



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



ANNUAL REPORT 2013



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NOTICE OF TWENTIETH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Twentieth 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 Wednesday, 25 June 2014 at 3.00 p.m. for the following purposes:-

AGENDA

- | | |
|---|--|
| 1. To receive the Audited Financial Statements for the financial year ended 31 December 2013 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 2013. | Resolution 1 |
| 3. To re-elect Mr. Michael Lim Hee Kiang 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-elect Mr. Lee Choon Hee who is retiring in accordance with the Article 81 of the Company's Articles of Association. | Resolution 3 |
| 5. To re-appoint Messrs. Morison Anuarul Azizan Chew, the retiring Auditors and to authorise the Board of Directors to fix their remuneration. | Resolution 4 |

SPECIAL BUSINESS

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

- | | |
|--|---------------------|
| 6. Retention of Independent Non-Executive Director | Resolution 5 |
| <p>"THAT Mr. Michael Lim Hee Kiang be and is hereby retained as an Independent Non-Executive Director of the Company in accordance with Recommendation 3.3 of the Malaysian Code on Corporate Governance 2012."</p> | |
| 7. Authority for Directors to issue and allot shares in the Company pursuant to Section 132D of the Companies Act, 1965 | Resolution 6 |
| <p>"THAT pursuant to Section 132D of the Companies Act, 1965, the Directors be and are hereby authorised to issue shares in the Company at any time until the conclusion of the next Annual General Meeting and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares to be issued does not exceed 10% of the issued and paid-up share capital of the Company (excluding treasury shares) for the time being, subject always to the approvals of the relevant regulatory authorities."</p> | |

NOTICE OF TWENTIETH ANNUAL GENERAL MEETING (cont'd)

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

By Order Of The Board
PARAGON UNION BERHAD

NG YIM KONG (LS0009297)

Company Secretary
Selangor Darul Ehsan

3 June 2014

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 or proxies 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 2013

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.

NOTICE OF TWENTIETH ANNUAL GENERAL MEETING (cont'd)

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”). Thus, the Board had considered him to have exercised his independency in all matters and recommend that he should be retained as an Independent Non-Executive Director.

b) Authority For Directors To Allot And Issue Shares

The proposed Resolution 6 under item 7 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 (excluding treasury shares) 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 Nineteenth Annual General Meeting held on 21 June 2013. 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 Nineteenth Annual General Meeting as the need does not arise 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 18 June 2014. Only a depositor whose name appears on the Record of Depositors as at 18 June 2014 shall be entitled to attend this meeting or appoint proxy/proxies to attend and/or vote in his stead.

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

Strategy Corporate Secretariat 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
Selangor Darul Ehsan
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

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

STOCK EXCHANGE LISTING

Main Market of Bursa Malaysia Securities Berhad

DIRECTORS' PROFILE

MICHAEL LIM HEE KIANG

Aged 66, 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, Seloga Holdings Berhad, Hektar Real Estate Investment Trust and Sumatec Resources Bhd 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 nineteen years.

FUNG BENG EE

Aged 51, 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 in 1987. He has a Master of Arts degree in Jurisprudence. Mr. Fung was called 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 Celadon 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 nineteen years.

DIRECTORS' PROFILE (cont'd)**LAU YOKE KEEN***Aged 48, 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 nineteen years.

TOH HONG WOUI*Aged 54, Malaysian**Executive Director**Member of Remuneration Committee**Member of Employees' Share Option ("ESOS") Scheme Committee*

Mr. Toh Hong Woui was appointed to the Board of Paragon on 6 April 2009 as 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 nineteen years.

LEE CHOON HEE*Aged 44, Malaysian**Finance Director*

Mr. Lee Choon Hee was appointed to the Board of Paragon on 7 April 2014 as a Finance Director. Mr. Lee is a Chartered Accountant by profession. He is a fellow member of The Australian Society Of Certified Practising Accountant and a member of The Malaysian Institute of Accountants. He holds a Degree in Commerce (Accounting) from Flinders University of South Australia. Mr. Lee has more than twenty years of experience with all aspects of accounting system and he is a respected management professional with high standards of integrity. He started his professional career with PricewaterhouseCoopers. Prior to joining Paragon, he was an executive finance director cum company secretary in Pica (M) Corporation 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 nineteen years.

CHAIRMAN'S STATEMENT

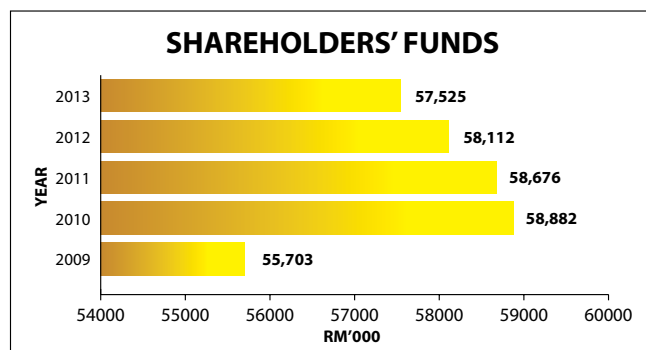
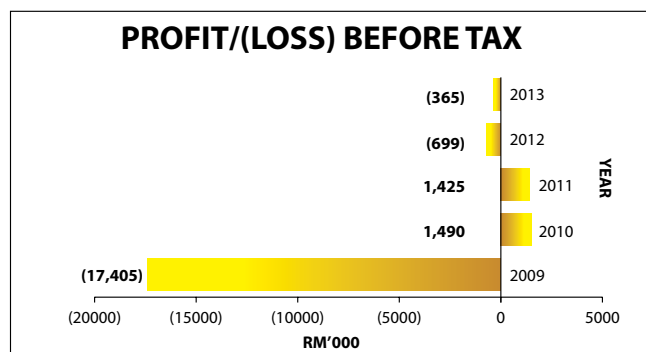
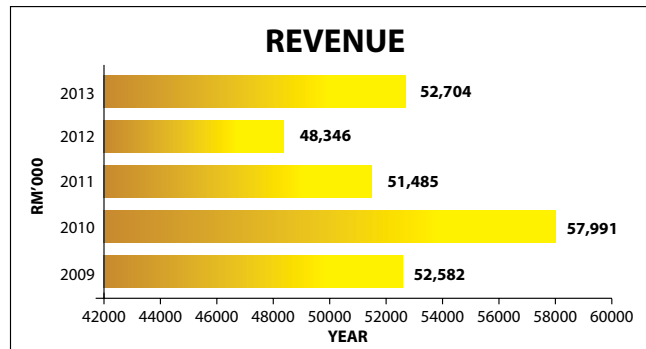
On behalf of the Board of Directors, I hereby to present the Group's Annual Report & Audited Financial Statements for the year ended 31 December 2013.

PERFORMANCE AND FINANCIAL REVIEWS

The Group achieved a higher turnover of RM53 million as compared to RM48 million in 2012. The higher revenue was attributed to better sales and the realization of some projects secured earlier.

In terms of market share, the Group is able to maintain our main existing automotive clientele, which comprises of Proton, Honda, Nissan, GM Korea, Suzuki, BMW, Peugeot, Isuzu and Volvo. The Group was also successful in securing projects from Perodua recently, a new addition to the list of clientele.

For the commercial carpet division, we have selected on-going projects in our order book, which among others were Radisson, Bangi Hotel, Tabung Haji Building-Alor Setar, Holiday Inn Hotel, Traders Hotel, Casuarina Hotel, Novotel Hotel, Petronas Twin Towers and Telekom branches.



CHAIRMAN'S STATEMENT (cont'd)

To sustain the overall performance and to remain competitive in the market, the Group will continue to emphasize on cost reduction, process re-engineering and identifying potential opportunities for further growth.

PROPERTY DEVELOPMENT DIVISION

The Group has not engaged in any property development in recent years. Nonetheless, the Group would embark in the property development in future when viable opportunity arises.

PROSPECTS AND OUTLOOK

For 2014, with the country's GDP expecting to grow at between 4-5% and with the expectation of a buoyant economy for the year, we would hope that the favorable economic environment, would be a catalyst for us to further spur the Company's overall performance.

In general, the Group prospects and outlook in the coming year would largely rely on the commencement of the secured projects in our order book for the automotive sector as well as



CHAIRMAN'S STATEMENT (cont'd)

the success rate of tenders for the commercial sector. Dealer's performance throughout the year would also contribute to our total revenue generated.

Our outlook and market competitiveness would remain challenging for the year ahead and could be subjected to unforeseen factors which may affect our price competitiveness. For instance in the recent year, the cost of production had escalated drastically, which affected our price competitiveness particularly with the implementation of the minimum wages, the currency fluctuation and hike in the raw material prices. Generally, such factors are usually counter-productive in our effort to stay competitive.

In spite of above situations, the Group will continue to engage in business development, product expansion and seek potential opportunities to enhance our market share.



ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to take this opportunity to thank the management and employees for their continuous efforts and dedications. Emphasis to further improve the operational efficiency and cost reduction will continue, in order for the Group to remain vital in the industry. Our sincere appreciation also goes to our shareholders, valued customers, suppliers, bankers, business associates and the Government authorities for their support and confidence to the Group.

MICHAEL LIM HEE KIANG

INDEPENDENT NON-EXECUTIVE CHAIRMAN



BOARD CHARTER

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 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 as set out in Chapter 1 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

ROLE OF THE CHAIRMAN

The Chairman carries out a leadership role in the conduct of the Board and its relations with the shareholders and other stakeholders. The Chairman is primarily responsible for:

- representing the Board to shareholders and to chair and to ensure the efficient organization and conduct of the Board and/or meeting of the shareholders;
- ensuring the integrity of the governance process and issues;
- maintaining regular dialogue with the Executives Director over all operational matters and consulting with the remainder of the Board promptly over any matters that gives him/her cause for major concern;
- functioning as a facilitator at meetings of the Board to ensure that no member dominates discussion;
- guiding and mediating Board actions with respect to organizational priorities and governance concerns; and
- performing other responsibilities assigned by the Board from time to time.

