-Executive Chairman (Chairman)</i>
Mr. Tan Hong Kien (Resigned on 19-5-2010)	<i>Executive Director</i>
Dato' Zainol Abidin Bin Haji A. Hamid (Demised on 19-4-2010)	<i>Independent Non-Executive Director</i>

# STATEMENT ON CORPORATE GOVERNANCE

PARAGON UNION BERHAD (286457-V)

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

	EXECUTIVE DIRECTORS RM	NON-EXECUTIVE DIRECTORS RM
Salaries	418,859	-
Bonuses	85,393	-
Fees	35,000	50,000
Benefits-In-Kind	31,333	-
Total	570,585	50,000

REMUNERATION RANGE	NUMBER OF DIRECTORS	
	EXECUTIVE	NON-EXECUTIVE
Less than RM50,000	-	3
RM50,001 to RM100,000	1	-
RM350,001 to RM400,000	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](http://www.bursamalaysia.com). Additional information of the Company is available on the website at [www.paragon.com.my](http://www.paragon.com.my).

The Company also encourages shareholders to attend its AGM as this is the principal forum for dialogue and interaction with shareholders. At each AGM, the Directors provide adequate time to attend to questions and comments of shareholders. The Board will provide a written answer to any question that cannot be answered readily at the meeting. In this regard, information is disseminated in strict adherence to the disclosure requirements of 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 two 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 22 to 25 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.

The Directors are satisfied that in preparing the financial statements of the Company and of the Group for the financial year ended 31 December 2009 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 page 19 to 20 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 incurred for the services rendered to the Group by the external auditors or their affiliated companies during the financial year amounted to RM13,000.

### **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 2009 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.

# STATEMENT ON CORPORATE GOVERNANCE

PARAGON UNION BERHAD (286457-V)

## 5. Depository Receipts (“DR”)

During the financial year, the Company did not sponsor any DR 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 RM11,210 for 27,100 ordinary shares with an average price of RM0.42 per share.

### SCHEDULE OF SHARE BUY-BACK FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009

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 2009	4,100	0.448	0.450	0.479	1,963.11
March 2009	3,000	0.428	0.428	0.469	1,408.40
April 2009	20,000	0.390	0.393	0.392	7,838.41
Total	27,100	0.428	0.450	0.414	11,209.92

## 9. Options or convertible securities

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

## 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 2009 pursuant to Paragraph 15.26 (b) of the Main Market 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, fraud 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 the risk assessment of the auditable areas. 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 Controls

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 Executive Directors are actively participating in day-to-day running of the Group’s operations. This enables material issues to be effectively resolved on a timely basis.
- Operational structure with defined lines of responsibilities and delegation of authority. A process of hierarchical reporting has been established which provides for a documented and auditable trail of accountability.



# STATEMENT ON INTERNAL CONTROL

PARAGON UNION BERHAD (286457-V)

- 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 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 the automotive industry.
- The Management monitors the Group's performance through key performance indicators and prepares monthly and quarterly management reports.
- The Audit Committee and the Board monitor and review the Group performance and financial results at their quarterly meetings.
- 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.

# CORPORATE SOCIAL RESPONSIBILITY STATEMENT

PARAGON UNION BERHAD (286457-V)

Corporate social responsibility is concerned with the integration of economic, environmental and social imperatives while considering the interests of shareholders and stakeholders.

At Paragon Union Berhad or 'PUB', we strived to achieve the best industrial practices to ensure that we integrate our business values with environmental and social responsibilities.

## EMPLOYEE WELFARE

We recognise employees are important assets to the Group. In line with our commitment to protect and safeguard the health and safety of our employees, we have achieved OHSAS 18001, a health and safety management system since 2002. To ensure a safe and zero accident workplace, we have provided trainings to our workers on safety procedures and upgraded our facilities to comply with the latest safety requirements. Among the trainings conducted for the year include:-

- Forklift Operators' & Safety Training
- First Aid Training
- Chemical Spillage Training
- Scheduled Waste Management Training
- Awareness Training

Our continued success relies on our employees. Therefore we provide trainings to employees to enhance their skills and competencies. It would not only enable employees to properly discharge their duties but also provide progression opportunities for employees. Trainings conducted such as strategic procurement, negotiation skill and cost reduction techniques, production cycle time reduction, production planning and control and some other in-house trainings.

Recognising the need to also 'unwind', not just on hard work, we encourage recreational activities and funded the establishment of a sport club whereby the employees can enjoy sports activities and social gatherings like the Company's Family Day.

## ENVIRONMENTAL

We take responsibility for the environment that we operate in. As such, we complied strictly to all existing environment laws and regulations. We are ISO 14001 certified, an environmental management system since 2002 and have established and maintained a system of environmental planning, taking into consideration the legal and other requirements, the environmental aspect-impact and health and safety hazard-risk analysis. Stringent management programs are in place to ensure these objectives are met which include minimising the generation of schedule waste, waste water-treatment plant and recycle of materials such as paper, metal and plastic.

## COMMUNITY WELFARE

At PUB, we support practical training for students whereby we welcome aspiring students who need to meet their practical training requirements. Besides that we also support community activities by making cash contributions to non-profitable organizations and community service projects such as Montfort Boys Town.

Corporate social responsibility to PUB is more than a statement. We strongly believe that the Group's activities should always take into consideration, its impact on society, our customers, suppliers, employees, shareholders, communities, environment and other stakeholders.

## 1. COMPOSITION

<u>Members of the Committee</u>	<u>Designation</u>
Mr. Chin Nam Onn	Independent Non-Executive Chairman (Chairman)
Mr. Goh Chee Heng	Independent Non-Executive Director
Dato' Zainol Abidin Bin Haji A. Hamid	Independent Non-Executive Director (Demised on 19 April 2010)

## 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 all must be Non-Executive Director, with a majority of them being 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;
- ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least three years' working experience and:-
  - (a) he must have passed the examinations specified in Part I of the 1<sup>st</sup> Schedule of the Accountants Act 1967; or
  - (b) he must be a member of one of the associations of accountants specified in Part II of the 1<sup>st</sup> Schedule of the Accountants Act 1967; or
  - (c) fulfills such other requirements as prescribed or approved by Bursa Malaysia Securities Berhad.

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 three, the Board of Directors shall, within three months of the events, appoint such number of new members as may be required to make up the minimum number of three members.

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

### 2.2 Authority

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

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

## 2.3 Functions

The functions of the Committee shall be:-

- a) to review:
    - (i) with the external auditors, the audit plan;
    - (ii) with the external auditors, his evaluation of the system of internal accounting controls;
    - (iii) with the external auditors, his audit report;
    - (iv) the assistance given by the employees of the Company to the external auditors;
    - (v) the adequacy of the scope, functions, competency 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 by 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 auditors is not suitable for re-appointment; and
  - b) to recommend the nomination of a person or persons as external auditors,
- together with such other functions as may be agreed to by the Audit Committee and the Board of Directors.

## 2.4 Meetings

Meetings shall be held not less than four times a year. The external auditors 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 auditors. 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 auditors 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 Bursa Malaysia Securities Berhad

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 2009 to which all the Committee Members attended. The record of attendance of each Committee Member is as follows:-

<u>Committee Member</u>	<u>Attendance</u>
Mr. Chin Nam Onn (appointed on 28-4-2009)	4/4
Mr. Goh Chee Heng (appointed on 28-4-2009)	4/4
Dato' Zainol Abidin Bin A. Hamid (demised on 19-4-2010, appointed on 28-4-2009)	4/4
Mr. Toh Hong Wooi (resigned on 21-7-2009, appointed on 28-4-2009)	2/2
Mr. Soong Kit Kong Julian (resigned on 24-3-2009)	1/1
Mr. Benny Soh Seow Leng (resigned on 24-3-2009)	1/1
Encik. Rohaizal bin Idris (resigned on 25-3-2009)	1/1

## 4. SUMMARY OF ACTIVITIES

During the year ended 31 December 2009, 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 with External Auditors the Audit Planning Memorandum.

- Reviewed pertinent issues of the Group which had a significant impact on the results of the Group.
- Reviewed the Internal Audit Report 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;
- 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 outsourced internal audit function has carried out various risk-based audit reviews of the key processes of Maintenance Department and Quantity Survey Department. These include preventive maintenance, machinery repair and service, quantitative and site measurement review, project variance report review as well as accuracy of tabulation of site measurement. The cost incurred for internal audit in financial year ended 31 December 2009 was RM10,000. 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.



## EQUITY INTEREST

NAME OF COMPANY	2009	2008	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<sup>st</sup> December 2009

Location	Age of Building	Tenure	Description	Land Area (sq. m.)	Build-Up Area (sq. m.)	Cost / Revaluation (RM)	Net Book Value as at 31.12.2009 (RM)	Last Date of Revaluation
Lot No. PT 7637 14, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	19 years	Leasehold (Expiry 14.05.2088)	Leasehold Land, Factory & Office	8,094	3,190 (factory) 3,929 (office)	8,090,000	6,467,771	12.03.1998
Lot No. PT 7667 21, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	18 years	Leasehold (Expiry 14.05.2088)	Leasehold Land, Factory & Office	6,833	4,177 (factory) 873 (office)	5,725,820	4,617,710	13.02.1998
Lot No. PT 7641 11A, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	14 years	Leasehold (Expiry 14.05.2088)	Leasehold Land, Factory & Office	12,128	7,919 (factory)	8,441,936	6,888,667	12.03.1998

# ANALYSIS OF SHAREHOLDINGS

PARAGON UNION BERHAD (286457-V)

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 2010

Size Of Holdings	No. Of Shareholders	No. Of Shares	Percentage (%)
1 - 99	21	423	0.00
100 - 1,000	761	726,142	1.12
1,001 - 10,000	1,643	7,427,801	11.48
10,001 - 100,000	390	10,942,300	16.91
100,001 - 3,234,914*	30	10,232,540	15.82
3,234,915 and above **	2	35,369,094	54.67
Total	2,847	64,698,300***	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 64,698,300 ordinary shares was arrived at after deducting 5,301,700 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 2010

Names	Direct No. of Shares	Percentage (%)	Indirect No. of Shares	Percentage (%)
Chin Nam Onn	-	-	-	-
Tan Hong Kien (Resigned on 19-5-2010)	-	-	-	-
Dato' Zainol Abidin Bin Haji A. Hamid (Demised on 19-4-2010)	-	-	-	-
Toh Hong Wooi	-	-	-	-
Goh Chee Heng	-	-	-	-

## OPTIONS ALLOCATED TO THE DIRECTORS PURSUANT TO THE EMPLOYEES' SHARE OPTION SCHEME AS AT 7 MAY 2010

Names	Granted	Percentage (%)	Exercise as at 7 May 2010	Percentage (%)
Tan Hong Kien (Resigned on 19-5-2010)	500,000	6.94	-	-
Dato' Zainol Abidin Bin Haji A. Hamid (Demised on 19-4-2010)	250,000	3.47	-	-

## SUBSTANTIAL SHAREHOLDERS AS PER THE REGISTER OF SUBSTANTIAL SHAREHOLDERS AS AT 7 MAY 2010

Substantial Shareholders	Direct No. Of Shares	(%)	Indirect No. Of Shares	(%)
Asia Avenue Sdn. Bhd.	31,941,094	49.37	-	-
Kong See Kuan	-	-	31,941,094*	49.37
Chaw Choi Kew @ Chow Choi Kew	-	-	31,941,094*	49.37
Tan Choon Hock	3,428,000	5.30	-	-

**Notes:** \* Deemed interest by virtue of her substantial shareholdings in Asia Avenue Sdn. Bhd.

# ANALYSIS OF SHAREHOLDINGS

PARAGON UNION BERHAD (286457-V)

