PARAGON UNION BERHAD

A Model of Excellence in Carpets

(286457-V)

www.paragon.com.my

ANNUAL REPORT 2012

CONTENTS

NOTICE OF NINETEENTH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Nineteenth Annual General Meeting of the Company will be held at Greens II, 1st Floor, Main Wing, Tropicana Golf & Country Resort, Jalan Kelab Tropicana, 47410 Petaling Jaya, Selangor Darul Ehsan on Friday, 21 June 2013 at 3.00 p.m. for the following purposes:-

AGENDA

1. To receive the Audited Financial Statements for the financial year ended 31 December 2012 together with the Reports of the Directors and Auditors thereon. **Please refer to Note B on this Agenda.**

2. To approve the payment of Directors' Fees for the financial year ended 31 December 2012. **Resolution 1**

3. To re-elect Mr. Fung Beng Ee who is retiring as a Director of the Company in accordance with Article 75 of the Company's Articles of Association. **Resolution 2**

4. To re-appoint Messrs. Morison Anuarul Azizan Chew., the retiring Auditors and to authorise the Board of Directors to fix their remuneration. **Resolution 3**

SPECIAL BUSINESS

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

5. Retention of Independent Non-Executive Director **Resolution 4**

   "THAT Mr Michael Lim Hee Kiang be retained as an Independent Non-Executive Director of the Company in accordance with Recommendation 3.3 of the Malaysian Code on Corporate Governance 2012."

6. Authority for Directors to issue and allot shares in the Company pursuant to Section 132D of the Companies Act, 1965 **Resolution 5**

   "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. 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

31 May 2013

Notes:-

A. Appointment of Proxy

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. 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.
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. Where a member of the Company is an exempt authorized nominee which holds ordinary shares in the Company for multiple beneficial owners in the one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorized nominee may appoint in respect of each omnibus account it holds.
5. 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.
6. 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.

B. Audited Financial Statements for the Financial Year ended 31 December 2012

This Audited Financial Statements in Agenda 1 is meant for discussion only as the approval of shareholders is not required pursuant to the provision of Section 169(1) of the Companies Act, 1965. Hence, this Agenda is not put forward for voting by the shareholders of the Company.

EXPLANATORY NOTES ON SPECIAL BUSINESS

a) **Retention as an Independent Non-Executive Director of the Company pursuant to the Malaysian Code on Corporate Governance 2012**

Mr. Michael Lim Hee Kiang has served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine (9) years. However, he has met the criteria under the definition of "independent director" as set out in Chapter 1 of the Bursa Malaysia Securities Berhad Main Market Listing Requirements ("MMLR"). The Board has recommend that he should be retained as an Independent Non-Executive Director of the Company.

b) **Authority For 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 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 Eighteenth Annual General Meeting held on 25 June 2012. 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 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 Eighteenth Annual General Meeting because there was no need for any fund raising activity for the purpose of investment, acquisition or working capital.

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 14 June 2013. Only a depositor whose name appears on the Record of Depositors as at 14 June 2013 shall be entitled to attend this meeting or appoint proxy/proxies to attend and/or vote in his stead.

Details of Director who is standing for re-election in Agenda 3 (Mr. Fung Beng Ee) of the Notice of the Nineteenth Annual General Meeting are laid out in page 7 of this Annual Report.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Michael Lim Hee Kiang *(Independent Non-Executive Chairman)*
Fung Beng Ee *(Independent Non-Executive Director)*
Toh Hong Wooi *(Executive Director)*
Lau Yoke Keen *(Independent Non-Executive Director)*

AUDIT COMMITTEE

Michael Lim Hee Kiang *(Chairman)*
Fung Beng Ee
Lau Yoke Keen

NOMINATION COMMITTEE

Michael Lim Hee Kiang *(Chairman)*
Fung Beng Ee
Lau Yoke Keen

REMUNERATION COMMITTEE

Fung Beng Ee *(Chairman)*
Michael Lim Hee Kiang
Toh Hong Wooi

COMPANY SECRETARY

Ng Yim Kong (LS 0009297)

REGISTERED OFFICE

c/o Strategy Corporate Secretarial Sdn Bhd
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

Morison Anuarul Azizan Chew (AF 001977)
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
TS 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.

MICHAEL LIM HEE KIANG
Aged 65, 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 eighteen years.

TOH HONG WOOI
Aged 53, Malaysian
Executive Director
Member of Remuneration Committee
Member of Employees' Share Option ("ESOS") Scheme Committee

Mr. Toh Hong Wooi was appointed to the Board of Paragon on 6 April 2009 as an Independent Non-Executive Director and subsequently re-designated as an Executive Director on 21 July 2009. He obtained his Masters in Business Administration in addition to his 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 eighteen years.

FUNG BENG EE
Aged 50, 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 and he sits on the Board of Directors of Major Team Holdings Berhad, Director of Celedon Capital Sdn. Bhd., IB Systems 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 eighteen years.

LAU YOKE KEEN
Aged 47, Malaysian
Independent Non-Executive Director
Member of Audit Committee
Member of Nomination 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 from 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 an Independent Non-Executive 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 eighteen years.

CHAIRMAN'S STATEMENT

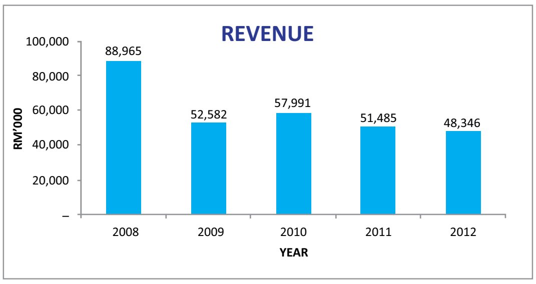
On behalf of the Board of Directors, I am pleased to present the Group's Annual Report & Audited Financial Statements for the year ended 31 December 2012.

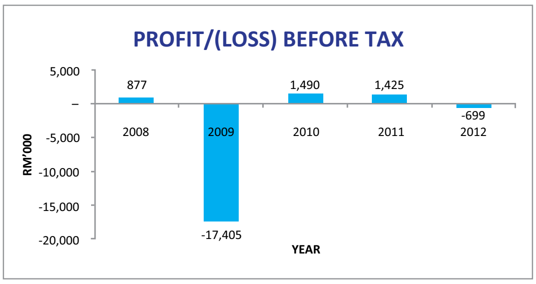
PERFORMANCE AND FINANCIAL REVIEWS

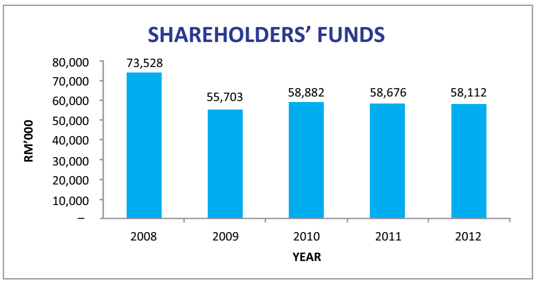
The Group achieved a lower turnover of RM48 million as compared to RM50 million in 2011. The revenue downtrend was attributed to lower sales and economic uncertainties experienced during the year, which had adversely affected the overall performance of the Group.

To sustain growth and to remain competitive in the market, the management is continuing to emphasize on cost reduction, process re-engineering and identifying potential business opportunities.

The Group is able to maintain our major automotive clientele, which comprises Proton, Honda, Nissan, GM Korea, Suzuki, Peugeot, Isuzu and Volvo. The Group is able to secure additional projects from our existing clients with the launches of new models.







For the commercial carpet division, we have numerous projects in our order book throughout 2012, which among others were Maybank, Pullman Hotel, Tabung Haji Building-Alor Setar, Grand Bluewave Hotel, Novotel Hotel, Federal Hotel, USIM, Petronas Twin Tower and Telekom Branches.

To expand our market, the Group is continuously identifying potential projects, expanding new product range and developing export market opportunities.

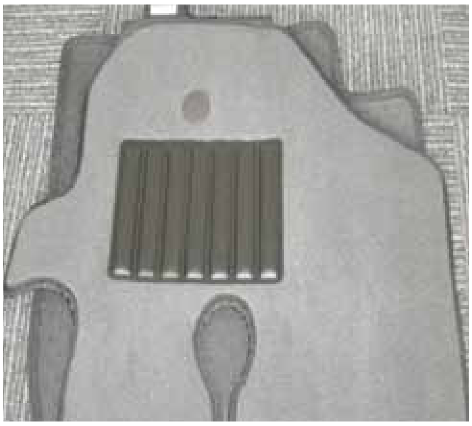
PROPERTY DEVELOPMENT DIVISION

The Group has not engaged in any property development in 2012. Nevertheless, the Group would still wish to embark in property development in the future when viable opportunity arises.

PROSPECTS AND OUTLOOK

The country's GDP is expected to grow at between 4-5% in 2013 and with such robust economic trend, it would likely enhance market sustainability in the country.

In addition to the world's economic stability and raw material volatility, the Group's prospects and outlook would basically depend on the implementation of secured projects and clients' orders throughout the year.



The Group's continuous effort on business development, product expansion and identifying potential opportunities in the market would also contribute to the overall Group's performance.

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. The re-engineering process should be on a continuous basis to further improve the operational efficiency and cost reduction in order to stay competitive 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

INTRODUCTION

The main objective of the Board Charter is to set out the functions, role, responsibilities and composition of the Board and to ensure that all Board members acting on behalf of the Company are aware of their duties and responsibilities as Board members discharge its responsibility directly and through Committees.

BOARD COMPOSITION

At least two (2) or one-third of the total number of directors on the Board, must be independent directors. The Company's Articles of Association provides for a minimum of two directors and a maximum of twenty. The appointment of directors shall be recommended by the Nomination Committee and approved by the Board.

The Board must comprise a majority of independent directors where the chairman of the board is not an independent director.

The tenure of an independent director not exceed a cumulative term of nine (9) years. Upon completion of the nine (9) years, the independent director may either retire or continue to serve on the Board subject to the director's re-designation as a non-independent director. However, the Board may justify and seek shareholders' approval in the event that it retains an independent director, who has served a cumulative term of nine (9) years as an independent director of the Company.

APPOINTMENT AND RE-ELECTION

The appointment of a new director is for the consideration and decision by the full Board, upon the recommendation from the Nomination Committee.

The new Director is required to commit sufficient time to attend to the Company's meetings/ matters before accepting his/her appointment to the Board.

In accordance with the Articles of Association of the Company, all the Directors shall retire from office once at least in each three (3) years, but shall be eligible for re-election.

A Director who is over seventy (70) years of age is subject to yearly re-appointment in accordance with Section 129(6) of the Companies Act, 1965.