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;

BOARD CHARTER (cont'd)

- 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; and
- 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.

BOARD CHARTER (cont'd)

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 as 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.

BOARD CHARTER (cont'd)

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, Main Market Listing Requirement of Bursa Malaysia Securities Berhad, 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.

STATEMENT ON CORPORATE GOVERNANCE

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.

This Statement outlines the key aspects of how the Company has applied and taken into account the Principles enumerated under the Malaysian Code of Corporate Governance 2012 (the “Code”) during the financial year ended 31 December 2013. Where there are gaps in the Company’s observation of any of the Recommendations of the Code, these are disclosed herein with explanations.

A. Establish Clear Roles and responsibilities

Board Charter and Board Committees

The Board retains full and effective control of the Group. Its roles are essentially providing leadership, management oversight, setting strategic direction premised on sustainability and promoting ethical conduct in business dealings. The Board has adopted certain responsibilities for effective discharge of its functions through formalizing its Board Charter, details as set out in pages 11 to 15 of this Annual Report.

The Board has delegated specific responsibilities to various Board Committees namely Audit Committee, Nomination Committee and Remuneration Committee which operate their functions within their respective approved terms of reference by the Board. The said terms and reference shall be periodically reviewed by the Board, as and when necessary and the Board appoints the Chairman and members of each committees. These Committees assist the Board in making informed decisions through in-depth discussions on issues pertaining to the respective committees’ terms of reference and responsibilities. The Chairman of the various committees will report to the Board the outcome of the Committee meetings which will be recorded in the minutes of the Board meeting. The ultimate responsibility for decision making, however, lies with the Board.

Steps will be taken to upload the salient features of the Board Charter on the Company’s website at www.paragon.com.my.

For a certain day-to-day operations, the Board has delegated authorities and powers to some levels of Management within the prescribed limits of authority pursuant to the Company’s Articles of Association.

Code of Conduct

The Board noted the importance of the Code of Ethics and Conduct of the Company that emphasized the Company’s commitment to ethical practices and compliance with the applicable laws and regulations which also governs the standards of ethics and good conduct expected from the Directors and employees of the Group.

Currently, a formal Code of Ethics and Conduct is not in place for the Group’s operations. The Board of Directors adheres to the Code of Ethics for Company Directors issued by the Companies Commission of Malaysia. This Code of Ethics provide good guidance for a standard of ethical behaviour for Directors based on trustworthiness and values that can be accepted and to uphold the spirit of responsibility and social responsibility in line with the legislation, regulations and guidelines for administering a company.

STATEMENT ON CORPORATE GOVERNANCE (cont'd)

Sustainability

The Board recognises the importance of sustainability and its increasing significance in the business. The Board is committed to understanding and implementing sustainable practices and to exploring the benefits to the business whilst attempting to achieve the right balance between the needs of the wider community, the requirements of shareholders and stakeholders and economic success.

In transition to implement the Code, the Company will consider formalising a Sustainability Policy which aims to endeavour to integrate the principles of sustainability into the Company's strategies, policies and procedures and ensure that the Board and senior management are involved in implementation of this policy, review the sustainability performance and create a culture of sustainability within the Company, and the community, with an emphasis on integrating the environmental, social and governance considerations into decision making and the delivery of outcomes.

Supply and Access to Information

Board meetings were held to discuss matters that require members' input and decision. The Chairman ensures that all directors have full and timely access to information. Prior to the meetings of the Board and the Board Committees, notice of agenda together with previous minutes and other relevant information were circulated to all directors on a timely basis in order to enable the directors to be well informed and briefed before the meetings. All directors also have full and free access to information within the Group and can as individuals or as a full Board seek independent professional advice, in furtherance of their duties, at the expense of the Group.

Every director also has unhindered access to the advice and services of the Company Secretary. The Board believes that the current Company Secretary is capable of carrying out his duties to ensure the effective functioning of the Board. In the event that the Company Secretary fails to fulfil his functions effectively, the terms of the appointment permits his removal and appointment of successor which is a matter for the Board to decide.

Company Secretary

The Company Secretary play an advisory role to the Board in relation to the Company's constitution, the Board's policies and procedures, and compliance with the relevant regulatory requirements, codes or guidance and legislations. The Company Secretary is suitably qualified, competent and capable of carrying out the duties required and has attended training and seminars conducted by relevant regulatory bodies to keep abreast with the relevant updates on statutory and regulatory requirements and updates on the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("MMLR of Bursa Securities"), Related Party Transactions and Corporate Disclosure Guide.

The Company Secretary also serves notice to the Directors and Principal Officers to notify them of closed periods for trading in the Company's shares, in accordance with Chapter 14 of the MMLR of Bursa Securities. Deliberations during the Board and Board Committees' meetings were properly minuted and documented by the Company Secretary.

STATEMENT ON CORPORATE GOVERNANCE (cont'd)

B. Strengthen composition

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 manufacturing scenario.

The Board currently has five (5) members comprising three (3) Independent Non-Executive Directors, one (1) Executive Director and one (1) Finance Director. The profile of each Director is set out on pages 6 to 7 of this Annual Report.

Nomination Committee

The Company's Nomination Committee ("NC") comprised of three (3) Members, all of whom are Independent Non-Executive Directors. The current NC Chairman is independent and able to contribute effectively to the NC in view of his wide and vast experience in the industry. The members of the NC are as follows:-

1. Mr Michael Lim Hee Kiang (Chairman)
2. Mr Fung Beng Ee
3. Mr Lau Yoke Keen

During the financial year ended 31 December 2013, one (1) NC meeting was held and attended by all the NC members.

The NC makes recommendations to the Board on suitable candidates for appointment as Board members, member of Board Committees and Executive Director of the Company based on the following evaluation criteria:

- skills, knowledge, expertise and experience;
- professionalism;
- time commitment to effectively discharge his/her role as a director;
- contribution and performance;
- character, integrity and competence;
- boardroom diversity including gender diversity; and
- in the case of candidates for the position of Independent Non-Executive Directors, the NC shall also evaluate the candidates' ability to discharge such responsibilities/functions as are expected from independent non-executive directors.

The NC will arrange for the induction of any new Directors appointed to the Board to enable them to have a full understanding of the nature of the business, current issues within the Company and corporate strategies as well as the structure and management of the Company.

The Board has via the NC reviewed and assessed the size of Board, required mix of skills, experience, performance and contribution of Directors; effectiveness of the Board as a whole; independence of Independent Directors and training courses required by the Directors, and is satisfied with the current composition and performance of the Board.

STATEMENT ON CORPORATE GOVERNANCE (cont'd)

The Board has no specific policy on setting targets on female candidates to be appointed to the Board. The evaluation of the suitability of candidates is based on the candidates' competency, character, time commitment, integrity and experience in meeting the needs of the Company. With the current composition, the Board feels that its members have the necessary knowledge, experience, requisite range of skills and competence to enable them to discharge their duties and responsibilities effectively. All Directors on the Board have gained extensive experience with their many years of experience on company Boards and/or also as professionals in their respective fields of expertise. The NC will however continue to take steps to ensure suitable female candidates are sought as part of its recruitment exercise.

Remuneration Committee

The Remuneration Committee ("RC") comprises three (3) Members, in which majority are Independent Non-Executive Directors. The members of the RC are as follows:-

1. Mr Fung Beng Ee (Chairman)
2. Mr Michael Lim Hee Kiang
3. Mr Toh Hong Wooi

The RC is responsible for evaluating, deliberating and recommending to the Board the compensation and benefits that are fairly guided by market norms and industry practices for the business the company is in. The RC is also responsible for evaluating the Executive Directors' remuneration which is linked to the performance of the Executive Director's and performance of the Group. Individual Directors do not participate in the decisions regarding his or her individual remuneration.

The RC recommends the Director's fee payable to members of the Board and are deliberated at the Board before it is presented at the Annual General Meeting ("AGM") for shareholders' approval.

For Executive Director, 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 Director	30,000	737,165	15,500
Non-Executive Directors	90,000	9,000	–

Note:

The remuneration of the Executive Director stated herein does not include that of Mr Lee Choon Hee, the Finance Director who was appointed on 7 April 2014.

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	–	3
50,001 – 200,000	–	–
200,001 – 400,000	–	–
400,001 – 600,000	–	–
600,001 – 800,000	1	–

C. Reinforce Independence

The Board recognises the importance of independence and objectivity in its decision making process which is in line with the Code.

The directors with their different backgrounds and specialisation, collectively bring with them a wide range of experience and expertise in areas such as finance, corporate affairs, marketing and operations. The executive directors are responsible for implementing the policies and decisions of the Board, overseeing the operations as well as co-ordinating the development and implementation of business and corporate strategies. The independent non-executive directors play key supporting roles, contributing their knowledge and experience towards formulating policies and in the decision-making process. They do not engage in day-to-day management of the Company and do not participate in any business dealings with the Company. The independent non-executive directors also bring with them objective and independent judgement to decision-making and provide a capable check and balance for the executive directors.

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.

The Board is also satisfied that its composition fairly reflects the investment of minority shareholders in the Company.

Annual Assessment of Independence

The Independent Directors play a key role in corporate accountability and provide unbiased views and impartiality to the Board's deliberations and decision-making process. In addition, the Non-Executive Directors ensure that matters and issues brought to the Board are given due consideration, fully discussed and examined, taking into account the interest of all stakeholders in the Group.

The assessment on the independence of the Directors based on the provisions of the MMLR covers a series of objective tests and is carried out before the appointment of the Independent Directors. Further, the Board with assistance from NC will undertake to carry out annual assessment of the effectiveness of the Board as a whole, including Independent Non-Executive Directors and consider whether the Independent Director can continue to bring independent and objective judgment to Board deliberations.