## THIRTY (30) LARGEST SHAREHOLDERS AS AT 7 MAY 2010

No.	Names	No. Of Shares Of RM1.00 Each	Percentage (%)
1.	Asia Avenue Sdn. Bhd.	31,941,094	49.37
2.	Tan Choon Hock	3,428,000	5.30
3.	Tan Onn Poh	2,585,600	4.00
4.	Su Ming Keat	996,040	1.54
5.	Lee Poh Yee	843,800	1.30
6.	Optad Marketing Sdn. Bhd.	660,600	1.02
7.	Mayban Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Wong Pah Sang	565,800	0.87
8.	CIMSEC Nominees (Asing) Sdn. Bhd. Exempt An for CIMB-GK Securities Pte. Ltd.	466,500	0.72
9.	Lim Lai Chun @ Lim Lai Chan	358,400	0.55
10.	Gan Lam Seong	341,500	0.53
11.	Low Wan Chin	275,000	0.43
12.	Ang Seo Hoon	254,800	0.39
13.	Mayban Securities Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Lee Ah Kim	214,500	0.33
14.	Public Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Su Ming Keat	200,000	0.31
15.	Lim Chir Ching	200,000	0.31
16.	Liw Kwei Sunn	167,500	0.26
17.	Cheong Chun Ming	164,000	0.25
18.	Chin Tung Leong	154,800	0.24
19.	Phong Chiew Khim	147,800	0.23
20.	Yee Kwek Keong	140,000	0.22
21.	Yeow Teck Chai	138,000	0.21
22.	Chong Tong Siew	134,000	0.21
23.	Mayban Securities Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Tee Teck Khoon	133,200	0.21
24.	A.A. Anthony Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Goh Tien Tow	131,000	0.20
25.	Chantika Holdings Sdn. Bhd.	130,000	0.20
26.	Ho Wah Genting Kintron Sdn. Bhd.	130,000	0.20
27.	Lim Chin Huat	128,000	0.20
28.	See Kee Hoot	126,700	0.20
29.	Mustapha Bin Ab. Wahid	120,000	0.19
30.	Wong Yoke Choo	115,000	0.18
<b>Total</b>		<b>45,391,634</b>	<b>70.17</b>

The Directors hereby present their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2009.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is that of investment holding.

The principal activities of the subsidiary companies are disclosed in Note 5 to the financial statements.

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

## FINANCIAL RESULTS

	Group RM	Company RM
<i>Net loss for the financial year</i>		
- <i>Attributable to equity holders of the Parent</i>	17,328,126	16,481,928
	-----	-----

In the opinion of the Directors, the results of the operations of the Group and of the Company for the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature, except as disclosed in Note 23.

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 Group and of the Company for the current financial year.

## DIVIDEND

A first and final dividend of 1% less income tax at 25% on 64,698,300 ordinary shares of RM1.00 each, amounting to a total net dividend of RM485,239 in respect of the financial year ended 31 December 2008 was paid on 17 July 2009.

There was a reduction in dividend paid amounting to RM202 over the amount of RM485,441 as disclosed in the Directors' report of the previous financial year. The reduction was due to the share buy-back of 27,100 ordinary shares from the open market prior to the date of dividend payment.



## RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year under review other than those disclosed in the financial statements.

## ISSUE OF SHARES AND DEBENTURES

There were no issues of shares or debentures during the financial year under review.

## OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Company during the financial year under review.

## 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 five years at the shareholders' meeting. No resolution for renewal of share buy-back was tabled at the last Annual General Meeting ("AGM") of the Company held on 29 June 2009. Accordingly, the previous shareholders' approval for share buy-back has ceased to take effect.

During the duration of share buy-back, the Company had purchased the following ordinary shares of its issued and paid-up share capital from the open market:

In the financial 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
2007	579,200	0.47	274,751
2008	730,200	0.48	351,465
2009	27,100	0.42	11,210
	-----		-----
	5,301,700		4,220,708
	=====		=====

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 2009, the total number of treasury shares held by the Company is 5,301,700 ordinary shares.

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

In the financial year 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 Director

- Mr. Tan Hong Kien (resigned on 19-5-2010)

### Independent non-executive Director

- Dato' Zainol Abidin Bin Haji A. Hamid (deceased on 19-4-2010)

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 expire 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 preceeding the date of offer or the par value of the shares, whichever is higher.

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

No other options were granted to any person to take up the unissued shares of the Company during the financial year.

The movements in the options during the financial year to take up unissued new ordinary shares of RM1.00 each and the exercise price are as follows:

Date option granted	Exercise price RM	----- Number of options over ordinary shares -----			
		At 1.1.2009	Exercised	Forfeited	At 31.12.2009
1 September 2005	1.00	3,680,000	-	(500,000)	3,180,000
22 September 2005	1.00	250,000	-	-	250,000
		3,930,000	-	(500,000)	3,430,000

The salient features and other terms of the ESOS are disclosed in Note 29 to the financial statements.

The Company obtained exemption pursuant to Section 169(11) of the Companies Act, 1965 by the Companies Commission of Malaysia from having to disclose the names of option holders, other than Directors, who have been granted options to subscribe for less than 250,000 options each and details of their option holdings during the financial year.

The names of option holders who have been granted options to subscribe for 250,000 and more options during the financial year are as follows:

	Option Price RM	----- Number of options over ordinary shares -----			
		At 1.1.2009	Granted	Exercised	At 31.12.2009
Ngau Poo	1.00	250,000	-	-	250,000
Poh Tzu Seng	1.00	250,000	-	-	250,000

Details of the options granted to Directors are disclosed in the section on Directors' Interests in this report.

## DIRECTORS

The Directors who served since the date of the last report are as follows:

Tan Hong Kien (Resigned on 19-5-2010)  
 Toh Hong Wooi  
 Goh Chee Heng  
 Chin Nam Onn  
 Dato' Zainol Abidin Bin Haji A. Hamid (Deceased on 19-4-2010)

## DIRECTORS' INTERESTS

Details of holdings and deemed interests in the share capital and options over the shares of the Company or its related corporations by the Directors holding office at the end of the financial year, according to the register required to be kept under Section 134 of the Companies Act, 1965, were as follows:

	Number of options over ordinary shares of RM1.00 each ("ESOS")			At 31.12.2009
	At 1.1.2009	Granted	Exercised	
<b>Paragon Union Berhad</b>				
Tan Hong Kien (Resigned on 19-5-2010)	500,000	-	-	500,000
Dato' Zainol Abidin Bin Haji A. Hamid (Deceased on 19-4-2010)	250,000	-	-	250,000

None of the other Directors holding office at the end of the financial year had any interest in the ordinary shares of the Company or its related corporations during the financial year under review.

## 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 a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in 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 arrangement the object of which is to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate other than those arising from the share options granted under the Paragon Union Berhad ESOS.

## OTHER STATUTORY INFORMATION

- (a) Before the income statements and balance sheets of the Group and of the Company were made out, the Directors took reasonable steps:
  - (i) to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
  - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the Directors are not aware of any circumstances which would render:
  - (i) the amount written off for bad debts or the allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent;
  - (ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading;
  - (iii) any amount stated in the financial statements of the Group and of the Company misleading; and
  - (iv) adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (c) No contingent or other liabilities of the Group and of the Company have become enforceable, or are 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 Group or the Company or its subsidiary companies to meet their obligations as and when they fall due.
- (d) At the date of this report, there does not exist:
  - (i) any charge on the assets of the Group or the Company which has arisen since the end of the financial year which secures the liabilities of any other person; and
  - (ii) any contingent liability in respect of the Group or the Company or its subsidiary companies which has arisen since the end of the financial year.

## HOLDING COMPANY

The holding company is Asia Avenue Sdn Bhd, a company incorporated in Malaysia.

## AUDITORS

The auditors, Anuarul Azizan Chew & Co., have expressed their willingness to accept re-appointment.

Signed in accordance with a resolution of the Directors.

TAN HONG KIEN

TOH HONG WOOL

KUALA LUMPUR  
27 APRIL 2010

# STATEMENT BY DIRECTORS

Pursuant to Section 169(15) of the Companies Act, 1965

PARAGON UNION BERHAD (286457-V)

We, TAN HONG KIEN and TOH HONG WOOL, being two of the Directors of PARAGON UNION BERHAD, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 42 to 100 are drawn up in accordance with the applicable approved Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2009 and of their financial performance and cash flows for the financial year then ended.

Signed in accordance with a resolution of the Directors.

TAN HONG KIEN

TOH HONG WOOL

KUALA LUMPUR  
27 APRIL 2010

# STATUTORY DECLARATION

Pursuant to Section 169(16) of the Companies Act, 1965

PARAGON UNION BERHAD (286457-V)

I, TAN HONG KIEN, being the Director primarily responsible for the financial management of PARAGON UNION BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 42 to 100 are to the best of my knowledge and belief, 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 )  
by the above named TAN HONG KIEN )  
at Kuala Lumpur in the Federal Territory )  
this 27 APRIL 2010 )  
Before me: )

TAN HONG KIEN

ASMAH BT BUROH (W 456)  
Commissioner For Oaths



# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PARAGON UNION BERHAD

PARAGON UNION BERHAD (286457-V)

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Paragon Union Berhad, which comprise the balance sheets as at 31 December 2009 of the Group and of the Company, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 42 to 100.

### Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with the applicable approved Financial Reporting Standards and the Companies Act, 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgements, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements have been properly drawn up in accordance with the applicable approved Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2009 and of their financial performance and cash flows for the financial year then ended.

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PARAGON UNION BERHAD

PARAGON UNION BERHAD (286457-V)

## Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiary companies have been properly kept in accordance with the provisions of the Act.
- (b) We are satisfied that the accounts of the subsidiary companies 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 financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (c) The auditor's reports on the financial statements of the subsidiary companies were not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

## Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

**ANUARUL AZIZAN CHEW & CO**

Firm Number: AF 0791

Chartered Accountants

**CHEW KOK BIN**

Approved Number: 1294/06/10 (J)

Partner of Firm

Kuala Lumpur  
27 APRIL 2010

## BALANCE SHEETS AS AT 31 DECEMBER 2009

		Group		Company	
	Note	2009 RM	2008 RM	2009 RM	2008 RM
NON-CURRENT ASSETS					
Property, plant and equipment	3	29,396,107	24,141,764	-	-
Prepaid lease payments	4	8,738,425	8,858,708	-	-
Investment in subsidiary companies	5	-	-	13,297,231	13,297,231
Intangible asset	6	-	-	-	-
Deferred tax asset	7	141,345	-	-	-
		38,275,877	33,000,472	13,297,231	13,297,231
CURRENT ASSETS					
Land and property development costs	8	-	-	-	-
Inventories	9	17,280,475	15,927,526	-	-
Trade receivables	10	18,833,847	27,172,870	-	-
Other receivables	11	19,082,729	37,584,561	18,004,465	34,648,723
Tax recoverable		595,087	483,905	87,723	111,818
Amount owing by subsidiary companies	12	-	-	23,648,826	32,229,730
Cash held under housing development account	13	282,362	22,353	-	-
Cash and bank balances	14	1,039,825	1,063,735	92,557	702,757
		57,114,325	82,254,950	41,833,571	67,693,028

## BALANCE SHEETS AS AT 31 DECEMBER 2009 (CONT'D)

		Group		Company	
	Note	2009 RM	2008 RM	2009 RM	2008 RM
<b>CURRENT LIABILITIES</b>					
Trade payables	15	4,121,280	4,471,393	-	-
Other payables	16	4,529,485	5,370,355	1,397,803	1,536,883
Amount owing to subsidiary company	12	-	-	-	8,742,000
Hire purchase payables	17	1,103,143	342,750	-	-
Bank borrowings	18	18,430,491	21,018,882	-	-
Tax payables		405,931	1,515,978	-	-
		28,590,330	32,719,358	1,397,803	10,278,883
Net current assets		28,523,995	49,535,592	40,435,768	57,414,145
		66,799,872	82,536,064	53,732,999	70,711,376
<b>EQUITY</b>					
Share capital	19	70,000,000	70,000,000	70,000,000	70,000,000
Reserves	20	743,497	826,424	-	-
Treasury shares	21	(4,220,708)	(4,209,498)	(4,220,708)	(4,209,498)
(Accumulated loss)/Retained profits		(10,819,773)	6,910,665	(12,046,293)	4,920,874
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		55,703,016	73,527,591	53,732,999	70,711,376
<b>NON-CURRENT LIABILITIES</b>					
Hire purchase payables	17	3,099,789	645,375	-	-
Bank borrowings	18	4,670,279	5,307,343	-	-
Deferred tax liabilities	7	3,326,788	3,055,755	-	-
		11,096,856	9,008,473	-	-
		66,799,872	82,536,064	53,732,999	70,711,376