INDEPENDENT DIRECTORS

The assessment criteria for independence shall not be limited to the length of service of an independent director but rather particular emphasis is placed on the role of independent directors to facilitate independent and objective decision making in the Company.

The independent directors of the Company have no family relationship with any director and/or substantial shareholders of the Company and directorship in the Company/does not give rise to any conflict of interest situation, and they are in compliance with the criteria of independence in Chapter 1 of the Listing Requirements of Bursa Malaysia Securities Berhad.

ROLE OF THE BOARD

The Board of Directors takes full responsibility for the overall performance of the Company and its Group and its obligations to the Company's shareholders and other stakeholders. The main duties and responsibility of the Board comprise the followings:-

- Setting the objectives, goals and strategic plan for the Company
- Deliberate, approve and monitoring progress of the Company's strategy, budgets, plans and policies
- Overseeing the conduct of the Company's business to evaluate whether the business is being properly managed
- To retain an effective Board that consist of competent individuals with appropriate specialized skills and knowledge to lead and control the Company
- Identify principal and potential risks and ensure implementation of appropriate systems to manage / mitigate these risks
- Succession planning including appointing, training, fixing the compensation of and where appropriate, replacing any member of Senior Management
- Maintain an effective system of internal control to safeguard shareholder's investment and Company's assets
- Approve the quarterly results and annual audited financial statements
- Review the adequacy and the integrity of the Company's internal control systems and management information systems, including systems for compliance in accordance with the laws, regulations rules, directives and guidelines
- Develop and implement an investor relations programme or shareholder communications policy for the Company

BOARD COMMITTEES

The Board has three Board Committees with their specific Terms of Reference to assist in discharging its responsibilities:

- Audit Committee
- Nomination Committee
- Remuneration Committee

Independent and Non-Executive Directors play a leading role in these Committees. The Management and third parties are co-opted to the Committees as and when required.

BOARD MEETINGS

The Board shall meet at least four (4) times a year and has a formal schedule of matters reserved for the Board to decide. Additional Board meetings are held as and when required. Notice of meetings and business to be conducted shall be given to members of the Board at least seven (7) days prior to the meeting.

A full agenda together with the relevant Board papers are circulated to all the Directors which include amongst others, the following:

a) Quarterly financial report and report on the Company's cash and borrowing positions;

b) Reports and Minutes of meetings of all Committees of the Board;

c) A current review of the operations of the Company and budget;

d) Board Circular Resolutions for notation;

e) Directors' share dealings;

f) Annual Management Plans.

Unless varied by any terms of reference, meetings and proceedings of the Board will be governed by the Company's Articles of Association.

The Company Secretary shall take minutes of the meetings which shall be reviewed and approved by the Chairman and management before being tabled to the Board at the next meeting.

DIRECTORS' ASSESSMENT / BOARD EVALUATION

The Board recognizes the importance of assessing the effectiveness of individual Directors, the Board as a whole and its Committees. The Board reviews and evaluates its own performance as well the performance of its Committees on an annual basis.

DIRECTORS' TRAINING

In addition to the mandatory programmes required by the Bursa Securities, the Board members are encouraged to attend any other training programmes conducted by professional(s) body(s) and which are relevant to the Company's operations and business. The Board will assess the training needs of the Directors and shall disclose in the Annual Report the trainings attended by the Directors.

ACCESS TO INFORMATION AND INDEPENDENT ADVICE

Directors shall have access to all information within the Company whether as a full Board or in their individual capacity, to the extent that the information required is pertinent to the discharge of their duties as Directors.

The Board has also put into place a procedure for Directors, whether as a full Board or in their individual capacity, to take independent professional advice at the Company's expense, if necessary.

All Directors have access to the advice and services of the Company Secretary in carrying out their duties.

FINANCIAL REPORTING

The Company aims to present a clear and fair assessment of the Company's financial position and future prospects in respect of all quarterly results, annual financial statements and announcements issued by the Company within the stipulated timeframe.

The Board is assisted by the Audit Committee in scrutinizing information for disclosure to ensure its timeliness, accuracy, adequacy and compliance with the required standards and statutory laws.

The Board ensures that the financial statements are prepared so as to give a true and fair view of the current financial status of the Company in accordance with the approved accounting standards.

THE COMPANY SECRETARY

The appointment or removal of Company Secretary of the Board shall be the prerogative of the Board. Company Secretary has an important role in advisory and assisting the Board and Committees in achieving good corporate governance and ensuring compliance of statutory laws, rules and regulations of the Companies Act, 1965, Bursa Securities Listing Requirements, the Securities Commission guidelines and other relevant legislation and regulatory authorities.

In addition, proper maintenance of the Group's statutory records, register books and documents are essential in assisting the Board to achieve the spirit and intent of good corporate governance beside ensuring proper conduct at the Annual General Meetings, Extraordinary General Meetings, Board Committees' Meeting and any other meetings and the preparation of minutes thereat.

INVESTOR RELATIONS AND SHAREHOLDERS COMMUNICATION POLICY

The Board should ensure timely release of financial results and various announcements to provide shareholders with an overview of the Company's performance, corporate strategies and any other matters affecting the shareholders' interests.

The Board shall maintain appropriate corporate disclosure policies and procedures which are in compliance with the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

REVIEW OF THE BOARD CHARTER

The Board shall review the said Charter periodically and any amendments/improvements shall be made thereto as and when the Board deems necessary.

The Board of Directors is committed to safeguarding the interests of its stakeholders and recognises the importance of corporate governance in achieving this objective. The Board knows that transparent disclosure of its organizational and management structure as well as other aspects of its corporate governance helps stakeholders to assess the quality of the Group and its management and assists investors in their investment decisions.

The Board is committed to ensure that the Group's corporate governance is in line with the principles and best practices set out in Part 1 of The Malaysian Code on Corporate Governance 2012 ("the Code"). The Board further acknowledges the recommended best practices and the adopted alternative practices set out in Part 2 of the Code and continues to evaluate the status of the practices and the adopted alternatives.

In line with the recommendations of the Code, the Board has formalised its Board Charter which sets out the specific roles and functions of the Board. The Board Charter is detailed on page 11 to page 14 of this Annual Report and will be uploaded to the Company's website @ www.paragon.com.my for easy reference.

In line with the recommendations of the Code, the Board will formalize its ethical standards through a Code of Conduct.

A. Board of Directors

Composition of the Board

The Board comprises members who have vast experience in the various industry that is, in the legal, finance and consulting sectors. The Board brings in a wide spectrum of diverse skills and expertise to the Group which allows it to meet its objectives in the competitive carpet rnanufacturinq scenario.

The Board currently has four (4) members comprising three (3) Independent Non-Executive Directors and one (1) Executive Director. The position of Chairman is held by Michael Lim Hee Kiang, an Independent Non-Executive Director of the Company. The Chairman represents the Board to the Shareholders. The Chairman is responsible for ensuring the integrity and effectiveness of the governance processes of the Board. The Chairman will act as facilitator at meetings and ensure that Board proceedings are in compliance with good conduct and best practices. The Chairman of the Board shall be a Non-Executive Member of the Board.

The role of Executive Director is held by Mr. Toh Hong Wooi who is involved in the day-to-day management of the Company. He is responsible for making and implementing operational and corporate decisions as well as developing, coordinating and implementing business and corporate strategies.

The strong presence of Independent-Non Executive Directors on the Board who are neither related to any Director and/or major shareholders nor have any conflict of interests of the shareholders and the Group ensures that the interests of the shareholders and the Company are adequately protected.

Board Committee

The Board is assisted by several board committees which operate within clearly defined terms of reference.

- **Audit Committee**
  The Audit Committee assists the Board in meeting its responsibilities regarding financial reporting and review and evaluates the internal and external audit functions.
- **Remuneration Committee**
  The Remuneration Committee recommends to the Board the remuneration of the Executive and Non-Executive Directors. The Committee also assists the Board in assessing the responsibility and commitment undertaken by our Board Members.
- **Nomination Committee**
  The Nomination Committee reviews the composition of the Board and nominates candidates to the Board when the need arises. It also assesses the skills and performance of the Directors and ensures that the Board appointees undergo appropriate training.

Board Meetings and Supply of Information
During the financial year under review, four (4) Board meetings were held. Details of attendance of each Individual Director irrespective of the meetings held are disclosed below:

Name of Directors	Meeting Attended
Michael Lim Hee Kiang	4/4
Toh Hong Wooi	4/4
Fung Beng Ee	4/4
Lau Yoke Keen	4/4

Board meetings were held to discuss matters that require members' input and decision. Board meetings are held in accordance to the pre-set agendas circulated in advance to ensure sufficient time is given to understand the key issues and contents. The Company Secretary is responsible for ensuring the Board meeting procedures are followed and applicable rules and regulations are complied with.

Appointments and Re-elections to the Board
In accordance with the Company's Articles of Association: one third (1/3) of all the Directors shall retire by rotation at each AGM. All Directors and the Non-executive Chairman, shall retire from office at least once in three (3) years, the Directors retiring from office shall be eligible for re-election by the shareholders.

The tenure of an independent director shall not exceed a cumulative term of nine (9) years. Upon completion of the nine (9) years the independent director may either retire or continue to serve on the Board subject to his re-designation as a non-independent non executive director.

For the year ended 31 December 2012, Mr. Michael Lim Hee Kiang, an Independent Director of the Company has served on the Board for more than nine years. However, he has met the criteria under the definition of "independent director" as set out in Chapter 1 of the Bursa Malaysia Securities Berhad Main Market Listing Requirements ("MMLR"). Thus, the Board had considered him to have exercised his independency in all Board matters and recommend that he should be retained as an Independent Non-Executive Director.

Directors' Training
All Directors are encouraged to participate in relevant training programmes for continuous professional development and to further enhance their skills and knowledge. The Directors are aware that they shall attend appropriate training which may be required from time to time to keep them abreast with the current developments in the industry as well as new statutory and regulatory developments including changes in accounting standards.

During the financial year under review, the Directors have attended the following conferences and training programmes:-

Training Attended	Date
Sun Tzu's Art of War	02 February 2012
Comprehensive Coverage Of Transition from FRS to MFRS 2012	22 March 2012
Budget 2013 Highlights On Tax Changes And It's Implication On Business	15 October 2012

All Directors of the Company attended the Mandatory Accreditation Programme (MAP) prescribed by Bursa Malaysia Securities Berhad for directors of public listed companies.

B. Directors' Remuneration

In the case of Executive Directors, the remuneration package is structured to reward corporate and individual performance, while for Non-Executive Directors the remuneration reflects the experience and the level of responsibilities undertaken.