STATEMENT ON CORPORATE GOVERNANCE (cont'd)

Any Director who considers that he has or may have a conflict of interest or a material personal interest or a direct or indirect interest or relationship that could reasonably be considered to influence in a material way the Director's decisions in any matter concerning to the Company is required to immediately disclose to the Board and to abstain from participating in any discussion or voting on the respective matter.

For the financial year ended 31 December 2013, the Board assessed the independence of its Independent Non-Executive Directors based on the criteria set out in the MMLR of Bursa Securities. The Board is satisfied with the level of independence demonstrated by all the Independent Directors and their ability to act in the best interest of the Company.

Tenure of Independent Directors

The Board in its Charter provided that the tenure of an Independent Director shall not exceed a cumulative term of nine (9) years. However, an Independent Director may continue to serve the Board upon reaching the 9-year limit subject to the Independent Director's re-designation as a Non-Independent Non-Executive Director. In the event the Board intends to retain the Director as Independent after the latter has served a cumulative term of nine (9) years, the Board must justify the decision and seek shareholders' approval at general meeting. In justifying the decision, the NC is entrusted to assess the candidate's suitability to continue as an Independent Non-Executive Director based on the criteria on independence.

Shareholders' Approval for the Re-Appointment of Non-Executive Director

The Board is of the view that the independence of a director is more of a state of mind and action rather than tenure of office. Mr Michael Lim Hee Kiang has served the Company as Independent Director for a cumulative term of more than 9 years. The Board has via the NC conducted an assessment on the Independent Director and is of opinion that he remains objective and independent in expressing his view. The Board will be seeking the shareholders' approval in the forthcoming AGM for Mr Michael Lim Hee Kiang to continue as independent director of the Company.

Key justifications for his recommended continuance as an Independent Non-Executive Director are as follows:

- he fulfils the criteria under the definition on Independent Director as stated in the MMLR of Bursa Securities and therefore is able to bring independent and objective judgment to the Board;
- his experience enables him to provide the Board and AC with a pertinent set of experience, expertise, skills and competence;
- he has been with the Company long and therefore understands the Company's business operations which enables him to contribute actively and effectively during deliberations or discussions at AC and Board meetings; and
- he has exercised due care during his tenure as Independent Non-Executive Director of the Company and carried out his professional duties in the interest of the Company; and
- his legal knowledge and expertise have contributed largely to ensure balanced and fair decision made.

Chairman and Executive Director

The position of Chairman is held by Mr Michael Lim Hee Kiang, an Independent Non-Executive Director of the Company. The role of the Executive Director is held by Mr. Toh Hong Wooi who is involved in the day-to-day management of the Company. The positions of Chairman and Executive Director are held by different individuals. The Chairman is responsible for ensuring the integrity and effectiveness of the governance process of the Board, acts as facilitator at the meetings and ensure that Board proceedings are in compliance with good conduct and best practices. Whilst the Executive Director is responsible for making and implementing operational and corporate decision as well as developing, coordinating and implementing business and corporate strategies.

STATEMENT ON CORPORATE GOVERNANCE (cont'd)

The distinct and separate roles of the Chairman and Executive Director, with a clear division of responsibilities, ensure a balance of power and authority, such that no one individual has unfettered powers of decision-making.

D. Fostering commitment

Time commitment

The Board endeavours to meet at least four (4) times a year, at quarterly intervals which are scheduled well in advance at the commencement of the financial year to help facilitate the Directors in planning their meeting schedule for the year. Additional meetings are convened where necessary to deal with urgent and important matters that require attention of the Board. Where appropriate, decisions are also made by way of circular resolutions in between scheduled meetings during the financial year.

Senior management staff and/or external advisors may be invited to attend Board meetings to advise the Board and to furnish the Board with information and clarification needed on relevant items on the agenda to enable the Directors to arrive at a considered decision.

All Board meetings are furnished with proper agendas with due notice issued and board papers and reports are prepared by the Management which provides updates on financial, operational, legal and circulated prior to the meetings to all Directors with sufficient time to review them for effective discussions and decision making during the meetings.

The Board is satisfied with the level of time commitment given by the Directors towards fulfilling their roles and responsibilities which is evidenced by the satisfactory attendance record of the Directors at Board meetings. The Board members are required to notify the Board prior to their acceptance of new directorships in other companies with indication of time that will be spent on the new appointment.

All pertinent issues discussed at the Board meetings in arriving at the decisions and conclusions are properly recorded by the Company Secretaries.

The Board met four (4) times during the financial year under review. The details of Directors' attendance are set out as follows:

Name of Directors	Meeting Attended
Michael Lim Hee Kiang	3/4
Toh Hong Wooi	4/4
Fung Beng Ee	4/4
Lau Yoke Keen	4/4
Lee Choon Hee *	Not applicable*

Note:

* Appointed as Finance Director on 7 April 2014

STATEMENT ON CORPORATE GOVERNANCE (cont'd)

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 receive 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
Audit Committee Seminar 2013	04 June 2013

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

The Company Secretary circulate the relevant guidelines on statutory and regulatory requirements from time to time for the Board's reference and brief the Board quarterly on these updates, where applicable at Board meetings. The External Auditors also briefed the Board members on any changes to the Malaysian Financial Reporting Standards that affect the Group's financial statements during the year. Throughout their period in office, the Directors are continually updated on the Group's business and the regulatory requirements.

E. Uphold integrity in financial reporting

Financial Reporting

The Board upholds integrity in financial reporting by ensuring that shareholders are provided with reliable information of the Company's financial performance, its position and future prospects, in the Annual Audited Financial Statements and quarterly financial reports.

The AC assist the Board in overseeing the Group's financial reporting processes and the quality of its financial reporting. One of the key responsibilities of the AC is to ensure that the financial statements of the Group and Company comply with applicable financial reporting standards in Malaysia. Such financial statements comprise the quarterly financial report announced to Bursa Securities and the annual statutory financial statements.

The AC comprises of three (3) members of whom all are Independent Non-Executive Directors. The composition of the AC, including its roles and responsibilities are set out on pages 34 to 37 of this Annual Report.

The composition of the AC is as follows:

1. Mr Michael Lim Hee Kiang (Chairman)
2. Mr Fung Beng Ee
3. Mr Lau Yoke Keen

STATEMENT ON CORPORATE GOVERNANCE (cont'd)

Suitability and Independence of External Auditors

The External Auditors have confirmed that they are, and have been, independent throughout the conduct of the audit engagement.

F. Recognise and manage risks

The Board has overall responsibility of maintaining a system of internal controls, which provides reasonable assurance of effective and efficient operations and compliance with laws and regulations as well as with internal policies and procedures.

The Board recognizes that risks cannot be fully eliminated. As such, the systems, processes and procedures being put in place are aimed at minimizing and managing them and to provide reasonable and not absolute assurance against material misstatement, loss or fraud.

The Board has mandated the AC with the overall responsibility of ensuring adequacy, completeness and effectiveness of the internal control system. The AC undertakes periodic reviews and monitors the compliance to these systems via the Internal Audit Function who carries out audit checks on such control processes and provides feedback on its effectiveness and compliance at the operating level. Any weaknesses or variances reported by the Internal Auditor to the AC will be turned into management actions to rectify any weaknesses in those control processes.

The Company has outsourced its internal audit function to an independent internal audit service provider namely Tre Secta Solutions Sdn Bhd are tasked with the aim of providing assurance to the AC and the Board on the adequacy, integrity and effectiveness of the system of internal control and risk management in the Company. The appointed internal auditor reports directly to the AC and the AC has also met with the Internal Auditors twice without the presence of the Management during the financial year.

The key activities covered by the internal audit function during the financial year under review is provided in the AC Report of the Company as set out on page 37 of this Annual Report.

G. Timely and high quality disclosure

The Group recognises the importance of communication with its shareholders and utilises many channels to disseminate information and to interact with them. To augment the process of disclosure, 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 can be accessed via www.paragon.com.my.

In addition, the Group also releases financial results on a quarterly basis. 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 Securities.

STATEMENT ON CORPORATE GOVERNANCE (cont'd)

The Board is aware of the need to establish corporate disclosure policies and procedures to enable comprehensive, accurate and timely disclosures relating to the Group to the regulators, shareholders and stakeholders. Steps will be taken to formalise pertinent corporate disclosure policies to comply with the disclosure requirements as stipulated in the MMLR of Bursa Securities, and to set out the persons authorised and responsible to approve and disclose material information to shareholders and stakeholders.

H. Strengthen relationship between company and shareholders

The Company aims to ensure that the shareholders and investors are kept informed of all major corporate developments, financial performance and other relevant information by promptly disseminating such information to shareholders and investors via announcements to Bursa Securities, which is in line with Bursa Securities' objectives of ensuring transparency and good corporate governance practices, through dialogue with analysts and the media.

The annual report and the quarterly announcements are the primary mode of communications to report on the Group's business activities and financial performance to all shareholders.

The Company also maintains an effective communication channel between the Board, shareholders and the general public through timely dissemination of all material information. Minority shareholders may communicate with the Company through the Company's website.

The AGM is the principal forum for dialogue with the shareholders. Shareholders are notified of the meeting and provided with a copy of the Company's Annual Report before the meeting. All shareholders are encouraged to attend the AGM and participate in its proceedings. Every opportunity is given to the shareholders to ask questions and seek clarification on the business and performance of the Group.

The Notice of AGM will be circulated at least twenty-one (21) days before the date of the meeting to enable shareholders sufficient time to peruse the Annual Report and papers supporting the resolutions proposed. The Board encourages participation at general meetings and will generally carry out resolutions by show of hand, except for Related Party Transaction if any (wherein poll will be conducted) and unless otherwise demanded by shareholders in accordance with the Articles of Association of the Company. The Chairman of the Board will inform the shareholders of their right to demand a poll vote at the commencement of the general meeting.

The AC is available at the AGM to answer questions and consider suggestions. The External Auditors are also present to provide their professional and independent clarification on issues of concern raised by the shareholders, if any.