Notes to and forming part of the financial statements are set out on pages 50 to 100  
Auditor's Report - Pages 40 to 41

# INCOME STATEMENTS

PARAGON UNION BERHAD (286457-V)

## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009

	Note	Group		Company	
		2009	2008	2009	2008
		RM	RM	RM	RM
Revenue	22	52,582,436	88,964,877	800,000	800,000
Cost of sales		(43,691,215)	(77,771,452)	-	-
Gross profit		8,891,221	11,193,425	800,000	800,000
Other operating income		96,263	597,357	204	69,180
Selling and distribution costs		(4,261,214)	(4,495,732)	-	-
Exceptional item	23	(16,540,000)	-	(16,540,000)	-
Administrative and general expenses		(4,039,555)	(5,886,233)	(569,353)	(311,926)
Finance costs	24	(1,551,747)	(531,529)	-	-
(Loss)/Profit before taxation	25	(17,405,032)	877,288	(16,309,149)	557,254
Taxation	26	76,906	(742,317)	(172,779)	(193,555)
Net (loss)/profit for the financial year attributable to equity holders of the parent		(17,328,126)	134,971	(16,481,928)	363,699
(Loss)/Earnings per share attributable to equity holders of the parent (sen):					
Basic	27	(26.78)	0.21		
Net dividend per ordinary share (sen)	28	0.75	0.74	0.75	0.74

Notes to and forming part of the financial statements are set out on pages 50 to 100  
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# STATEMENTS OF CHANGES IN EQUITY

PARAGON UNION BERHAD (286457-V)

## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009

Attributable to Equity Holders of the Parent						
	Note	<- Non-Distributable ->			< --- Distributable --->	
		Share Capital RM	Merger Reserve RM	Asset Valuation Reserve RM	Treasury Shares RM	Retained Profits RM
<b>GROUP</b>						
At 1 January 2008		70,000,000	(4,618,481)	5,527,832	(3,858,033)	7,174,137
Realisation of reserve on amortisation of revalued properties		-	-	(82,927)	-	82,927
Shares purchased during the financial year held as treasury shares	21	-	-	-	(351,465)	-
Net profit for the financial year		-	-	-	-	134,971
Dividend	28	-	-	-	-	(481,370)
At 31 December 2008		70,000,000	(4,618,481)	5,444,905	(4,209,498)	6,910,665

# STATEMENTS OF CHANGES IN EQUITY

PARAGON UNION BERHAD (286457-V)

## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONT'D)

		Attributable to Equity Holders of the Parent					
		<- Non-Distributable ->			< --- Distributable --->		
	Note	Share Capital RM	Merger Reserve RM	Asset Valuation Reserve RM	Treasury Shares RM	Retained Profits RM	Total RM
GROUP							
At 1 January 2009		70,000,000	(4,618,481)	5,444,905	(4,209,498)	6,910,665	73,527,591
Realisation of reserve on amortisation of revalued properties		-	-	(82,927)	-	82,927	-
Shares purchased during the financial year held as treasury shares	21	-	-	-	(11,210)	-	(11,210)
Net loss for the financial year		-	-	-	-	(17,328,126)	(17,328,126)
Dividend	28	-	-	-	-	(485,239)	(485,239)
At 31 December 2009		70,000,000	(4,618,481)	5,361,978	(4,220,708)	(10,819,773)	55,703,016

Notes to and forming part of the financial statements are set out on pages 50 to 100  
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# STATEMENTS OF CHANGES IN EQUITY

PARAGON UNION BERHAD (286457-V)

## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009

< ----- Distributable ----- >					
		Share Capital RM	Treasury Shares RM	Retained Profits/ (Accumulated loss) RM	Total RM
COMPANY	Note				
At 1 January 2008		70,000,000	(3,858,033)	5,038,545	71,180,512
Shares purchased during the financial year held as treasury shares	21	-	(351,465)	-	(351,465)
Net profit for the financial year		-	-	363,699	363,699
Dividend	28	-	-	(481,370)	(481,370)
At 31 December 2008		70,000,000	(4,209,498)	4,920,874	70,711,376
At 1 January 2009		70,000,000	(4,209,498)	4,920,874	70,711,376
Shares purchased during the financial year held as treasury shares	21	-	(11,210)	-	(11,210)
Net loss for the financial year		-	-	(16,481,928)	(16,481,928)
Dividend	28	-	-	(485,239)	(485,239)
At 31 December 2009		70,000,000	(4,220,708)	(12,046,293)	(53,732,999)

Notes to and forming part of the financial statements are set out on pages 50 to 100  
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# CASH FLOW STATEMENTS

PARAGON UNION BERHAD (286457-V)

## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009

	Group		Company	
	2009	2008	2009	2008
	RM	RM	RM	RM
<b>Cash Flows From Operating Activities</b>				
(Loss)/Profit before taxation	(17,405,032)	877,288	(16,309,149)	557,254
Adjustments for:				
Allowance for doubtful debts	16,684,000	146,393	16,540,000	-
Allowance for doubtful debts written back	(37,839)	(76,399)	-	-
Amortisation of prepaid lease payments	120,283	120,283	-	-
Bad debts written off	299,544	240,000	-	-
Depreciation of property, plant and equipment	2,426,497	1,884,746	-	-
Dividend income	-	-	(800,000)	(800,000)
Gain on disposal of property, plant and equipment	(5,500)	(72,000)	-	-
Impairment loss on goodwill on consolidation	-	980,621	-	-
Interest income	(204)	(173,172)	(204)	(69,180)
Interest expense	1,551,747	531,529	-	-
Loss on disposal of property, plant and equipment	-	25,022	-	-
Operating profit/(loss) before working capital changes	3,633,496	4,484,311	(569,353)	(311,926)
Decrease /(Increase) in working capital				
Inventories	(1,352,949)	(3,941,711)	-	-
Land and property development costs	-	10,690,689	-	-
Trade and other receivables	9,895,150	(6,483,177)	104,258	(16,874,758)
Trade and other payables	(1,190,983)	(26,298,059)	(139,080)	1,224,256
Amount owing by/to subsidiary companies	-	-	(161,096)	15,631,249
	7,351,218	(26,032,258)	(195,918)	(19,253)
Cash generated from/ (used in) operations	10,984,714	(21,547,947)	(765,271)	(331,179)
Dividend received from subsidiary company	-	-	600,000	592,000
Interest received	204	173,172	204	69,180
Interest paid	(1,551,747)	(532,733)	-	-
Tax refunded	51,316	184,179	51,316	-
Tax paid	(1,065,951)	(2,627,768)	-	-
	(2,566,178)	(2,803,150)	651,520	661,180
Net cash from/(used in) operating activities	8,418,536	(24,351,097)	(113,751)	330,001

# CASH FLOW STATEMENTS

PARAGON UNION BERHAD (286457-V)

## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONT'D)

		Group		Company	
	Note	2009 RM	2008 RM	2009 RM	2008 RM
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of property, plant and equipment	3(d)	(3,304,374)	(2,284,699)	-	-
Proceeds from disposal of property, plant and equipment		5,500	153,000	-	-
Net cash used in investing activities		(3,298,874)	(2,131,699)	-	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Repurchase of shares		(11,210)	(351,465)	(11,210)	(351,465)
Drawdown of term loans		-	6,000,000	-	-
Repayment of term loans		(613,041)	(394,261)	-	-
Net changes in bills payable		(3,169,309)	5,562,830	-	-
Repayment of hire purchase payables		(1,161,659)	(375,336)	-	-
Dividend paid	28	(485,239)	(481,370)	(485,239)	(481,370)
Net cash (used in)/from financing activities		(5,440,458)	9,960,398	(496,449)	(832,835)
<b>Net decrease in cash and cash equivalents</b>		<b>(320,796)</b>	<b>(16,522,398)</b>	<b>(610,200)</b>	<b>(502,834)</b>
<b>Cash and cash equivalents at beginning of the financial year</b>		<b>(12,166,288)</b>	<b>4,356,110</b>	<b>702,757</b>	<b>1,205,591</b>
<b>Cash and cash equivalents at end of the financial year</b>		<b>(12,487,084)</b>	<b>(12,166,288)</b>	<b>92,557</b>	<b>702,757</b>
Cash and cash equivalents at end of the financial year comprises:					
Cash and bank balances		1,039,825	1,063,735	92,557	702,757
Cash held under Housing Development Account		282,362	22,353	-	-
Bank overdrafts		(13,809,271)	(13,252,376)	-	-
		(12,487,084)	(12,166,288)	92,557	702,757

Notes to and forming part of the financial statements are set out on pages 50 to 100  
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# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

## 1. CORPORATE INFORMATION

The principal activity of the Company is that of investment holding.

The principal activities of the subsidiary companies are disclosed in Note 5 to the financial statements.

The Company is a public limited liability company, incorporated under the Companies Act, 1965 and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad.

The registered office of the Company is located at Unit 07-02, Level 7, Menara Luxor, 6B, Persiaran Tropicana, 47410 Petaling Jaya, Selangor Darul Ehsan.

The principal place of business of the Company is located at Lot 14, Jalan Satu, Kawasan Perindustrian Cheras Jaya, Batu 11, Cheras, 43200, Selangor Darul Ehsan.

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of accounting

The financial statements of the Group and of the Company have been prepared under the historical cost convention unless otherwise stated in the accounting policies below and in accordance with the provisions of the Companies Act, 1965 and applicable approved Financial Reporting Standards ("FRS") in Malaysia.

The Directors of the Group and of the Company anticipate that the application of the following new FRSs, revised FRSs, Issues Committee ("IC") Interpretations, amendments to FRSs and IC Interpretations which are mandatory and will be effective for financial periods as stated below will have no material impact on the financial statements of the Group and of the Company:

		Effective date for financial periods beginning on or after
FRS 8	Operating Segments	1 July 2009
FRS 4	Insurance Contracts	1 January 2010
FRS 7	Financial Instruments : Disclosures	1 January 2010
FRS 101	Presentation of Financial Statements	1 January 2010
FRS 123	Borrowing Costs	1 January 2010
FRS 139	Financial Instruments : Recognition and Measurement	1 January 2010

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

Amendments to FRS 1: First-time Adoption of Financial Reporting and FRS127: Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2010
Amendments to FRS 2: Share-based Payment - Vesting Conditions and Cancellations	1 January 2010
Amendments to FRS 132: Financial Instruments: Presentation	1 January 2010
Amendments to FRS 139, Financial Instruments: Recognition and Measurement, FRS 7, Financial Instruments: Disclosures and IC Interpretation 9, Reassessment of Embedded Derivatives	1 January 2010
IC Interpretation 9: Reassessment of Embedded Derivatives	1 January 2010
IC Interpretation 10: Interim Financial Reporting and Impairment	1 January 2010
IC Interpretation 11: FRS 2 - Group and Treasury Share Transaction	1 January 2010
IC Interpretation 13: Customer Loyalty Programmes	1 January 2010
IC Interpretation 14: FRS 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2010
Amendments to FRSs contained in the document entitled "Improvements to FRSs (2009)"	1 January 2010
FRS 1: First-time Adoption of Financial Reporting Standards	1 July 2010
FRS 3: Business Combination	1 July 2010
FRS 127: Consolidated and Separate Financial Statements	1 July 2010
Amendments to FRS 2: Share-based Payment	1 July 2010
Amendments to FRS 5: Non-current Assets Held for Sale and Discontinued Operations	1 July 2010
Amendments to FRS 138: Intangible Assets	1 July 2010
IC Interpretation 12: Service Concession Arrangements	1 July 2010
IC Interpretation 15: Agreements for the Construction of Real Estate	1 July 2010
IC Interpretation 16: Hedge of a Net Investment in a Foreign Operation	1 July 2010
IC Interpretation 17: Distribution of Non-cash Assets to Owners	1 July 2010
Amendments IC Interpretation 9: Reassessment of Embedded Derivatives	1 July 2010
Amendments to FRS 1: Limited Exemption from Comparative FRS 7 Disclosures of First-time Adopters	1 January 2011
Amendments to FRS 7 : Improving Disclosures about Financial Instruments	1 January 2011
Amendments to FRS 132: Financial Instruments: Presentation	
- paragraphs 95A, 97AA and 97AB	1 January 2010
- paragraphs 11,16 and 97E	1 March 2010

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

The Company plans to adopt the abovementioned FRSs, revised FRSs, Issues Committee (“IC”) Interpretations, amendments to FRSs and IC Interpretations which are relevant to the Company’s operation when they become effective.

