

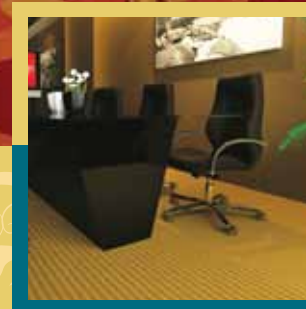


PARAGON UNION BERHAD
A Model of Excellence in Carpets
(286457-V)



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www.paragon.com.my



ANNUAL REPORT
2011

CONTENTS

	PAGE NO.
Notice Of Eighteenth Annual General Meeting	2 - 4
Statement Accompanying Notice Of 18th Annual General Meeting	5
Directors' Profile	6 - 7
Corporate Information	8
Chairman's Statement	9 - 11
Statement On Corporate Governance	12 - 18
Statement On Internal Control	19 - 20
Corporate Social Responsibility Statement	21 - 22
Audit Committee Report	23 - 26
Subsidiary Companies	27
List Of Properties Held By The Group	28
Analysis Of Shareholdings	29 - 31
Directors' Report	32 - 36
Statement By Directors	37
Statutory Declaration	38
Independent Auditors' Report To The Members Of Paragon Union Berhad	39 - 40
Statements of Financial Position	41 - 42
Statements of Comprehensive Income	43
Statements Of Changes In Equity	44 - 46
Statements of Cash Flow	47 - 49
Notes To And Forming Part Of The Financial Statements	50 - 97
Annexure A	98
Appendix I	99 - 101
Form of Proxy	

NOTICE OF EIGHTEENTH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Eighteenth 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, 25 June 2012 at 3.00 p.m. for the following purposes:-

AGENDA

1. To receive the Audited Financial Statements for the financial year ended 31 December 2011 together with the Reports of the Directors and Auditors thereon.

2. To approve the payment of Directors' Fees for the financial year ended 31 December 2011.

Resolution 1

3. To re-elect Mr. Toh Hong Wooi who is retiring in accordance with Article 75 of the Company's Articles of Association.

Resolution 2

4. To re-elect Mr. Lau Yoke Keen who is retiring in accordance with Article 84 of the Company's Articles of Association.

Resolution 3

5. To consider, and if thought fit, to pass the following ordinary resolution:

Resolution 4

"THAT Messrs. Morison Anuarul Azizan Chew, having consented to act, be and are hereby appointed as the Auditors of the Company in place of the retiring Auditors, Messrs. Anuarul Azizan Chew & Co and to hold office until the conclusion of the next Annual General Meeting at a remuneration to be determined by the Board of Directors."

SPECIAL BUSINESS

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

6. ORDINARY RESOLUTION

Resolution 5

- **AUTHORITY TO DIRECTORS TO ALLOT AND ISSUE SHARES PURSUANT TO SECTION 132D OF THE COMPANIES ACT, 1965**

"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."

7. SPECIAL RESOLUTION

Resolution 6

PROPOSED AMENDMENTS TO THE COMPANY'S ARTICLES OF ASSOCIATION

"**THAT** the proposed amendments to the Articles of Association of the Company as contained in Appendix I of the Annual Report 2011 ("Proposed Amendments") be and are hereby approved and adopted."

8. 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 (LS0009297)
Company Secretary

1 June 2012

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, it 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, Persoft Tower, 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.



NOTICE OF EIGHTEENTH ANNUAL GENERAL MEETING (cont'd)

EXPLANATORY NOTES ON SPECIAL BUSINESS

a) Authority To Directors To Allot And Issue Shares

The proposed Resolution 5 under item 6 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 Seventeenth Annual General Meeting held on 28 June 2011. 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 Seventeenth Annual General Meeting because there was no need for any fund raising activity for the purpose of investment, acquisition or working capital.

b) Proposed Amendments To The Company's Articles Of Association

The proposed Resolution 6 under item 7 is to amend the Company's Articles of Association to be in line with the recent amendments to the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. The details of the Proposed Amendments are as set out in Appendix I on pages 99 to 101 of this Annual Report.

GENERAL MEETING RECORD OF DEPOSITORS

For the purpose of determining a member who shall be entitled to attend this meeting, the Company shall be requesting the Bursa Malaysia Depository Sdn Bhd in accordance with Article 52(3) of the Company's Articles of Association and Section 34(1) of the Securities Industry (Central Depositories) Act 1991, to issue a General Meeting Record of Depositors as at 19 June 2012. Only a depositor whose name appears on the Record of Depositors as at 19 June 2012 shall be entitled to attend this meeting or appoint proxy/proxies to attend and/or vote in his stead.

STATEMENT ACCOMPANYING NOTICE OF EIGHTEENTH ANNUAL GENERAL MEETING

Details of Directors who are standing for re-election in Agenda 3 (Mr. Toh Hong Wooi) and Agenda 4 (Mr. Lau Yoke Keen) of the Notice of the Eighteenth Annual General Meeting are laid out in pages 6 and 7 of this Annual Report.

DIRECTORS' PROFILE

MICHAEL LIM HEE KIANG

Aged 64, Malaysian

Independent Non Executive Chairman

Chairman of Audit Committee

Chairman of Nomination Committee

Member of Remuneration Committee

Mr. Michael Lim Hee Kiang was re-appointed to the Board of Paragon on 26 November 2010. He is an Advocate and Solicitor, and holds an LLB degree with Second Class Upper Honours and LLM with Distinction from Victoria University of Wellington, New Zealand in 1972/1973. He was admitted as a Barrister and Solicitor to the Supreme Court of New Zealand in 1973. Upon returning to Malaysia in 1974, Mr Lim was admitted to the High Court of Sarawak and Brunei and subsequently to the High Court of Malaya in 1978. He was a lecturer in the Law Faculty, University of Malaya from 1975 to 1977. He joined Messrs. Shearn Delamore & Co. in 1978 and has been a partner of the firm for the last 32 years. He retired from the firm in 2009. Mr Lim is now a consultant with Messrs Jeff Leong, Poon and Wong, a leading law firm in Malaysia. He sits on the Board of Directors of DKSH Holdings (Malaysia) Berhad, Selangor Properties Berhad, Wawasan TKH Holdings Berhad, Major Team Holdings Berhad and Seloga Holdings Berhad as well as various private companies. He has no family relationship with any Director and/or substantial shareholders of Paragon and his directorship in Paragon does not give rise to any conflict of interest situation. He has no convictions for any offences within the past ten years.

TOH HONG WOUI

Aged 52, Malaysian

Executive Director

Member of Remuneration Committee

Member of Employees' Share Option ("ESOS") 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 in addition of BA Urban Planning Studies from the University of Westminster. 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.

FUNG BENG EE**Aged 49, Malaysian****Independent Non Executive Director****Member of Audit Committee****Chairman of Remuneration Committee****Member of Nomination Committee**

Mr. Fung Beng Ee was appointed to the Board of Paragon on 22 July 2010. Mr. Fung graduated from the University of Oxford with a Master of Arts degree in Jurisprudence in 1987. Mr. Fung was call to the Bar of England and Wales at Lincoln's Inn in 1987, the High Court of Malaya in 1988 and the Supreme Court of Singapore in 1992. He is the Managing Partner of Messrs Kamaruddin & Partners. He is also a Directors of Major Team Holdings Berhad, Northern Utility Resources Sdn. Bhd., Director of Celedon Capital Sdn. Bhd., IB Systems Sdn. Bhd., NUR Power Sdn. Bhd., NUR Distribution Sdn. Bhd. and Climate Systems Sdn. Bhd. 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.

LAU YOKE KEEN**Aged 46, Malaysian****Independent Non Executive Director****Member of Audit Committee**

Mr. Lau Yoke Keen was appointed to the Board of Paragon on 11 August 2011. Mr. Lau is a Chartered Accountant by profession and a member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants. He is also a member of the Chartered Tax Institute of Malaysia. Mr Lau started his professional career with the public accounting firms of Hanafiah Raslan & Mohamad, (Arthur Andersen & Co) in 1986 and subsequently in 1991 with Hew & Tan (Moores Rowland) until 1993. During the periods 1994 until 2001, Mr. Lau has served in various financial management capacities with several companies (public listed and non public listed) mainly in the retail, manufacturing, information technology and property development sectors. In 2002, he went into Public practice and currently he is the Managing Partner of Messrs KL Associates, a Partner of Messrs YC Chong & Co and also a Director of Major Team Holdings Berhad. He has more than 16 years of exposure to various aspects of auditing, taxation and accounting. 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.



CORPORATE INFORMATION

BOARD OF DIRECTORS

Michael Lim Hee Kiang (*Independent Non-Executive Chairman*)
 Chin Nam Onn (*Independent Non-Executive Chairman*) (*Resigned on 12-05-2011*)
 Fung Beng Ee (*Independent Non-Executive Director*)
 Toh Hong Wooi (*Executive Director*)
 Lau Yoke Keen (*Independent Non-Executive Director*) (*Appointed on 11-08-2011*)

AUDIT COMMITTEE

Michael Lim Hee Kiang (*Independent Non-Executive Chairman*)
 Fung Beng Ee (*Independent Non-Executive Director*)
 Lau Yoke Keen (*Independent Non-Executive Director*) (*Appointed on 11-08-2011*)

COMPANY SECRETARY

Ng Yim Kong (LS 0009297)

REGISTERED OFFICE

Unit 07-02, Level 7
 Persoft Tower
 6B Persiaran Tropicana
 47410 Petaling Jaya
 Selangor Darul Ehsan
 Tel: 603-7804 5929
 Fax: 603-7805 2559

PRINCIPAL BANKERS

Malayan Banking Berhad
 OCBC Bank (Malaysia) 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 Azian 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.

CHAIRMAN'S STATEMENT

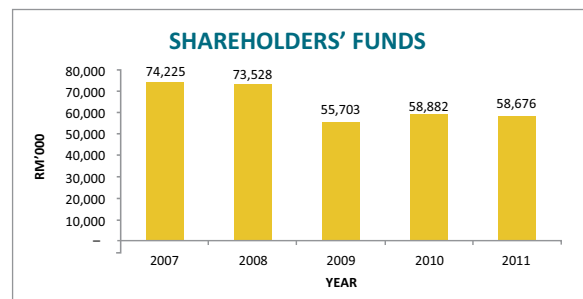
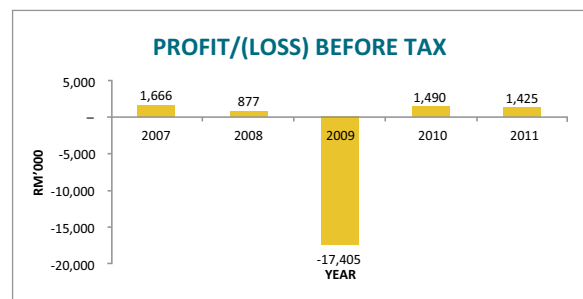
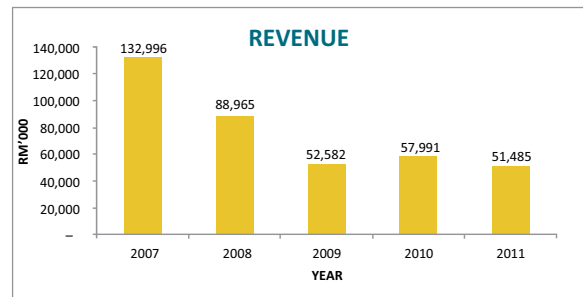
On behalf of the Board of Directors, I am pleased to present the Group's Annual Report & Audited Finance Statements for the year ended 31 December 2011.

PERFORMANCE AND FINANCIAL REVIEWS

The Group achieved a turnover of RM51.49 million as compared to RM57.99 million in 2010. The lower sales revenue was attributed to double natural disasters that occurred in Japan and the flooding in Thailand, which had adversely affected the overall performance.

To further promote growth and to remain vital in the market, the management is continuing its emphasis on cost reduction and streamlining of its business operation.

For 2011, the Group is able to maintain our major automotive clientele, which comprises of Proton, Honda, Nissan, GM Korea, Suzuki, Peugeot, Isuzu and Volvo. In addition, we managed to secure new Clientele, such as BMW, Changan Berjaya Auto, Alado Corporation and Cherry International.



CHAIRMAN'S STATEMENT (cont'd)

For the commercial carpet division, we have undertaken numerous projects throughout 2011 which among others were Maybank, Telekom, G Hotel, Bukit Kiara, Concorde Hotel, Holiday Villa, Pavilion KL, Putrajaya, Bayview Beach Hotel, Kementarian Dalam Negeri-Langkawi, Hotel Lawas-Kuching, Universiti Malaysia-Kuantan, Hatten-Melaka, Hospital Cheras and Menara Telekom.