The aggregate Directors' remuneration paid or payable or otherwise made available to all Directors of the Company during the financial year was as follows:-

Category	Fees (RM)	Salaries & Other Emoluments (RM)	Benefit in Kind (RM)
Executive Directors	30,000	737,395	17,400
Non-Executive Directors	90,000	9,000	0

STATEMENT ON CORPORATE GOVERNANCE (cont'd)

Directors' remuneration is broadly categorized into the following bands:

Range of Remuneration (RM)	Number of Executive Directors	Number of Non-Executive Directors
Below 50,000	0	3
50,001 – 200,000	0	0
200,001 – 400,000	0	0
400,001 – 600,000	0	0
600,001 – 800,000	1	0

C. Relationship with Shareholders and Investors

The Group recognises the importance of communication with its shareholders and utilises many channels to disseminate information and to interact with them, The Group has a website in which shareholders and the public can access up-to-date information about the business and the Group. The Group's website call be accessed via www.paragon.com.my.

In addition, the Group also releases financial results on a quarterly basis, according to Bursa Malaysia's requirements. The Group also aims to have full interaction with fund managers, bankers and analysts. The Group has established a Corporate Affairs department designated for the Executive Directors and Senior Management to communicate and meet with bankers and analysts to brief them on the ongoing business scenario. Information is disseminated in strict adherence to disclosure requirements of Bursa Malaysia Securities Berhad.

D. Accountability and Audit

Financial Reporting
The Board aims to present a balanced assessment of the Company and the Group's financial performance and prospects through its Annual Report, quarterly announcements and press releases.

Internal Control
The Board is committed to maintaining a sound system of internal controls within the Group. The Board acknowledges that a good system of internal controls covering all main aspects of the business including compliance and risk management is required to safeguard shareholders' investment and the Group's assets. In addition, independent internal auditor is engaged to assess the Company's internal management information on the Group internal control.

Relationship with External Auditor
The Board has a formal and transparent relationship with its independent auditor. The external auditor through its statutory audit function continues to review, evaluate and refine the Group's accounting policies and procedures including internal control measures.

This statement is made in accordance with the resolution of the Board of Directors dated 10 April 2013.

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 2012 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.

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 RM11,850.00.

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 2012 or entered into since the end of the previous financial year.

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 Depository Receipt ("ADR") or Global Depository 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.

RISK MANAGEMENT

Managing risks is explicitly on the management's agenda and embedded in the Company Rules. Our aim with the Risk Management and Control Systems is to meet our strategic objectives as well as effectively protecting the Company and its products against reputational and financial damage.

Risk Management and Control System

The Company's Risk Management and Control System aims to ensure that the risks of the Company are identified and managed effectively and that its operational and financial objectives are met in compliance with applicable laws and regulations at a reasonable level of assurance. A system of controls that ensures adequate financial reporting is in place.

The Company is recognized for its drive for quality, service and financial discipline. Entrepreneurial spirit is encouraged in the company, in order to seek opportunities that support continuous growth, such as business and products development while taking reasonable controlled risks.

Risk profile

The Company is a predominantly a carpet manufacturing company and is subject to varying degrees of risk and uncertainty which may be affected by the material impact and price variation as well as business competition.

Risk management

The Company strives to be sustainable and performance-driven and by nature involves taking risks and managing those risks. Structured risk assessments are integrated in tendering projects, business planning, manufacturing process, system implementations and business integration activities. Although steps are taken to minimize risks but there is no absolute assurance on totally risk-free business undertakings.

Responsibilities

The Board has the overall responsibility for Risk Management and Control Systems. It is responsible for resource allocation and risk management policy setting. Its overall effectiveness is subject to review by the Audit Committee.

The Risk Committee, chaired by the Management and supports the Board with their responsibility for risk management. The Risk Committee would meet to discuss the results of the risk assessment, management process, the developments of existing risks, identification of emerging new risks and the progress of risk mitigating actions.

Company Rules

There is a standard governing procedure and activities to ensure continuous awareness, compliance and follow-up are in place. The Management is constantly updated on the financial reporting to ensure all financial obligations can be met periodically.

Governance
Company's governance procedure consists of annual business planning, operational planning and performance monitoring meetings. Business plans, key risks and quarterly performance of our operating companies are discussed between the management and presented to the Board. These plans also contain an assessment of the main risks, mitigation plans and financial sensitivity analysis.

Internal control in operating companies

The internal operating process is generally supported by IT systems with embedded key control frameworks. This would ensure the integrity of information processing in supporting the day-to-day transactions, financial and management reporting. Internal Audit is involved in monitoring key controls in main business processes and assessing their effectiveness based on a common audit approach.

Code of Business Conduct
The compliance of Company's Business Conduct procedure is supported through continuous monitoring of its effectiveness and its periodic reviews. Employees may report suspected cases of serious misconduct to their direct superior and the Management oversees the process and its confidentiality. The Management reports quarterly to the Board and Audit Committee on reported cases, if any.

Supervision
The Management oversees the adequacy and functioning of the entire system of risk management and internal control which is further assisted by independent Internal Auditor which provides independent assurance and advice on the risk management and internal control systems. The outcome and effectiveness of the risk management and internal control systems are evaluated by the Management and reports to the Board by the independent internal Auditors.

Financial reporting
The Audit Committee supports the Management in its responsibility to oversee the financial reporting and its effectiveness of the internal control of the Group. The Audit Committee comprise of three independent directors. The Management is generally to provide and present a balance representation of the financial standings of the Group. The Management also recommends and presents to the Audit Committee their financial findings of the year.

In addition, the engaging of independent external auditors would provide further assurance on the financial reporting within the scope of the external auditors' financial audit assignment.

The internal risk management and control systems would provide a reasonable degree of assurance that the financial reporting does not contain any errors of material importance and that the risk management and control systems worked properly in the year under review.

Main risks
The Company's main risks and related mitigation measures are described below. The main Company risks have been discussed with the Board and are annually reviewed.

Risk category	Risk description	Mitigation
Quality and integrity of our products	Poor quality products may result in reputational and image damage, resulting in lower volumes and financial claims. Specific risks are: Poor quality of products recalls.	Production controls Business continuity plans Recall and rework procedures.
Management Capabilities	Unable in attracting, developing and retaining talented staff with the required capabilities. Specific risks are: Insufficient number of talented staff employed to fill current and future positions Lower quality of staff in key positions.	Develop and increase our management talent Implementation of appraisal and evaluation processes Strengthening management development programmes
Availability and volatility in prices of raw materials and commodities.	Risk of availability of raw materials, commodities. Volatility in prices of raw materials and commodities may impact our profit. Specific risks are: Limited availability Failure to pass on price increases Business disruption.	Utilizing the flexibility in contracts Active hedging policy Improvement of our knowledge of the market and our suppliers
Disruptions in the supply chain	Supply chain disruption may lead to inability to deliver products to key customers, leading to lower volumes. Specific risks are: Failure of delivery systems.	Business continuity plans Implementation of back-up scenarios.
Economic environment	The economic and financial uncertainties, could impact our business and those of our customers. This may lead to lower volumes, pressure on selling prices and increased credit risk. Specific risks are: Declining market Increasing credit risk	Further monitoring and mitigating actions related to customers' solvency Implementation of a Credit Policy Supplier selection process Assessment of the financial position of critical suppliers.
Business improvement and transformation	Risk of cost overruns and of lower than required deliverables. Specific risks are: Estimated benefits too high Ineffective or inefficient programme execution.	Selection and prioritization of business improvement projects Involvement of management in all major projects Planning of projects and monitoring of project costs and benefits Enhance project governance organization including project management and progress reporting.

There may be current risks that do not have a significant impact on the business but which could “at a later stage” develop into a risk. The Company's risk management systems are constantly monitoring risks and timely discovery of such risks.

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 2012 pursuant to Paragraph 15.26 (b) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

2. Board's Responsibility

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

3. Key Elements of Internal Controls

(a) Risk Management Framework

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

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

(b) Internal Audit

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

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

(c) Other Key Elements of Internal Controls

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

- The Group has an appropriate organisational structure, which enables adequate monitoring of the activities and ensures effective flow of information across the Group. In addition, lines of responsibility and delegations of authority are clearly defined.

- The Executive Director 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.
- 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:-

- ISO 14001:2004 + COR 2009 Requirement
- CPR & First Aid At Work Place
- Fire Fighting & Safety
- Emergency Response Plan And Preparedness (ERP) & Accident Investigation And Reporting Procedure
- Forklift Handling & Safety Programme
- Chemical Drill
- Personal Protection Equipment

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 such as futsal, bowling, fishing, ping pong and badminton and social activity like Zoom in Malaysia to Cameron Highlands.

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 an 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 Sau Seng Lum, a non-profit health system in Malaysia serving health needs of the underprivileged people; National Council of Senior Citizens Organisations Malaysia; Kastam DiRaja Malaysia; Society of the Orthopedically Handicapped Malaysia; The Divine Life Society and IJN Foundation.

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	Designation
Mr. Michael Lim Hee Kiang	Independent Non-Executive Chairman (Chairman)
Mr. Fung Beng Ee	Independent Non-Executive Director
Mr. Lau Yoke Keen	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.

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, the valuation of the system of internal accounting controls;
   (iii) with the external auditors, the 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.

AUDIT COMMITTEE REPORT (cont'd)

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 2012 to which all the Committee Members attended. The record of attendance of each Committee Member is as follows:-

Committee Member	Attendance
Mr. Michael Lim Hee Kiang	4/4
Mr. Fung Beng Ee	4/4
Mr. Lau Yoke Keen	4/4

4. SUMMARY OF ACTIVITIES

During the year ended 31 December 2012, the activities of the Audit Committee included:-

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

5. INTERNAL AUDIT FUNCTION

The responsibilities of the Internal Audit Function include the following:

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

During the financial year, the outsourced internal audit function has carried out various risk-based audit reviews on the key processes of Procurement and Quality Assurance of Paragon Carpetmaker Sdn Bhd. These review areas included as follows:-

1. To evaluate the effectiveness, adequacy and existence of existing controls of:-
   a) Procurement & Disbursement
   b) Quality Control

2. Control Risk Assessment which includes:-
   a) Procurement
      i) Poor Bargaining Power
      ii) Poor Supplier Performance
      iii) Inaccurate Requisition And Unauthorized Disbursement

   b) Quality Control
      i) Poor Quality Product
      ii) Recurring Unresolved Quality Issue

The cost incurred for internal audit in financial year ended 31 December 2012 was RM7,500.00 The audit steps involved are as follows:-

- Defined the audit objectives and audit scope based on the risk factors as identified in the Internet 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.