The Directors of the Company anticipate that the application of the above FRSs, revised FRSs, Issues Committee (“IC”) Interpretations, amendments to FRSs and IC Interpretations will have no material impact on the financial statements of the Company except for the changes in disclosures arising from the adoption of FRS 101 and Amendment to FRS 132.

The Company has applied the transitional provisions in FRS 7 and FRS 139 which exempt the Company from disclosing the possible impact arising from initial application of the respective standards on the financial statements of the Company.

(b) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the Company’s functional currency.

(c) Significant accounting estimates and judgements

Estimates, assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group’s accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on historical experience and other relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key assumptions concerning the future and other key sources of estimation or uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

(i) Estimation of fair value of properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

- (a) current prices in an active market for properties of a different nature, condition or location (or subject to different lease or other contracts) adjusted to reflect those differences; or
- (b) recent prices of similar properties based on less active market, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices.

(ii) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis, in accordance with the accounting policy stated in Note 2(h). This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(iii) Depreciation of property, plant and equipment

The costs of property, plant and equipment of the Group are depreciated on a straight-line basis over the useful lives of the assets. Management estimates the useful lives of the property, plant and equipment as disclosed in Note 2(e)(iii). These are common life expectancies applied in the industry. Changes in the expected level of usage and technological developments could have impact on the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. The carrying amount of the Group's property, plant and equipment as at 31 December 2009 is stated in Note 3.

(iv) Amortisation of prepaid lease payments

The costs of prepaid lease payments of the Group are amortised on a straight-line basis over the useful lives of the assets. These are common life expectancies applied in the industry. Changes in the expected level of usage could impact the economic useful lives and the residual values of these assets, therefore future amortisation charges could be revised. The carrying amount of the Group's prepaid lease payment as at 31 December 2009 is disclosed in Note 4.

(v) Property development costs

The Group recognised property development revenue and expenses in the income statement by using the stage of completion method. The stage of completion is determined by the proportion that property development costs incurred for work performed to date bear to the estimated total property development costs. Significant judgement is required in determining the stage of completion, the extent of the property development costs incurred the estimated total property development revenue and costs, as well as the recoverability of the development projects. In making the judgement, the Group evaluates based on past experience and by relying on the work of specialists.

(vi) Income taxes

There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgement is involved especially in determining tax base allowances and deductibility of certain expenses in determining the Group-wide provision for income taxes. The Group recognised liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will have impact on the income tax and deferred tax provisions in the period in which such determination is made.

(vii) Deferred tax asset

Deferred tax asset is recognised for unutilised tax losses to the extent that is probable that taxable profit will be available in future against which tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax asset that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

## (d) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiary companies, which are made up to the end of the financial year.

In the Company's separate financial statements, investments in subsidiary companies are stated at cost less impairment losses in accordance with Note 2(h). On disposal of these investments, the difference between the net disposal proceeds and the carrying amount is recognised in the income statement.

## (i) Subsidiary companies

Subsidiary companies are those companies in which the Group has long term equity interest and has the power, directly or indirectly, to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights.

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

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 2(s).

The gain or loss on disposal of a subsidiary company is the difference between net disposal proceeds and the Group's share of its net assets together with any unimpaired balance of goodwill which were not previously recognised in the consolidated income statement.

Minority interests, if any, represent the portion of profit or loss and net assets of subsidiary companies, 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.

(ii) Changes in Group composition

Where a subsidiary issues new equity shares to minority shareholders for cash consideration and the issue price has been established at fair value, the reduction in the Group's interests in the subsidiary is accounted for as a disposal of equity interest with the corresponding gain or loss recognised in the income statement.

When a group purchases a subsidiary's equity shares from minority shareholders for cash consideration and the purchase price has been established at fair value, the accretion of the Group's interests in the subsidiary is accounted for as a purchase of equity interest for which the acquisition accounting method of accounting is applied.

The Group treats all other changes in group composition as equity transactions between the Group and its minority shareholders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

(iii) Transaction costs

Costs directly attributable to an acquisition are included as part of the cost of acquisition.

(e) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, except for the buildings of the Group which are stated at valuation carried out in 1998 less accumulated depreciation and any accumulated impairment losses. The policy of recognition and measurement of impairment losses is in accordance with Note 2(h).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

The cost of property, plant and equipment recognised as a result of a business combination is based on fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of other items of plant and equipment is based on the quoted market prices for similar items.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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 buildings has been retained on the basis of its previous revaluation as surrogate cost. Accordingly, this valuation has not been update.

## (ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

## (iii) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives for the current and comparative periods are as follows:

Factory buildings and building improvements	50 years
Plant and machinery	6 - 30 years
Motor vehicles	5 - 10 years
Furniture, fittings and equipments	3 - 10 years
Electrical installation and renovation	10 years

The depreciable amount is determined after deducting the residual value.

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

Upon disposal of an asset, the difference between the net disposal proceeds and the carrying amount of the assets is charged or credited to the income statement. On disposal of a revalued asset, the attributable revaluation surplus remaining in the revaluation reserve is transferred to distribution reserve.

## (f) Leases

A lease is recognised as a finance lease if it transfers substantially to the Group and the Company all the risks and rewards incident to ownership. All other leases are treated as operating leases.

The upfront payments made under an operating lease are classified as prepaid lease payments and are amortised to the income statements on a straight line basis over the lease period.

Lease rental under operating lease is charged to the income statements on a straight-line basis over the term of the relevant lease.

(g) Goodwill arising on consolidation

Goodwill arising on consolidation represents the difference between the costs of the acquisition over the fair value of the net identifiable assets of subsidiary companies acquired at the date of acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Following the initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortised but instead, it is reviewed for impairment annually or more frequent when there is objective evidence that the carrying value may be impaired, in accordance with Note 2(h).

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(h) Impairment of assets

The carrying amounts of assets are reviewed at each reporting date to determine whether there is any indication of impairment.

If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount is estimated at each reporting date or more frequently when indications 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 unless the asset is carried at a revalued amount, in which case the impairment loss is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement in the period in which it arises. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the unit (groups of units) and then to reduce the carrying amount of the other assets in the unit (groups of units) on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit is the greater 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 of the time value of money and the risks specific to the asset.

An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in income statement, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

## (i) Property development costs

Property development costs comprise all costs that are directly attributable to development activities or that can be allocated on a reasonable basis to such activities.

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

Property development costs shall be classified as non-current asset where no development activities have been carried out or where development activities are not expected to be completed within the normal operating cycle.

Property development costs shall be reclassified to current assets when the development activities have commenced and are expected to be completed within the normal operating cycle.

When the financial outcome of development activity can be reliably estimated, property development revenue and expenses are recognised in the income statement by using the stage of completion method. The stage of completion is determined by the proportion that property development costs incurred for work performed to date bear to the estimated total property development costs.

When the financial 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 units sold are recognised as an expense in the period in which they are incurred.

When the revenue recognised in the income statements exceed billings to purchaser, the balance is shown as accrued billings under current assets and when the billings to purchaser exceed the revenue recognised in the income statement, the balance is shown as progress billings under current liabilities.

Any expected loss on a development project including costs to be incurred over the defects liability period shall be recognised as an expense immediately.

## (j) Inventories

Inventories are valued at the lower of cost and net realisable value after adequate allowance has been made for all deteriorated, damaged, obsolete or slow-moving inventories.

Cost is determined using the first in, first out method. The cost of raw materials comprises the original cost of purchase plus the cost of bringing the stocks to its present location and condition.

Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

(k) Trade and other receivables

Trade and other receivables are initially recognised at their cost when the contractual right to receive cash or another financial asset from another entity is established.

Subsequent to initial recognition, receivables are stated at cost less allowance for doubtful debts. Doubtful debts are provided based on specific review of the receivables. Bad debts are written off when identified.

(l) Cash and cash equivalents

Cash and cash equivalents include cash and bank balances, deposits and other short term highly liquid investments that are readily convertible to cash and are subject to insignificant risk of changes in value. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts and pledged deposits, if any.

(m) Trade and other payables

Trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received.

(n) Hire purchase

Assets acquired by way of hire purchase are stated at an amount equal to the lower of their fair values and the present value of the minimum hire purchase payments at the inception of the hire purchase, less accumulated depreciation and impairment losses. The corresponding liability is included in the balance sheet as liabilities. In calculating the present value of the minimum hire purchase payments, the discount factor used is the interest rate implicit in the hire purchase, when it is practical to determine; otherwise, the Group's incremental borrowing rate is used.

Hire purchase payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised as an expense in the income statements over the term of the relevant hire purchase so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for hire purchase assets is consistent with that for depreciable property, plant and equipment which are owned.

(o) Borrowing costs

Borrowing costs which are not eligible for capitalisation are recognised as an expense in the income statement in the period in which they are incurred.

(p) 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

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

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.

The closing exchange rates used for each unit of the main foreign currency in the Group is:

	2009 RM	2008 RM
United States Dollar (US\$)	3.4245	3.8327
Euro (EUR)	4.9067	4.8759
Japanese Yen (JPY100)	3.7114	3.8300
Sterling Pound (£)	<u>5.5001</u>	<u>4.9989</u>

## (q) Revenue recognition

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

### (i) Goods sold and services rendered

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) Property development

Revenue derived from property development activities is recognised based on the percentage of completion method. The stage of completion is determined by the proportion that property development costs incurred for work performed to date bear to the estimated total property development costs.

### (iii) Interest income

Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset.

### (iv) Dividend income

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

(r) Employee benefits

(i) Short term employee benefits

Salaries, wages, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by 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 entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick and medical 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 plans

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 as incurred.

(iii) Employees’ Share Option Scheme (“ESOS”)

The Paragon Union Berhad ESOS, an equity-settled, share-based compensation plan, allows the Company’s and its subsidiary companies’ employees to acquire ordinary shares of the Company. The total fair value of share options granted to employees 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, if any, 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 Group revises its estimates of the number of options that are expected to become exercisable on vesting date. It recognised 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.

(s) Income taxes

Income tax on the profit or loss for the financial year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the financial year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is recognised on the liability method for all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base at the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

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

Deferred tax asset and liability is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantively enacted by the balance sheet date. The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it becomes probable that sufficient future taxable profit will be available.

Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

## (t) 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

Financial instruments carried on the balance sheet include cash and bank balances, deposits, other investments, receivables, payables and borrowings. Financial instruments are recognised in the balance sheet when the Group has become a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends and gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group and the Company have a legally enforceable right to offset and intends to settle either on a net basis or to recognised the asset and settle the liability simultaneously.

The particular recognition method adopted for financial instruments recognised on the balance sheet is disclosed in the individual accounting policy statements associated with each item.