Statement of Directors' Responsibility for Preparing the Financial Statements

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

STATEMENT ON CORPORATE GOVERNANCE (cont'd)

The Directors are satisfied that in preparing the financial statements of the Company and of the Group for the financial year ended 31 December 2013 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 MMLR of Bursa Securities:-

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 2013 or entered into since the end of the previous financial year.

3. Contracts Relating to Loans

There were no contracts relating to loans by the Company involving Directors' and major shareholders' interests.

4. 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.

5. Depository Receipt Programme

During the financial year, the Company did not sponsor any Depository Receipt Programme.

6. Variation in results

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

7. Profit Guarantee

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

8. Options or convertible securities

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

9. Share Buy-back

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

10. Utilisation of Proceeds Raised from Corporate Proposals

There were no proceeds raised from corporate proposals during the financial year ended 31 December 2013.

11. Recurrent Related Party Transactions

The Group did not have any recurrent related party transactions of revenue or trading nature during the financial year under review, which exceeded the materiality threshold stipulated in Paragraph 10.09 (2)(b) of the MMLR of Bursa Securities.

STATEMENT OF RISK MANAGEMENT AND 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 2013 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 Risk management and Internal Control: Guidance For Directors of Public Listed Companies.

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

(b) Internal Audit

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

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

(c) Other Key Elements of Internal Controls

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

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

STATEMENT OF RISK MANAGEMENT AND INTERNAL CONTROL (cont'd)

- The Executive Director is actively participating in day-to-day operations running of the Group, 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.

The Board is pleased to report that the Executive Director is by satisfied that the Group's risk management and internal control systems are operating adequately and effectively, in all material aspects, based on the risk management and internal control systems of the Group. There was no materials control failure that would have any material adverse effect on the financial results of the Group for the year under review and up to the date of issuance of the financial statements.

STATEMENT OF RISK MANAGEMENT AND INTERNAL CONTROL (cont'd)

Statement of Risk Management and Internal Control

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.

STATEMENT OF RISK MANAGEMENT AND INTERNAL CONTROL (cont'd)

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.

STATEMENT OF RISK MANAGEMENT AND INTERNAL CONTROL (cont'd)

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.

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:-

- CIDB Kad Hijau
- ISO 1400/OHSAS 18001 Requirements & Internal Audit Skill
- Emergency Response Team
- 8D in Problem Solving
- OHSAS 18000 : 2007 Lead Auditor
- Optimizing Protection For your Business
- Statistical Process Control (SPC)
- Lean Manufacturing
- Safe Operation of Forklift Training
- Chemical Management Training
- ICC/QCC Training
- Personal Protection Equipment Training
- First Aid & CPR
- Fire Fighting Training

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

Recognising the need to also 'unwind', not just on hard work, we encourage recreational activities and funded the establishment of a sport club whereby the employees can enjoy sports activities such as futsal, bowling, fishing, ping pong and badminton. This year Sport Club celebrated its 20th Paragon Anniversary Day by hosted a company trip to Port Dickson, Negeri Sembilan.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT (cont'd)

ENVIRONMENTAL

We take responsibility for the environment that we operate in. As such, we complied strictly to all existing environment laws and regulations. We are 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 Ray of Hope, a non-profitable and non-religious organization serving people with learning disabilities of all races, Yayasan Sultan Idris Shah of Perak for the handicapped people, Malaysian Association for the blind and Hospis Malaysia.

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

AUDIT COMMITTEE REPORT

1. COMPOSITION

Members of the Committee

Mr. Michael Lim Hee Kiang

Mr. Fung Beng Ee

Mr. Lau Yoke Keen

Designation

Independent Non-Executive Chairman (Chairman)

Independent Non-Executive Director

Independent Non-Executive Director

2. TERMS OF REFERENCE OF AUDIT COMMITTEE

2.1 Membership

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

At least one member of the Audit Committee:-

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

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

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

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

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;

AUDIT COMMITTEE REPORT (cont'd)

- (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 Main Market 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 2013 to which all the Committee Members attended. The record of attendance of each Committee Member is as follows:-

<u>Committee Member</u>	<u>Attendance</u>
Mr. Michael Lim Hee Kiang	3/4
Mr. Fung Beng Ee	4/4
Mr. Lau Yoke Keen	4/4

4. SUMMARY OF ACTIVITIES

During the year ended 31 December 2013, 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.

AUDIT COMMITTEE REPORT (cont'd)

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 Department of Paragon Union Berhad and its subsidiaries. These review areas included as follows:-

1. To evaluate the effectiveness, adequacy and existence of existing controls of:-
 - a) Procurement Department
2. Control Risk Assessment which includes:-
 - i) Procurement
 - ii) Selection of vendor
 - iii) Procurement planning
 - iv) Source for competitive prices
 - v) Purchasing authority limit
 - vi) Payment process
 - vii) Vendor Performance appraisal

The cost incurred for internal audit in financial year ended 31 December 2013 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 Internal Audit Plan;
- Determined the resources required;
- Prepared an Audit Work Programme ("AWP");
- Discussed the proposed AWP with the Management;
- Conducted the entrance conference with Management in charge of the auditable unit;
- Performed the necessary tests based on the approved AWP;
- Conducted the exit conference and briefed Management in charge of the findings; and
- Reported the findings and proposed a set of 'best practices' for improvement to Management and Audit Committee.

SUBSIDIARY COMPANIES

EQUITY INTEREST

NAME OF COMPANY	2013	2012	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 2013

Location	Age of Building	Tenure	Description	Land Area (sq. m.)	Build-Up Area (sq. m.)	Cost / Revaluation (RM)	Net Book Value as at 31.12.2013 (RM)	Last Date of Revaluation
Lot No. PT 7637 14, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	23 years	Leasehold (Expiry 14.05.2088)	Leasehold Land, Factory & Office	8,094	3,190 (factory) 3,929 (office)	8,090,000	5,919,667	12.03.1998
Lot No. PT 7667 21, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	22 years	Leasehold (Expiry 14.05.2088)	Leasehold Land, Factory & Office	6,833	4,177 (factory) 873 (office)	5,016,165	3,770,202	13.02.1998
Lot No. PT 7641 11A, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	18 years	Leasehold (Expiry 14.05.2088)	Leasehold Land, Factory & Office	12,128	7,919 (factory)	8,462,936	6,361,278	12.03.1998

ANALYSIS OF SHAREHOLDINGS

Authorised Share Capital	:	RM100,000,000 divided into 100,000,000 ordinary shares of RM1.00 each
Issued and Paid-Up Share Capital	:	RM70,000,000 divided into 70,000,000 ordinary shares of RM1.00 each#
Class of Shares	:	Ordinary shares of RM1.00 each
Voting Rights	:	One (1) vote per ordinary share held

Inclusive of 5,301,700 treasury shares

ANALYSIS BY SIZE OF SHAREHOLDINGS AS AT 30 APRIL 2014

Size Of Holdings	No. Of Shareholders	No. Of Shares	Percentage (%)
1 - 99	24	466	0.00
100 - 1,000	648	615,500	0.95
1,001 - 10,000	1,340	6,026,100	9.31
10,001 – 100,000	384	11,101,700	17.16
100,001 – 3,234,914*	38	11,585,440	17.91
3,234,915 and above **	2	35,369,094	54.67
Total	2,436	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 30 APRIL 2014

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

ANALYSIS OF SHAREHOLDINGS (cont'd)

SUBSTANTIAL SHAREHOLDERS AS PER THE REGISTER OF SUBSTANTIAL SHAREHOLDERS AS AT 30 APRIL 2014

Substantial Shareholders	No. Of Shares (Direct)	(%)	No. Of Shares (Indirect)	(%)
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 their substantial shareholdings in Asia Avenue Sdn. Bhd.

ANALYSIS OF SHAREHOLDINGS (cont'd)

THIRTY (30) LARGEST SHAREHOLDERS AS AT 30 APRIL 2014

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	1,196,040	1.85
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.	RHB Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Tan Qaik Suan	448,800	0.69
10.	Cimsec Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Ng Geok Wah (B BRKLANG-CL)	410,000	0.63
11.	Lim Lai Chun @ Lim Lai Chan	358,400	0.55
12.	Gan Lam Seong	341,500	0.53
13.	Maybank Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Liao Siong Kee @ Liew Siong Kee	282,400	0.44
14.	Low Wan Chin	275,000	0.43
15.	Maybank Securities Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Lee Ah Kim (REM 839)	214,500	0.33
16.	Lim Chir Ching	200,000	0.31
17.	Wong Ah Yong	200,000	0.31
18.	Lim Kwei Sunn	167,500	0.26
19.	Chiang Siew Eng @ Le Yu Ak Ee	162,500	0.25
20.	HLB Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Wong Leong Kan	156,000	0.24
21.	Chin Tung Leong	154,800	0.24
22.	Lee Yu Yong @ Lee Yuen Ying	150,000	0.23
23.	Phong Chiew Khim	147,800	0.23
24.	Ng Yew Meng	142,000	0.22
25.	Yee Kwek Keong	140,000	0.22
26.	Lim Su Khong	138,000	0.21
27.	Yeow Teck Chai	138,000	0.21
28.	Chong Tong Siew	134,000	0.21
29.	Maybank Securities Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Tee Teck Khoon (REM 871)	133,200	0.21
30.	UOB Kay Hian Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Goh Tien Tow	131,000	0.20
Total		45,794,334	70.78

DIRECTORS' REPORT

The Directors hereby present their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2013.

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 Company	(584,700)	(1,233,663)
Non-controlling interests	(1,791)	-
	<u>(586,491)</u>	<u>(1,233,663)</u>

DIVIDEND

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

RESERVES AND PROVISIONS

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

ISSUE OF SHARES AND DEBENTURES

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

OPTIONS GRANTED OVER UNISSUED SHARES

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

DIRECTORS' REPORT (cont'd)

DIRECTORS

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

Toh Hong Wooi
Michael Lim Hee Kiang
Fung Beng Ee
Lau Yoke Keen
Lee Choon Hee (appointed on 7.4.2014)

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 profit or loss and other 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.