NOMINATION COMMITTEE REPORT

TERMS OF REFERENCE OF NOMINATING COMMITTEE

1. Objectives

The primary objective of the Nominating Committee is to act as a committee of the Board to assist in discharging the Board's responsibilities in: -

(a) assessing each of the existing directors' ability to contribute to the effective decision making of the Board;

(b) identifying, appointing and orientating new directors;

(c) reviewing the mix skills and experience and other qualities the Board requires for it to function independently and efficiently;

(d) membership of the Audit and Remuneration Committees and any other Board Committeesas appropriate, in consultation with the chairmen of those committees;

(e) assessing and evaluating the effectiveness of the Board as a whole and the board committees, assessing the performance of independence of Independent Non-ExecutiveDirectors and Chief Executive Officer/Managing Director; and

(f) identifying and recommending directors who are to be put forward for retirement by rotation in accordance with the Company's Articles of Association.

2. Composition

The Nominating Committee shall be appointed by the Board of Directors from among their members and shall consist of not less than three (3) members. All the members shall be Non-Executive Directors, the majority of whom shall be independent directors.

3. Quorum

The quorum for each meeting shall be two members present.

4. Chairman

The Chairman of the Nominating Committee shall be an Independent Non-Executive Director. In the absence of the Nominating Committee Chairman, the remaining members present shall elect one of them to chair the meeting.

5. Meetings

The number of Meetings shall be held not less than once a year and additional meetings shall be held as required. A member may at any time and the Secretary shall on the requisition of a director summon a meeting of the Nominating Committee.

Questions arising at any meeting of Nominating Committee shall be decided by a majority of votes and a determination by a majority of members shall for all purposes be deemed a determination of the Nominating Committee.

In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote PROVIDED THAT where two (2) members form a quorum, the Chairman of the meeting at which only such a quorum is present, or at which only two members are competent to vote on the question at issue, shall not have a casting vote.

Minutes of Meeting shall be recorded and kept.

6. Secretary

The Company Secretary shall be the Secretary of the Nominating Committee.

7. Responsibilities

The Nominating Committee shall have the following responsibilities:-

(a) Recommend to the Board, candidates for all directorships to be filled by the shareholders or the Board. In making its recommendations, the Nominating Committee should consider the candidates'

– skills, knowledge, expertise and experience;

– professionalism;

– integrity; and

– in the case of candidates for the position of independent non-executive directors, the Nominating Committee should also evaluate the candidates' ability to discharge such responsibilities/functions as expected from independent non-executive directors.

(b) Consider in making its recommendations, candidates for directorship proposed by the Chief Executive Officer/Managing Director and, within the bounds of practicability, by any other senior executive or any director or shareholder.

(c) Recommend to the Board, directors to fill seats on Board Committees.

(d) Assess the effectiveness of the Board as a whole.

(e) Assess the effectiveness of the committees of the Board.

(f) Assess the contribution of each individual director.

(g) Review and recommend to the Board the required mix of skills and experience and other qualities the Board requires in order to function independently and efficiently.

(h) Develop and review the criteria used for the selection process of new directors and annual assessment of the board, board committees and individual directors.

(i) Formulate a policy on Board composition including mix of skills, independence and diversity (including gender diversity).

(j) Assess the independence of the Directors annually who have served on the Board for a cumulative term of more than nine (9) years for appointment or otherwise.

(k) Review the training and professional development programmes for the Board.

(l) Develop succession plans in order for the Board to maintain appropriate experience, expertise and diversity (including gender diversity).

(m) Consider gender diversity generally when making appointments to the Board.

During the financial year ended 31 December 2012, the Nomination Committee met once and deliberated on the re-election of directors, composition and performance of the Board Members. It was concluded that the caliber, experience, qualification and the present mix of the Board members are sufficiently adequate.

SUBSIDIARY COMPANIES

EQUITY INTEREST

	NAME OF COMPANY	2012	2011	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%	Inactive
	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 2012

Location	Age of Building	Tenure	Description	Land Area (sq. m.)	Build-Up Area (sq. m.)	Cost / Revaluation (RM)	Net Book Value as at 31.12.2012 (RM)	Last Date of Revaluation
Lot No. PT 7637 14, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	22 years	Leasehold (Expiry 14.05.2088)	Leasehold Land, Factory & Office	8,094	3,190 (factory) 3,929 (office)	8,090,000	6,055,502	12.03.1998
Lot No. PT 7667 21, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	21 years	Leasehold (Expiry 14.05.2088)	Leasehold Land, Factory & Office	6,833	4,177 (factory) 873 (office)	5,016,165	3,851,584	13.02.1998
Lot No. PT 7641 11A, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	17 years	Leasehold (Expiry 14.05.2088)	Leasehold Land, Factory & Office	12,128	7,919 (factory)	8,462,936	6,493,125	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 3 MAY 2013

Size Of Holdings	No. Of Shareholders	No. Of Shares	Percentage (%)
1 - 99	22	424	0.00
100 - 1,000	677	645,942	1.00
1,001 - 10,000	1,435	6,472,400	10.00
10,001 – 100,000	383	11,033,400	17.05
100,001 – 3,234,914*	37	11,177,040	17.28
3,234,915 and above **	2	35,369,094	54.67
Total	2,556	64,698,300***	100.00

Notes :
* Less than 5% of the issued and paid-up share capital.
** 5% and above of the issued and paid-up share capital.
*** The number of 64,698,300 ordinary shares was arrived at after deducting 5,301,700 treasury shares retained by the Company from the issued and paid-up share capital of 70,000,000 ordinary shares as per the Record of Depositors.

DIRECTORS' SHAREHOLDINGS AS PER THE REGISTER OF DIRECTORS' SHAREHOLDINGS AS AT 3 MAY 2013

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

SUBSTANTIAL SHAREHOLDERS AS PER THE REGISTER OF SUBSTANTIAL SHAREHOLDERS AS AT 3 MAY 2013

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

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

ANALYSIS OF SHAREHOLDINGS (cont'd)

THIRTY (30) LARGEST SHAREHOLDERS AS AT 3 MAY 2013

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 (Retail Clients)	466,500	0.72
9.	Maybank Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Tan Hon @ Tan Ho Hoon	365,200	0.56
10.	Lim Lai Chun @ Lim Lai Chan	358,400	0.55
11.	Gan Lam Seong	341,500	0.53
12.	Cimsec Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Ng Geok Wah	310,000	0.48
13.	Maybank Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Liau Siong Kee @ Liew Siong Kee	282,400	0.44
14.	Low Wan Chin	275,000	0.43
15.	Ooi Lee Peng	263,800	0.41
16.	Maybank Securities Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Lee Ah Kim	214,500	0.33
17.	Lim Chir Ching	200,000	0.31
18.	Public Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Su Ming Keat	200,000	0.31
19.	Lim Kwei Sunn	167,500	0.26
20.	Wong Ah Yong	166,700	0.26
21.	Goh Yoke Choo	157,600	0.24
22.	Chin Tung Leong	154,800	0.24
23.	Phong Chiew Khim	147,800	0.23
24.	Yee Kwek Keong	140,000	0.22
25.	Yeow Teck Chai	138,000	0.21
26.	Lee Ah Quek	134,200	0.21
27.	Chong Tong Siew	134,000	0.21
28.	Maybank Securities Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Tee Teck Khoon	133,200	0.21
29.	UOB Kay Hian Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Goh Tien Tow	131,000	0.20
30.	Ho Wah Genting Kintron Sdn. Bhd.	130,000	0.20
	Total	**45,514,534**	**70.35**

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 2012.

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	(548,735)	(2,159,689)
Non-controlling interests	(15,418)	-
	(564,153)	(2,159,689)

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
	5,301,700		4,220,708

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

At 31 December 2012, the total number of treasury shares held by the Company is 5,301,700 ordinary shares.

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

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 2012 have not been substantially affected by any item, transaction or event of a material and unusual nature; and

(ii) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the 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.

AUDITORS

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

Signed in accordance with a resolution of the Directors.

TOH HONG WOOI	MICHAEL LIM HEE KIANG

KUALA LUMPUR
19 APRIL 2013

STATEMENT BY DIRECTORS

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

We, TOH HONG WOOI 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 47 to 107 are drawn up in accordance with Malaysian 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 2012 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 WOOI

MICHAEL LIM HEE KIANG

KUALA LUMPUR
19 APRIL 2013

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 47 to 107 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)
19 APRIL 2013)

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 2012 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity 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 47 to 107.

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 Malaysian 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 Malaysian 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 2012 and of their financial performance and cash flows for the financial year then ended.

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 adverse comment required to be made under Section 174(3) of the Act.

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 34 to the financial statements 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

1. As stated in Note 2(a) to the financial statements, Paragon Union Berhad adopted Malaysian Financial Reporting Standards on 1 January 2012 with a transition date of 1 January 2011. These standards were applied retrospectively by Directors to the comparative information

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

in these financial statements, including the statements of financial position as at 31 December 2011 and 1 January 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year ended 31 December 2011 and related disclosures. We were not engaged to report on the restated comparative information and it is unaudited. Our responsibilities as part of our audit of the financial statements of the Group and of the Company for the year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 1 January 2012 do not contain misstatements that materially affect the financial position as of 31 December 2012 and financial performance and cash flows for the year then ended.

2. 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.

MORISON ANUARUL AZIZAN CHEW
Firm Number: AF 001977
Chartered Accountants

TAN POH LING
Approved Number: 2564/03/15 (J)
Partner of Firm

KUALA LUMPUR
19 APRIL 2013

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

		Group			Company		
	Note	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
Non-Current Assets							
Property, plant and equipment	3	34,096,810	34,156,591	35,752,521	-	-	-
Investment in subsidiary companies	4	-	-	-	11,607,745	13,297,231	13,297,231
Deferred tax assets	5	56,479	-	69,048	-	-	-
		34,153,289	34,156,591	35,821,569	11,607,745	13,297,231	13,297,231
Current Assets							
Inventories	6	23,954,918	22,129,527	18,743,469	-	-	-
Trade receivables	7	8,066,728	10,073,105	14,757,808	-	-	-
Other receivables	8	18,968,437	20,234,140	19,044,664	18,005,603	18,004,465	18,004,465
Tax recoverable		496,161	671,227	712,021	22,933	85,098	85,098
Amount owing by subsidiary companies	9	-	-	-	22,462,026	22,974,961	23,275,248
Cash held under Housing Development Account	10	310,421	304,427	298,787	-	-	-
Cash and bank balances	11	1,107,566	2,523,058	2,851,953	77,765	75,520	91,399
		52,904,231	55,935,484	56,408,702	40,568,327	41,140,044	41,456,210

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012 (cont'd)