### (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.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

## 3. PROPERTY, PLANT AND EQUIPMENT

< At Valuation > < ----- At Cost ----- >

Group	Factory buildings and building improvements	Factory buildings and building improvements	Plant and machinery	Motor vehicles	Furniture, fittings and equipments	Electrical installation and renovation	Total
2009	RM	RM	RM	RM	RM	RM	RM
<b>Cost / Valuation</b>							
At 1 January 2009	12,080,000	68,756	28,124,866	2,518,333	7,545,098	3,603,475	53,940,528
Additions	-	-	6,120,192	-	1,092,119	468,529	7,680,840
Disposals	-	-	(56,235)	(3,600)	-	-	(59,835)
At 31 December 2009	12,080,000	68,756	34,188,823	2,514,733	8,637,217	4,072,004	61,561,533
<b>Accumulated depreciation</b>							
At 1 January 2009	2,662,159	7,899	17,187,117	1,927,350	5,188,818	2,825,421	29,798,764
Charge for the financial year	241,600	1,375	1,180,814	76,630	632,465	293,613	2,426,497
Disposals	-	-	(56,235)	(3,600)	-	-	(59,835)
At 31 December 2009	2,903,759	9,274	18,311,696	2,000,380	5,821,283	3,119,034	32,165,426
<b>Carrying amount</b>							
At 31 December 2009	9,176,241	59,482	15,877,127	514,353	2,815,934	959,970	29,396,107

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

## 3. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

< At Valuation > < ----- At Cost ----- >

Group	Factory buildings and building improvements	Factory buildings and building improvements	Plant and machinery	Motor vehicles	Furniture, fittings and equipments	Electrical installation and renovation	Total
2008	RM	RM	RM	RM	RM	RM	RM
<b>Cost/Valuation</b>							
At 1 January 2008	12,080,000	47,756	27,041,662	3,241,833	5,745,962	3,556,116	51,713,329
Additions	-	21,000	1,083,204	-	1,799,136	47,359	2,950,699
Disposals	-	-	(723,500)	-	-	-	(723,500)
At 31 December 2008	12,080,000	68,756	28,124,866	2,518,333	7,545,098	3,603,475	53,940,528
<b>Accumulated depreciation</b>							
At 1 January 2008	2,420,559	6,630	16,257,247	2,444,608	4,834,455	2,567,997	28,531,496
Charge for the financial year	241,600	1,269	929,870	100,220	354,363	257,424	1,884,746
Disposals	-	-	-	(617,478)	-	-	(617,478)
At 31 December 2008	2,662,159	7,899	17,187,117	1,927,350	5,188,818	2,825,421	29,798,764
<b>Carrying amount</b>							
At 31 December 2008	9,417,841	60,857	10,937,749	590,983	2,356,280	778,054	24,141,764

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

## 3. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

- (a) The factory buildings 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.

Had the revalued factory buildings been included in the financial statements at historical cost, the carrying amount of the revalued factory buildings would have been RM6,861,023 (2008: RM7,066,299) respectively.

The remaining period of the factory buildings is 80 (2008: 81) years.

- (b) The carrying amount of property, plant and equipment of the Group have been pledged to licensed banks as securities for credit facilities granted to subsidiary companies as disclosed in Note 18 are as follows:

	Group	
	2009	2008
	RM	RM
Factory buildings	9,235,732	9,478,698
Plant and machinery	10,731,620	5,342,991
Motor vehicle	10,012	16,896
	-----	-----
	19,977,364	14,838,585
	-----	-----

- (c) The carrying amount of property, plant and equipment acquired under hire purchase are as follows:

	Group	
	2009	2008
	RM	RM
Plant and machinery	5,134,029	941,188
Motor vehicles	379,500	541,833
Furniture, fittings and equipment	430,104	480,700
	-----	-----
	5,943,633	1,963,721
	-----	-----

- (d) The aggregate additional cost for the property, plant and equipment of the Group during the financial year under hire purchase and cash payment are as follows:

	Group	
	2009	2008
	RM	RM
Aggregate costs	7,680,840	2,950,699
Less: Hire purchase financing	(4,376,466)	(666,000)
	-----	-----
Cash payment	3,304,374	2,284,699
	-----	-----

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

## 4. PREPAID LEASE PAYMENTS

	Group	
	2009 RM	2008 RM
<b>At surrogated cost</b>		
At 1 January/31 December	10,130,000	10,130,000
	-----	-----
<b>Accumulated amortisation</b>		
At 1 January	1,271,292	1,151,009
Amortisation for the financial year	120,283	120,283
	-----	-----
At 31 December	1,391,575	1,271,292
	-----	-----
<b>Carrying amount</b>		
At 31 December	8,738,425	8,858,708
	-----	-----

- (a) The above prepaid lease payments consist of upfront payments made for long term leasehold land.
- (b) The remaining period of the lease term is 80 years (2008: 81 years).
- (c) The prepaid lease payments of the Group have been pledged to licensed banks as security for banking facilities granted to the Company and its subsidiary companies as disclosed in Note 18.

## 5. INVESTMENT IN SUBSIDIARY COMPANIES

- (a) Investment in subsidiary companies

	Company	
	2009 RM	2008 RM
In Malaysia		
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
	-----	-----

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

(b) The subsidiary companies and shareholdings therein are as follows:

Name of company	Country of incorporation	Effective interest		Principal activities
		2009 %	2008 %	
Direct holding:				
Paragon Car Carpets & Components Sdn Bhd	Malaysia	100	100	Manufacturing and distribution of car carpets and automotive components
Paragon Expression Sdn Bhd	Malaysia	100	100	Investment holding and property development related activities
Paragon Precision Industries Sdn Bhd (“PPI”)	Malaysia	78	78	Inactive
Paragon Metal Components Sdn Bhd (“PMC”)	Malaysia	77	77	Inactive
Indirect holding:				
Subsidiary company of Paragon Car Carpets & Components Sdn Bhd :				
Paragon Carpetmaker Sdn Bhd	Malaysia	100	100	Manufacturing and trading in car carpets and commercial carpets
Subsidiary company of Paragon Carpetmaker Sdn Bhd :				
Paragon Carpet Distributor Sdn Bhd	Malaysia	100	100	Distribution and trading in commercial carpets
Subsidiary company of Paragon Expression Sdn Bhd :				
Paragon Property Development Sdn Bhd	Malaysia	100	100	Dealing in land, properties and other property development related activities

(c) 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 of the subsidiary companies had ceased operations and had deficits in their shareholders' equity. As these two subsidiary companies have since remained inactive, the Company does not expect to derive any future economic benefits from their activities or from their disposal.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

## 6. INTANGIBLE ASSET

### Goodwill arising on consolidation

	Group	
	2009 RM	2008 RM
<b>Cost</b>		
At 1 January	-	2,743,926
Written off	-	(2,743,926)
At 31 December	-	-
<b>Accumulated impairment losses</b>		
At 1 January	-	1,763,305
Impairment loss recognised in income statement	-	980,621
Written off	-	(2,743,926)
At 31 December	-	-
<b>Carrying amount</b>		
At 31 December	-	-

Goodwill arising on consolidation had been allocated to the Group's cash generating unit (CGU) which is the Group's development projects.

In the previous financial year, the Group fully impaired the goodwill arising on consolidation as the development project on which this goodwill was allocated to has been completed and fully recognised to the income statement, therefore having no future recoverable values.

## 7. DEFERRED TAXATION

	Group	
	2009 RM	2008 RM
At 1 January	3,055,755	3,097,730
Recognised in income statement	145,871	(171,164)
(Over)/Under provision in prior year	(16,183)	129,189
At 31 December	3,185,443	3,055,755
<b>Represented after appropriate offsetting as follows:</b>		
Deferred Tax Liability	3,326,788	3,055,755
Deferred Tax Asset	(141,345)	-
	3,185,443	3,055,755

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

This is represented by the components and movements of deferred tax liabilities and assets of the Group and of the Company prior to its offsetting during the financial year as follows:-

Deferred tax liability of the Group:

	Accelerated capital allowances	Revaluation of leasehold properties	Total
	RM	RM	RM
At 1 January 2009	2,738,919	1,814,967	4,553,886
Recognised in income statement	113,521	(27,642)	85,879
Over provision in prior year	(53,690)	-	(53,690)
	-----	-----	-----
	2,798,750	1,787,325	4,586,075
	-----	-----	-----
Offsetting			(1,259,287)
At 31 December 2009			-----
			3,326,788
			-----
At 1 January 2008	2,598,908	1,842,610	4,441,518
Recognised in income statement	24,605	(27,643)	(3,038)
Under provision in prior year	115,406	-	115,406
	-----	-----	-----
	2,738,919	1,814,967	4,553,886
	-----	-----	-----
Offsetting			(1,498,131)
At 31 December 2008			-----
			3,055,755
			-----



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

Deferred tax assets of the Group:

	Unabsorbed tax losses and tax credits	Unabsorbed capital allowances	Allowance for doubtful debts	Total
	RM	RM	RM	RM
At 1 January 2009	180,299	1,257,832	60,000	1,498,131
Recognised in income statement	203,214	(299,206)	36,000	(59,992)
Over provision in prior year	3,757	18,736	(60,000)	(37,507)
	387,270	977,362	36,000	1,400,632
Offsetting				(1,259,287)
At 31 December 2009				141,345
At 1 January 2008	238,080	1,047,623	60,000	1,345,703
Recognised in income statement	(4,904)	171,115	-	166,211
Over provision in prior year	(52,877)	39,094	-	(13,783)
At 31 December 2008	180,299	1,257,832	60,000	1,498,131
Offsetting				(1,498,131)
At 31 December 2008				-

The recognition of deferred tax assets of the Group is dependent on future taxable profits in excess of profits arising from reversed of existing temporary differences. The evidence used to support this recognition is the management's budget, which shows that it is probable that deferred tax assets would be realised in future years.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

## 8. PROPERTY DEVELOPMENT COSTS

	Group	
	2009 RM	2008 RM
<b>CURRENT</b>		
Long term leasehold land, at cost		
At 1 January	-	11,704,159
Transferred to income statement	-	(11,704,159)
At 31 December	-	-
Development costs		
At 1 January	-	130,646,102
Additions during the financial year	-	24,675,512
Transferred to income statement	-	(155,321,614)
At 31 December	-	-
Less: Costs recognised in the income statement		
At 1 January	-	131,660,776
Recognised during the financial year	-	35,364,997
	-	167,025,773
Less: Completed projects	-	(167,025,773)
At 31 December	-	-
Total property development costs	-	-

Included in the property development costs for the financial year are the following:

	Group	
Note	2009 RM	2008 RM
Finance costs	24	-
Director's remuneration		
- salaries and bonus	-	576,348
- EPF	-	61,488

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

## 9. INVENTORIES

	Group	
	2009 RM	2008 RM
Raw materials	7,367,986	6,992,192
Work-in-progress	3,396,039	3,247,066
Finished goods	6,516,450	5,688,268
	17,280,475	15,927,526
	=====	=====

## 10. TRADE RECEIVABLES

	Group	
	2009 RM	2008 RM
Trade receivables	16,913,020	23,243,927
Stakeholders' fund	2,151,673	4,327,746
	19,064,693	27,571,673
Allowance for doubtful debts	(230,846)	(398,803)
	18,833,847	27,172,870
	=====	=====

Movements in allowance for doubtful debts are as follows:

	Group	
	2009 RM	2008 RM
At 1 January	398,803	328,809
Allowance written off	(274,118)	-
Allowance written back	(37,839)	(76,399)
Allowance made	144,000	146,393
At 31 December	230,846	398,803
	=====	=====

The currency exposure profiles of trade receivables are as follows:

	Group	
	2009 RM	2008 RM
Ringgit Malaysia	17,321,321	21,674,331
United States Dollar	1,512,526	5,498,539
	18,833,847	27,172,870
	=====	=====

The Group's normal trade credit terms range from 60 to 90 days (2008: 60 to 90 days). Other credit terms are assessed and approved on a case by case basis.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

## 11. OTHER RECEIVABLES

	Group		Company	
	2009 RM	2008 RM	2009 RM	2008 RM
Other receivables	18,765,671	19,137,691	18,004,465	18,107,223
Deposits	16,736,155	18,527,519	16,540,000	16,541,500
Prepayments	384,887	183,335	-	-
	35,886,713	37,848,545	34,544,465	34,648,723
Less: Allowance for doubtful debts	(16,803,984)	(263,984)	(16,540,000)	-
	19,082,729	37,584,561	18,004,465	34,648,723

Included in deposits of the Group and the Company is an amount of RM16,540,000 (2008: RM16,540,000) representing deposits and advances paid pursuant to separate conditional agreements entered into by the Company in the financial year 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").