DIRECTORS' REPORT (cont'd)

- (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 2013 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.

DIRECTORS' REPORT (cont'd)

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 WOUI

MICHAEL LIM HEE KIANG

KUALA LUMPUR
23 APRIL 2014

STATEMENT BY DIRECTORS

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

We, TOH HONG WOOL and MICHAEL LIM HEE KIANG, being two of the Directors of PARAGON UNION BERHAD, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 51 to 105 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of 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 2013 and of their financial performance and cash flows for the financial year then ended.

Signed in accordance with a resolution of the Directors.

TOH HONG WOOL

MICHAEL LIM HEE KIANG

KUALA LUMPUR
23 APRIL 2014

STATUTORY DECLARATION

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

I, HALEZA BINTI HUSSIN, 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 51 to 105 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 HALEZA BINTI HUSSIN at)
Kuala Lumpur in the Federal Territory this)
23 APRIL 2014)

HALEZA BINTI HUSSIN

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 2013 of the Group and of the Company, and the statements of profit or loss and other 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 51 to 105.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is 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 our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements 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 entity'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 give a true and fair view of the financial position of the Group and of the Company as of 31 December 2013 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiary companies have been properly kept in accordance with the provisions of the Act.
- (b) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (c) Our audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 33 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

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

CHEW KOK BIN
Approved Number: 1294/06/14 (J)
Partner of Firm

KUALA LUMPUR
23 APRIL 2014

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2013

		Group		Company	
	Note	2013 RM	2012 RM	2013 RM	2012 RM
Non-Current Assets					
Property, plant and equipment	3	33,253,924	34,096,810	-	-
Investment in subsidiary companies	4	-	-	11,607,745	11,607,745
Deferred tax assets	5	71,768	56,479	-	-
		<u>33,325,692</u>	<u>34,153,289</u>	<u>11,607,745</u>	<u>11,607,745</u>
Current Assets					
Inventories	6	22,292,036	23,954,918	-	-
Trade receivables	7	12,742,697	8,066,728	-	-
Other receivables	8	19,362,004	18,968,437	18,359,349	18,005,603
Tax recoverable		551,007	496,161	22,933	22,933
Amount owing by subsidiary companies	9	-	-	21,800,777	22,462,026
Cash held under Housing Development Account	10	-	310,421	-	-
Cash and bank balances	11	879,467	1,107,566	20,843	77,765
		<u>55,827,211</u>	<u>52,904,231</u>	<u>40,203,902</u>	<u>40,568,327</u>
Current Liabilities					
Trade payables	12	3,445,432	3,343,477	-	-
Other payables	13	5,492,506	3,885,519	2,283,894	1,414,656
Finance lease liabilities	14	142,643	1,045,099	-	-
Bank borrowings	15	17,393,359	14,875,270	-	-
Tax payables		650,230	590,629	-	-
		<u>27,124,170</u>	<u>23,739,994</u>	<u>2,283,894</u>	<u>1,414,656</u>
Net current assets		<u>28,703,041</u>	<u>29,164,237</u>	<u>37,920,008</u>	<u>39,153,671</u>
		<u>62,028,733</u>	<u>63,317,526</u>	<u>49,527,753</u>	<u>50,761,416</u>

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013 (cont'd)

		Group		Company	
	Note	2013 RM	2012 RM	2013 RM	2012 RM
Financed by:-					
Share Capital	16	70,000,000	70,000,000	70,000,000	70,000,000
Reserves	17	(4,618,481)	(4,618,481)	-	-
Treasury shares	18	(4,220,708)	(4,220,708)	(4,220,708)	(4,220,708)
Accumulated losses		(3,616,516)	(3,031,816)	(16,251,539)	(15,017,876)
Equity attributable to owners of the parent		57,544,295	58,128,995	49,527,753	50,761,416
Non-controlling interests		(19,239)	(17,448)	-	-
		<u>57,525,056</u>	<u>58,111,547</u>	<u>49,527,753</u>	<u>50,761,416</u>
Non-Current Liabilities					
Finance lease liabilities	14	486,124	322,552	-	-
Bank borrowings	15	2,117,091	2,815,493	-	-
Deferred tax liabilities	5	1,900,462	2,067,934	-	-
		<u>4,503,677</u>	<u>5,205,979</u>	<u>-</u>	<u>-</u>
		<u>62,028,733</u>	<u>63,317,526</u>	<u>49,527,753</u>	<u>50,761,416</u>

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

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

		Group		Company	
	Note	2013 RM	2012 RM	2013 RM	2012 RM
Revenue	19	52,703,927	48,346,487	-	-
Cost of sales		(44,878,550)	(40,238,306)	-	-
Gross profit		7,825,377	8,108,181	-	-
Other operating income		677,244	96,781	269	266
Selling and distribution costs		(4,171,000)	(4,686,350)	-	-
Administrative and general expenses		(3,449,395)	(2,811,564)	(1,233,932)	(2,159,955)
Finance costs	20	(1,247,305)	(1,406,288)	-	-
Loss before taxation	21	(365,079)	(699,240)	(1,233,663)	(2,159,689)
Taxation	22	(221,412)	135,087	-	-
Net loss/total comprehensive expense for the financial year		(586,491)	(564,153)	(1,233,663)	(2,159,689)
Loss/total comprehensive expense attributable to:-					
Owners of the Company		(584,700)	(548,735)	(1,233,663)	(2,159,689)
Non-controlling interests		(1,791)	(15,418)	-	-
		(586,491)	(564,153)	(1,233,663)	(2,159,689)
Loss per share attributable to owners of the parent (sen)					
Basic	23(a)	(0.90)	(0.85)		
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 2013

Group	Attributable to Owners of the Company				
	Share Capital RM	Merger Reserve RM	Treasury Shares RM	Accumulated Losses RM	Non-controlling Interests RM
At 1 January 2013	70,000,000	(4,618,481)	(4,220,708)	(3,031,816)	(17,448)
Net loss/total comprehensive expense for the financial year	-	-	-	(584,700)	(1,791)
At 31 December 2013	70,000,000	(4,618,481)	(4,220,708)	(3,616,516)	(19,239)
				57,544,295	57,525,056

At 1 January 2013 70,000,000 (4,618,481) (4,220,708) (3,031,816) 58,128,995 (17,448) 58,111,547

Net loss/total comprehensive expense for the financial year - - - (584,700) (1,791) (586,491)

At 31 December 2013 70,000,000 (4,618,481) (4,220,708) (3,616,516) 57,544,295 57,525,056

STATEMENTS OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (cont'd)

Attributable to Owners of the Parent

← Non-Distributable →

Group	Asset					Non-controlling Interests	Total	Total Equity
	Share Capital	Merger Reserve	Valuation Reserve	Treasury Shares	Accumulated Losses			
	RM	RM	RM	RM	RM	RM	RM	RM
At 1 January 2012								
- As previously stated	70,000,000	(4,618,481)	5,196,124	(4,220,708)	(7,679,205)	(2,030)	58,677,730	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)	(2,030)	58,677,730	58,675,700
Net loss/total comprehensive expense for the financial year	-	-	-	-	(548,735)	(15,418)	(548,735)	(564,153)
At 31 December 2012	70,000,000	(4,618,481)	-	(4,220,708)	(3,031,816)	(17,448)	58,128,995	58,111,547

STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (cont'd)

Company	Share Capital RM	Non- Distributable Treasury Shares RM	Accumulated Losses RM	Total RM
At 1 January 2013	70,000,000	(4,220,708)	(15,017,876)	50,761,416
Net loss/total comprehensive expense for the financial year	-	-	(1,233,663)	(1,233,663)
At 31 December 2013	<u>70,000,000</u>	<u>(4,220,708)</u>	<u>(16,251,539)</u>	<u>49,527,753</u>
At 1 January 2012	70,000,000	(4,220,708)	(12,858,187)	52,921,105
Net loss/total comprehensive expense for the financial year	-	-	(2,159,689)	(2,159,689)
At 31 December 2012	<u>70,000,000</u>	<u>(4,220,708)</u>	<u>(15,017,876)</u>	<u>50,761,416</u>

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

STATEMENTS OF CASH FLOW

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

	Group		Company	
	2013 RM	2012 RM	2013 RM	2012 RM
Cash Flows From Operating Activities				
Loss before taxation	(365,079)	(699,240)	(1,233,663)	(2,159,689)
Adjustments for:-				
Impairment loss for trade receivables	120,000	120,000	-	-
Impairment loss for trade receivables written back	-	(75,912)	-	-
Impairment loss for other receivables	-	352,960	-	-
Unrealised loss on foreign exchange	-	18,406	-	-
Depreciation of property, plant and equipment	2,945,227	2,690,400	-	-
Impairment loss for investment in subsidiary companies	-	-	-	1,689,486
Loss on disposal of property, plant and equipment	-	10,586	-	-
Property, plant and equipment written off	1,495	1,838	-	-
Interest income	(6,384)	(6,368)	(269)	(266)
Interest expense	1,247,305	1,406,288	-	-
Operating profit/(loss) before working capital changes	3,942,564	3,818,958	(1,233,932)	(470,469)
Decrease/(Increase) in working capital				
Inventories	1,662,882	(1,825,391)	-	-
Trade and other receivables	(5,189,536)	2,855,286	(353,746)	(1,138)
Trade and other payables	1,710,101	123,069	869,238	(101,514)
Amount owing by subsidiary companies	-	-	661,249	512,935
	(1,816,553)	1,152,964	1,176,741	410,283
Cash generated from/(used in) operations	2,126,011	4,971,922	(57,191)	(60,186)
Interest received	6,384	6,368	269	266
Interest paid	(1,247,305)	(1,406,288)	-	-
Tax (paid)/refund	(399,418)	(502,805)	-	62,165
	(1,640,339)	(1,902,725)	269	62,431
Net cash generated from/(used in) operating activities	485,672	3,069,197	(56,922)	2,245

STATEMENTS OF CASH FLOW
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (cont'd)

		Group		Company	
		2013 RM	2012 RM	2013 RM	2012 RM
Cash Flows From Investing Activities					
Purchase of property, plant and equipment	3(d)	(1,769,527)	(2,529,643)	-	-
Proceeds from disposal of property, plant and equipment		-	21,600	-	-
Net cash used in investing activities		(1,769,527)	(2,508,043)	-	-
Cash Flows From Financing Activities					
Repayment of term loans		(658,694)	(621,264)	-	-
Net changes in bills payable		1,452,965	646,861	-	-
Repayment of finance lease liabilities		(1,074,352)	(1,113,553)	-	-
Net cash used in financing activities		(280,081)	(1,087,956)	-	-
Net (decrease)/increase in cash and cash equivalents		(1,563,936)	(526,802)	(56,922)	2,245
Cash and cash equivalents at beginning of the financial year		(9,759,863)	(9,233,061)	77,765	75,520
Cash and cash equivalents at end of the financial year		(11,323,799)	(9,759,863)	20,843	77,765
Cash and cash equivalents at end of the financial year comprises:-					
Cash and bank balances		879,467	1,107,566	20,843	77,765
Cash held under Housing Development Account		-	310,421	-	-
Bank overdrafts		(12,203,266)	(11,177,850)	-	-
		(11,323,799)	(9,759,863)	20,843	77,765

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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

The principal activities of the subsidiary companies are disclosed in Note 4 to the financial statements.