		Group			Company		
	Note	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
Current Liabilities							
Trade payables	12	3,343,477	2,436,788	3,439,912	-	-	-
Other payables	13	3,885,519	4,670,479	4,382,379	1,414,656	1,516,170	1,445,285
Hire purchase payables	14	1,045,099	1,104,024	1,003,548	-	-	-
Bank borrowings	15	14,875,270	15,071,140	16,404,251	-	-	-
Tax payables		590,629	581,555	405,931	-	-	-
		23,739,994	23,863,986	25,636,021	1,414,656	1,516,170	1,445,285
Net current assets		29,164,237	32,071,498	30,772,681	39,153,671	39,623,874	40,010,925
		63,317,526	66,228,089	66,594,250	50,761,416	52,921,105	53,308,156
Financed by:							
Share Capital	16	70,000,000	70,000,000	70,000,000	70,000,000	70,000,000	70,000,000
Reserves	17	(4,618,481)	(4,618,481)	(4,618,481)	-	-	-
Treasury shares	18	(4,220,708)	(4,220,708)	(4,220,708)	(4,220,708)	(4,220,708)	(4,220,708)
Accumulated losses		(3,031,816)	(2,483,081)	(2,278,826)	(15,017,876)	(12,858,187)	(12,471,136)
Equity attributable to owners of the parent		58,128,995	58,677,730	58,881,985	50,761,416	52,921,105	53,308,156
Non-controlling interests		(17,448)	(2,030)	-	-	-	-
		58,111,547	58,675,700	58,881,985	50,761,416	52,921,105	53,308,156

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012 (cont'd)

		Group			Company		
	Note	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
Non -Current Liabilities							
Hire purchase payables	14	322,552	1,242,180	2,055,974	-	-	-
Bank borrowings	15	2,815,493	3,476,722	4,093,256	-	-	-
Deferred tax liabilities	5	2,067,934	2,833,487	1,563,035	-	-	-
		5,205,979	7,552,389	7,712,265	-	-	-
		63,317,526	66,228,089	66,594,250	50,761,416	52,921,105	53,308,156

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

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	Note	Group 2012 RM	Group 2011 RM	Company 2012 RM	Company 2011 RM
Revenue	19	48,346,487	51,485,001	-	-
Cost of sales		(40,238,306)	(40,645,435)	-	-
Gross profit		8,108,181	10,839,566	-	-
Other operating income		96,781	952,488	266	261
Selling and distribution costs		(4,686,350)	(4,667,606)	-	-
Administrative and general expenses		(2,811,564)	(4,181,157)	(2,159,955)	(387,312)
Finance costs	20	(1,406,288)	(1,517,991)	-	-
(Loss)/Profit before taxation	21	(699,240)	1,425,300	(2,159,689)	(387,051)
Taxation	22	135,087	(1,631,585)	-	-
Net loss for the financial year		(564,153)	(206,285)	(2,159,689)	(387,051)
Loss attributable to:-					
Owners of the parent		(548,735)	(204,255)	(2,159,689)	(387,051)
Non-controlling interests		(15,418)	(2,030)	-	-
		(564,153)	(206,285)	(2,159,689)	(387,051)
Loss per share attributable to owners of the parent (sen)					
Basic	23(a)	(0.85)	(0.32)		
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 2012

	Attributable to Owners of the Parent							
		← Non-Distributable →		← Distributable →				
	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
Group								
At 1 January 2012								
- As previously stated	70,000,000	(4,618,481)	5,196,124	(4,220,708)	(7,679,205)	58,677,730	(2,030)	58,675,700
- Effect of adopting MFRS 1	-	-	(5,196,124)	-	5,196,124	-	-	-
- As restated	70,000,000	(4,618,481)	-	(4,220,708)	(2,483,081)	58,677,730	(2,030)	58,675,700
Total comprehensive loss	-	-	-	-	(548,735)	(548,735)	(15,418)	(564,153)
At 31 December 2012	70,000,000	(4,618,481)	-	(4,220,708)	(3,031,816)	58,128,995	(17,448)	58,111,547

STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (cont'd)

	Attributable to Owners of the Parent							
	← Non-Distributable →			← Distributable →				
	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
Group								
At 1 January 2011								
- As previously stated	70,000,000	(4,618,481)	5,279,051	(4,220,708)	(7,557,877)	58,881,985	-	58,881,985
- Effect of adopting MFRS 1	-	-	(5,279,051)	-	5,279,051	-	-	-
- As restated	70,000,000	(4,618,481)	-	(4,220,708)	(2,278,826)	58,881,985	-	58,881,985
Realisation of reserve on amortisation of revalued properties								
- As previously stated	-	-	(82,927)	-	82,927	-	-	-
- Effect of adopting MFRS 1	-	-	82,927	-	(82,927)	-	-	-
- As restated	-	-	-	-	-	-	-	-
Total comprehensive loss	-	-	-	-	(204,255)	(204,255)	(2,030)	(206,285)
At 31 December 2011								
- As previously stated	70,000,000	(4,618,481)	5,196,124	(4,220,708)	(7,679,205)	58,677,730	(2,030)	58,675,700
- Effect of adopting MFRS 1	-	-	(5,196,124)	-	5,196,124	-	-	-
- As restated	70,000,000	(4,618,481)	-	(4,220,708)	(2,483,081)	58,677,730	(2,030)	58,675,700

	Share Capital RM	← Distributable → Treasury Shares RM	Accumulated Losses RM	Total RM
Company				
At 1 January 2012	70,000,000	(4,220,708)	(12,858,187)	52,921,105
Total comprehensive loss	-	-	(2,159,689)	(2,159,689)
At 31 December 2012	70,000,000	(4,220,708)	(15,017,876)	50,761,416
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	70,000,000	(4,220,708)	(12,858,187)	52,921,105

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

STATEMENTS OF CASH FLOW
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	Note	Group 2012 RM	Group 2011 RM	Company 2012 RM	Company 2011 RM
Cash Flows From Operating Activities					
(Loss)/Profit before taxation		(699,240)	1,425,300	(2,159,689)	(387,051)
Adjustments for:					
Impairment loss for trade receivables		120,000	510,000	-	-
Impairment loss for trade receivables written back		(75,912)	(72,284)	-	-
Impairment loss for other receivables		352,960	20,000	-	-
Unrealised loss on foreign exchange		18,406	65,160	-	-
Depreciation of property, plant and equipment		2,690,400	2,601,382	-	-
Inventories written off		-	519,160	-	-
Impairment loss for investment in subsidiary companies		-	-	1,689,486	-
Loss/(Gain) on disposal of property, plant and equipment		10,586	(11,368)	-	-
Property, plant and equipment written off		1,838	-	-	-
Write-off for fire damages	21	-	739,343	-	-
Interest income		(6,368)	(90,376)	(266)	(261)
Interest expense		1,406,288	1,517,991	-	-
Operating profit/(loss) before working capital changes		3,818,958	7,224,308	(470,469)	(387,312)
(Increase)/Decrease in working capital					
Inventories		(1,825,391)	(3,905,218)	-	-
Trade and other receivables		2,855,286	2,972,351	(1,138)	-
Trade and other payables		123,069	(715,024)	(101,514)	70,885
Amount owing by subsidiary companies		-	-	512,935	300,287
		1,152,964	(1,647,891)	410,283	371,172
Cash generated from/(used in) operations		4,971,922	5,576,417	(60,186)	(16,140)

		Group		Company	
		2012	2011	2012	2011
	Note	RM	RM	RM	RM
Interest received		6,368	90,376	266	261
Interest paid		(1,406,288)	(1,517,991)	-	-
Tax (paid)/refund		(502,805)	(75,667)	62,165	-
		(1,902,725)	(1,503,282)	62,431	261
Net cash generated from/(used in) operating activities		3,069,197	4,073,135	2,245	(15,879)
Cash Flows From Investing Activities					
Purchase of property, plant and equipment	3(d)	(2,529,643)	(1,416,910)	-	-
Proceeds from disposal of property, plant and equipment		21,600	28,333	-	-
Net cash used in investing activities		(2,508,043)	(1,388,577)	-	-
Cash Flows From Financing Activities					
Repayment of term loans		(621,264)	(591,027)	-	-
Net changes in bills payable		646,861	(298,000)	-	-
Repayment of hire purchase payables		(1,113,553)	(1,058,168)	-	-
Net cash used in financing activities		(1,087,956)	(1,947,195)	-	-

STATEMENTS OF CASH FLOW
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (cont'd)

	Group		Company	
	2012	**2011**	**2012**	**2011**
	RM	**RM**	**RM**	**RM**
Net (decrease)/increase in cash and cash equivalents	(526,802)	737,363	2,245	(15,879)
Cash and cash equivalents at beginning of the financial year	(9,233,061)	(9,970,424)	75,520	91,399
Cash and cash equivalents at end of the financial year	(9,759,863)	(9,233,061)	77,765	75,520
Cash and cash equivalents at end of the financial year comprises:				
Cash and bank balances	1,107,566	2,523,058	77,765	75,520
Cash held under Housing Development Account	310,421	304,427	-	-
Bank overdrafts	(11,177,850)	(12,060,546)	-	-
	(9,759,863)	(9,233,061)	77,765	75,520

The accompanying notes form an integral part of 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 Malaysian Financial Reporting Standards ("MFRSs") and the provisions of the Companies Act, 1965 in Malaysia.

During the financial year, the Group and the Company have adopted MFRSs issued by the Malaysian Accounting Standards Board ("MASB") on 19 November 2011, which are mandatory for annual financial periods beginning on or after 1 January 2012. As these are the Group's and the Company's first financial statements prepared in accordance with MFRSs, the requirements of MFRS 1 First-time Adoption of Malaysian Financial Reporting Standards have been applied.

In the previous financial years, the financial statements of the Group and of the Company were prepared in accordance with Financial Reporting Standards ("FRSs"). The financial and disclosure impacts on the transition to MFRSs are disclosed in Note 28 to the financial statements.

On the adoption of MFRSs, the following new standards became applicable during the financial year:

	Effective date for financial period beginning on or after
MFRS 124: Related Party Disclosures	1 January 2012
MFRS 7 *Disclosures – Transfers of Financial Assets*	1 January 2012

The Directors of the Group and of the Company are of the opinion that the abovementioned new MFRSs did not have any material financial and disclosure impacts to the financial statements during the financial year.