In the financial year 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 totaling RM17,770,000. The Company has obtained court judgement on 12 December 2007 for the refund of RM1,230,000, representing deposit paid to a vendor and the said amount was received by the Company. The outcome of the legal proceedings in respect of the balance of RM16,540,000 from the other vendors is still pending.

During the financial year, the Company decided to make allowance for doubtful debts on the full amount of RM16,540,000 of this deposit as stated in Note 23.

## 12. AMOUNT OWING BY/(TO) SUBSIDIARY COMPANIES

	Company	
	2009 RM	2008 RM
<b>Amount Owing by Subsidiary Companies</b>		
Advances	25,504,170	34,085,074
Less: Allowance for doubtful debts	(1,855,344)	(1,855,344)
	23,648,826	32,229,730
<b>Amount Owing to a Subsidiary Company</b>	-	(8,742,000)

These represent unsecured interest free advances and are repayable on demand.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

## 13. CASH HELD UNDER HOUSING DEVELOPMENT ACCOUNT

Cash held under the Housing Development Account represents monies received from purchasers of residential properties less payments or withdrawals in accordance with Regulation 4 of the Housing Developers (Housing Development Account) Regulations.

## 14. CASH AND BANK BALANCES

The currency exposure profiles of cash and bank balances are as follows:

	Group		Company	
	2009	2008	2009	2008
	RM	RM	RM	RM
Ringgit Malaysia	378,691	997,279	92,557	702,757
United States Dollar	661,134	66,456	-	-
	-----	-----	-----	-----
	1,039,825	1,063,735	92,557	702,757
	-----	-----	-----	-----

## 15. TRADE PAYABLES

	Group	
	2009	2008
	RM	RM
Trade payables	4,121,280	4,471,393
	-----	-----

The currency exposure profiles of trade payables are as follows:

	Group	
	2009	2008
	RM	RM
Ringgit Malaysia	3,375,159	3,028,546
United States Dollar	457,273	470,910
Sterling Pound	288,848	971,198
Japanese Yen	-	739
	-----	-----
	4,121,280	4,471,393
	-----	-----

The normal trade credit terms granted to the Group range from 60 to 120 days (2008: 60 to 120 days).

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

## 16. OTHER PAYABLES

	Group		Company	
	2009	2008	2009	2008
	RM	RM	RM	RM
Other payables	2,952,218	2,913,015	1,298,653	1,427,883
Accruals	1,577,267	2,447,340	99,150	109,000
Deposits	-	10,000	-	-
	-----	-----	-----	-----
	4,529,485	5,370,355	1,397,803	1,536,883
	=====	=====	=====	=====

## 17. HIRE PURCHASE PAYABLES

	Group	
	2009	2008
	RM	RM
(a) Minimum hire purchase payments		
Within one year	1,338,093	397,387
Between one and five years	3,385,799	713,292
	-----	-----
	4,723,892	1,110,679
Future finance charges	(520,960)	(122,554)
	-----	-----
Present value of hire purchase liabilities	4,202,932	988,125
	-----	-----
(b) Present value of hire purchase liabilities		
Within one year	1,103,143	342,750
Between one and five years	3,099,789	645,375
	-----	-----
	4,202,932	988,125
	-----	-----
Analysed as:		
Repayable within twelve months	1,103,143	342,750
Repayable after twelve months	3,099,789	645,375
	-----	-----
	4,202,932	988,125
	-----	-----

The effective interest rates of the Group are between 3.30% and 4.05% (2008: 2.65% and 4.10%) per annum.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

## 18. BANK BORROWINGS

	Group	
	2009 RM	2008 RM
<b>Secured</b>		
Bank overdrafts	7,418,922	8,762,990
Bills payable	3,322,128	2,683,487
Term loans	5,272,371	5,885,412
	-----	-----
	16,013,421	17,331,889
	-----	-----
<b>Unsecured</b>		
Bank overdrafts	6,390,349	4,489,386
Bills payable	697,000	4,504,950
	-----	-----
	7,087,349	8,994,336
	-----	-----
<b>Total bank borrowings</b>	23,100,770	26,326,225
	-----	-----
	=====	=====
Analysed as follows:		
<b>Repayable within twelve months</b>		
<b>Secured</b>		
Bank overdrafts	7,418,922	8,762,990
Bills payable	3,322,128	2,683,487
Term loans	602,092	578,069
	-----	-----
	11,343,142	12,024,546
	-----	-----
<b>Unsecured</b>		
Bank overdrafts	6,390,349	4,489,386
Bills payable	697,000	4,504,950
	-----	-----
	7,087,349	8,994,336
	-----	-----
	18,430,491	21,018,882
	-----	-----
	=====	=====
<b>Repayable after twelve months</b>		
<b>Secured</b>		
Term loans	4,670,279	5,307,343
	-----	-----
	23,100,770	26,326,225
	-----	-----
	=====	=====

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

The above credit facilities obtained from licensed banks are secured by the following:

(a) The secured bills payable and bank overdrafts are secured on the following:

(i) charge over the leasehold land and buildings of the Group as disclosed in Note 3 and Note 4; and

(ii) corporate guaranteed by the Company.

(b) The unsecured bills payable and bank overdrafts are guaranteed by the Company.

The term loans are repayable by monthly instalment over 7 to 10 years.

Maturity of borrowings is as follows:

	Group	
	2009 RM	2008 RM
Within one year	18,430,491	21,018,882
Between one and two years	572,034	559,885
Between two and five years	1,994,586	1,866,233
More than five years	2,103,659	2,881,225
	23,100,770	26,326,225

The weighted average effective interest rate is as follows:

	Group	
	2009 %	2008 %
Bank overdrafts	7.05	8.00
Banker acceptance	3.47	3.47
Term loans	5.52	5.15

## 19. SHARE CAPITAL

	Number of Ordinary shares of RM1.00 each:		Amount	
	2009	2008	2009 RM	2008 RM
Authorised share capital				
At 1 January/31 December	100,000,000	100,000,000	100,000,000	100,000,000
Issued and fully paid				
At 1 January/31 December	70,000,000	70,000,000	70,000,000	70,000,000



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

Of the total 70,000,000 issued and fully paid ordinary shares, 5,301,700 (2008: 5,274,600) ordinary shares are held as treasury shares by the Company. At 31 December 2009, the number of ordinary shares in issue after deducting treasury shares held is 64,698,300 (2008: 64,725,400) ordinary shares of RM1.00 each.

## 20. RESERVES

	Group	
	2009 RM	2008 RM
<b>Non-distributable:</b>		
Asset valuation reserve	5,361,978	5,444,905
Merger reserve	(4,618,481)	(4,618,481)
	<u>743,497</u>	<u>826,424</u>

The movements in the reserves are reflected in the statements of changes in equity.

## 21. TREASURY SHARES

	Group / Company	
	2009 RM	2008 RM
At 1 January	4,209,498	3,858,033
Shares purchased during the financial year	<u>11,210</u>	<u>351,465</u>
At 31 December	<u>4,220,708</u>	<u>4,209,498</u>

During the financial year, the Company purchased a total of 27,100 (2008: 730,200) ordinary shares of its issued share capital from the open market at a total cost of RM11,210 (2008: RM351,465). The average price paid for the shares purchased was RM0.420 (2008: RM0.480) per share. The repurchase transactions were financed by internally generated funds. The repurchased shares were being held as treasury shares and carried at cost in accordance with the requirements of section 67A of the Companies Act, 1965. Treasury shares had no rights to voting, dividends and participation in other distribution.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

## 22. REVENUE

	Group		Company	
	2009 RM	2008 RM	2009 RM	2008 RM
Sales of carpets	52,582,436	61,430,468	-	-
Property development revenue from sales of development units	-	27,534,409	-	-
Dividend income received / receivable from subsidiary company	-	-	800,000	800,000
	52,582,436	88,964,877	800,000	800,000

## 23. EXCEPTIONAL ITEM

As stated in Note 11, the Company is currently in the legal proceedings to recover the deposit amounting to RM16,540,000 which was paid 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"). However, based on the credit search conducted on the various parties to whom the deposit was paid to, the Directors of the Company are of the view that the recoverability of the aforesaid amount is remote. Accordingly, the Company decided to make allowance for doubtful debt on the aforesaid amount in full on a prudence basis.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

## 24. FINANCE COSTS

		Group	
	Note	2009 RM	2008 RM
Interest expense on:			
Bank overdrafts		817,425	203,869
Banker acceptance		158,205	174,858
Bridging loan		-	1,204
Hire purchase		332,562	42,463
Letter of credit		18,307	40,027
Term loans		224,242	70,312
Others		1,006	-
		1,551,747	532,733
Less: Finance costs recognised in qualifying assets			
Property development costs	8	-	(1,204)
		1,551,747	531,529

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

## 25. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/Profit before taxation is derived after charging/(crediting):

	Group		Company	
	2009	2008	2009	2008
	RM	RM	RM	RM
Auditors' remuneration				
- current year	45,000	70,000	11,000	11,000
- under provision in prior year	(25,000)	7,000	-	4,000
Allowance for doubtful debts	16,684,000	146,393	16,540,000	-
Amortisation of prepaid lease payments	120,283	120,283	-	-
Bad debts written off	299,544	240,000	-	-
Depreciation of property, plant and equipment	2,426,497	1,884,746	-	-
Directors remuneration				
- fees	85,000	98,000	85,000	98,000
- salaries and other emoluments	317,523	680,625	-	-
- EPF	38,916	81,684	-	-
Impairment loss on goodwill on consolidation	-	980,621	-	-
Rental of warehouse	345,600	172,800	-	-
Allowance for doubtful debts written back	(37,839)	(76,399)	-	-
Gain on disposal of property, plant and equipment	(5,500)	(72,000)	-	-
Loss on disposal of property, plant and equipment	-	25,022	-	-
Gain on foreign exchange - realised	(252,733)	(34,055)	-	-
Dividend income	-	-	(800,000)	(800,000)
Interest income from investment quoted in Malaysia	(204)	(69,180)	(204)	(69,180)
Interest income	-	(103,992)	-	-
	-----	-----	-----	-----

The estimated monetary value of benefits-in-kind received by the Directors otherwise than in cash from the Group amounted to RM31,333 (2008: RM56,896).