To further expand our commercial carpet market, we are actively identifying and developing both local and export opportunities.

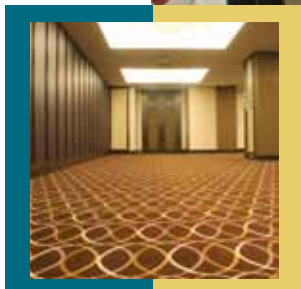
PROPERTY DEVELOPMENT DIVISION

The Group has not engaged in any property development in 2011. Nevertheless, we would embark in property development again when the right opportunity arises.

PROSPECTS AND OUTLOOK

The country's GDP is forecasted to grow at between 4-5% in 2012, with such growth rate, it would likely able to sustain the business confidence in the local economy.

With the implementation of the recently secured projects both in automotive and commercial carpet this year, the Group is confident in maintaining its overall performance this year despite of the challenges ahead.





The Group would continue to develop the market through identifying and securing potential projects for both automotive and commercial sectors in the local and overseas market.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to take this opportunity to thank the management and staff for their continuous efforts and dedications. I hope that you would continue with the re-engineering to further improve the operational efficiency and cost reduction to stay vital in the industry. Our sincere appreciation also goes to our shareholders, valued customers, bankers, business associates and Government Authorities for their support and confidence in the Group.

MICHAEL LIM HEE KIANG
INDEPENDENT NON-EXECUTIVE CHAIRMAN



STATEMENT ON CORPORATE GOVERNANCE

The Board of Directors of Paragon Union Berhad ("Paragon") appreciates the importance of practising good corporate governance to direct the businesses of the Paragon Group ("Group") towards enhancing business and long-term value for its shareholders. The Board is fully committed to 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 2011.

DIRECTORS

Responsibilities

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

Composition and Balance

The Board currently has four members, comprising one Executive Director and three 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 23 to 26 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> <i>(Resigned on 12-05-2011)</i>
Mr. Toh Hong Wooi	<i>Executive Director</i>
Ms. Goh Pek Nee	<i>(1 representative from the Management)</i> <i>(Joining on 28-02-2011)</i>

Meetings

The Directors meet regularly and all the proceedings at the Board meetings are properly minuted and signed by the Executive Director. 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 2011, four Board meetings were held. Attendance at the Board meetings held during the financial year is set out below:

Executive Directors	Total
Toh Hong Wooi	4/4
Non-Executive Directors	Total
Chin Nam Onn (Resigned on 12-05-2011)	1/1
Fung Beng Ee	4/4
Michael Lim Hee Kiang	4/4
Lau Yoke Keen (Appointed on 11-08-2011)	2/2



STATEMENT ON CORPORATE GOVERNANCE (cont'd)

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 recognizes 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. Michael Lim Hee Kiang	<i>Independent Non-Executive Chairman (Chairman)</i>
Mr. Chin Nam Onn (Resigned 12-05-2011)	<i>Independent Non-Executive Chairman</i>
Mr. Fung Beng Ee	<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 given by the Company Secretary pertaining to the "Amendments to the Listing Requirements of Bursa Malaysia Securities Berhad for the Main Market". In addition to that, the following Directors had attended the undermentioned conferences, seminars and/or training programmes:-

- | | |
|--|-----------------------|
| 1. Toh Hong Wooi | 16 November 2011 |
| • 2011 Tax Workshop | |
| 2. Michael Lim Hee Kiang | |
| • Risk Management | 27 June 2011 |
| • The Institute of Internal Auditors | 12 July 2011 |
| 3. Lau Yoke Keen | 23 – 24 November 2011 |
| • Mandatory Accreditation Programme for Directors of Public Listed Companies | |

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 (Resigned on 12-05-2011)	<i>Independent Non-Executive Chairman</i>
Mr. Fung Beng Ee	<i>Independent Non-Executive Director (Chairman)</i>
Mr. Toh Hong Wooi	<i>Executive Director</i>
Mr. Michael Lim Hee Kiang	<i>Independent Non-Executive Director</i>



STATEMENT ON CORPORATE GOVERNANCE (cont'd)

The remuneration of the Directors, in aggregation and analysed into bands of RM82,500.00 is as follows:

	EXECUTIVE DIRECTORS RM	NON-EXECUTIVE DIRECTORS RM
Salaries	348,000	-
Gratuity	200,000	-
Bonuses	45,000	-
Commission	17,246	-
Fees	30,000	82,500
Benefits-In-Kind	18,283	-
Total	658,529	82,500

REMUNERATION RANGE	NUMBER OF DIRECTORS	
	EXECUTIVE	NON-EXECUTIVE
Less than RM50,000	-	4
RM50,001 to RM100,000	-	-
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. Additional information of the Company is available on the website at www.paragon.com.my.

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

ACCOUNTABILITY AND AUDIT

The Audit Committee supports the Board in its responsibility to oversee the financial reporting and the effectiveness of the internal controls of the Group. The Audit Committee comprises two Directors, both of them are independent. The terms of reference and activities of the Audit Committee are set out in the Audit Committee Report on page 23 to 26 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 Executive Director'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 2011 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 RM10,850.00.

2. Material contracts

There were no material contracts entered into by the Company and/or its subsidiaries that involve Directors' or substantial shareholders' interests either still subsisting at the end of the financial year ended 31 December 2011 or entered into since the end of the previous financial year.



STATEMENT ON CORPORATE GOVERNANCE (cont'd)

3. Sanctions and / or 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. American Depositary Receipt ("ADR") or Global Depositary Receipt ("GDR")

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

5. 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.

6. Profit guarantee

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

7. Options or convertible securities

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

8. Share Buy-back

There was no share buy-back by the Company during the financial year.

STATEMENT ON INTERNAL CONTROL

1. Introduction

The Board of Directors ("Board") acknowledges the importance of maintaining a sound system of internal controls to safeguard shareholders' investments and the Group's assets. The Board is pleased to outline the state of internal control of the Group for the financial year ended 31 December 2011 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.



STATEMENT ON INTERNAL CONTROL (cont'd)

- 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.
- 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

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:-

- CPR & First Aid at Workplace Training;
- ISO 14001 : 2004 + COR 2009 Requirements Training;
- Forklift Operators & Safety Training;
- ISO 14001 / OHSAS 18001 Brief Requirements & Internal Auditor Training;
- Hazardous Chemical Training;
- Emergency Preparedness Training;
- Personal Protection Equipment (PPE) Training;
- Housekeeping 5'S' & Workplace Inspection Training;
- Emergency Response Plan and Preparedness (ERP) & Accident Investigation; and
- Reporting Procedure

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 2011 Malaysia Raya Festival.



CORPORATE SOCIAL RESPONSIBILITY STATEMENT (cont'd)

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 minimizing 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 and donations to non-profitable organizations and community service projects such as Kelab VIP Poltera for its Persatuan Kebajikan Keluarga Bekas Polis & Tentera Wilayah Persekutuan & Selangor, Badan Kebajikan Kakitangan Melayu Dewan Bandaraya Kuala Lumpur, Yayasan Jantung Malaysia, National Council of Senior Citizens, Sekolah Menengah Kebangsaan Berhad for its Carnival Family Day and Persatuan Veteran Dan Insrasi Melayu Muda.

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.

AUDIT COMMITTEE REPORT

1. COMPOSITION

Members of the Committee

Mr. Michael Lim Hee Kiang

Mr. Chin Nam Onn

(Resigned on 12-05-2011)

Mr. Fung Beng Ee

Mr. Lau Yoke Keen

(Appointed 11-08-2011)

Designation

Independent Non-Executive Chairman (Chairman)

Independent Non-Executive Chairman (Chairman)

Independent Non-Executive Director

Independent Non-Executive Director

2. TERMS OF REFERENCE OF AUDIT COMMITTEE

2.1 Membership

The Committee shall be appointed by the Board from amongst the Directors of the Company and shall consist of not less than three members of whom 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 1st Schedule of the Accountants Act 1967; or
 - (b) he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967; 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.



AUDIT COMMITTEE REPORT (cont'd)

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.

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 four Meetings of the Audit Committee held during the financial year ended 31 December 2011 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 (Resigned on 12-05-2011)	1/1
Mr. Michael Lim Hee Kiang	4/4
Mr. Fung Beng Ee	4/4
Mr. Lau Yoke Keen (Appointed on 11-08-2011)	2/2

4. SUMMARY OF ACTIVITIES

During the year ended 31 December 2011, 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.



AUDIT COMMITTEE REPORT (cont'd)

- 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 Inventory Controls of Paragon Carpet Distributor Sdn Bhd. These review areas included as follows:-

- i) Overview of Key Controls Governing Inventory Function; and
- ii) Control Risks Assessment which includes:-
 - a) Physical Access and Safeguarding of Inventory;
 - b) Inventory Reordering Process;
 - c) Inventory Receipting & Inspection Process; and
 - d) Inventory Issuance Process

The cost incurred for internal audit in financial year ended 31 December 2011 was RM9,500.00
The audit steps involved are as follows:-

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

SUBSIDIARY COMPANIES

EQUITY INTEREST

NAME OF COMPANY	2011	2010	PRINCIPAL ACTIVITIES
Paragon Car Carpets & Components Sdn Bhd (108988-M)	100%	100%	Manufacturing and trading in car carpets and automotive components
* Paragon Carpetmaker Sdn Bhd (246013-P)	100%	100%	Manufacturing of 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 31st December 2011

Location	Age of Building	Tenure	Description	Land Area (sq. m.)	Build-Up Area (sq. m.)	Cost / Revaluation (RM)	Net Book Value as at 31.12.2011 (RM)	Last Date of Revaluation
Lot No. PT 7637 14, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	21 years	Leasehold (Expiry 14.05.2088)	Leasehold Land, Factory & Office	8,094	3,190 (factory) 3,929 (office)	8,090,000	6,192,925	12.03.1998
Lot No. PT 7667 21, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	20 years	Leasehold (Expiry 14.05.2088)	Leasehold Land, Factory & Office	6,833	4,177 (factory) 873 (office)	4,994,365	3,909,206	13.02.1998
Lot No. PT 7641 11A, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	16 years	Leasehold (Expiry 14.05.2088)	Leasehold Land, Factory & Office	12,128	7,919 (factory)	8,462,936	6,624,974	12.03.1998

ANALYSIS OF SHAREHOLDINGS

Class of Shares : Ordinary Shares of RM1.00 Each
Voting Rights : One (1) Vote per Ordinary Share Held

ANALYSIS BY SIZE OF SHAREHOLDINGS AS AT 30 APRIL 2012

Size Of Holdings	No. Of Shareholders	No. Of Shares	Percentage (%)
1 - 99	22	424	0.00
100 - 1,000	701	669,542	1.03
1,001 - 10,000	1,530	6,972,300	10.78
10,001 - 100,000	387	11,094,300	17.15
100,001 - 3,234,914*	37	10,592,640	16.37
3,234,915 and above **	2	35,369,094	54.67
Total	<u>2,679</u>	<u>64,698,300***</u>	<u>100.00</u>

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 30 APRIL 2012

Names	Direct No. of Shares	Percentage (%)	Indirect No. of Shares	Percentage (%)
Toh Hong Wooi	-	-	-	-
Fung Beng Ee	-	-	-	-
Michael Lim Hee Kiang	-	-	-	-
Lau Yoke Keen (Appointed on 11-08-2011)	-	-	-	-



ANALYSIS OF SHAREHOLDINGS (cont'd)**SUBSTANTIAL SHAREHOLDERS AS PER THE REGISTER OF SUBSTANTIAL SHAREHOLDERS AS AT 30 APRIL 2012**

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.

THIRTY (30) LARGEST SHAREHOLDERS AS AT 30 APRIL 2012

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	1,837,200	2.84
4.	Su Ming Keat	996,040	1.54
5.	Maybank Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Wong Pah Sang	845,700	1.31
6.	Lee Poh Yee	843,800	1.30
7.	Optad Marketing Sdn. Bhd.	610,600	0.94
8.	Cimsec Nominees (Asing) Sdn. Bhd. Exempt An for CIMB Securities (Singapore) 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.	Maybank Securities Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Lee Ah Kim	214,500	0.33
13.	Maybank Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Liao Siong Kee @ Liew Siong Kee	204,900	0.32
14.	Lim Chir Ching	200,000	0.31
15.	Public Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Su Ming Keat	200,000	0.31
16.	Maybank Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Tan Hon @ Tan Ho Hoon	191,100	0.30
17.	Lim Kwei Sunn	167,500	0.26
18.	Goh Yoke Choo	157,600	0.24
19.	Chin Tung Leong	154,800	0.24
20.	Phong Chiew Khim	147,800	0.23
21.	Wong Ah Yong	143,000	0.22
22.	Ooi Lee Peng	140,400	0.22
23.	Yee Kwek Keong	140,000	0.22
24.	Yeow Teck Chai	138,000	0.21
25.	Kong Aliong @ Kong Foo Liong	135,500	0.21
26.	Chong Tong Siew	134,000	0.21
27.	Maybank Securities Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Tee Teck Khoon	133,200	0.21
28.	A.A. Anthony Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Goh Tien Tow	131,000	0.20
29.	Chantika Holdings Sdn. Bhd.	130,000	0.20
30.	Ho Wah Genting Kintron Sdn. Bhd.	130,000	0.20
Total		44,937,134	69.46



DIRECTORS' REPORT

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 2011.