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

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

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

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"), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Accounting standards, amendments to accounting standards and interpretations that are effective for the Group and the Company's financial year beginning on or after 1 January 2013 are as follows:-

- MFRS 10, "Consolidated Financial Statements"
- MFRS 11 "Joint arrangements"
- MFRS 12, "Disclosures of Interests in Other Entities"
- MFRS 13, "Fair Value Measurement"
- The revised MFRS 127, "Separate Financial Statements"
- The revised MFRS 128, "Investments in Associates and Joint Ventures"
- Amendments to MFRS 101 "Presentation of items of other comprehensive income"
- Amendment to MFRS 119, "Employee benefits"
- Amendment to MFRS 7, "Financial Instruments: Disclosures"
- Amendments to MFRS 10, 11 & 12 "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance"
- Annual improvements 2009 – 2011 Cycle
- IC Interpretation 20 "Stripping costs in the production phase of a surface mine"

The impact of the above accounting standards, amendments to accounting standards and interpretation effective during the financial year is not material to the financial results and position of the Group and the Company.

Accounting standards, amendments to accounting standards and interpretations that are applicable for the Group and the Company in the following periods but are not yet effective:-

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(i) Financial year beginning on/after 1 January 2014

Amendments to MFRS 132 Financial Instruments: Presentation

These amendments clarify the meaning of “currently has a legally enforceable right of set-off” that the right of set-off must be available today (not contingent on a future event) and legally enforceable for all counterparties in the normal course of business and is not contingent on a future event. It clarifies that some gross settlement mechanisms with features that are effectively equivalent to net settlement will satisfy the MFRS 132 offsetting criteria.

Amendments to MFRS 136 Impairment of assets

These amendments remove certain disclosures of the recoverable amount of CGUs which is included in MFRS 136 by the issuance of MFRS 13.

IC Interpretation 21 Levies

This Interpretation provides guidance that accounting for an obligation to pay a levy that is not income tax. The interpretation clarifies that a liability to pay a levy is recognised when the obligating event occurs. Obligating event is the event identified by the legislation that triggers the payment of the levy.

(ii) Financial year beginning on/after 1 January 2015

MFRS 9 Financial Instruments

This Standard addresses the classification and measurement of financial assets and financial liabilities. All financial assets shall be classified into two measurement categories: those measured as at fair value and those measured at amortised cost at initial recognition. This classification depends on the Group’s business model for managing the financial assets and the contractual cash flow characteristics of the instrument. The Standard retains most of the MFRS 139 requirements for financial liabilities. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity’s own credit risk is recorded in other comprehensive income, unless this creates an accounting mismatch.

The impact of MFRS 9 is still being assessed. Aside from the above mentioned, the adoption of the accounting Standards, amendments to accounting standards and interpretations are not expected to have a material impact to the financial statements of the Group and the Company.

Accounting standards, amendments to accounting standards and interpretations that are not relevant and not yet effective for the Group and the Company are as follows:-

- Amendments to MFRS 139 Novation of Derivatives and Continuation of Hedge Accounting
- Amendments to MFRS 10, MFRS 12 and MFRS 127 “Investment Entities”

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

The Group and the Company plan 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 end of the reporting period, 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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(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 recognise 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

Subsidiaries are entities, including structured entities, controlled by the Group. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group considers it has de-facto power over an investee when, despite not having the majority of voting rights, it has the current ability in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders to direct the activities of the investee that significantly affect the investee's return.

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

Business combinations are accounted for using the acquisition method on the acquisition date. The consideration transferred includes the fair value of assets transferred, equity interest issued by the Group and liabilities assumed. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Acquisition-related costs are recognised in the profit or loss as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recognised as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Inter-company transactions, balances and unrealised gains and losses on transactions between group companies are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions. Any difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities, any non-controlling interests and other components of equity related to the disposed subsidiary. Any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset depending on the level of influence retained.

(e) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are stated at cost less accumulated depreciation and 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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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.

(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 profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in the profit or loss 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 profit or loss.

(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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(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 profit or loss.

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 profit or loss 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 profit or loss 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 profit or loss 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 profit or loss 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 profit or loss.

(k) Impairment of financial assets

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

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

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

All impairment losses are recognised in profit or loss.

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 profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(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 statements 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 profit or loss 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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(p) Finance leases

Assets acquired by way of 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 statements 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 finance lease, when it is practical to determine; otherwise, the Group's incremental borrowing rate is used.

Finance lease 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 profit or loss 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.

(q) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Differences between initial recognised amount and the redemption value are recognised in profit or loss over the period of the borrowings using the effective interest method.

(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 profit or loss.

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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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

	2013 RM	2012 RM
United States Dollar (US\$)	3.2815	3.0583
Sterling Pound (£)	5.4076	4.9420
Euro Dollar (€)	4.5263	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 profit or loss 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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(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 profit or loss 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 profit or loss as incurred.

(u) Income taxes

Income taxes comprise 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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

Deferred tax is recognised in profit or loss, 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

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 2013	10,130,000	11,439,101	34,257,618	1,730,234	10,746,300	5,671,174	73,974,427
Additions	-	-	325,829	90,048	1,204,325	484,793	2,104,995
Reclassification	-	-	(1,231)	-	-	-	(1,231)
Write-off	-	-	-	-	(3,900)	-	(3,900)
At 31 December 2013	10,130,000	11,439,101	34,582,216	1,820,282	11,946,725	6,155,967	76,074,291
Accumulated depreciation							
At 1 January 2013	1,752,423	3,416,436	21,736,537	1,354,341	7,922,822	3,695,058	39,877,617
Charge for the financial year	120,283	228,782	1,163,967	113,182	1,081,134	237,879	2,945,227
Reclassification	-	-	(72)	-	-	-	(72)
Write-off	-	-	-	-	(2,405)	-	(2,405)
At 31 December 2013	1,872,706	3,645,218	22,900,432	1,467,523	9,001,551	3,932,937	42,820,367
Carrying amount							
At 31 December 2013	8,257,294	7,793,883	11,681,784	352,759	2,945,174	2,223,030	33,253,924

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

3. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

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
Cost								
At 1 January 2012		10,130,000	11,417,301	34,257,618	1,748,303	9,157,630	5,022,089	71,732,941
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	10,746,300	5,671,174	73,974,427
Accumulated depreciation								
At 1 January 2012		1,632,140	3,188,056	20,522,588	1,397,618	7,291,263	3,544,685	37,576,350
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	7,922,822	3,695,058	39,877,617
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

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

3. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

- (a) The remaining period of the lease term 76 (2012: 77) 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	
	2013 RM	2012 RM
Leasehold land	8,257,294	8,377,577
Factory buildings	7,793,883	8,022,665
Plant and machinery	7,661,766	8,481,563
	<u>23,712,943</u>	<u>24,881,805</u>

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

	Group	
	2013 RM	2012 RM
Plant and machinery	664,169	4,696,560
Motor vehicles	175,392	127,959
Furniture, fittings and equipment	-	75,900
	<u>839,561</u>	<u>4,900,419</u>

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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

	Group	
	2013	2012
	RM	RM
Aggregate costs	2,104,995	2,664,643
Finance lease financing	(335,468)	(135,000)
Cash payments	<u>1,769,527</u>	<u>2,529,643</u>

4. INVESTMENT IN SUBSIDIARY COMPANIES

- (a) Investment in subsidiary companies

	Company	
	2013	2012
	RM	RM
In Malaysia		
Unquoted shares, at cost	14,511,655	14,511,655
Accumulated impairment losses	(2,903,910)	(2,903,910)
	<u>11,607,745</u>	<u>11,607,745</u>

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

Name of company	Country of incorporation	Effective interest		Principal activities
		2013 %	2012 %	
Direct holding:				
Paragon Car Carpets & Components Sdn. Bhd.	Malaysia	100	100	Manufacturing and distribution of car carpets and automotive components
Paragon Expression Sdn. Bhd. ("PE")	Malaysia	100	100	Investment holding and property development related activities

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

Name of company	Country of incorporation	Effective interest		Principal activities
		2013 %	2012 %	
Paragon Precision Industries Sdn. Bhd. ("PPI")	Malaysia	78	78	Inactive
Paragon Metal Components Sdn. Bhd. ("PMC")	Malaysia	77	77	Inactive
Indirect holding:-				
<i>Subsidiary company of Paragon Car Carpets & Components Sdn. Bhd. :-</i>				
Paragon Carpetmaker Sdn. Bhd.	Malaysia	100	100	Manufacturing and trading in car carpets and commercial carpets
<i>Subsidiary company of Paragon Carpetmaker Sdn. Bhd. :-</i>				
Paragon Carpet Distributor Sdn. Bhd.	Malaysia	100	100	Distribution and trading in commercial carpets
<i>Subsidiary company of Paragon Expression Sdn. Bhd. :-</i>				
Paragon Property Development Sdn. Bhd.	Malaysia	100	100	Dealing in land, properties and other property development related activities