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

## 26. TAXATION

	Group		Company	
	2009	2008	2009	2008
	RM	RM	RM	RM
Current income tax				
- Current year	-	1,555,000	172,500	195,000
- (Over)/Under provision in prior year	(206,594)	(123,189)	279	(1,445)
	(206,594)	1,431,811	172,779	193,555
	=====	=====	=====	=====
Deferred tax				
- Relating to origination and reversal of temporary differences	145,871	(818,683)	-	-
- (Over)/Under provision in prior year	(16,183)	129,189	-	-
	129,688	(689,494)	-	-
	=====	=====	=====	=====
Tax (saving)/expense for the financial year	(76,906)	742,317	172,779	193,555
	=====	=====	=====	=====

Income tax is calculated at the Malaysia statutory tax rate of 25% (2008: 26%) of the estimated assessable profit for the financial year.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

A reconciliation of income tax expense applicable to (loss)/profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Company is as follows:

	Group		Company	
	2009 RM	2008 RM	2009 RM	2008 RM
(Loss)/Profit before taxation	(17,405,032)	877,288	(16,309,149)	557,254
Taxation at Malaysian statutory tax rate of 25% (2008: 26%)	(4,351,258)	228,095	(4,077,287)	144,886
Tax incentive for small and medium scale companies at 20% tax rate	-	(90,000)	-	-
Expenses not deductible for tax purposes	4,524,771	641,984	4,249,787	50,114
Income not subject to tax	-	(16,120)	-	-
Crystallisation of deferred tax liabilities on amortisation on revalued properties	(27,642)	(27,642)	-	-
(Over)/Under provision of current taxation in prior year	(206,594)	(123,189)	279	(1,445)
Under provision of deferred tax in prior year	(16,183)	129,189	-	-
Tax (saving)/expense for the financial year	(76,906)	742,317	172,779	193,555

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

## 27. (LOSS)/EARNINGS PER SHARE

### (a) Basic (loss)/earnings per share

The basic (loss)/earnings per share has been calculated based on the consolidated (loss)/profit after taxation for the financial year attributable to equity holders of the Company of RM17,328,126 (2008: RM134,971) for the Group and the weighted average number of ordinary shares in issue during the financial year of 64,704,103 (2008: 65,055,483) are as follows:

	Group	
	2009	2008
	RM	RM
Net (loss)/profit for the financial year attributable to the equity holders of the parent	(17,328,126)	134,971
Weighted average number of ordinary shares in issue	70,000,000	70,000,000
Adjusted for :		
Treasury shares	(5,295,897)	(4,944,517)
	64,704,103	65,055,483

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

(b) Fully diluted (loss)/earnings per share

The fully diluted (loss)/earnings per share has been calculated based on the consolidated (loss)/profit after taxation for the financial year attributable to equity holders of the Company of RM17,328,126 (2008: RM134,971) for the Group and the weighted average number of ordinary shares in issue during the financial year of 64,704,103 (2008: 65,055,483) are as follows:

	Group	
	2009 RM	2008 RM
Net (loss)/profit for the financial year attributable to the equity holders of the parent	(17,328,126)	134,971
Weighted average number of ordinary shares in issue	70,000,000	70,000,000
Adjusted for :		
Treasury shares	(5,295,897)	(4,944,517)
	64,704,103	65,055,483
Assumed exercise of ESOS at no consideration	*	*
	64,704,103	65,055,483

- \* The number of shares exercised under ESOS was not taken into account in the computation of diluted (loss)/earnings per share because the effect on the basic (loss)/earnings per share is anti-dilutive.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

## 28. DIVIDEND

	Group / Company	
	2009	2008
	RM	RM
First and final dividend of 1% (2008: 1%) less income tax at 25% (2008: 26%) on 64,698,300 (2008: 65,050,000) ordinary shares of RM1.00 each in respect of financial year ended 31 December 2008 (2008: 31 December 2007)	485,239	481,370
Net dividend per ordinary shares (sen)	0.75	0.74

## 29. EMPLOYEES' SHARE OPTION SCHEME

During the financial year 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.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

- (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.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

The movements in the number of share options outstanding and their related Weighted Average Exercise Prices ("WAEP") are as follows:

	Number of share options					
	< ----- Movement during the financial year ----- >					
	Outstanding at 1 January	Granted	Expired/ Forfeited	Exercised	Outstanding at 31 December	Exercisable at 31 December
<b>2009</b>						
First Grant	3,680,000	-	500,000	-	3,180,000	3,180,000
Second Grant	250,000	-	-	-	250,000	250,000
	3,930,000	-	500,000	-	3,430,000	3,430,000
WAEP	1.00	-	1.00	-	1.00	1.00
<b>2008</b>						
First Grant	5,360,000	-	1,680,000	-	3,680,000	3,680,000
Second Grant	1,000,000	-	750,000	-	250,000	250,000
	6,360,000	-	2,430,000	-	3,930,000	3,930,000
WAEP	1.00	-	1.00	-	1.00	1.00

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

Details of share options outstanding at end of the financial year are as follows:

Share Options	Exercise price RM	Exercise Period
2009		
First Grant	1.00	01.09.2005 to 20.07.2010
Second Grant	1.00	22.09.2005 to 20.07.2010
2008		
First Grant	1.00	01.09.2005 to 20.07.2010
Second Grant	1.00	22.09.2005 to 20.07.2010

As allowed by the transitional provisions in FRS 2 “Share-based payment”, the recognition and measurement principles have not been applied to these grants.

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

Executive Directors of the Group and of the Company and other members of key management have been granted the following number of options under the ESOS:

	Group / Company	
	2009	2008
At 1 January	1,630,000	3,130,000
Expired/Forfeited	-	(1,500,000)
At 31 December	1,630,000	1,630,000

The share options were granted on the same terms and conditions as those offered to other employees of the Group.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

## 30. STAFF COSTS

	Group	
	2009 RM	2008 RM
Staff costs (excluding Directors)	8,236,371	8,924,580
	-----	-----

Included in the staff costs above are contributions made to the Employees Provident Fund under a defined contribution plan for the Group amounting to RM695,585 (2008: RM697,605).

## 31. HOLDING COMPANY

The holding company is Asia Avenue Sdn Bhd, a company incorporated in Malaysia.

## 32. SIGNIFICANT RELATED PARTY TRANSACTION

	Company	
	2009 RM	2008 RM
Dividend received from subsidiary company	800,000	800,000
	-----	-----

The Directors are of the opinion that the above transaction has been entered into in the normal course of business and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

## 33. KEY MANAGEMENT PERSONNEL COMPENSATION

	Group		Company	
	2009 RM	2008 RM	2009 RM	2008 RM
Short term employee benefits				
- fees	85,000	98,000	85,000	98,000
- Salaries and other emoluments	1,437,401	2,030,853	-	-
- estimated monetary value of benefits-in-kinds	42,533	63,896	-	-
	1,564,934	2,192,749	85,000	98,000
Post employment benefits				
- defined contribution plan	172,488	243,702	-	-
	1,737,422	2,436,451	85,000	98,000

Key management personnel comprise Directors and Executives of the Company, who have authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

## 34. CONTINGENT LIABILITIES

	Company	
	2009	2008
	RM	RM
Unsecured corporate guarantees in respect of banking facilities granted to subsidiary companies	23,100,770	26,326,225
	=====	=====

## 35. CAPITAL COMMITMENTS

	Group	
	2009	2008
	RM	RM
Authorised and contracted for:		
Acquisition of property, plant and equipment	-	3,610,136
	=====	=====



## 36. SEGMENT INFORMATION - GROUP

Segment information is primarily presented in respect of the Group's business segment which is based on the Group's management and internal reporting structure.

Segment revenue, results, assets and liabilities include items directly attributable to a segment and those where a reasonable basis of allocation exists. Unallocated items mainly comprise interest-earning assets and revenue, interest-bearing borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period.

The accounting policies of the segments are consistent with the accounting policies of the Group.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

## Segment Information - Group (Cont'd)

2009	Carpets RM	Property Development RM	Investment Holdings RM	Total RM
<b>Revenue</b>				
Total Revenue	52,582,436	-	800,000	53,382,436
Inter-segment Revenue	-	-	(800,000)	(800,000)
Total segment revenue	52,582,436	-	-	52,582,436
<b>Results</b>				
Segment results	650,407	(194,543)	(16,309,149)	(15,853,285)
Finance costs				(1,551,747)
Loss before taxation				(17,405,032)
Taxation				76,906
Net loss for the financial year				(17,328,126)
<b>Assets</b>				
Segment assets	73,551,846	2,917,179	18,184,745	94,653,770
Unallocated assets				736,432
Consolidated total assets				95,390,202
<b>Liabilities</b>				
Segment liabilities	6,679,712	573,250	1,397,803	8,650,765
Unallocated liabilities				31,036,421
Consolidated total liabilities				39,687,186
<b>Other information</b>				
Allowance for doubtful debts	144,000	-	16,540,000	16,684,400
Amortisation of prepaid lease payments	120,283	-	-	120,283
Capital expenditure	7,680,840	-	-	7,680,840
Depreciation of property, plant and equipment	2,425,813	684	-	2,426,497
Gain on disposal of property, plant and equipment	(5,500)	-	-	(5,500)

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

## Segment Information - Group (Cont'd)

	Carpets RM	Property Development RM	Investment Holdings RM	Total RM
<b>2008</b>				
<b>Revenue</b>				
Total Revenue	61,430,468	27,534,409	800,000	89,764,877
Inter-segment Revenue	-	-	(800,000)	(800,000)
Total segment revenue	61,430,468	27,534,409	-	88,964,877
				-----
<b>Results</b>				
Segment results	1,344,361	(492,798)	557,254	1,408,817
Finance costs				(531,529)
Profit before taxation				877,288
Taxation				(742,317)
Net profit for the financial year				134,971
				=====
<b>Assets</b>				
Segment assets	73,807,750	5,500,469	35,463,298	114,771,517
Unallocated assets				483,905
Consolidated total assets				115,255,422
				=====
<b>Liabilities</b>				
Segment liabilities	7,353,481	951,384	1,536,883	9,841,748
Unallocated liabilities				31,886,083
Consolidated total liabilities				41,727,831
				=====
<b>Other information</b>				
Allowance for doubtful debts	146,393	-	-	146,393
Amortisation of prepaid lease payments	120,283	-	-	120,283
Capital expenditure	2,950,699	-	-	2,950,699
Depreciation of property, plant and equipment	1,883,823	923	-	1,884,746
(Gain)/loss on disposal of property, plant and equipment	(59,250)	12,272	-	(46,978)
Impairment loss on goodwill on consolidation	-	980,621	-	980,621
				-----

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

All the inter-segment transactions were carried out on normal commercial basis and in the ordinary course of business.

## Geographical segments

No geographical segments information such as segment revenue, segment assets and segment capital expenditure is presented as the Group business is entirely carried out in Malaysia.

## 37. MATERIAL LITIGATION

- (a) On 10 March 2009, the Company terminated the Sales and Shares Agreement (“SSA”) which was entered into with Prestamewah Development Sdn Bhd (“PDSB”) and Datuk Liw Jun Wai (“Datuk Liw”) on 19 August 2008 to acquire 1,000,000 ordinary shares of RM1.00 each representing the entire issued and paid-up share capital of Dominion Park Sdn Bhd (“DPSB”) for a cash consideration of RM18,000,000.

The termination was due to PDSB and Datuk Liw failing to provide the Completion Documents as stipulated in Clauses 6 & 7 of the said SSA. Besides, PDSB and Datuk Liw also failed to remedy the same within the stipulated fourteen (14) days from the date of receipt by them of the Company’s notice requiring such remedy.

- (b) On 1 April 2009, the Company’s lawyer served a Notice pursuant to Section 218 of the Companies Act, 1965 on PDSB, one of the vendors of DPSB (holding 75% of the issued and paid-up share capital of DPSB) to demand for repayment of the sum of RM14,915,095, being the amount due and owing by PDSB to the Company as at 31 March 2009 pursuant to the termination of the SSA as stated in Note 37(a) above.

The details of which are as follows:

	RM
Monies paid by the Company to PDSB	13,500,000
Agreed liquidated damages	1,350,000
	<u>14,850,000</u>
Interest calculated at the rate of 8.00% per year upon RM14,850,000 from 11 March 2009 to 31 March 2009	65,095
	<u>14,915,095</u>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

PARAGON UNION BERHAD (286457-V)

- (c) On 3 April 2009, the Company's lawyer issued a Letter of Demand to Datuk Liw, one of the vendors of DPSB (holding 25% of the issued and paid-up share capital of DPSB) to demand for repayment of the sum of RM4,950,000, being the amount due and owing by Datuk Liw to the Company comprising of RM4,500,000 as the monies paid to Datuk Liw by the Company under the SSA as stated in Note 37(a) and RM450,000 as the liquidated and ascertained damages payable to the Company by Datuk pursuant to the termination of the said SSA.