PRINCIPAL ACTIVITIES

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

The principal activities of the subsidiary companies are disclosed in Note 4 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
Net loss for the financial year attributable to:		
Owners of the parent	(204,255)	(387,051)
Non-controlling interests	(2,030)	-
	<u>(206,285)</u>	<u>(387,051)</u>

DIVIDEND

No dividend has been paid or declared by the Company since the end of the previous financial year. The Board of Directors does not recommend any dividend in respect of the current financial year under review.

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
	<u>5,301,700</u>		<u>4,220,708</u>

The repurchase transactions were financed by internally generated funds. The repurchased shares are being held as treasury shares and carried at cost in accordance with the requirements of section 67A of the Companies Act, 1965. There has been no sale or cancellation of such shares to date.

At 31 December 2011, the total number of treasury shares held by the Company is 5,301,700 ordinary shares.

DIRECTORS' REPORT (cont'd)**DIRECTORS**

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

Toh Hong Wooi
 Michael Lim Hee Kiang
 Fung Beng Ee
 Lau Yoke Keen (appointed on 11.8.2011)
 Chin Nam Onn (resigned on 12.5.2011)

DIRECTORS' INTERESTS

None of the 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 STATUTORY INFORMATION

- (a) Before the statements of comprehensive income and statements of financial position of the Group and of the Company were made out, the Directors took reasonable steps: -
- (i) to ascertain that proper 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 values 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:-
- (i) that would render the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; or
 - (ii) that would render the values attributed to the current assets in the financial statements of the Group and of the Company misleading; or
 - (iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate; or
 - (iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.
- (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.
- (e) In the opinion of the Directors:
- (i) the results of the operations of the Group and of the Company for the financial year ended 31 December 2011 have not been substantially affected by any item, transaction or event of a material and unusual nature, except as disclosed in Note 21; and
 - (ii) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report is made.

HOLDING COMPANY

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

DIRECTORS' REPORT (cont'd)**AUDITORS**

The auditors, Anuarul Azizan Chew & Co., retire at the forthcoming annual general meeting and do not wish to seek re-appointment. The Company has received a nomination to appoint the firm under another name Morison Anuarul Azizan Chew, as auditors for the ensuing year. Morison Anuarul Azizan Chew have expressed their willingness to accept nomination as auditors and a motion to resolve their appointment will be tabled at the forthcoming annual general meeting.

Signed in accordance with a resolution of the Directors.

TOH HONG WOOL

MICHAEL LIM HEE KIANG

KUALA LUMPUR
25 APRIL 2012

STATEMENT BY DIRECTORS

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

We, TOH HONG WOOL and MICHAEL LIM HEE KIANG, 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 41 to 97 are drawn up in accordance with 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 2011 and of their financial performance and cash flows for the financial year then ended.

Signed in accordance with a resolution of the Directors.

TOH HONG WOOL

MICHAEL LIM HEE KIANG

KUALA LUMPUR
25 APRIL 2012

STATUTORY DECLARATION

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

I, CHOW SIEW YONG, being the Officer primarily responsible for the financial management of PARAGON UNION BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 41 to 97 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)
abovenamed CHOW SIEW YONG at)
Kuala Lumpur in the Federal Territory this)
25 APRIL 2012)

CHOW SIEW YONG

Before me,

COMMISSIONER FOR OATHS

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PARAGON UNION BERHAD

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Paragon Union Berhad, which comprise the statements of financial position as at 31 December 2011 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equities and statements of cash flow 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 41 to 97.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 the auditors' judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation of the financial statement that give a true and fair view 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 opinion.

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with 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 2011 and of their financial performance and cash flows for the financial year then ended.



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PARAGON UNION BERHAD (cont'd)

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report on 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 financial statements 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 independent auditors' 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 REPORTING RESPONSIBILITIES

The supplementary information set out in Note 34 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the Directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the Directive of Bursa Malaysia Securities Berhad.

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: 1294/06/14 (J)
Partner of Firm

KUALA LUMPUR
25 APRIL 2012

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

		Group		Company	
	Note	2011 RM	2010 RM	2011 RM	2010 RM
Non-Current Assets					
Property, plant and equipment	3	34,156,591	35,752,521	-	-
Investment in subsidiary companies	4	-	-	13,297,231	13,297,231
Deferred tax assets	5	-	69,048	-	-
		<u>34,156,591</u>	<u>35,821,569</u>	<u>13,297,231</u>	<u>13,297,231</u>
Current Assets					
Inventories	6	22,129,527	18,743,469	-	-
Trade receivables	7	10,073,105	14,757,808	-	-
Other receivables	8	20,234,140	19,044,664	18,004,465	18,004,465
Tax recoverable		671,227	712,021	85,098	85,098
Amount owing by subsidiary companies	9	-	-	22,974,961	23,275,248
Cash held under Housing Development Account	10	304,427	298,787	-	-
Cash and bank balances	11	2,523,058	2,851,953	75,520	91,399
		<u>55,935,484</u>	<u>56,408,702</u>	<u>41,140,044</u>	<u>41,456,210</u>
Current Liabilities					
Trade payables	12	2,436,788	3,439,912	-	-
Other payables	13	4,670,479	4,382,379	1,516,170	1,445,285
Hire purchase payables	14	1,104,024	1,003,548	-	-
Bank borrowings	15	15,071,140	16,404,251	-	-
Tax payables		581,555	405,931	-	-
		<u>23,863,986</u>	<u>25,636,021</u>	<u>1,516,170</u>	<u>1,445,285</u>
Net Current Assets		<u>32,071,498</u>	<u>30,772,681</u>	<u>39,623,874</u>	<u>40,010,925</u>
		<u>66,228,089</u>	<u>66,594,250</u>	<u>52,921,105</u>	<u>53,308,156</u>



STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011 (cont'd)

		Group		Company	
	Note	2011 RM	2010 RM	2011 RM	2010 RM
Financed by:					
Share Capital	16	70,000,000	70,000,000	70,000,000	70,000,000
Reserves	17	577,643	660,570	-	-
Treasury shares	18	(4,220,708)	(4,220,708)	(4,220,708)	(4,220,708)
Accumulated losses		(7,679,205)	(7,557,877)	(12,858,187)	(12,471,136)
Equity attributable to owners of the parent		<u>58,677,730</u>	<u>58,881,985</u>	<u>52,921,105</u>	<u>53,308,156</u>
Non-controlling interests		(2,030)	-	-	-
		<u>58,675,700</u>	<u>58,881,985</u>	<u>52,921,105</u>	<u>53,308,156</u>
 Non -Current Liabilities					
Hire purchase payables	14	1,242,180	2,055,974	-	-
Bank borrowings	15	3,476,722	4,093,256	-	-
Deferred tax liabilities	5	2,833,487	1,563,035	-	-
		<u>7,552,389</u>	<u>7,712,265</u>	<u>-</u>	<u>-</u>
		<u>66,228,089</u>	<u>66,594,250</u>	<u>52,921,105</u>	<u>53,308,156</u>

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

		Group		Company	
	Note	2011 RM	2010 RM	2011 RM	2010 RM
Revenue	19	51,485,001	57,990,652	-	-
Cost of sales		(40,645,435)	(47,473,854)	-	-
Gross profit		10,839,566	10,516,798	-	-
Other operating income		952,488	170,890	261	227
Selling and distribution costs		(4,667,606)	(4,017,769)	-	-
Administrative and general expenses		(4,181,157)	(3,695,370)	(387,312)	(422,445)
Finance costs	20	(1,517,991)	(1,484,411)	-	-
Profit/(Loss) before taxation	21	1,425,300	1,490,138	(387,051)	(422,218)
Taxation	22	(1,631,585)	1,688,831	-	(2,625)
Net (loss)/profit for the financial year		(206,285)	3,178,969	(387,051)	(424,843)
(Loss)/Profit attributable to:-					
Owners of the parent		(204,255)	3,178,969	(387,051)	(424,843)
Non-controlling interests		(2,030)	-	-	-
		(206,285)	3,178,969	(387,051)	(424,843)
(Loss)/Earnings per share attributable to owners of the parent (sen)					
Basic	23(a)	(0.32)	4.91		
Diluted	23(b)	-	-		

The accompanying notes form an integral part of the financial statements.



STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

Attributable to Equity Holders of the Parent
 ← Non-Distributable → ← Distributable →

Group	Share Capital RM	Merger Reserve RM	Asset Valuation Reserve RM	Treasury Shares RM	Accumulated Losses RM	Total RM	Non- controlling Interests RM	Total Equity RM
At 1 January 2011	70,000,000	(4,618,481)	5,279,051	(4,220,708)	(7,557,877)	58,881,985	-	58,881,985
Realisation of reserve on amortisation of revalued properties	-	-	(82,927)	-	82,927	-	-	-
Total comprehensive loss	-	-	-	-	(204,255)	(204,255)	(2,030)	(206,285)
At 31 December 2011	70,000,000	(4,618,481)	5,196,124	(4,220,708)	(7,679,205)	58,677,730	(2,030)	58,675,700

STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (cont'd)

	Attributable to Equity Holders of the Parent					Total RM
	← Non-Distributable →	← Distributable →				
Group	Share Capital RM	Merger Reserve RM	Asset Valuation Reserve RM	Treasury Shares RM	Accumulated Losses RM	
At 1 January 2010	70,000,000	(4,618,481)	5,361,978	(4,220,708)	(10,819,773)	55,703,016
Realisation of reserve on amortisation of revalued properties	-	-	(82,927)	-	82,927	-
Total comprehensive income	-	-	-	-	3,178,969	3,178,969
At 31 December 2010	70,000,000	(4,618,481)	5,279,051	(4,220,708)	(7,557,877)	58,881,985



STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (cont'd)

	Share Capital RM	← Distributable → Treasury Shares RM	Accumulated Losses RM	Total RM
Company				
At 1 January 2011	70,000,000	(4,220,708)	(12,471,136)	53,308,156
Total comprehensive loss	-	-	(387,051)	(387,051)
At 31 December 2011	<u>70,000,000</u>	<u>(4,220,708)</u>	<u>(12,858,187)</u>	<u>52,921,105</u>
At 1 January 2010	70,000,000	(4,220,708)	(12,046,293)	53,732,999
Total comprehensive loss	-	-	(424,843)	(424,843)
At 31 December 2010	<u>70,000,000</u>	<u>(4,220,708)</u>	<u>(12,471,136)</u>	<u>53,308,156</u>

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF CASH FLOW

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

		Group		Company	
	Note	2011 RM	2010 RM	2011 RM	2010 RM
Cash Flows From Operating Activities					
Profit/(Loss) before taxation		1,425,300	1,490,138	(387,051)	(422,218)
Adjustments for:					
Impairment for trade receivables		510,000	401,562	-	-
Impairment for trade receivables written back		(72,284)	(5,599)	-	-
Impairment for other receivables		20,000	-	-	-
Unrealised loss on foreign exchange		65,160	97,990	-	-
Depreciation of property, plant and equipment		2,601,382	2,619,279	-	-
Inventories written off		519,160	-	-	-
Gain on disposal of property, plant and equipment		(11,368)	(148,500)	-	-
Property, plant and equipment written off		-	101,707	-	-
Write-off for fire damages	21	739,343	-	-	-
Interest income		(90,376)	(5,953)	(261)	(227)
Interest expense		1,517,991	1,484,411	-	-
Operating profit/(loss) before working capital changes		7,224,308	6,035,035	(387,312)	(422,445)
Decrease/(Increase) in working capital					
Inventories		(3,905,218)	(1,462,994)	-	-
Trade and other receivables		2,972,351	3,620,151	-	-
Trade and other payables		(715,024)	(828,474)	70,885	47,482
Amount owing by subsidiary companies		-	-	300,287	373,578
		(1,647,891)	1,328,683	371,172	421,060
Cash generated from/(used in) operations		5,576,417	7,363,718	(16,140)	(1,385)

The accompanying notes form an integral part of the financial statements.