In the previous financial years, the Company had recognised impairment losses amounting to RM2,903,910 in respect of its investment in PE and its entire investments in PPI and PMC as these subsidiary companies had ceased operations and had deficits in their shareholders' equity. As these subsidiary companies have since remained inactive, the Company does not expect to derive any future economic benefits from their activities or from their disposal.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

5. DEFERRED TAXATION

	Group	
	2013	2012
	RM	RM
At 1 January	2,011,455	2,833,487
Recognised in profit or loss	(63,916)	(109,559)
Over provision in prior year	(118,845)	(712,473)
At 31 December	<u>1,828,694</u>	<u>2,011,455</u>

Represented after appropriate offsetting as follows:-

	Group	
	2013	2012
	RM	RM
Deferred Tax Liabilities	1,900,462	2,067,934
Deferred Tax Assets	(71,768)	(56,479)
	<u>1,828,694</u>	<u>2,011,455</u>

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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 2013	1,961,538	1,397,229	3,358,767
Recognised in profit or loss	10,115	(20,732)	(10,617)
Over provision in prior year	(242,110)	-	(242,110)
	<u>1,729,543</u>	<u>1,376,497</u>	<u>3,106,040</u>
Offsetting			(1,205,578)
At 31 December 2013			<u>1,900,462</u>
At 1 January 2012	2,539,942	1,417,961	3,957,903
Recognised in profit or loss	166,931	(20,732)	146,199
Over provision in prior year	(745,335)	-	(745,335)
	<u>1,961,538</u>	<u>1,397,229</u>	<u>3,358,767</u>
Offsetting			(1,290,833)
At 31 December 2012			<u>2,067,934</u>

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 2013	212,661	331,332	30,000	773,319	1,347,312
Recognised in profit or loss	53,031	-	268	-	53,299
Over provision in prior year	(53,030)	(70,235)	-	-	(123,265)
	<u>212,662</u>	<u>261,097</u>	<u>30,268</u>	<u>773,319</u>	<u>1,277,346</u>
Offsetting					(1,205,578)
At 31 December 2013					<u>71,768</u>

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

	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 profit or loss	-	225,758	30,000	-	255,758
Under/(Over) provision in prior year	173,564	105,574	-	(312,000)	(32,862)
	<u>212,661</u>	<u>331,332</u>	<u>30,000</u>	<u>773,319</u>	<u>1,347,312</u>
Offsetting					(1,290,833)
At 31 December 2012					<u>56,479</u>

6. INVENTORIES

	Group	
	2013 RM	2012 RM
At cost:-		
Raw materials	6,805,005	8,031,723
Work-in-progress	2,265,098	1,896,244
Finished goods	13,221,933	14,026,951
	<u>22,292,036</u>	<u>23,954,918</u>

7. TRADE RECEIVABLES

	Group	
	2013 RM	2012 RM
Trade receivables	13,395,823	8,831,540
Impairment for trade receivables	(653,126)	(764,812)
Trade receivables, net	<u>12,742,697</u>	<u>8,066,728</u>

The Group's normal trade credit term range from 60 to 90 days (2012: 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 RM5,678,126 (2012: RM3,658,719) which accounts for 45% (2012: 45%) of the total trade receivables of the Group.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

Ageing analysis of trade receivables

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

	Group	
	2013	2012
	RM	RM
Neither past due or impaired	6,635,983	3,618,272
1 - 90 days past due but not impaired	4,357,591	2,716,690
91 - 180 days past due but not impaired	2,402,249	2,496,578
	6,759,840	5,213,268
Fully impaired	(653,126)	(764,812)
	<u>12,742,697</u>	<u>8,066,728</u>

The trade receivables that are impaired

	Group	
	2013	2012
	RM	RM
Individually	<u>(653,126)</u>	<u>(764,812)</u>
<u>Allowance for impairment</u>		
At 1 January	764,812	720,724
Allowance written off	(231,686)	-
Allowance written back	-	(75,912)
Allowance made	<u>120,000</u>	<u>120,000</u>
At 31 December	<u>653,126</u>	<u>764,812</u>

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

The Group's trade receivables of RM6,759,840 (2012: RM5,213,268) 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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

The currency exposure profiles of trade receivables are as follows:-

	Group	
	2013 RM	2012 RM
Ringgit Malaysia	12,393,502	7,426,984
United States Dollar	349,195	556,584
Euro Dollar	-	83,160
	<u>12,742,697</u>	<u>8,066,728</u>

8. OTHER RECEIVABLES

	Group		Company	
	2013 RM	2012 RM	2013 RM	2012 RM
Other receivables	19,027,310	18,443,932	18,359,349	18,005,603
Deposits	16,791,345	16,808,345	16,540,000	16,540,000
Prepayments	83,349	315,806	-	-
	<u>35,902,004</u>	<u>35,568,083</u>	<u>34,899,349</u>	<u>34,545,603</u>
Less: Impairment loss	<u>(16,540,000)</u>	<u>(16,599,646)</u>	<u>(16,540,000)</u>	<u>(16,540,000)</u>
	<u>19,362,004</u>	<u>18,968,437</u>	<u>18,359,349</u>	<u>18,005,603</u>

The other receivables that are impaired

	Group		Company	
	2013 RM	2012 RM	2013 RM	2012 RM
<u>Allowance for impairment</u>				
At 1 January	16,599,646	16,540,000	16,540,000	16,540,000
Allowance written off	(59,646)	-	-	-
Allowance made	-	59,646	-	-
At 31 December	<u>16,540,000</u>	<u>16,599,646</u>	<u>16,540,000</u>	<u>16,540,000</u>

Included in deposits of the Group and the Company is an amount of RM16,540,000 (2012: 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").

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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	
	2013	2012
	RM	RM
Advances	23,656,121	24,317,370
Impairment for amount owing by subsidiary companies	(1,855,344)	(1,855,344)
	<u>21,800,777</u>	<u>22,462,026</u>

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

10. CASH HELD UNDER HOUSING DEVELOPMENT ACCOUNT

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

11. CASH AND BANK BALANCES

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

	Group		Company	
	2013	2012	2013	2012
	RM	RM	RM	RM
Ringgit Malaysia	761,253	781,405	20,843	77,765
United States Dollar	118,214	326,161	-	-
	<u>879,467</u>	<u>1,107,566</u>	<u>20,843</u>	<u>77,765</u>

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

12. TRADE PAYABLES

	Group	
	2013	2012
	RM	RM
Trade payables	3,445,432	3,343,477

The currency exposure profiles of trade payables are as follows:-

	Group	
	2013	2012
	RM	RM
Ringgit Malaysia	2,874,709	2,656,752
United States Dollar	570,723	421,464
Sterling Pound	-	265,261
	3,445,432	3,343,477

The normal trade credit terms granted to the Group range from 60 to 120 days (2012: 60 to 120 days).

13. OTHER PAYABLES

	Group		Company	
	2013	2012	2013	2012
	RM	RM	RM	RM
Other payables	4,369,889	2,726,533	2,143,594	1,277,506
Accruals	1,122,617	1,158,986	140,300	137,150
	5,492,506	3,885,519	2,283,894	1,414,656

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

14. FINANCE LEASE LIABILITIES

	Group	
	2013	2012
	RM	RM
(a) Minimum finance lease payments		
Within one year	173,890	1,095,480
Between one and five years	494,092	323,164
More than five years	39,355	31,909
	<u>707,337</u>	<u>1,450,553</u>
Future finance charges	(78,570)	(82,902)
Present value of finance lease liabilities	<u>628,767</u>	<u>1,367,651</u>
(b) Present value of finance lease liabilities		
Within one year	142,643	1,045,099
Between one and five years	447,565	291,623
More than five years	38,559	30,929
	<u>628,767</u>	<u>1,367,651</u>
Analysed as:-		
Repayable within twelve months	142,643	1,045,099
Repayable after twelve months	486,124	322,552
	<u>628,767</u>	<u>1,367,651</u>

The effective interest rates of the Group are between 2.42% and 4.05% (2012: 2.42% and 4.05%) per annum.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

15. BANK BORROWINGS

	Group	
	2013	2012
	RM	RM
Secured		
Bank overdrafts	6,575,180	5,977,388
Bills payable	2,251,873	2,789,861
Term loans	2,815,357	3,474,052
	<u>11,642,410</u>	<u>12,241,301</u>
Unsecured		
Bank overdrafts	5,628,086	5,200,462
Bills payable	2,239,954	249,000
	<u>7,868,040</u>	<u>5,449,462</u>
Total bank borrowings	<u>19,510,450</u>	<u>17,690,763</u>

Analysed as follows:-

Repayable within twelve months

Secured

Bank overdrafts	6,575,180	5,977,388
Bills payable	2,251,873	2,789,861
Term loans	698,266	658,559
	<u>9,525,319</u>	<u>9,425,808</u>

Unsecured

Bank overdrafts	5,628,086	5,200,462
Bills payable	2,239,954	249,000
	<u>7,868,040</u>	<u>5,449,462</u>
	<u>17,393,359</u>	<u>14,875,270</u>

Repayable after twelve months

Secured

Term loans	2,117,091	2,815,493
	<u>19,510,450</u>	<u>17,690,763</u>

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

- (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 2 to 5 years.