In addition to the above, the Company also demanded for interest payment at the rate of 8% per annum calculated on a daily basis on the outstanding amount of RM4,950,000 due to the Company from 11 March 2009 up to the date of full settlement.

- (d) On 27 April 2009, the Company obtained an injunction order from the High Court of Malaya to compel the Defendants (PDSB and Datuk Liw) to pay to the Court the total sum of RM13,500,000 and RM4,500,000 respectively within seven days from the service of the Order on the Defendants and that this application was heard on 12 May 2009. The sealed copy of the Order was served on PDSB on 30 April 2009 and both of its two directors, Wong Hean Keat Simon and Abdul Rashid Bin Omar on 4 May 2009 and Datuk Liw on 1 May 2009.
- (e) The Company's application for injunction as well as the Defendants' application to set aside the ex-parte injunction order dated 27 April 2009 and for transfer of these proceedings to the Shah Alam High Court was concluded on 26 October 2009. The decision with regard to these applications were fixed on 16 November 2009 and the learned Judge after considering the submissions from all parties made the following Orders:-
- (i) The Plaintiff's application for injunction was allowed with costs. The Defendants are to pay the Plaintiff RM18,000,000 on or before 15 January 2010.
- (ii) The Defendants' application to set aside the ex-parte injunction order dated 27 April 2009 was dismissed with costs.
- (iii) The Defendants' application to transfer the proceedings to the Shah Alam High Court was dismissed with costs. However, the Court allowed a stay of these proceedings pending the Defendants' appeal to the Court of Appeal with respect to this application.
- (f) On 8 February 2010, the appeal by the Defendants against the decision of the High Court which inter-alia, granted the Company the interlocutory mandatory injunction compelling the Defendants to refund RM13,500,000 and RM4,500,000 respectively to the Company was allowed by the Court of Appeal. The Order of the Court of Appeal essentially set aside the interlocutory mandatory Order granted by the High Court Judge on 16 November 2009. The Company has since filed an application for leave to appeal to the Federal Court against the decision of the Court of Appeal and the hearing on the said application has been fixed on 1 June 2010.

As the ultimate outcome of these claims cannot presently be determined, no allowance for doubtful debt on the aforesaid amounts has been made in the current financial year.

## 38. FINANCIAL INSTRUMENTS

### (a) Financial risk management objectives and policies

The Group and the Company's financial risk management policy is to ensure that adequate financial resources are available for the development of the Group and of the Company's operations whilst managing its financial risks, including foreign currency exchange risk, interest rate risk, credit risk, liquidity risk and cash flow risk. The Group and the Company operate within clearly defined guidelines that are approved by the Board and the Group's policy is not to engage in speculative transactions.

### (b) Foreign currency exchange risk

The Group and the Company is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than Ringgit Malaysia. The currency giving rise to this risk is primarily United States Dollar and Sterling Pound. The Group and the Company maintains a natural hedge that minimises the foreign exchange exposure by matching foreign currency income with foreign currency costs.

### (c) Interest rate risk

The Group and the Company finance its operations through operating cash flows and borrowings. Interest rate exposure arises from the Group's and the Company's borrowings and deposits. The Group and the Company seek to achieve the desired interest rate profile by maintaining a prudent mix of fixed and floating rate borrowings.

### (d) Credit risk

The Group and the Company's exposure to credit risk arises mainly from receivables. Receivables are monitored on an ongoing basis via Group's and Company's management reporting procedure and action will be taken for long outstanding debts.

At balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk associated with recognised financial assets is the carrying amount shown in the balance sheet.

### (e) Liquidity and cash flow risk

The Group and the Company actively manage their debt maturity profile, operating cash flows and maintain a flexible and cost effective borrowing structure to ensure that all refinancing, repayment and funding needs are met. The Group and the Company also maintain a certain level of cash and cash convertible investments to meet their working capital requirements.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## (f) Fair values

The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables, short term borrowings and short term intercompany balances approximate their respective fair values at the balance sheet date due to the relatively short term nature of these financial instruments.

The aggregate fair values of the other financial assets and liabilities carried on the balance sheet are as follows:

	2009		2008	
	Carrying amount RM	Fair value RM	Carrying amount RM	Fair value RM
<b>Group</b>				
<b>Financial liabilities</b>				
Hire purchase payables	3,099,789	2,607,516	645,375	580,402
Bank borrowings	4,670,279	3,667,553	5,307,343	5,199,690
	=====	=====	=====	=====

The fair value of the long term borrowings are estimated using the discounted cash flow analysis. Based on the prevailing borrowing rates of similar borrowings with the same maturity profile obtainable by the Group and the Company, the carrying values of the long term borrowings approximate their fair values.

## 39. Comparative Figures

The financial statements of the previous financial year which are presented for comparative purposes were examined and reported on by another firm of auditors.

## 40. Date of Authorisation for Issue

The financial statements of the Group and of the Company for the financial year ended 31 December 2009 were authorised for issue in accordance with a resolution of the Board of Directors on 27 April 2010.

Date : 4 June 2010

Dear Shareholder

Re : eDividend (Electronic Dividend) service

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We are pleased to inform you that Paragon Union Berhad (“the Company”) will be providing eDividend to shareholders to be implemented in the third quarter of 2010. The eDividend refers to the payment of cash dividends by a listed issuer directly into the shareholders’ bank accounts. One of the main objectives of implementing eDividend is to promote greater efficiency of the payment system which is aligned to the national agenda of migrating to electronic payment.

**1. Benefits of eDividend**

- 1.1 eDividend extends to all companies listed on Bursa Malaysia Securities Berhad (“listed issuers”) and provides, amongst others, faster access to your cash dividends, eliminates the inconvenience of having to deposit the dividend cheques and problems such as misplaced, lost or expired cheques and unauthorized deposit of dividend cheques.
- 1.2 For those shareholders who have previously opt for direct crediting of dividend entitlement via GIRO Service with the Company, you will still need to register for eDividend to enjoy the following additional benefits:-
  - (a) the convenience of a one-off registration for entitlement to eDividend from all listed issuers; and
  - (b) the option to consolidate the dividends from all your Central Depository System (“CDS”) accounts into one bank account for better management.

**2. Registration for eDividend**

- 2.1 Registration for eDividend will commence on 19 April 2010 for a period of 1 year until 18 April 2011, at no cost to the shareholders. If you register after the 1 year period, an administrative charge will be imposed.

To register for eDividend, you are required to provide to Bursa Malaysia Depository Sdn Bhd (“Bursa Depository”) through your stock broker, your bank account number and other information by completing the prescribed form. This form can be obtained in due course from your stock broker’s office where your CDS account is maintained, or downloaded from Bursa Malaysia’s website at <http://www.bursamalaysia.com>.

- 2.2 You need to submit to your stock broker’s office where your CDS account is maintained, the duly completed prescribed form and the following for registration:-
  - (a) Individual depositor : Copy of identification documents i.e. NRIC, Passport, Authority Card or other acceptable identification documents. Original documents must be produced for your stock broker’s verification.



Corporate depositor:- Certified true copy of the Certificate of Incorporation/ Certificate of Registration; and

- (b) Copy of your bank statement / bank savings book / details of your bank account obtained from your banks website that has been certified by your bank / copy of letter from your bank confirming your bank account particulars. For individuals, original documents must be produced for your stock broker's verification. For corporate entities, a certified true copy is to be submitted.

If the CDS account is held in the name of a nominee, the nominee will register for the eDividend.

- 2.3 If you are not able to be present at your stock broker's office to submit the prescribed form and supporting documents, please ensure that the signing of the prescribed form and the supporting documents have been witnessed by an acceptable witness specified by Bursa Depository. In this regard, an acceptable witness includes an Authorised Officer of your stock broker, a Dealer's Representative, a notary public and an Authorised Officer of the Malaysia Embassy/High Commission.

### **3. Notification of eDividend payment after registration**

- 3.1 You are encouraged to provide in the prescribed form to Bursa Depository both your mobile phone number and email address, if any. This is to enable the Company to issue electronic notification to you either e-mail or sms, at the discretion of the Company, once the Company has paid the cash dividend out of its account. Please note that if you provide only your mobile phone number, you may only be notified of the cash dividend payment when you receive your dividend warrant or tax certificate.

### **4. Additional information for shareholders**

- 4.1 Your savings or current account, must be an active bank account, maintained with a local bank under your name or in the case of a joint account, has your name as one of the account holders. It must also be a bank account with a financial institution that is a member of the Malaysian Electronic Payment System Inter-Bank GIRO (IBG) set out below, which can be found on this website:

[http://www.meps.com.my/faq/interbank\\_giro.asp?id=2#answer](http://www.meps.com.my/faq/interbank_giro.asp?id=2#answer)

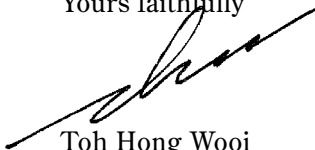
- |  |   |
|--|---|
| 1. Affin Bank Berhad                     | 12. EON Bank Berhad                         |
| 2. Alliance Bank Malaysia Berhad         | 13. Hong Leong Bank Berhad                  |
| 3. AmBank (M) Berhad                     | 14. HSBC Bank Malaysia Berhad               |
| 4. Bank Islam Malaysia Berhad            | 15. Malayan Banking Berhad                  |
| 5. Bank Muamalat Malaysia Berhad         | 16. OCBC Bank (Malaysia) Berhad             |
| 6. Bank Kerjasama Rakyat Malaysia Berhad | 17. Public Bank Berhad                      |
| 7. Bank of America                       | 18. RHB Bank Berhad                         |
| 8. Bank Simpanan Nasional Berhad         | 19. Standard Chartered Bank Malaysia Berhad |
| 9. CIMB Bank Berhad                      | 20. The Royal Bank of Scotland Berhad       |
| 10. Citibank Berhad                      | 21. United Overseas Bank (Malaysia) Bhd     |
| 11. Deutsche Bank Berhad                 |   |

- 4.2 Your bank account particulars and other related information is protected under the Securities Industry (Central Depositories) Act 1991 which strictly prohibits the disclosure of such information to any person unless you expressly authorise the disclosure of your bank account particulars and other related information to persons necessary to facilitate the eDividend such as the Company, the share registrar and the appointed paying banks.
- 4.3 Once you have registered for eDividend, any cash dividend entitlement of which the book closure date is announced by the Company on or after 1 September 2010, shall be paid to you via eDividend.

We look forward to a successful implementation of eDividend through your active participation, and to serving you better as our valued shareholders. If you have any query relating to our eDividend service, please do not hesitate to contact our share registrars, Symphony Share Registrars Sdn Bhd, at 03-7841 8000.

Thank you

Yours faithfully

A handwritten signature in black ink, appearing to read 'Toh Hong Wooi', written over a horizontal line.

Toh Hong Wooi  
Executive director

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# 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 Sixteenth Annual General Meeting of the Company to be held at Classics 2, Holiday Villa, No. 9 Jalan SS12/1, Subang Jaya, 47500 Petaling Jaya, Selangor Darul Ehsan on Monday, 28 June 2010 at 10.00 a.m. and at any adjournment thereof.

\*My/\*Our proxy/proxies is/are to vote as indicated below:-

NO.	RESOLUTIONS	FOR	AGAINST
1.	Approval of Directors' Fees for the year ended 31 December 2009.		
2.	Re-election of Mr. Toh Hong Wooi as Director of the Company.		
3.	To appoint Auditors.		
4.	Authority for the Directors to Allot and Issue Shares.		
5.	Proposed Amendment to the 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 \_\_\_\_\_, 2010

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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**PARAGON UNION BERHAD**

*A Model of Excellence in Carpets*

(286457-V)