STATEMENTS OF CASH FLOW**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011** (cont'd)

	Note	Group		Company	
		2011 RM	2010 RM	2011 RM	2010 RM
Interest received		90,376	5,953	261	227
Interest paid		(1,517,991)	(1,484,411)	-	-
Tax paid		(75,667)	(119,559)	-	-
		(1,503,282)	(1,598,017)	261	227
Net cash from/(used in) operating activities		4,073,135	5,765,701	(15,879)	(1,158)
Cash Flows From Investing Activities					
Purchase of property, plant and equipment	3(d)	(1,416,910)	(338,975)	-	-
Proceeds from disposal of property, plant and equipment		28,333	148,500	-	-
Net cash used in investing activities		(1,388,577)	(190,475)	-	-
Cash Flows From Financing Activities					
Repayment of term loans		(591,027)	(586,028)	-	-
Net changes in bills payable		(298,000)	(1,329,128)	-	-
Repayment of hire purchase payables		(1,058,168)	(1,143,410)	-	-
Net cash used in financing activities		(1,947,195)	(3,058,566)	-	-

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF CASH FLOW
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (cont'd)

	Note	Group		Company	
		2011 RM	2010 RM	2011 RM	2010 RM
Net increase/(decrease) in cash and cash equivalents		737,363	2,516,660	(15,879)	(1,158)
Cash and cash equivalents at beginning of the financial year		(9,970,424)	(12,487,084)	91,399	92,557
Cash and cash equivalents at end of the financial year		<u>(9,233,061)</u>	<u>(9,970,424)</u>	<u>75,520</u>	<u>91,399</u>
Cash and cash equivalents at end of the financial year comprises:					
Cash and bank balances		2,523,058	2,851,953	75,520	91,399
Cash held under Housing Development Account		304,427	298,787	-	-
Bank overdrafts		(12,060,546)	(13,121,164)	-	-
		<u>(9,233,061)</u>	<u>(9,970,424)</u>	<u>75,520</u>	<u>91,399</u>

The accompanying notes form an integral part of the financial statements.



NOTES TO THE FINANCIAL STATEMENTS

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 4 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, Persoft Tower, 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 the Company have been prepared under the historical cost convention unless otherwise stated in the accounting policies below and in accordance with Financial Reporting Standards ("FRSs") and the provisions of the Companies Act, 1965 in Malaysia.

During the financial year, the Group and the Company have adopted the following new FRSs, revised FRSs, Issues Committee Interpretations ("IC Int"), amendments to FRSs and IC Interpretations issued by the Malaysian Accounting Standards Board ("MASB") that are relevant to their operations:-

	Effective date for financial period beginning on or after
Amendments to FRS 132: Financial Instruments: Presentation:-paragraphs 11,16 and 97E	1 March 2010
FRS 3: Business Combination (Revised)	1 July 2010
FRS 127: Consolidated and Separate Financial Statements (Revised)	1 July 2010
Amendments to FRS 7: Improving Disclosures about Financial Instruments	1 January 2011
IC Interpretation 4: Determining Whether An Arrangement Contains a Lease	1 January 2011
IC Interpretation 18: Transfers of Assets from Customers	1 January 2011
Amendments to FRSs contained in the documents entitled "Improvements to FRSs (2010)"	1 January 2011

The adoption of the above new FRSs, revised FRSs, IC Interpretations, amendments to FRSs and IC Interpretations did not have a significant impact on the financial statements of the Company except as disclosed in Note 28.

To converge with International Financial Reporting Standards ("IFRS") in 2012, the MASB had on 19 November 2011, issued a new MASB approve accounting framework, the Malaysian Financial Reporting Standards ("MFRSs"), which are mandatory for annual financial periods beginning on or after 1 January 2012, with the exception of entities that are within the scope of MFRS 141 Agriculture and IC Interpretations 15 Agreements for Construction of Real Estate, including its parent significant investor and venture ("Transitioning Entities").

Transitioning Entities will be allowed to defer the adoption of the new MFRSs for an additional one year. Consequently, adoption of MFRSs by Transitioning Entities will be mandatory for annual periods beginning on or after 1 January 2013. However, the Group and the Company do not qualify as Transitioning Entities and is therefore required to adopt the MFRSs for the financial period beginning on or after 1 January 2012.

MFRSs effective on 1 January 2012

MFRS 1	First time Adoption of Malaysian Financial Reporting Standards
MFRS 2	Share-based Payments
MFRS 3	Business Combinations
MFRS 4	Insurance Contracts
MFRS 5	Non-current Assets Held for Sale and Discontinued Operations
MFRS 6	Exploration for Evaluation of Mineral Resource
MFRS 7	Financial Instruments: Disclosures
MFRS 8	Operating Segments
MFRS 101	Presentation of Financial Statements
MFRS 102	Inventories
MFRS 107	Statement of Cash Flows
MFRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
MFRS 110	Events after the Reporting Period
MFRS 111	Construction Contracts
MFRS 112	Income Taxes
MFRS 116	Property, Plant and Equipment
MFRS 117	Leases
MFRS 118	Revenue
MFRS 119	Employee Benefits
MFRS 120	Accounting for Government Grants and Disclosure of Government Assistance
MFRS 121	The Effects of Changes in Foreign Exchange Rates
MFRS 123	Borrowing Costs
MFRS 124	Related Party Disclosures
MFRS 126	Accounting and Reporting by Retirement Benefit Plans
MFRS 127	Consolidated and Separate Financial Statements
MFRS 128	Investments in Associates
MFRS 129	Financial Reporting in Hyperinflationary Economics



NOTES TO THE FINANCIAL STATEMENTS (cont'd)

MFRSs effective on 1 January 2012 (Continued)

MFRS 131	Interests in Joint Ventures
MFRS 132	Financial Instruments : Presentation
MFRS 133	Earnings per Share
MFRS 134	Interim Financial Reporting
MFRS 136	Impairment of Assets
MFRS 137	Provisions, Contingent Liabilities and Contingent Assets
MFRS 138	Intangible Assets
MFRS 139	Financial Instruments : Recognition and Measurement
MFRS 140	Investment Property
IC Int 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IC Int 2	Members' Shares in Co-operative Entities and Similar Instruments
IC Int 4	Determining whether an Arrangement contains a Lease
IC Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IC Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
IC Int 7	Applying the Restatement Approach under MFRS 129 Financial Reporting in Hyperinflationary Economics
IC Int 9	Reassessment of Embedded Derivatives
IC Int 10	Interim Financial Reporting and Impairment
IC Int 12	Service Concession Arrangements
IC Int 13	Customer Loyalty Programmes
IC Int 14	MFRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IC Int 16	Hedges of a Net Investment in a Foreign Operation
IC Int 17	Distributions of Non-cash Assets to Owners
IC Int 18	Transfers of Assets from Customers
IC Int 19	Extinguishing Financial Liabilities with Equity Instruments
IC Int 107	Introduction of the Euro
IC Int 110	Government Assistance – No Specific Relation to Operation Activities
IC Int 112	Consolidation – Special Purpose Entities
IC Int 113	Controlled Entities – Non-Monetary Contributions by Ventures Jointly
IC Int 115	Operating Leases – Incentives
IC Int 125	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders
IC Int 127	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
IC Int 129	Concession Arrangements: Disclosures Services
IC Int 131	Revenue – Barter Transactions Involving Advertising Services
IC Int 132	Intangible Assets – Web Site Costs

MFRSs effective on 1 January 2013

MFRS 10	Consolidated Financial Statements
MFRS 11	Joint Arrangements
MFRS 12	Disclosure of Interest in Other Entities
MFRS 13	Fair Value Measurement
MFRS 119	Employee Benefits (International Accounting Standard ("IAS") 9 as amended by IASB in June 2011)
MFRS 127	Separate Financial Statements (IAS 27 as amended by IASB in May 2011)
MFRS 128	Investments in Associates and Joint Ventures (IAS 28 as amended by IASB in May 2011)
IC Int 20	Stripping Costs in the Production Phase of a Surface Mine

MFRSs effective on 1 January 2015

MFRS 9	Financial Instruments (International Financial Reporting Standards ("IFRS") 9 issued by International Accounting Standards Board ("IASB") in November 2009)
MFRS 9	Financial Instruments (IFRS 9 issued by IASB in October 2010)

Amendments to MFRSs

Amendments to MFRS 101	Presentation of Items of Other Comprehensive Income	1 July 2012
Amendments to MFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to MFRS 132	Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to MFRS 9 and MFRS 7	Mandatory Effective Date of MFRS 9 and Transition Disclosures	1 January 2015

New FRSs

		Effective for financial periods beginning on or after
FRS 10	Consolidated Financial Statements	1 January 2013
FRS 11	Joint Arrangements	1 January 2013
FRS 12	Disclosure of Interest in Other Entities	1 January 2013
FRS 13	Fair Value Measurements	1 January 2013
FRS 9	Financial Instruments (IFRS 9 issued by IASB in November 2009)	1 January 2015
FRS 9	Financial Instruments (IFRS 9 issued by IASB in October 2010)	1 January 2015



NOTES TO THE FINANCIAL STATEMENTS (cont'd)

Revised FRS

FRS 119	Employee Benefits (as amended in November 2011)	1 January 2013
FRS 124	Related Party Disclosures	1 January 2013
FRS 127	Separate Financial Statements (as amended in November 2011)	1 January 2013
FRS 128	Investments in Associates and Joint Ventures (as amended in November 2011)	1 January 2013

Amendments/Improvements to FRSs

FRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	1 January 2012
FRS 7	Disclosures-Transfer of Financial Assets	1 January 2012
FRS 112	Deferred Tax : Recovery of Underlying Assets	1 January 2012
IC Int 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2011
FRS 101	Presentation of Items of Other Comprehensive Income	1 July 2012
IC Int 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013
Amendments to FRS 7	Disclosures -Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to FRS 132	Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to FRS 9 and FRS 7	Mandatory Effective Date of MFRS 9 and Transition Disclosures	1 January 2015

Amendments to IC Int

IC Int 14	Prepayments of Minimum Funding Requirement	1 July 2011
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Withdrawal of FRSs and IC Int

The following FRSs and IC Int will be withdrawn upon the adoption of the new/revised standards as disclosed above:

FRSs

FRS 119	Employee Benefits (2007)
FRS 127	Consolidated and Separate Financial Statements (2010)
FRS 128	Investments in Associates (2005)
FRS 131	Interests in Joint Ventures (2005)

IC Int

IC Int 9	Reassessment of Embedded Derivatives (2008)
IC Int 112	Consolidation – Special Purpose Entities (2005)
IC Int 113	Jointly Controlled Entities – Non-Monetary Contributions by Ventures (2005)
IC Int 121	Income Taxes – Recovery of Revalued Non-depreciable Assets (2005)

The Group's and the Company's next set of financial statements for annual period beginning on 1 January 2012 will be prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS") issued by the MASB that will also comply with International Financial Reporting Standards ("IFRS"). As a result, the Group and the Company will not be adopting the above FRSs, Interpretations and amendments that are effective for annual periods beginning on or after 1 January 2012.

Technical Release Guidance on Disclosures of Transition to IFRSs ("TR3") provides voluntary disclosure requirements on the potential impact of adoption of MFRSs. However, the Group is currently in the process of assessing the financial effects of the difference between the current FRS framework and accounting standards under the MFRS framework and as such, the disclosure would be reflected in the subsequent year financial statements.

(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:



NOTES TO THE FINANCIAL STATEMENTS (cont'd)

- (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 impact on the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

(iv) 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.

(v) 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.

(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.

Subsidiary companies are entities (including special purpose entities) over which the Group has power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

In the Company's separate financial statements, investment in subsidiary companies is stated at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amount is included in the statements of comprehensive income.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values on the date of acquisition, irrespective of the extent of any non-controlling interest. Any cost directly attributable to the acquisition is included in administrative expenses in profit and loss as incurred.

The excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill. The accounting policy on goodwill on acquisition of subsidiaries is set out in Note 2(g). If the cost of business combination is less than the interest in the net fair value of the identifiable assets, liabilities and contingent liabilities, the Group will:

- (a) reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and
- (b) recognise immediately in profit or loss any excess remaining after that reassessment.

Subsidiaries are consolidated from the date on which control is transferred to the Group to the date on which that control ceases.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's assets in the event of liquidation are measured at either the fair value or the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests should be measured at their acquisition date fair values. The choice of measurement basis is made on a transaction-by-transaction basis. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.