The Group and the Company have not applied the following accounting standards that have been issued by MASB but are not yet effective for the Group and the Company:-

<u>MFRSs effective on 1 July 2012</u>

Amendment to MFRS 101	Presentation of Items of Other Comprehensive Income

<u>MFRSs effective on 1 January 2013</u>

MFRS 3	Business Combinations (IFRS 3 Business Combinations issued by IASB in March 2004)
MFRS 10	Consolidated Financial Statements
MFRS 11	Joint Arrangements
MFRS 12	Disclosure 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	Consolidated and Separate Financial Statements (IAS 27 as amended by IASB in May 2011)
MFRS 127	Consolidated and Separate Financial Statements (IAS 27 Consolidated and Separate Financial Statements revised by IASB in December 2003)
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
Amendment to MFRS 1	Government Loans
Amendment to MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009-2011 Cycle)
Amendment to MFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendment to MFRS 101	Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)
Amendment to MFRS 116	Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)

MFRSs effective on 1 January 2013 (Cont'd)

Amendment to MFRS 132	Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)
Amendment to MFRS	Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)
Amendments to MFRS 10, MFRS 11 and MFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance

MFRSs effective on 1 January 2014

MFRS 141	Agriculture
IC Int 15	Agreements for the Construction of Real Estate
Amendment to MFRS 132	Offsetting Financial Assets and Financial Liabilities

MFRSs effective on 1 January 2015

MFRS 9	Financial Instruments (IFRS 9 issued by IASB in November 2009)
MFRS 9	Financial Instruments (IFRS 9 issued by IASB in October 2010)
Amendments to MFRS 7 and MFRS 9	Mandatory Effective Date of MFRS 9 and Transition Disclosures

The Group and the Company plans to adopt the abovementioned MFRSs, IC Interpretations and amendments to MFRSs which are relevant to the Group's and to the Company's operations when they become effective.

The Directors of the Group and of the Company anticipate that the application of the above MFRSs, IC Interpretations and amendments to MFRSs will have no material impact on the financial statements of the Group and of the Company.

(b) Functional and presentation currency

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

(c) Significant accounting estimates and judgements

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

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

(i) Estimation of fair value of properties

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

(a) current prices in an active market for properties of a different nature, condition or location (or subject to different lease or other contracts) adjusted to reflect those differences; or

(b) recent prices of similar properties based on less active market, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices.

(ii) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis, in accordance with the accounting policy stated in Note 2(h) to the financial statements. 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) to the financial statements. 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) to the financial statements. 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.

Where a business combination is achieved in stages, the Group's previously held equity interest in the acquire 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) to the financial statements.

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 MFRS 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 statements of comprehensive income.

(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.

(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 declined 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.

(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:

	2012 RM	**2011 RM**
United States Dollar (US$)	3.0583	3.1770
Sterling Pound (£)	4.9420	4.8962
Euro Dollar (€)	4.0412	-

(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 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) Merger reserves

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 Cost						
Group	**Leasehold land RM**	**Factory buildings and building improvements RM**	**Plant and machinery RM**	**Motor vehicles RM**	**Furniture, fittings and equipment RM**	**Electrical installation and renovation RM**	**Total RM**
Cost							
At 1 January 2012	10,130,000	11,417,301	34,257,618	1,748,303	9,153,530	5,022,089	71,728,841
Additions	-	21,800	-	145,540	1,848,218	649,085	2,664,643
Disposal	-	-	-	(163,609)	-	-	(163,609)
Write-off	-	-	-	-	(259,548)	-	(259,548)
At 31 December 2012	10,130,000	11,439,101	34,257,618	1,730,234	10,742,200	5,671,174	73,970,327
Accumulated depreciation							
At 1 January 2012	1,632,140	3,188,056	20,522,588	1,397,618	7,287,163	3,544,685	37,572,250
Charge for the financial year	120,283	228,380	1,213,949	88,146	889,269	150,373	2,690,400
Disposal	-	-	-	(131,423)	-	-	(131,423)
Write-off	-	-	-	-	(257,710)	-	(257,710)
At 31 December 2012	1,752,423	3,416,436	21,736,537	1,354,341	7,918,722	3,695,058	39,873,517
Carrying amount							
At 31 December 2012	8,377,577	8,022,665	12,521,081	375,893	2,823,478	1,976,116	34,096,810

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

		At Deemed Cost		At Cost				
Group	Note	Leasehold land RM	Factory buildings and building improvements RM	Plant and machinery RM	Motor vehicles RM	Furniture, fittings and equipment RM	Electrical installation and renovation RM	Total RM
Deemed cost/Cost								
At 1 January 2011		10,130,000	12,148,756	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	11,417,301	34,257,618	1,748,303	9,153,530	5,022,089	71,728,841
Accumulated depreciation								
At 1 January 2011		1,511,857	3,155,979	19,532,461	1,470,068	6,535,718	3,354,530	35,560,613
Charge for the financial year		120,283	243,108	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	3,188,056	20,522,588	1,397,618	7,287,163	3,544,685	37,572,250
Carrying amount								
At 31 December 2011		8,497,860	8,229,245	13,735,030	350,685	1,866,367	1,477,404	34,156,591
At 1 January 2011		8,618,143	8,992,777	14,672,646	1,560,727	2,388,090	639,521	35,752,521

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

(a) Upon transition to MFRSs, the Group has elected to apply the optional exemption to use previous revaluation of its leasehold land and factory buildings and building improvements at 1 January 2011 of RM8,618,143 and RM8,934,641 respectively as deemed cost under MFRSs as disclosed in Note 28 to the financial statements.

The remaining period of the leasehold land and factory buildings is 77 (31.12.2011 and 1.1.2011: 78 and 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 to the financial statements are as follows:

	Group		
	31.12.2012	**31.12.2011**	**1.1.2011**
	RM	**RM**	**RM**
Leasehold land	8,377,577	8,497,860	8,618,143
Factory buildings	8,022,665	8,229,245	8,992,777
Plant and machinery	8,481,563	9,224,087	9,983,293
Motor vehicles	-	-	3,129
	24,881,805	25,951,192	27,597,342

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

	Group		
	31.12.2012	**31.12.2011**	**1.1.2011**
	RM	**RM**	**RM**
Plant and machinery	4,513,560	4,940,407	4,922,539
Motor vehicles	350,806	293,413	360,357
Furniture, fittings and equipment	75,900	177,100	278,300
	4,940,266	5,410,920	5,561,196

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

	Group		
	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
Aggregate costs	2,664,643	1,761,760	338,975
Hire purchase financing	(135,000)	(344,850)	-
Cash payments	2,529,643	1,416,910	338,975

4. INVESTMENT IN SUBSIDIARY COMPANIES

(a) Investment in subsidiary companies

	Company		
	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
In Malaysia			
Unquoted shares, at cost	14,511,655	14,511,655	14,511,655
Accumulated impairment losses	(2,903,910)	(1,214,424)	(1,214,424)
	11,607,745	13,297,231	13,297,231

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

Name of company	Country of incorporation	Effective interest 31.12.2012 %	Effective interest 31.12.2011 %	Effective interest 1.1.2011 %	Principal activities
Direct holding:					
Paragon Car Carpets & Components Sdn. Bhd.	Malaysia	100	100	100	Manufacturing and distribution of car carpets and automotive components
Paragon Expression Sdn. Bhd. ("PE")	Malaysia	100	100	100	Investment holding and property development related activities

Paragon Precision Industries Sdn. Bhd. ("PPI")	Malaysia	78	78	78	Inactive
Paragon Metal Components Sdn. Bhd. ("PMC")	Malaysia	77	77	77	Inactive
Indirect holding:					
Subsidiary company of Paragon Car Carpets & Components Sdn. Bhd. :					
Paragon Carpetmaker Sdn. Bhd.	Malaysia	100	100	100	Manufacturing and trading in car carpets and commercial carpets
Subsidiary company of Paragon Carpetmaker Sdn. Bhd. :					
Paragon Carpet Distributor Sdn. Bhd.	Malaysia	100	100	100	Distribution and trading in commercial carpets
Subsidiary company of Paragon Expression Sdn. Bhd. :					
Paragon Property Development Sdn. Bhd.	Malaysia	100	100	100	Dealing in land, properties and other property development related activities

(a) During financial year, the Company has recognised impairment losses amounting to RM1,689,486 in respect of its investment in PE as the subsidiary company recorded a deficit in its shareholders' equity. As the subsidiary company has since remained inactive, the Company does not expect to derive any future economic benefits from its activity or from its disposal.

(b) 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		
	31.12.2012 RM	**31.12.2011 RM**	**1.1.2011 RM**
At 1 January	2,833,487	1,493,987	3,185,443
Recognised in statements of comprehensive income	(109,559)	841,420	623,303
(Over)/Under provision in prior year	(712,473)	498,080	(2,314,759)
At 31 December	2,011,455	2,833,487	1,493,987

Represented after appropriate offsetting as follows:

	Group		
	31.12.2012 RM	**31.12.2011 RM**	**1.1.2011 RM**
Deferred Tax Liabilities	2,067,934	2,833,487	1,563,035
Deferred Tax Assets	(56,479)	-	(69,048)
	2,011,455	2,833,487	1,493,987

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 2012	2,539,942	1,417,961	3,957,903
Recognised in statement of comprehensive income	166,931	(20,732)	146,199
Over provision in prior year	(745,335)	-	(745,335)
	1,961,538	1,397,229	3,358,767
Offsetting			(1,290,833)
At 31 December 2012			2,067,934
As at 1 January 2011	2,155,461	1,759,683	3,915,144
Recognised in statements of comprehensive income	116,560	(27,642)	88,918
Under/(Over) provision in prior year	267,921	(314,080)	(46,159)
	2,539,942	1,417,961	3,957,903
Offsetting			(1,124,416)
At 31 December 2011			2,833,487
As at 1 January 2010	2,798,750	1,787,325	4,586,075
Recognised in statements of comprehensive income	(45,709)	(27,642)	(73,351)
Over provision in prior year	(597,580)	-	(597,580)
	2,155,461	1,759,683	3,915,144
Offsetting			(2,352,109)
As at 1 December 2010			1,563,035

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 2012	39,097	-	-	1,085,319	1,124,416
Recognised in statements of comprehensive income	-	225,758	30,000	-	255,758
Under/(Over) provision in prior year	173,564	105,574	-	(312,000)	(32,862)
	212,661	331,332	30,000	773,319	1,347,312
Offsetting					(1,290,833)
At 31 December 2012					56,479
At 1 January 2011	560,315	404,727	-	1,456,115	2,421,157
Recognised in statements of comprehensive income	(242,703)	(362,991)	-	(146,808)	(752,502)
Over provision in prior year	(278,515)	(41,736)		(223,988)	(544,239)
	39,097	-	-	1,085,319	1,124,416
Offsetting					(1,124,416)
At 31 December 2011					-
At 1 January 2010	387,270	977,362	36,000	-	1,400,632
Recognised in statements 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
	560,315	404,727	-	1,456,115	2,421,157
Offsetting					(2,352,109)
At 31 December 2010					69,048

6. INVENTORIES

	Group		
	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
At cost:			
Raw materials	8,031,723	7,196,815	6,051,878
Work-in-progress	1,896,244	2,117,672	1,630,895
Finished goods	14,026,951	12,815,040	11,060,696
	23,954,918	22,129,527	18,743,469