NOTES TO THE FINANCIAL STATEMENTS (cont'd)

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date when the Group attains control and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

When increases or decreases in ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are dealt with in equity and attributed to the owners of the parent, with no impact on goodwill or profit or loss. When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the Group derecognises all assets, liabilities and non-controlling interests at their carrying amounts. Any retained interest in the former subsidiary is recognised at its fair value at the date when control is lost, with the resulting gain or loss being recognised in profit or loss.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its fair value on acquisition date. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

(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.

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 updated.

(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 statements of comprehensive income as incurred.

(iii) Depreciation

Depreciation is recognised in the statements of comprehensive income 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 equipment	3 -10 years
Electrical installation and renovation	10 years

Leasehold land is amortised on a straight line method over the period of the lease.

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.

Gains or losses on disposals are determined by comparing net disposal proceeds with carrying amount and are recognised in the statement of comprehensive income. On disposal of a revalued asset, the attributable revaluation surplus remaining in the revaluation reserve is transferred to distribution reserve.



NOTES TO THE FINANCIAL STATEMENTS (cont'd)**(f) Leases**

Lease of property, plant and equipment is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incidental to the ownership. All other leases are treated as operating lease.

Operating lease payments are recognised as an expense 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 statements of comprehensive income.

Goodwill on consolidation is reviewed at each reporting date and will be written down for impairment where it is considered necessary.

For the purpose of impairment testing of goodwill, goodwill is allocated to each of the Group's cash-generating-units ("CGU") expected to benefit from synergies of the business combination.

An impairment loss is recognised in the statement of comprehensive income when the carrying amount of CGU, including the goodwill, exceeds the recoverable amount of the CGU. Recoverable amount of the CGU is the higher of the CGU's fair value less cost to sell and value in use.

The total impairment loss is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU.

Impairment loss on goodwill is not reversed in a subsequent period.

(h) Impairment of non financial assets

The carrying values of assets are reviewed for impairment when there is an indication that the assets might be impaired. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of an asset's net selling price and its value in use, which is measured by reference to discounted future cash flows. An impairment loss is charged to the statement of comprehensive income immediately.

Subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the statements of comprehensive income immediately.

(i) 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.

(j) Financial assets

Financial assets are recognised in the statements of financial position when the Group and the Company have become a party to the contractual provisions of the instruments.

The Group classifies its financial assets as loan and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this at every reporting date except for financial assets at fair value through profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are unquoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the statements of financial position.

Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method. Gains and losses are recognised in statements of comprehensive income when the loans and receivables are derecognised or impaired, and through the amortisation process.

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in statements of comprehensive income.



NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(k) Impairment of financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. For an equity instrument, a significant or prolonged decline in fair value below its cost is also considered objective evidence of impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in statements of comprehensive income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised costs, the reversal is recognised in statements of comprehensive income.

(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 statements of cash flow, cash and cash equivalents are presented net of bank overdrafts and pledged deposits, if any.

(m) Financial liabilities

Borrowings, trade and other payables are classified as financial liabilities in the statement of financial position as there is a contractual obligation to make cash payments to another entity and is contractually obliged to settle the liabilities in cash.

Financial liabilities are initially recognised at fair value plus transaction costs, and are subsequently measured at amortised cost using the effective interest method, except when the Group designates the liabilities at fair value through profit or loss. Financial liabilities are designated at fair value through profit or loss when:

- (i) they are acquired or incurred for the purpose of selling or repurchasing in the near term;
- (ii) the designation eliminates or significantly reduces measurement or recognition inconsistencies that would otherwise arise from measuring financial liabilities or recognising gains or losses on them; or
- (iii) the financial liability contain an embedded derivative that would need to be separately recorded.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

(n) Equity instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

(o) Treasury shares

When shares of the Company, that have not been cancelled, recognised as equity are reacquired, the amount of consideration paid is recognised directly in equity. Reacquired shares are classified as treasury shares and presented as a deduction from total equity. No gain or loss is recognised in the statements of comprehensive income on the purchase, sale, issue or cancellation of treasury shares. When treasury shares are reissued by resale, the difference between the sales consideration and the carrying amount is recognised in equity.

(p) Hire purchase

Assets acquired by way of hire purchase or finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses. The corresponding liability is included in the statement of financial position as liabilities. In calculating the present value of the minimum lease 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 statement of comprehensive income over the term of the relevant lease 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.

(q) Borrowing costs

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



NOTES TO THE FINANCIAL STATEMENTS (cont'd)**(r) Foreign currencies**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statements of comprehensive income.

Translation differences on non-monetary items, such as financial assets held for trading held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the exchange fluctuation reserve in the equity.

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

	2011 RM	2010 RM
United States Dollar (US\$)	3.1770	3.0835
Sterling Pound (£)	<u>4.8962</u>	<u>4.7817</u>

(s) 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 statements of comprehensive income when significant risks and rewards of the ownership have been transferred to the customers.

(ii) Property development

When property development units/properties are sold, the attributable portion of property development costs shall be recognised as an expense in the period in which the related revenue is recognised.

Revenue derived from property development activities is recognised based on the percentage of completion method. The stage of completion is determined based on the total actual costs incurred to date over the estimated total contract costs.

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

(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.

(t) 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 statements of comprehensive income as and when incurred.

The expected cost of accumulating compensated absences is measured as additional amount expected to be paid as a result of the unused entitlement that has accumulated at the reporting date.

(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 statements of comprehensive income as incurred.

(u) 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 reporting date.

Deferred tax is recognised on the liability method for all temporary differences between the carrying amount of an asset or liability in the statements of financial position and its tax base at the reporting 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 credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary



NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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 reporting date. The carrying amount of a deferred tax asset is reviewed at each reporting 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 statements of comprehensive income, 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.

(v) Earnings per share

The Group presents basic earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period and ordinary shares that will be issued upon the conversion of mandatorily convertible instruments from the date the contract is entered into.

(w) Operating segments

For management purposes, the Group is organised into operating segment based on their business activities. An operating segment's operating results are reviewed regularly by the chief operating decision maker, who will make decisions to allocate resources to the segments and assess the segment performance.

(x) Reserves

(i) Asset revaluation reserve

The asset revaluation reserve represents increase in the fair value of freehold land and building, net of tax, and decreases to the extent such decreases relate to an increase on the same asset previously recognised in other comprehensive income.

(ii) Merger reserve

The merger reserve represents the differences between the nominal value of shares plus any cash paid as consideration for the merger and the nominal value of the share capital of the subsidiary company acquired.

3. PROPERTY, PLANT AND EQUIPMENT

		←	At Valuation	→	←	At Cost	→		
Group	Note	Leasehold land	Factory buildings and improvements building RM	Factory buildings and improvements building RM	Plant and machinery RM	Motor vehicles RM	Furniture, fittings and equipment RM	Electrical installation and renovation RM	Total RM
Cost/Valuation									
At 1 January 2011		10,130,000	12,080,000	68,756	34,205,107	1,911,412	8,923,808	3,994,051	71,313,134
Additions		-	-	20,000	484,000	-	229,722	1,028,038	1,761,760
Disposal		-	-	-	-	(163,109)	-	-	(163,109)
Write-off for fire damages	21	-	(751,455)	-	(431,489)	-	-	-	(1,182,944)
At 31 December 2011		10,130,000	11,328,545	88,756	34,257,618	1,748,303	9,153,530	5,022,089	71,728,841
Accumulated depreciation									
At 1 January 2011		1,511,857	3,145,359	10,620	19,532,461	1,470,068	6,535,718	3,354,530	35,560,613
Charge for the financial year		120,283	241,599	1,509	1,222,697	73,694	751,445	190,155	2,601,382
Disposal		-	-	-	-	(146,144)	-	-	(146,144)
Write-off for fire damages	21	-	(211,031)	-	(232,570)	-	-	-	(443,601)
At 31 December 2011		1,632,140	3,175,927	12,129	20,522,588	1,397,618	7,287,163	3,544,685	37,572,250
Carrying amount									
At 31 December 2011		8,497,860	8,152,618	76,627	13,735,030	350,685	1,866,367	1,477,404	34,156,591



NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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

	← At Valuation →	← At Cost →						
Group	Leasehold land RM	Factory buildings and improvements RM	Factory buildings and improvements RM	Plant and machinery RM	Motor vehicles RM	Furniture, fittings and equipment RM	Electrical installation and renovation RM	Total RM
Cost/Valuation								
At 1 January 2010	-	12,080,000	68,756	34,188,823	2,514,733	8,637,217	4,072,004	61,561,533
-As previously reported								
-Effect of adopting the amendments to FRS 117	10,130,000	-	-	-	-	-	-	10,130,000
-As restated	10,130,000	12,080,000	68,756	34,188,823	2,514,733	8,637,217	4,072,004	71,691,533
Additions	-	-	-	16,284	4,100	286,591	32,000	338,975
Disposals/Write-Off	-	-	-	-	(607,421)	-	(109,953)	(717,374)
At 31 December 2010	10,130,000	12,080,000	68,756	34,205,107	1,911,412	8,923,808	3,994,051	71,313,134
Accumulated depreciation								
At 1 January 2010	-	2,903,759	9,274	18,311,696	2,000,380	5,821,283	3,119,034	32,165,426
-As previously reported								
-Effect of adopting the amendments to FRS 117	1,391,575	-	-	-	-	-	-	1,391,575
-As restated	1,391,575	2,903,759	9,274	18,311,696	2,000,380	5,821,283	3,119,034	33,557,001
Charge for the financial year	120,282	241,600	1,346	1,220,765	77,109	714,435	243,742	2,619,279
Disposals/Write-Off	-	-	-	-	(607,421)	-	(8,246)	(615,667)
At 31 December 2010	1,511,857	3,145,359	10,620	19,532,461	1,470,068	6,535,718	3,354,530	35,560,613
Carrying amount								
At 31 December 2010	8,618,143	8,934,641	58,136	14,672,646	441,344	2,388,090	639,521	35,752,521

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 RM6,450,471 (2010: RM6,655,747) respectively.

The remaining period of the leasehold land and factory buildings is 78 (2010: 79) 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 15 are as follows:

	2011 RM	Group 2010 RM
Leasehold land	8,497,860	8,618,143
Factory buildings	8,229,245	8,992,777
Plant and machinery	9,224,087	9,983,293
Motor vehicle	-	3,129
	<u>25,951,192</u>	<u>27,597,342</u>

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

	2011 RM	Group 2010 RM
Plant and machinery	4,940,407	4,922,539
Motor vehicles	293,413	360,357
Furniture, fittings and equipment	177,100	278,300
	<u>5,410,920</u>	<u>5,561,196</u>

- (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:

	2011 RM	Group 2010 RM
Aggregate costs	1,761,760	338,975
Hire purchase financing	(344,850)	-
Cash payments	<u>1,416,910</u>	<u>338,975</u>

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

4. INVESTMENT IN SUBSIDIARY COMPANIES

(a) Investment in subsidiary companies

	Company	
	2011 RM	2010 RM
In Malaysia		
Unquoted shares, at cost	14,511,655	14,511,655
Accumulated impairment losses	(1,214,424)	(1,214,424)
	<u>13,297,231</u>	<u>13,297,231</u>

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

Name of company	Country of incorporation	Effective interest		Principal activities
		2011 %	2010 %	
Direct holding:				
Paragon Car Carpets & Components Sdn Bhd	Malaysia	100	100	Manufacturing and trading in 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

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

Name of company	Country of incorporation	Effective interest		Principal activities
		2011 %	2010 %	
Subsidiary company of Paragon Carpetmaker Sdn Bhd :				
Paragon Carpet Distributor Sdn Bhd	Malaysia	100	100	Distribution and trading of 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.