7. TRADE RECEIVABLES

	Group		
	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
Trade receivables	8,831,540	10,793,829	15,229,105
Impairment for trade receivables	(764,812)	(720,724)	(471,297)
Trade receivables, net	8,066,728	10,073,105	14,757,808

The Group's normal trade credit term range from 60 to 90 days (31.12.2011: 60 to 90 days and 1.1.2011: 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 RM3,658,719 (31.12.2011: RM6,501,274 and 1.1.2011: RM12,926,341) which accounts for 45% (31.12.2011: 65% and 1.1.2011: 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		
	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
Neither past due or impaired	3,618,272	3,779,946	7,374,121
1 - 90 days past due but not impaired	2,716,690	3,247,816	4,074,226
91 - 180 days past due but not impaired	2,496,578	3,766,067	3,730,754
More than 1 year past due but not impaired	-	-	50,004
	5,213,268	7,013,883	7,854,984
Fully impaired	(764,812)	(720,724)	(471,297)
	8,066,728	10,073,105	14,757,808

The trade receivables that are impaired

	Group		
	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
Individually	(764,812)	(720,724)	(471,297)
Allowance for impairment			
At 1 January	720,724	471,297	230,846
Allowance written off	-	(188,289)	(155,512)
Allowance written back	(75,912)	(72,284)	(5,599)
Allowance made	120,000	510,000	401,562
At 31 December	764,812	720,724	471,297

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 RM5,213,268 (31.12.2011: RM7,013,883 and 1.1.2011: 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		
	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
Ringgit Malaysia	7,426,984	9,409,804	13,367,034
United States Dollar	556,584	663,301	1,390,774
Euro Dollar	83,160	-	-
	8,066,728	10,073,105	14,757,808

8. OTHER RECEIVABLES

	Group			Company		
	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
Other receivables	18,443,932	19,166,812	18,767,873	18,005,603	18,004,465	18,004,465
Deposits	16,808,345	16,769,081	16,771,149	16,540,000	16,540,000	16,540,000
Prepayments	315,806	838,247	309,626	-	-	-
	35,568,083	36,774,140	35,848,648	34,545,603	34,544,465	34,544,465
Less: Impairment loss	(16,599,646)	(16,540,000)	(16,803,984)	(16,540,000)	(16,540,000)	(16,540,000)
	18,968,437	20,234,140	19,044,664	18,005,603	18,004,465	18,004,465

The other receivables that are impaired

	Group			Company		
	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
Allowance for impairment						
At 1 January	16,540,000	16,803,984	16,803,984	16,540,000	16,540,000	16,540,000
Allowance written off	-	(263,984)	-	-	-	-
Allowance made	59,646	-	-	-	-	-
At 31 December	16,599,646	16,540,000	16,803,984	16,540,000	16,540,000	16,540,000

Included in deposits of the Group and the Company is an amount of RM16,540,000 (31.12.2011: RM16,540,000 and 1.1.2011: 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.

9. AMOUNT OWING BY SUBSIDIARY COMPANIES

	Company		
	31.12.2012	**31.12.2011**	**1.1.2011**
	RM	**RM**	**RM**
Advances	24,317,370	24,830,305	25,130,592
Impairment for amount owing by subsidiary companies	(1,855,344)	(1,855,344)	(1,855,344)
	22,462,026	22,974,961	23,275,248

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		
	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
Ringgit Malaysia	781,405	1,750,539	908,943	77,765	75,520	91,399
United States Dollar	326,161	772,519	1,943,010	-	-	-
	1,107,566	2,523,058	2,851,953	77,765	75,520	91,399

12. TRADE PAYABLES

	Group		
	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
Trade payables	3,343,477	2,436,788	3,439,912

The currency exposure profiles of trade payables are as follows:

	Group		
	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
Ringgit Malaysia	2,656,752	1,679,053	2,813,990
United States Dollar	421,464	489,798	321,738
Sterling Pound	265,261	267,937	304,184
	3,343,477	2,436,788	3,439,912

The normal trade credit terms granted to the Group range from 60 to 120 days (31.12.2011: 60 to 120 days and 1.1.2011: 60 to 120 days).

13. OTHER PAYABLES

	Group			Company		
	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
Other payables	2,726,533	3,005,806	2,897,831	1,277,506	1,429,320	1,350,135
Accruals	1,158,986	1,664,673	1,484,548	137,150	86,850	95,150
	3,885,519	4,670,479	4,382,379	1,414,656	1,516,170	1,445,285

14. HIRE PURCHASE PAYABLES

	Group		
	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
(a) Minimum hire purchase payments			
Within one year	1,095,480	1,217,001	1,165,095
Between one and five years	323,164	1,305,845	2,180,441
More than five years	31,909	-	-
	1,450,553	2,522,846	3,345,536
Future finance charges	(82,902)	(176,642)	(286,014)
Present value of hire purchase liabilities	1,367,651	2,346,204	3,059,522
(b) Present value of hire purchase liabilities			
Within one year	1,045,099	1,104,024	1,003,548
Between one and five years	291,623	1,242,180	2,055,974
More than five years	30,929	-	-
	1,367,651	2,346,204	3,059,522
Analysed as:			
Repayable within twelve months	1,045,099	1,104,024	1,003,548
Repayable after twelve months	322,552	1,242,180	2,055,974
	1,367,651	2,346,204	3,059,522

The effective interest rates of the Group are between 2.42% and 4.05% (31.12.2011: 2.65% and 5.04% and 1.1.2011: 2.40% and 5.80%) per annum.

15. BANK BORROWINGS

	Group		
	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
Secured			
Bank overdrafts	5,977,388	6,789,459	7,578,491
Bills payable	2,789,861	766,000	2,297,000
Term loans	3,474,052	4,095,316	4,686,343
	12,241,301	11,650,775	14,561,834
Unsecured			
Bank overdrafts	5,200,462	5,271,087	5,542,673
Bills payable	249,000	1,626,000	393,000
	5,449,462	6,897,087	5,935,673
Total bank borrowings	17,690,763	18,547,862	20,497,507

Analysed as follows:

	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
Repayable within twelve months			
Secured			
Bank overdrafts	5,977,388	6,789,459	7,578,491
Bills payable	2,789,861	766,000	2,297,000
Term loans	658,559	618,594	593,087
	9,425,808	8,174,053	10,468,578
Unsecured			
Bank overdrafts	5,200,462	5,271,087	5,542,673
Bills payable	249,000	1,626,000	393,000
	5,449,462	6,897,087	5,935,673
	14,875,270	15,071,140	16,404,251
Repayable after twelve months			
Secured			
Term loans	2,815,493	3,476,722	4,093,256
	17,690,763	18,547,862	20,497,507

(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 to the financial statements; and

(ii) corporate guarantee by the Company.

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

The term loans are repayable by monthly installments over 5 to 8 years.

Maturity of borrowings is as follows:

	Group		
	31.12.2012	**31.12.2011**	**1.1.2011**
	RM	**RM**	**RM**
Within one year	14,875,270	15,071,140	16,404,251
Between one and two years	694,622	649,410	620,672
Between two and five years	1,796,908	1,863,102	1,985,781
More than five years	323,963	964,210	1,486,803
	17,690,763	18,547,862	20,497,507

The weighted average effective interest rate is as follows:

	Group		
	31.12.2012	**31.12.2011**	**1.1.2011**
	RM	**RM**	**RM**
Bank overdrafts	7.05	7.05	7.05
Banker acceptance	3.47	3.47	3.47
Term loans	5.20	5.20	5.20

16. SHARE CAPITAL

	Number of ordinary shares of RM1 each			Amount		
	31.12.2012 ('000)	31.12.2011 ('000)	1.1.2011 ('000)	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Authorised share capital						
At 1 January/ 31 December	100,000	100,000	100,000	100,000	100,000	100,000
Issued and fully paid						
At 1 January/ 31 December	70,000	70,000	70,000	70,000	70,000	70,000

Included in the issued and fully paid ordinary shares of the Company are 5,301,700 (31.12.2011 and 1.1.2011: 5,301,700 and 5,301,700) number of ordinary shares of RM1.00 each held as treasury shares by the Company.

17. RESERVES

	Group		
	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
Non-distributable:			
Asset valuation reserve			
- As previously reported	-	5,196,124	5,279,051
- Effect of adopting the amendments to MFRS 1	-	(5,196,124)	(5,279,051)
- As restated	-	-	-
Merger reserve	(4,618,481)	(4,618,481)	(4,618,481)
	(4,618,481)	(4,618,481)	660,570

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

18. TREASURY SHARES

	Group/Company		
	31.12.2012 RM	31.12.2011 RM	1.1.2011 RM
At 1 January/31 December	4,220,708	4,220,708	4,220,708
No. of ordinary shares at RM1.00 each	5,301,700	5,301,700	5,301,700

19. REVENUE

	Group		Company	
	2012 RM	2011 RM	2012 RM	2011 RM
Sales of carpets	48,346,487	50,815,001	-	-
Property development revenue	-	670,000	-	-
	48,346,487	51,485,001	-	-

20. FINANCE COSTS

	Group	
	2012 RM	2011 RM
Interest expense on:		
Bank overdrafts	932,143	955,896
Banker acceptance	119,440	134,477
Hire purchase	116,609	167,131
Letter of credit	13,592	11,384
Term loans	215,976	247,431
Others	8,528	1,672
	1,406,288	1,517,991

21. (LOSS)/PROFIT BEFORE TAXATION

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

	Group		Company	
	2012 RM	2011 RM	2012 RM	2011 RM
Auditors' remuneration				
- current year	57,000	57,000	14,000	14,000
- (over)/under provision in prior year	-	(4,992)	-	2,000
Impairment loss for trade receivables	120,000	510,000	-	-
Impairment loss for other receivables	352,960	20,000	-	-
Impairment loss for investment in subsidiary companies	-	-	1,689,486	-
Depreciation of property, plant and equipment	2,690,400	2,601,382	-	-
Directors remuneration				
- fees	162,500	112,500	162,500	112,500
- salaries and other emoluments	734,395	628,529	74,000	-
- EPF	64,190	49,260	-	-
- benefit-in-kind	17,400	18,283	-	-
Rental of warehouse	345,600	345,600	-	-
Property, plant equipment written off	1,838	-	-	-
Impairment loss for trade receivables written back	(75,912)	(72,284)	-	-
Unrealised loss on foreign exchange	18,406	65,160	-	-
Loss/(Gain) on disposal of property, plant and equipment	10,586	(11,368)	-	-
Inventories written-off	-	519,160	-	-
Realised loss/(gain) on foreign exchange	10,258	(22,304)	-	-
Interest expense	1,406,288	1,517,991	-	-
Interest income				
- investment quoted in Malaysia	(266)	(261)	(266)	(261)
- others	(6,102)	(90,115)	-	-

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

In the previous 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 statements of comprehensive income during the previous financial year as follows:-

	Group	
	2012	**2011**
	RM	**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.

22. TAXATION

	Group		Company	
	2012	**2011**	**2012**	**2011**
	RM	**RM**	**RM**	**RM**
Current income tax				
- Current financial year	358,182	290,725	-	-
- Under provision in prior year	328,763	1,360	-	-
	686,945	292,085	-	-
Deferred tax				
- Relating to origination and reversal of temporary differences	(109,559)	841,420	-	-
- (Over)/Under provision in prior year	(712,473)	498,080	-	-
	(822,032)	1,339,500	-	-
Tax (saving)/expense for the financial year	(135,087)	1,631,585	-	-

Income tax is calculated at the Malaysia statutory tax rate of 25% (2011: 25%) of the estimated assessable loss for the financial year.

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

	Group		Company	
	2012	2011	2012	2011
	RM	RM	RM	RM
(Loss)/Profit before taxation	(699,240)	1,425,300	(2,159,689)	(387,051)
Taxation at Malaysian statutory tax rate of 25% (2011: 25%)	(174,810)	356,325	(539,922)	(96,763)
Expenses not deductible for tax purposes	471,807	824,194	539,922	96,763
Income not subject to tax	(20,732)	(20,732)	-	-
Crystalisation of deferred tax liabilities on amortisation on revalued properties	(27,642)	(27,642)	-	-
Under provision of current taxation in prior year	328,763	1,360	-	-
(Over)/Under provision of deferred tax in prior year	(712,473)	498,080	-	-
Tax (saving)/expense for the financial year	(135,087)	1,631,585	-	-

23. LOSS PER SHARE

(a) Basic loss per share

The basic loss per share has been calculated based on the consolidated loss after taxation for the financial year attributable to owners of the parent of RM548,735 (2011: RM204,255) for the Group and the weighted average number of ordinary shares in issue during the financial year of 64,698,300 (2011: 64,698,300) are as follows:

	Group	
	2012	2011
	RM	RM
Net loss for the financial year attributable to owners of the parent	(548,735)	(204,255)
Weighted average number of ordinary shares in issue	70,000,000	70,000,000
Adjusted for treasury shares	(5,301,700)	(5,301,700)
	64,698,300	64,698,300

(b) Fully diluted loss per share

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

24. STAFF COSTS

	Group	
	2012 RM	2011 RM
Staff costs (excluding Directors)	8,369,417	8,209,874

Included in the staff costs above are contributions made to the Employees Provident Fund under a defined contribution plan for the Group amounting to RM612,714 (2011: RM543,558).

25. HOLDING COMPANY

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

26. KEY MANAGEMENT PERSONNEL COMPENSATION

	Group		Company	
	2012 RM	2011 RM	2012 RM	2011 RM
Short-term employee benefits				
- Fees	162,500	112,500	162,500	112,500
- Salaries and other emoluments	1,756,072	1,914,754	74,000	1,450
- Estimated monetary value of benefits-in-kinds	9,775	5,525	-	-
	1,928,347	2,032,779	236,500	113,950
Post employment benefits				
- Defined contribution plan	212,799	229,929	-	-
	2,141,146	2,262,708	236,500	113,950

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 2012 RM	Company 2011 RM
Unsecured corporate guarantees in respect of banking facilities granted to subsidiary companies	17,690,763	18,547,862

28. EFFECTS ON TRANSITION MFRSs

In preparing the opening consolidated statement of financial position as at 1 January 2011, the Group has adjusted amounts reported previously in financial statements prepared in accordance with previous FRSs. An explanation on how the transition from previous FRSs to MFRSs has affected the Group's financial statements are as follows:-

Reconciliation of Financial Position – Group

	1.1.2011		
	FRSs RM	Effect of transition to MFRSs RM	MFRSs RM
Financed by:			
Reserves	660,570	(5,279,051)	(4,618,481)
Accumulated losses	(7,557,877)	5,279,051	(2,278,826)

	31.12.2011		
	FRSs RM	Effect of transition to MFRSs RM	MFRSs RM
Financed by:			
Reserves	577,643	(5,196,124)	(4,618,481)
Accumulated losses	(7,679,205)	5,196,124	(2,483,081)

Notes to reconciliation

Property, plant and equipment – Deemed cost exemption based on last valuation under FRSs.

Upon transition to MFRSs, the Group has elected to apply the optional exemption to use previous revaluation of its leasehold land and factory buildings and building improvements at 1 January 2011 of RM8,618,143 and RM8,934,641 respectively as deemed cost under MFRSs. The revaluation reserve of RM5,279,051 and RM5,196,124 at 1 January 2011 and 31 December 2011 was reclassified to accumulated losses.

The impact arising from the application of optional exemption under MFRS 1 for property, plant and equipment is as follows:-

	1.1.2011 RM	31.12.2011 RM
Consolidated statement of financial position		
Revaluation reserve/ Adjustment to accumulated losses	5,279,051	5,196,124

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

2012	Manufacturing and trading RM	Property RM	Investment RM	Others RM	Inter- segment eliminations RM	Total RM
Revenue						
Total Revenue	48,346,487	-	-	-	-	48,346,487
Results						
Segment profit/(loss)	175,192	(337,016)	(470,203)	(67,213)	-	(699,240)
Included in the segment profit/(loss) are:-						
Depreciation of property, plant and equipment	2,690,400	-	-	-	-	2,690,400
Finance costs	1,406,288	-	-	-	-	1,406,288
Loss on disposal of property, plant and equipment	10,586	-	-	-	-	10,586
Assets						
Segment assets	86,174,303	13,704,376	52,176,072	3,809	(65,001,040)	87,057,520
Segment liabilities	57,359,671	6,723,972	1,414,656	2,716,979	(39,269,305)	28,945,973

SEGMENT INFORMATION – GROUP (CONT'D)

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 profit/(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

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

	2012 RM	2011 RM
Total (loss)/profit for reportable segments	(699,240)	1,414,643
Damages from fire	-	(739,343)
Fire insurance claim	-	750,000
(Loss)/Profit before taxation	(699,240)	1,425,300
Adjustment for taxation	135,087	(1,631,585)
Consolidated (loss)/profit after taxation	(564,153)	(206,285)

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.

The details of which are as follows:

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

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.

The Court fixed the suit for trial on 3 September 2012 and was heard together with Kuala Lumpur High Court Suit No. 22NCC-2053-2010 between the Plaintiff and the Defendants.

The Court further fixed the suit for continued trial on 27 March 2013 and subsequently on 10 April 2013 and 23 April 2013.

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.

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 to the financial statements.

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	Euro Dollar RM	Total RM
Group				
2012				
Trade receivables	556,584	-	83,160	639,744
Cash and bank balances	326,161	-	-	326,161
Trade payables	(421,464)	(265,261)	-	(686,725)
	461,281	(265,261)	83,160	279,180
2011				
Trade receivables	663,301	-	-	663,301
Cash and bank balances	772,519	-	-	772,519
Trade payables	(489,798)	(267,937)	-	(757,735)
	946,022	(267,937)	-	678,085

Currency risk sensitivity analysis

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

Group

	(Loss)/ Profit net of tax RM
USD/RM – strengthening/weakening 5%	23,064
GBP/RM – strengthening/weakening 5%	(13,263)
EURO/RM – strengthening/weakening 5%	4,158
	13,959

(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:-

	Group	
	2012	**2011**
	RM	**RM**
Floating rate instruments		
Term Loans	3,474,052	4,095,316
Bills payables	3,038,861	2,392,000

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 loss net of tax by the amounts shown below, assuming all other variables remain constant.

Group	**Loss net of tax 100bp Increase**
Floating rate instruments:-	
Term Loans	33,483
Bills payables	30,389
	63,872

(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 to the financial statements. 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.

	On demand or within one year RM	**One to five years RM**	**Over five years RM**	**Total RM**
Financial liabilities:-				
Trade and other payables	7,228,996	-	-	7,228,996
Bank borrowings	14,875,270	2,491,530	323,963	17,690,763
Hire purchase payables	1,045,099	291,623	30,929	1,367,651
	23,149,365	2,783,153	354,892	26,287,410

(f) Fair values

The aggregate fair values of the financial liabilities as at 31 December 2012 are as follows:

	2012		**2011**	
	Carrying amount RM	**Fair value RM**	**Carrying amount RM**	**Fair Value RM**
Group				
Financial liabilities				
Hire purchase payables	322,552	308,299	1,242,180	713,424

(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

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:-

	2012 % p.a.	2011 % p.a.
Hire purchase payables	2.45	3.72

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.

	← Group	→
	2012	2011
	RM	RM
Borrowings	17,690,763	18,547,862
Less: Cash and bank balances	(1,107,566)	(2,523,058)
Less: Cash held under Housing Development Account	(310,421)	(304,427)
	(1,417,987)	(2,827,485)
Net borrowings	16,272,776	15,720,377
Equity attributable to owners of the parent	58,128,995	58,677,730
Gearing ratio	28%	27%

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	
	2012	2011
	RM	RM
Total accumulated losses of the Company and its subsidiary companies:-		
Realised profits	16,460,930	11,160,081
Unrealised losses	(19,492,746)	(18,839,286)
	(3,031,816)	(7,679,205)

	Company	
	2012	2011
	RM	RM
Total accumulated losses of the Company:-		
Realised profits	1,642,124	6,821,581
Unrealised losses	(16,660,000)	(19,679,768)
	(15,017,876)	(12,858,187)

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 2012 were authorised for issue in accordance with a resolution of the Board of Directors on 19 April 2013.

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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 Nineteenth Annual General Meeting of the Company to be held at Greens II, 1st Floor, Main Wing, Tropicana Golf & Country Resort, Jalan Kelab Tropicana, 47410 Petaling Jaya, Selangor Darul Ehsan on Friday, 21 June 2013 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 2012.		
2.	To re-elect Mr. Fung Beng Ee who is retiring in accordance with Article 75 of the Company's Articles of Association.		
3.	To re-appoint Auditors.		
4.	To re-appoint Michael Lim Hee Kiang as Independent Non-Executive Director.		
5.	Authority for Directors to Allot and Issue Shares.		

[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 ____________________ , 2013

Number of shares held:

____
Signature of Member / Common Seal

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. 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.*
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. *Where a member of the Company is an exempt authorized nominee which holds ordinary shares in the Company for multiple beneficial owners in the one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorized nominee may appoint in respect of each omnibus account it holds.*
5. *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.*
6. *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

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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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