5. DEFERRED TAXATION

	Group	
	2011 RM	2010 RM
At 1 January	1,493,987	3,185,443
Recognised in statement of comprehensive income	841,420	623,303
Under/(Over) provision in prior year	498,080	(2,314,759)
At 31 December	<u>2,833,487</u>	<u>1,493,987</u>



NOTES TO THE FINANCIAL STATEMENTS (cont'd)

Represented after appropriate offsetting as follows:

	Group	
	2011 RM	2010 RM
Deferred Tax Liabilities	2,833,487	1,563,035
Deferred Tax Assets	-	(69,048)
	<u>2,833,487</u>	<u>1,493,987</u>

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 liabilities of the Group:-

	Accelerated capital allowances RM	Revaluation of leasehold properties RM	Total RM
At 1 January 2011	2,155,461	1,759,683	3,915,144
Recognised in statement of comprehensive income	116,560	(27,642)	88,918
Under/(Over) provision in prior year	267,921	(314,080)	(46,159)
	<u>2,539,942</u>	<u>1,417,961</u>	<u>3,957,903</u>
Offsetting			(1,124,416)
At 31 December 2011			<u>2,833,487</u>
As at 1 January 2010	2,798,750	1,787,325	4,586,075
Recognised in statement of comprehensive income	(45,709)	(27,642)	(73,351)
Over provision in prior year	(597,580)	-	(597,580)
	<u>2,155,461</u>	<u>1,759,683</u>	<u>3,915,144</u>
Offsetting			(2,352,109)
At 31 December 2010			<u>1,563,035</u>

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

Deferred tax assets of the Group:-

	Unabsorbed tax losses and tax credits RM	Unabsorbed capital allowances RM	Impairment for trade receivables RM	Reinvestment allowances RM	Total RM
At 1 January 2011	560,315	404,727	-	1,456,115	2,421,157
Recognised in statement of comprehensive income	(242,703)	(362,991)	-	(146,808)	(752,502)
Over provision in prior year	(278,515)	(41,736)	-	(223,988)	(544,239)
	<u>39,097</u>	<u>-</u>	<u>-</u>	<u>1,085,319</u>	<u>1,124,416</u>
Offsetting					(1,124,416)
At 31 December 2011					<u>-</u>

	Unabsorbed tax losses and tax credits RM	Unabsorbed capital allowances RM	Impairment for trade receivables RM	Reinvestment allowances RM	Total RM
At 1 January 2010	387,270	977,362	36,000	-	1,400,632
Recognised in statement of comprehensive income	(56,306)	(632,167)	-	(8,181)	(696,654)
Under/(Over) provision in prior year	229,351	59,532	(36,000)	1,464,296	1,717,179
	<u>560,315</u>	<u>404,727</u>	<u>-</u>	<u>1,456,115</u>	<u>2,421,157</u>
Offsetting					(2,352,109)
At 31 December 2010					<u>69,048</u>

6. INVENTORIES

	2011 RM	Group 2010 RM
At cost:		
Raw materials	7,196,815	6,051,878
Work-in-progress	2,117,672	1,630,895
Finished goods	12,815,040	11,060,696
	<u>22,129,527</u>	<u>18,743,469</u>



NOTES TO THE FINANCIAL STATEMENTS (cont'd)

7. TRADE RECEIVABLES

	Group	
	2011 RM	2010 RM
Trade receivables	10,793,829	15,229,105
Impairment for trade receivables	(720,724)	(471,297)
Trade receivables, net	<u>10,073,105</u>	<u>14,757,808</u>

The Group's normal trade credit term range from 60 to 90 days (2010: 60 to 90 days). Other credit terms are assessed and approved on a case to case basis.

The Group has no significant concentration of credit risk that may arise from exposure to a single receivable or to groups of receivables except for the amounts owing by 5 major customers amounting to RM6,501,274 (2010: RM12,926,341) which accounts for 65% (2010: 88%) of the total trade receivables of the Group.

Ageing analysis of trade receivables

The ageing analysis of the Group's trade receivables is as follows:-

	Group	
	2011 RM	2010 RM
Neither past due or impaired	3,779,946	7,374,121
1 -90 days past due but not impaired	3,247,816	4,074,226
91 -180 days past due but not impaired	3,766,067	3,730,754
More than 1 year past due but not impaired	-	50,004
	7,013,883	7,854,984
Fully impaired	(720,724)	(471,297)
	<u>10,073,105</u>	<u>14,757,808</u>

The trade receivables that are impaired

	Group	
	2011 RM	2010 RM
Individually	<u>(720,724)</u>	<u>(471,297)</u>
<u>Allowance for impairment</u>		
At 1 January	471,297	230,846
Allowance written off	(188,289)	(155,512)
Allowance written back	(72,284)	(5,599)
Allowance made	510,000	401,562
At 31 December	<u>720,724</u>	<u>471,297</u>

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group. These debtors are mostly long term customers with no history of default in payments.

The Group's trade receivables of RM7,013,883 (2010: RM7,854,984) that are past due at the reporting date but not impaired relate mainly to customers who have never defaulted on payments but are slow paymasters hence, periodically monitored. None of the trade receivables that are past due but not impaired have been renegotiated during the financial year.

The currency exposure profiles of trade receivables are as follows:

	Group	
	2011 RM	2010 RM
Ringgit Malaysia	9,409,804	13,367,034
United States Dollar	663,301	1,390,774
	<u>10,073,105</u>	<u>14,757,808</u>

8. OTHER RECEIVABLES

	Group		Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Other receivables	19,166,812	18,767,873	18,004,465	18,004,465
Deposits	16,769,081	16,771,149	16,540,000	16,540,000
Prepayments	838,247	309,626	-	-
	<u>36,774,140</u>	<u>35,848,648</u>	<u>34,544,465</u>	<u>34,544,465</u>
Less: Impairment loss	(16,540,000)	(16,803,984)	(16,540,000)	(16,540,000)
	<u>20,234,140</u>	<u>19,044,664</u>	<u>18,004,465</u>	<u>18,004,465</u>

Included in deposits of the Group and the Company is an amount of RM16,540,000 (2010: 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 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 High Court struck out the Company's claim summarily on 24 November 2010 and subsequently an appeal against the decision has been lodged. The outcome of the legal proceedings in respect of the balance of RM16,540,000 from the other vendors is still pending.



NOTES TO THE FINANCIAL STATEMENTS (cont'd)

9. AMOUNT OWING BY SUBSIDIARY COMPANIES

	Company	
	2011 RM	2010 RM
Advances	24,830,305	25,130,592
Impairment for amount owing by subsidiary companies	(1,855,344)	(1,855,344)
	<u>22,974,961</u>	<u>23,275,248</u>

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

10. 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.

11. CASH AND BANK BALANCES

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

	Group		Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Ringgit Malaysia	1,750,539	908,943	75,520	91,399
United States Dollar	772,519	1,943,010	-	-
	<u>2,523,058</u>	<u>2,851,953</u>	<u>75,520</u>	<u>91,399</u>

12. TRADE PAYABLES

	Group	
	2011 RM	2010 RM
Trade payables	<u>2,436,788</u>	<u>3,439,912</u>

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

The currency exposure profiles of trade payables are as follows:

	2011 RM	Group 2010 RM
Ringgit Malaysia	1,679,053	2,813,990
United States Dollar	489,798	321,738
Sterling Pound	267,937	304,184
	<u>2,436,788</u>	<u>3,439,912</u>

The normal trade credit terms granted to the Group range from 60 to 120 days (2010: 60 to 120 days).

13. OTHER PAYABLES

	Group		Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Other payables	3,005,806	2,897,831	1,429,320	1,350,135
Accruals	1,664,673	1,484,548	86,850	95,150
	<u>4,670,479</u>	<u>4,382,379</u>	<u>1,516,170</u>	<u>1,445,285</u>

14. HIRE PURCHASE PAYABLES

	Group	
	2011 RM	2010 RM
(a) Minimum hire purchase payments		
Within one year	1,217,001	1,165,095
Between one and five years	1,305,845	2,180,441
	<u>2,522,846</u>	<u>3,345,536</u>
Future finance charges	(176,642)	(286,014)
Present value of hire purchase liabilities	<u>2,346,204</u>	<u>3,059,522</u>
(b) Present value of hire purchase liabilities		
Within one year	1,104,024	1,003,548
Between one and five years	1,242,180	2,055,974
	<u>2,346,204</u>	<u>3,059,522</u>
Analysed as:		
Repayable within twelve months	1,104,024	1,003,548
Repayable after twelve months	1,242,180	2,055,974
	<u>2,346,204</u>	<u>3,059,522</u>

The effective interest rates of the Group are between 2.65% and 5.04% (2010: 2.40% and 5.80%) per annum.



NOTES TO THE FINANCIAL STATEMENTS (cont'd)

15. BANK BORROWINGS

	Group	
	2011 RM	2010 RM
Secured		
Bank overdrafts	6,789,459	7,578,491
Bills payable	766,000	2,297,000
Term loans	4,095,316	4,686,343
	<u>11,650,775</u>	<u>14,561,834</u>
Unsecured		
Bank overdrafts	5,271,087	5,542,673
Bills payable	1,626,000	393,000
	<u>6,897,087</u>	<u>5,935,673</u>
Total bank borrowings	<u>18,547,862</u>	<u>20,497,507</u>
Analysed as follows:		
Repayable within twelve months		
Secured		
Bank overdrafts	6,789,459	7,578,491
Bills payable	766,000	2,297,000
Term loans	618,594	593,087
	<u>8,174,053</u>	<u>10,468,578</u>
Unsecured		
Bank overdrafts	5,271,087	5,542,673
Bills payable	1,626,000	393,000
	<u>6,897,087</u>	<u>5,935,673</u>
	<u>15,071,140</u>	<u>16,404,251</u>
Repayable after twelve months		
Secured		
Term loans	3,476,722	4,093,256
	<u>18,547,862</u>	<u>20,497,507</u>

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

- (i) charge over the leasehold land and buildings of the Group as disclosed in Note 3; and
- (ii) corporate guarantee by the Company.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

- (b) The unsecured bills payable and bank overdrafts are guaranteed by the Company. The term loans are repayable by monthly instalment over 6 to 9 years.

Maturity of borrowings is as follows:

	2011 RM	Group 2010 RM
Within one year	15,071,140	16,404,251
Between one and two years	649,410	620,672
Between two and five years	1,863,102	1,985,781
More than five years	964,210	1,486,803
	<u>18,547,862</u>	<u>20,497,507</u>

The weighted average effective interest rate is as follows:

	2011 RM	Group 2010 RM
Bank overdrafts	7.05	7.05
Banker acceptance	3.47	3.47
Term loans	<u>5.20</u>	<u>5.20</u>

16. SHARE CAPITAL

	Number of ordinary shares of RM1 each		Amount	
	2011	2010	2011 RM	2010 RM
Authorised share capital				
At 1 January/31 December	<u>100,000,000</u>	<u>100,000,000</u>	<u>100,000,000</u>	<u>100,000,000</u>
Issued and fully paid				
At 1 January/31 December	<u>70,000,000</u>	<u>70,000,000</u>	<u>70,000,000</u>	<u>70,000,000</u>

Included in the issued and fully paid ordinary shares of the Company are 5,301,700 (2010: 5,301,700) number of ordinary shares of RM1.00 each held as treasury shares by the Company.



NOTES TO THE FINANCIAL STATEMENTS (cont'd)

17. RESERVES

	Group	
	2011 RM	2010 RM
Non-distributable:		
Asset valuation reserve	5,196,124	5,279,051
Merger reserve	(4,618,481)	(4,618,481)
	<u>577,643</u>	<u>660,570</u>

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

18. TREASURY SHARES

	Group/Company	
	2011 RM	2010 RM
At 1 January/31 December	<u>4,220,708</u>	<u>4,220,708</u>
No. of ordinary shares at RM1.00 each	<u>5,301,700</u>	<u>5,301,700</u>

19. REVENUE

	Group		Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Sales of carpets	50,815,001	57,990,652	-	-
Property development revenue	670,000	-	-	-
	<u>51,485,001</u>	<u>57,990,652</u>	<u>-</u>	<u>-</u>

20. FINANCE COSTS

	Group	
	2011 RM	2010 RM
Interest expense on:		
Bank overdrafts	955,896	826,226
Banker acceptance	134,477	153,171
Hire purchase	167,131	234,760
Letter of credit	11,384	18,205
Term loans	247,431	251,213
Others	1,672	836
	<u>1,517,991</u>	<u>1,484,411</u>

21. PROFIT/(LOSS) BEFORE TAXATION

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

	Group		Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Auditors' remuneration				
- current year	57,000	45,000	14,000	11,000
- (over)/under provision in prior year	(4,992)	-	2,000	-
Impairment for trade receivables	510,000	401,562	-	-
Impairment for other receivables	20,000	-	-	-
Depreciation of property, plant and equipment	2,601,382	2,619,279	-	-
Directors remuneration				
- fees	112,500	81,000	112,500	81,000
- salaries and other emoluments	628,529	455,107	-	-
- EPF	49,260	54,672	-	-
- benefit-in-kind	18,283	24,650	-	-
Rental of warehouse	345,600	345,600	-	-
Rental income	-	(6,000)	-	-
Property, plant equipment written off	-	101,707	-	-
Impairment for trade receivables written back	(72,284)	(5,599)	-	-
- Unrealised loss on foreign exchange	65,160	97,990	-	-
Gain on disposal of property, plant and equipment	(11,368)	(148,500)	-	-
Inventories written off	519,160	-	-	-
Realised gain on foreign exchange	(22,304)	(13,378)	-	-
Interest expense	1,517,991	1,484,411	-	-
Interest income				
- investment quoted in Malaysia	(261)	(227)	(261)	(227)
- others	(90,115)	(5,726)	-	-

During the financial year, the Group submitted an insurance claim under a fire insurance policy in respect of fire damage to one of its factory building on 28 December 2010. The Group has recognised an interim insurance claim received and initial estimate of fire loss sustained in the statement of comprehensive income during the financial year as follows:-

	Group	
	2011 RM	2010 RM
Damages from fire	739,343	-
Fire insurance claim	(750,000)	-

The insurance adjusters are still in the process of reconciling the claims and the full settlement amount is anticipated to be finalised in the subsequent financial year.



NOTES TO THE FINANCIAL STATEMENTS (cont'd)

22. TAXATION

	Group		Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Current income tax				
- Current financial year	290,725	-	-	-
- Under provision in prior year	1,360	2,625	-	2,625
	<u>292,085</u>	<u>2,625</u>	<u>-</u>	<u>2,625</u>
Deferred tax				
- Relating to origination of temporary differences	841,420	623,303	-	-
- Under/(Over) provision in prior year	498,080	(2,314,759)	-	-
	<u>1,339,500</u>	<u>(1,691,456)</u>	<u>-</u>	<u>-</u>
Tax expense/(saving) for the financial year	<u>1,631,585</u>	<u>(1,688,831)</u>	<u>-</u>	<u>2,625</u>

Income tax is calculated at the Malaysia statutory tax rate of 25% (2010: 25%) of the estimated assessable profit for the financial year.

A reconciliation of income tax expense applicable to profit/(loss) 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	
	2011 RM	2010 RM	2011 RM	2010 RM
Profit/(Loss) before taxation	<u>1,425,300</u>	<u>1,490,138</u>	<u>(387,051)</u>	<u>(422,218)</u>
Taxation at Malaysian statutory tax rate of 25% (2010: 25%)	356,325	372,535	(96,763)	(105,555)
Expenses not deductible for tax purposes	824,194	318,435	96,763	105,555
Income not subject to tax	(20,732)	(40,025)	-	-
Crystallisation of deferred tax liabilities on amortisation on revalued properties	(27,642)	(27,642)	-	-
Under provision of current taxation in prior year	1,360	2,625	-	2,625
Under/(Over) provision of deferred tax in prior year	498,080	(2,314,759)	-	-
Tax expense/(saving) for the financial year	<u>1,631,585</u>	<u>(1,688,831)</u>	<u>-</u>	<u>2,625</u>

23. (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 owners of the parent of RM206,285 (2010: RM3,178,969) for the Group and the weighted average number of ordinary shares in issue during the financial year of 64,698,300 (2010: 64,698,300) are as follows:

	Group	
	2011 RM	2010 RM
Net (loss)/profit for the financial year attributable to owners of the parent	(206,285)	3,178,969
Weighted average number of ordinary shares in issue	70,000,000	70,000,000
Adjusted for treasury shares	(5,301,700)	(5,301,700)
	<u>64,698,300</u>	<u>64,698,300</u>

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

There is no fully diluted (loss)/earnings per share as the Company did not have any dilutive potential ordinary shares during the financial year.

24. STAFF COSTS

	Group	
	2011 RM	2010 RM
Staff costs (excluding Directors)	<u>8,209,874</u>	<u>8,130,401</u>

Included in the staff costs above are contributions made to the Employees Provident Fund under a defined contribution plan for the Group amounting to RM543,558 (2010: RM714,265).

25. HOLDING COMPANY

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



NOTES TO THE FINANCIAL STATEMENTS (cont'd)

26. KEY MANAGEMENT PERSONNEL COMPENSATION

	Group		Company	
	2011 RM	2010 RM	2011 RM	2010 RM
Short-term employee benefits				
- Fees	112,500	81,000	112,500	81,000
- Salaries and other Emoluments	1,914,754	2,309,396	1,450	-
- Estimated monetary value of benefits-in-kinds	5,525	7,800	-	-
	<u>2,032,779</u>	<u>2,398,196</u>	<u>113,950</u>	<u>81,000</u>
Post employment benefits				
- Defined contribution plan	229,929	277,128	-	-
	<u>2,262,708</u>	<u>2,675,324</u>	<u>113,950</u>	<u>81,000</u>

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.

27. CONTINGENT LIABILITIES

	Company	
	2011 RM	2010 RM
Unsecured corporate guarantees in respect of banking facilities granted to subsidiary companies	<u>18,547,862</u>	<u>20,497,507</u>

28. EFFECTS ON FINANCIAL STATEMENTS ON ADOPTION OF NEW REVISED FRSS

The effects on adoption of the following revised FRSS and amendments to FRSSs in 2011 are set out below:-

FRS 3: Business Combinations (Revised)

- (i) This revised standard allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests (previously referred to as 'minority interests') either at fair value or at the non-controlling interests' share of the fair value of the identifiable net assets of the acquiree;

- (ii) It changes the recognition and subsequent accounting requirements for contingent consideration. Under the previous version of the Standard, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were recognised against goodwill. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss;
- (iii) It requires the recognition of a settlement gain or loss where the business combination in effect settles a pre-existing relationship between the Group and the acquiree; and
- (iv) It requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the business combination.

Amendments to FRS 7: "Financial Instruments: Disclosures"

The Amendments requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendments require disclosure of fair value measurements by level of a fair value measurement hierarchy.

This is a disclosure standard and hence does not have any impact on the financial position and performance of the Company.

Amendments to FRS 101: Presentation of Financial Statements

The amendments clarifies that an entity shall present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

This is a disclosure standard and hence does not have any impact on the financial position and performance of the Company.



NOTES TO THE FINANCIAL STATEMENTS (cont'd)

29. 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.

The reportable business segments of the Group comprise the following:-

Manufacturing and Trading : Manufacture and sale of carpets

Property : Property development activities

Investment : Investment holding

Other non-reportable segments comprise operations to subsidiary company which are dormant.

Segment revenue, results, assets and liabilities include items directly attributable to a segment and those where a reasonable basis of allocation exists. Inter-segment revenues are eliminated on consolidation.

Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

The total of segment assets is measured based on all assets (including goodwill) of a segment, as included in the internal management reports that are reviewed by the Group's Executive Directors. Segment total assets are used to measure the return of assets of each segment.

The total of segment liabilities is measured based on all liabilities of a segment, as included in the internal management reports that are reviewed by the Group's Executive Directors.

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

SEGMENT INFORMATION – GROUP

2011	Manufacturing and trading RM	Property RM	Investment RM	Others RM	Inter- segment eliminations RM	Total RM
Revenue						
Total Revenue	50,815,001	670,000	-	-	-	51,485,001
Results						
Segment profits/(loss)	1,066,174	744,536	(387,051)	(9,016)	-	1,414,643
Included in the segment profit/(loss) are:-						
Depreciation of property, plant and equipment	2,601,382	-	-	-	-	2,601,382
Finance costs	1,517,991	-	-	-	-	1,517,991
Gain on disposal of property, plant and equipment	(11,368)	-	-	-	-	(11,368)
Assets						
Segment assets	90,297,719	14,443,543	54,437,275	63,455	(69,149,917)	90,092,075
Segment liabilities	61,793,527	7,125,962	1,516,170	2,709,412	(41,728,696)	31,416,375



NOTES TO THE FINANCIAL STATEMENTS (cont'd)

SEGMENT INFORMATION – GROUP (CONT'D)

2010	Manufacturing and trading RM	Property RM	Investment RM	Others RM	Inter- segment eliminations RM	Total RM
Revenue						
Total Revenue	57,990,652	-	-	-	-	57,990,652
Results						
Segment profits/(loss)	2,113,735	(195,349)	(422,218)	(6,030)	-	1,490,138
Included in the segment profit/(loss) are:-						
Depreciation of property, plant and equipment	2,619,279	-	-	-	-	2,619,279
Finance costs	1,484,411	-	-	-	-	1,484,411
Gain on disposal of property, plant and equipment	(148,500)	-	-	-	-	(148,500)
Assets						
Segment assets	96,158,189	16,617,537	54,753,441	63,466	(75,362,362)	92,230,271
Segment liabilities	67,293,660	6,932,033	1,445,285	2,700,407	(45,023,099)	33,348,286

Reconciliation of reportable segment revenue, profit and loss, assets and liabilities and other material items are as follows:-

	2011 RM	2010 RM
Total profit for reportable segments	1,414,643	1,490,138
Damages from fire	(739,343)	-
Fire insurance claim	750,000	-
Profit before taxation	1,425,300	1,490,138
Adjustment for taxation	(1,631,585)	1,688,831
Consolidated (loss)/profit after taxation	(206,285)	3,178,969

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.

30. MATERIAL LITIGATION

(i) Paragon Union Berhad vs Prestamewah Development Sdn Bhd & Datuk Liw Jun Wai

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.

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 above.



NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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>

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 above 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.

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.

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 was 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.

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.

On 17 May 2010, the Federal Court dismissed the Company's application for leave to appeal with costs.

The Company's application for summary judgment was fixed for hearing on 9 December 2010.

On 14 March 2011, the Court heard the Company's application for summary judgment for the refund of RM18,000,000 together with liquidated damages, interest and costs. The application was dismissed as the learned Judicial Commissioner was of the opinion there were triable issues such as alleged misinterpretations prior to the contract, despite their contention that the Share Sale Agreement is a stand alone agreement and no extrinsic evidence was permissible.

The Company had instructed the solicitors to proceed with an appeal to the Court of Appeal and also to apply for the sum of RM18,000,000 to be paid into court by the Defendants.

The Record of Appeal was lodged with the Court of Appeal on 12 August 2011.

The Company's appeal was fixed for hearing at the Court of Appeal on 1 March 2012. The Court dismissed the Company's appeal and directed the matter to be fixed for full trial.

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

The solicitors of the Company are of the opinion that the Company has a reasonable prospect of success to recover the aforesaid amount.

(ii) Paragon Union Berhad vs Wong Chee Kong & Poh Hock Leng

In the financial year 1997, the Company terminated the conditional agreements for the acquisition of the entire equity interest comprising 9,985,735 ordinary shares of RM1.00 each in an unquoted company, namely, KINMA Holdings Sdn Bhd ("KINMA").

The Company instructed its solicitors to commence legal proceedings against the vendors for the recovery of deposits and advances paid totaling RM17,770,000. The Company 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.



NOTES TO THE FINANCIAL STATEMENTS (cont'd)

The High Court struck out the Company's claim summarily on 24 November 2010 and subsequently an appeal against the decision has been lodged.

The outcome of the legal proceedings in respect of the balance of RM16,540,000 from the other vendors is still pending. However, the Company has provided full impairment loss for the aforesaid amount as disclosed in Note 8.

31. OPERATING LEASE ARRANGEMENT

The Group leases an insignificant portion of its factory building to a subsidiary company for use as a warehouse to earn rental income under a cancellable operating lease agreement. The subsidiary company is required to give 2 months notice for the termination of the agreement. The lease does not include any contingent rentals and there are no specific restrictions placed by the Group by entering into this lease.

32. 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.

(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.

Exposure to foreign currency risk

The Group's exposure to foreign currency risk, based on carrying amounts as at the end of the reporting period was:-

Functional Currency	United States Dollar RM	Sterling Pound RM	Total RM
Group 2011			
Trade receivables	663,301	-	663,301
Cash and bank balances	772,519	-	772,519
Trade payables	(489,798)	(267,937)	(757,735)
	<u>946,022</u>	<u>(267,937)</u>	<u>678,085</u>

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

Functional Currency	United States Dollar RM	Sterling Pound RM	Total RM
Group 2010			
Trade receivables	1,390,774	-	1,390,774
Cash and bank balances	1,943,010	-	1,943,010
Trade payables	(321,738)	(304,184)	(625,922)
	<u>3,012,046</u>	<u>(304,184)</u>	<u>2,707,862</u>

Currency risk sensitivity analysis

The following table shows the sensitivity of the Group's equity and profit net of tax to a reasonably possible change in the USD and GBP exchange rates against the functional currency of the affected Group of Companies ("RM"), with all other variables remain constant.

Group	Loss net of tax RM
USD/RM – strengthening/weakening 5%	47,301
GBP/RM – strengthening/weakening 5%	(13,397)
	<u>33,904</u>

(c) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Interest rate exposure arises from borrowings and deposits. The Group does not hedge the interest rate risk.

Exposure to interest rate risk

The interest rate profile of the Group's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:-

	2011 RM	Group 2010 RM
Floating rate instruments		
Term Loans	4,095,316	4,686,343
Bills payables	<u>2,392,000</u>	<u>2,690,000</u>



NOTES TO THE FINANCIAL STATEMENTS (cont'd)

Interest rate risk sensitivity analysis

A change of 100 basis points ("bp") in interest rates at the end of the reporting period would have increase/decrease equity and profit net of tax by the amounts shown below, assuming all other variables remain constant.

Group	Loss net of tax 100bp Increase/(Decrease)
Floating rate instruments:-	
Term Loans	20,551
Bills payables	23,920
	<u>44,471</u>

(d) Credit risk

Exposure to credit risk

The Group's exposure to credit risk arises mainly from receivables. Receivables are monitored on an ongoing basis via management reporting procedure and action is taken to recover debts when due.

Credit risk concentration profile

At reporting date, there were no significant concentrations of credit risk other than disclosed in Note 7. The maximum exposure to credit risk for the Group is the carrying amount of the financial assets shown in the statement of financial position.

(e) Liquidity and cash flow risk

The Group seeks to achieve a flexible and cost effective borrowing structure to ensure that the projected net borrowing needs are covered by available committed facilities. Debt maturities are structured in such a way to ensure that the amount of debt maturing in any one year is within the Group's ability to repay and/or refinance.

The Group also maintains a certain level of cash and cash convertible investments to meet its working capital requirements.

Maturity analysis

The table below summarises the maturity profile of the Group's financial liabilities as at the end of the reporting period based on undiscounted contractual payments.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

	On demand or within one year RM	One to five years RM	Over five years RM	Total RM
Financial liabilities:-				
Trade and other payables	7,107,267	-	-	7,107,267
Bank borrowings	15,071,140	2,512,512	964,210	18,547,862
Hire purchase payables	1,104,024	1,242,180	-	2,346,204
	<u>23,282,431</u>	<u>3,754,692</u>	<u>964,210</u>	<u>28,001,333</u>

(f) Fair values

The aggregate fair values of the financial liabilities as at 31 December 2011 are as follows:

	2011		2010	
Group	Carrying amount RM	Fair value RM	Carrying amount RM	Fair value RM
Financial liabilities				
Hire purchase payables	<u>1,242,180</u>	<u>713,424</u>	<u>2,055,974</u>	<u>1,548,382</u>

- (i) The carrying amounts of cash and cash equivalents, current portion of trade and other receivables, inter-company loans and advances, current portion of trade and other payables, short term borrowings approximate fair value due to the relatively short term nature of these financial instruments.
- (ii) The carrying amount of long term bank borrowing carried on the statement of financial position is reasonable approximate of fair value due to that it is a floating rate instruments that are re-priced to market interest rate on or near the reporting date.
- (iii) The aggregate fair value of the other financial assets and liabilities carried on the statement of financial position approximates its carrying value and the Group does not anticipate the carrying amounts recorded at the reporting date to be significantly different from the values that would eventually be settled.

Fair value hierarchy

The Group and the Company use the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1 : quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2 : other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3 : techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data



NOTES TO THE FINANCIAL STATEMENTS (cont'd)

The fair value of long term hire purchase payables carried on the statement of financial position are estimated using valuation technique under the hierarchy level 2 mentioned above whereby the expected future cash flows are discounted at the market interest rate for similar types of borrowings.

Interest rates used to determined fair value:-

	2011 % p.a.	2010 % p.a.
Hire purchase payables	<u>3.72</u>	<u>3.16</u>

33. CAPITAL MANAGEMENT

The objective of the Group on capital management is to ensure that it maintains a strong credit rating and safeguard the Group's ability to continue as a going concern, so as to support its business, maintain the market confidence and maximise shareholder value.

The Group monitors the capital using gearing ratio, which is net borrowings divided by equity attributable to owners of the parent. The Group's policy is to keep lower gearing ratio.

	2011 RM	Group 2010 RM
Borrowings	18,547,862	20,497,507
Less: Cash and cash equivalents	(2,827,485)	(3,150,740)
Net borrowings	<u>15,720,377</u>	<u>17,346,767</u>
Equity attributable to owners of the parent	<u>58,677,730</u>	<u>58,881,985</u>
Gearing ratio	<u>27%</u>	<u>29%</u>

There were no changes to the Group's approach to capital management during the financial year.

34. REALISED AND UNREALISED PROFITS/LOSSES (SUPPLEMENTARY INFORMATION)

The breakdown of the retained earnings of the Group and of the Company as of 31 December into realised and unrealised amounts is as follows:

	Group	
	2011 RM	2010 RM
Total accumulated losses of the Company and its subsidiary companies:-		
Realised profits	11,160,081	11,145,487
Unrealised losses	(18,839,286)	(18,703,364)
	<u>(7,679,205)</u>	<u>(7,557,877)</u>

	Company	
	2011 RM	2010 RM
Total accumulated losses of the Company:-		
Realised profits	6,821,581	7,219,632
Unrealised losses	(19,679,768)	(19,690,768)
	<u>(12,858,187)</u>	<u>(12,471,136)</u>

The above disclosure of realised and unrealised profits or losses is made solely for complying with the disclosure requirements stipulated in the directive of Bursa Malaysia Securities Berhad and is not made for any other purposes.

35. DATE OF AUTHORISATION FOR ISSUE

The financial statements of the Group and of the Company for the financial year ended 31 December 2011 were authorised for issue in accordance with a resolution of the Board of Directors on 25 April 2012.

ANNEXURE A

ASIA AVENUE SDN BHD (462503-K)

2nd Floor, Regal House, No. 1 Jalan U-Thant, 55000 Kuala Lumpur.
Tel : 603-2148 2811 Fax : 603-2148 6822

NOTICE OF NOMINATION OF NEW AUDITORS

Date: 18th May 2012

The Board of Directors
PARAGON UNION BERHAD
Unit 07-02, Level 7
Persoft Tower
6B Persiaran Tropicana
47410 Petaling Jaya
Selangor Darul Ehsan

Dear Sirs,

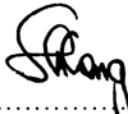
RE: NOTICE OF NOMINATION OF MESSRS MORISON ANUARUL AZIZAN CHEW AS AUDITORS PURSUANT TO SECTION 172(11) OF THE COMPANIES ACT, 1965

Pursuant to Section 172(11) of the Companies Act, 1965, we, being a member of Paragon Union Berhad ("the Company"), holding not less than 5% of the total voting shares of the Company hereby give notice of our intention to nominate Messrs. Morison Anuarul Azizan Chew as Auditors of the Company in place of the retiring Auditors, Messrs. Anuarul Azizan Chew & Co and to propose that the following ordinary resolution be tabled at the forthcoming Annual General Meeting of the Company:-

"**THAT** Messrs. Morison Anuarul Azizan Chew, having consented to act, be and are hereby appointed as the Auditors of the Company in place of the retiring Auditors, Messrs. Anuarul Azizan Chew & Co and to hold office until the conclusion of the next Annual General Meeting at a remuneration to be determined by the Board of Directors."

Yours faithfully
For and on behalf of
ASIA AVENUE SDN. BHD.


.....
KONG SEE RUAN
Director


.....
KONG SAY THOR
Director

APPENDIX I

Special Resolution - Proposed Amendments to the Company's Articles of Association

THAT the Articles of Association of the Company be amended in the following manner:-

Article No.	Existing Articles	Amended Articles
2 Interpretation	<div>WORDS</div> <div>MEANINGS</div> <div>-</div> <div>No Provision</div>	<div>WORDS</div> <div>MEANINGS</div> <div>Exempt Authorised Nominee</div> <div>An authorised nominee defined under the Central Depositories Act which is exempted from compliance with provisions of subsection 25A(1) of the Central Depositories Act.</div>
61 Right to vote	<div>Subject to any rights or restrictions for the time being attaching to any class or classes of shares, at meetings of members or of classes of members each member entitled to vote may vote in person or by proxy or by attorney or by a representative and on a show of hands every person present who is a member or a representative or a proxy or an attorney of a member shall have one vote, and on a poll every member present in person or by proxy or by attorney or by other duly authorised representative shall have one vote for every such share he holds.</div>	<div>Subject to any rights or restrictions for the time being attaching to any class or classes of shares, at meetings of members or of classes of members each member entitled to vote may vote in person or by proxy or by attorney or by a representative and on a show of hands every person present who is a member or a representative or a proxy or an attorney of a member shall have one vote, and on a poll every member present in person or by proxy or by attorney or by other duly authorised representative shall have one vote for every such share he holds.</div> <div>A proxy appointed to attend and vote at a meeting of a company shall have the same rights as the member to speak at the meeting.</div>



APPENDIX I (cont'd)

<p>66</p> <p>Proxy to be in writing</p>	<p>The instrument appointing a proxy shall be in writing (in the common or usual form) under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised. The Directors may but shall not be bound to require evidence of the authority of any such attorney or officer. A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) of the Act shall not apply to the Company. The instrument appointing a proxy shall be deemed to confer authority to demand or join in demanding a poll.</p>	<p>The instrument appointing a proxy shall be in writing (in the common or usual form) under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.</p> <p>A member of a Company entitled to attend and vote at a meeting of a Company, or at a meeting of any class of members of the Company, shall be entitled to appoint any person as his proxy to attend and vote instead of the member at the meeting. There shall be no restriction as to the qualification of the proxy and the provisions of Section 149(1)(b) of the Act shall not apply to the Company.</p>
<p>67</p> <p>Number of Proxy</p>	<p>A holder may appoint more than one proxy to attend the same meeting. Where a holder appoints two or more proxies, he shall specify the proportion of his shareholdings to be represented by each proxy. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.</p>	<p>A holder may appoint more than one proxy to attend the same meeting. Where a holder appoints two or more proxies, he shall specify the proportion of his shareholdings to be represented by each proxy. Where a member of the Company is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.</p> <p>Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.</p>

<p>69</p> <p>Instrument appointing proxy to be deposited</p>	<p>The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the registered office of the Company, or at such other place within Malaysia as is specified for that purpose in the notice convening the meeting, not less than forty-eight (48) hours before the time for holding the meeting or adjourned meeting at which the person named in the instrument proposed to vote and in default the instrument of proxy shall not be treated as valid.</p>	<p>The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the registered office of the Company, or at such other place within Malaysia as is specified for that purpose in the notice convening the meeting, not less than forty-eight (48) hours before the time for holding the meeting or adjourned meeting at which the person named in the instrument proposed to vote and in default the instrument of proxy shall not be treated as valid</p> <p>The completed instrument of proxy once deposited will not preclude the member from attending and voting in person at the General Meeting should the member subsequently wish to do so. A member who is not resident in Malaysia or Singapore may by cable or other telegraphic communication appoint a proxy/ proxies to vote for him at any general meeting of the Company PROVIDED:-</p> <p>(a) such cable or other telegraphic communication shall have been received at the Office not less than forty-eight (48) hours before the time for the holding of the general meeting or adjourned meeting as the case may be at which the person named in such cable or other telegraphic communication proposes to vote; and</p> <p>(b) the Directors are satisfied as to the genuineness of such cable or other telegraphic communication.</p>
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PARAGON UNION BERHAD

(Company No. 286457-V)

(Incorporated in Malaysia)

FORM OF PROXY

I/We _____
(FULL NAME IN BLOCK LETTERS)

of _____
(FULL ADDRESS)

being a Member of **PARAGON UNION BERHAD** hereby appoint _____
(FULL NAME IN BLOCK LETTERS)

of _____
(FULL ADDRESS)

or failing whom _____
(FULL NAME IN BLOCK LETTERS)

of _____
(FULL ADDRESS)

or failing whom, the Chairman of the Meeting as my/our proxy/proxies to vote for me/us and on my/our behalf at the Eighteenth 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, 25 June 2012 at 3.00 p.m. and any adjournment thereof.

My/Our proxy(ies) is(are) to vote as indicated below:-

NO.	RESOLUTIONS	FOR	AGAINST
1.	To approve the payment of Directors' Fees for the financial year ended 31 December 2011.		
2.	To re-elect Mr. Toh Hong Wooi who is retiring in accordance with Article 75 of the Company's Articles of Association.		
3.	To re-elect Mr. Lau Yoke Keen who is retiring in accordance with Article 84 of the Company's Articles of Association.		
4.	To re-appoint Auditors.		
5.	Authority for Directors to Allot and Issue Shares.		
6.	Amendments to the Company's Article of Association.		

[Please indicate with (X) in the spaces provided 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 _____, 2012

Signature of Member / Common Seal

Number of shares held:

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, Persoft Tower, 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.

Fold this flap for sealing

Then fold here

Stamp

The Company Secretary
PARAGON UNION BERHAD
(COMPANY NO. 286457-V)
UNIT 07-02, LEVEL 7, PERSOFT TOWER
6B PERSIARAN TROPICANA
47410 PETALING JAYA
SELANGOR DARUL EHSAN

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