Maturity of borrowings is as follows:-

	Group	
	2013	2012
	RM	RM
Within one year	17,393,359	14,875,270
Between one and two years	587,497	694,622
Between two and five years	1,529,594	1,796,908
More than five years	-	323,963
	<u>19,510,450</u>	<u>17,690,763</u>

The weighted average effective interest rate are as follows:-

	Group	
	2013	2012
	RM	RM
Bank overdrafts	8.35	7.05
Bills payable	4.75	3.47
Term loans	<u>6.15</u>	<u>5.50</u>

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

16. SHARE CAPITAL

	Number of ordinary shares of		Amount	
	RM1 each			
	2013	2012	2013	2012
			RM	RM
Authorised share capital				
At 1 January/31 December	100,000,000	100,000,000	100,000,000	100,000,000
Issued and fully paid				
At 1 January/31 December	70,000,000	70,000,000	70,000,000	70,000,000

Included in the issued and fully paid ordinary shares of the Company are 5,301,700 (2012: 5,301,700) number of ordinary shares of RM1.00 each held as treasury shares by the Company.

17. RESERVES

	Group	
	2013	2012
	RM	RM
Non-distributable:-		
Merger reserve	4,618,481	4,618,481

18. TREASURY SHARES

	Group/Company	
	2013	2012
	RM	RM
At 1 January/31 December	4,220,708	4,220,708
No. of ordinary shares at RM1.00 each	5,301,700	5,301,700

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

At the Extraordinary General Meeting held on 18 December 2000, the shareholders approved the share buy-back of up to 10% or up to 7,000,000 ordinary shares of the issued and paid-up share capital of the Company. The authority from the shareholders has been renewed consecutively for five years at the shareholders' meeting. No resolution for renewal of share buy-back was tabled at the last Annual General Meeting ("AGM") of the Company held on 29 June 2009. Accordingly, the previous shareholders' approval for share buy-back has ceased to take effect.

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

In the financial year	No. of ordinary shares	Average price per share RM	Total cost RM
2001	2,681,000	1.03	2,758,037
2002	46,000	0.80	37,010
2003	143,000	0.86	123,665
2005	269,700	0.64	172,687
2006	825,500	0.60	491,883
2007	579,200	0.47	274,751
2008	730,200	0.48	351,465
2009	27,100	0.42	11,210
	<u>5,301,700</u>		<u>4,220,708</u>

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

At 31 December 2013, the total number of treasury shares held by the Company is 5,301,700 ordinary shares.

19. REVENUE

	Group	
	2013 RM	2012 RM
Sales of carpets	<u>52,703,927</u>	<u>48,346,487</u>

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

20. FINANCE COSTS

	Group	
	2013 RM	2012 RM
Interest expense on:-		
Bank overdrafts	853,910	932,143
Banker acceptance	69,265	119,440
Finance lease	60,304	116,609
Letter of credit	12,120	13,592
Term loans	178,575	215,976
Others	73,131	8,528
	<u>1,247,305</u>	<u>1,406,288</u>

21. LOSS BEFORE TAXATION

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

	Group		Company	
	2013 RM	2012 RM	2013 RM	2012 RM
Auditors' remuneration	57,000	57,000	14,000	14,000
Impairment loss for trade receivables	120,000	120,000	-	-
Impairment loss for other receivables	-	352,960	-	-
Impairment loss for investment in subsidiary companies	-	-	-	1,689,496
Depreciation of property, plant and equipment	2,945,227	2,690,400	-	-
Directors remuneration				
- fees	120,000	162,500	120,000	162,500
- salaries and other emoluments	811,463	808,395	80,070	74,000
- EPF	63,772	64,190	-	-
- benefits-in-kind	15,500	17,400	-	-
Rental of warehouse	345,600	345,600	-	-
Property, plant equipment written off	1,495	1,838	-	-
Impairment loss for trade receivables written back	-	(75,912)	-	-
Unrealised loss on foreign exchange	-	18,406	-	-
Loss on disposal of property, plant and equipment	-	10,586	-	-
Realised loss on foreign exchange	22,916	10,258	-	-
Interest income				
- investment quoted in Malaysia	(269)	(266)	(269)	(266)
- others	(6,115)	(6,102)	-	-
Fire insurance claim	(670,860)	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

22. TAXATION

	Group		Company	
	2013	2012	2013	2012
	RM	RM	RM	RM
Current taxation				
- Current financial year	379,420	358,182	-	-
- Under provision in prior year	24,753	328,763	-	-
	<u>404,173</u>	<u>686,945</u>	<u>-</u>	<u>-</u>
Deferred taxation				
- Relating to reversal of temporary differences	(63,916)	(109,559)	-	-
- Over provision in prior year	(118,845)	(712,473)	-	-
	<u>(182,761)</u>	<u>(822,032)</u>	<u>-</u>	<u>-</u>
Tax expense/(saving) for the financial year	<u>221,412</u>	<u>(135,087)</u>	<u>-</u>	<u>-</u>

Income tax is calculated at the Malaysia statutory tax rate of 25% (2012: 25%) of the estimated assessable loss for the financial year.

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

	Group		Company	
	2013	2012	2013	2012
	RM	RM	RM	RM
Loss before taxation	<u>(365,079)</u>	<u>(699,240)</u>	<u>(1,233,663)</u>	<u>(2,159,689)</u>
Taxation at Malaysian statutory tax rate of 25% (2012: 25%)	(91,270)	(174,810)	(308,416)	(539,922)
Expenses not deductible for tax purposes	602,106	471,807	308,416	539,922
Income not subject to tax	(167,690)	(20,732)	-	-
Crystallisation of deferred tax liabilities on amortisation on revalued properties	(27,642)	(27,642)	-	-
Under provision of current taxation in prior year	24,753	328,763	-	-
Over provision of deferred tax in prior year	(118,845)	(712,473)	-	-
Tax expense/(saving) for the financial year	<u>221,412</u>	<u>(135,087)</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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 Company of RM584,700 (2012: RM548,735) for the Group and the weighted average number of ordinary shares in issue during the financial year of 64,698,300 (2012: 64,698,300) are as follows:-

	Group	
	2013	2012
	RM	RM
Net loss for the financial year attributable to owners of the Company	(584,700)	(548,735)
Weighted average number of ordinary shares in issue	70,000,000	70,000,000
Adjusted for treasury shares	(5,301,700)	(5,301,700)
	<u>64,698,300</u>	<u>64,698,300</u>

(b) Fully diluted loss 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	
	2013	2012
	RM	RM
Staff costs (excluding Directors)	<u>8,799,571</u>	<u>8,369,417</u>

Included in the staff costs above are contributions made to the Employees Provident Fund under a defined contribution plan for the Group amounting to RM646,565 (2012: RM612,714).

25. HOLDING COMPANY

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

26. KEY MANAGEMENT PERSONNEL COMPENSATION

	Group		Company	
	2013 RM	2012 RM	2013 RM	2012 RM
Short-term employee benefits				
- Fees	120,000	162,500	120,000	162,500
- Salaries and other emoluments	2,487,420	2,564,467	88,230	74,000
- Estimated monetary value of benefits-in-kind	28,666	27,175	-	-
	<u>2,636,086</u>	<u>2,754,142</u>	<u>208,230</u>	<u>236,500</u>
Post employment benefits				
- Defined contribution plan	259,370	276,989	-	-
	<u>2,895,456</u>	<u>3,031,131</u>	<u>208,230</u>	<u>236,500</u>

Key management personnel comprise of 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

	Group	
	2013 RM	2012 RM
Unsecured corporate guarantees in respect of banking facilities granted to subsidiary companies	<u>19,510,450</u>	<u>17,690,763</u>

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

28.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 of the following:-

Manufacturing and Trading : Manufacture and sale of carpets

Property : Property development activities

Investment : Investment holding

Other non-reportable segments comprise of subsidiary company operations 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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

SEGMENT INFORMATION – GROUP

2013	Manufacturing and trading RM	Property RM	Investment RM	Others RM	Inter-segment eliminations RM	Total RM
Revenue						
Total Revenue	52,703,927	-	-	-	-	52,703,927
Results						
Segment profit/(loss) Included in the segment profit/(loss) are:-	269,352	(63,657)	(1,233,663)	(7,971)	-	(1,035,939)
Depreciation of property, plant and equipment	2,945,227	-	-	-	-	2,945,227
Finance costs	1,247,305	-	-	-	-	1,247,305
Loss on disposal of property, plant and equipment	1,495	-	-	-	-	1,495
Assets						
Segment assets	91,624,574	13,705,407	51,811,647	3,789	(67,992,514)	89,152,903
Segment liabilities	62,089,693	67,901,109	2,283,894	2,724,930	(103,371,779)	31,627,847

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

SEGMENT INFORMATION – GROUP (Cont'd)

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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

	2013 RM	2012 RM
Total loss for reportable segments	(1,035,939)	(699,240)
Fire insurance claim	670,860	-
Loss before taxation	(365,079)	(699,240)
Adjustment for taxation	(221,412)	135,087
Consolidated loss after taxation	(586,491)	(564,153)

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.

29. MATERIAL LITIGATION

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

The details of which are as follows:-

	RM
Monies paid by the Company to PDSB	13,500,000
Agreed liquidated damages	1,350,000
	<u>14,850,000</u>

Interest calculated at the rate of 8.00% per year upon RM14,850,000
from 11 March 2009 to 31 March 2009

65,095
<u>14,915,095</u>

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

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

On 27 April 2009, the Company obtained an injunction order from the High Court of Malaya to compel the Defendants (PDSB and Datuk Liw) to pay to the Court the total sum of RM13,500,000 and RM4,500,000 respectively within seven days from the service of the Order on the Defendants and that this application was heard on 12 May 2009. The sealed copy of the Order was served on PDSB on 30 April 2009 and both of its two directors, Wong Hean Keat Simon and Abdul Rashid Bin Omar on 4 May 2009 and Datuk Liw on 1 May 2009.

The Company's application for injunction as well as the Defendants' application to set aside the ex-parte injunction order dated 27 April 2009 and for transfer of these proceedings to the Shah Alam High Court was concluded on 26 October 2009. The decision with regard to these applications was fixed on 16 November 2009 and the learned Judge after considering the submissions from all parties made the following Orders:-

- (i) The Plaintiff's application for injunction was allowed with costs. The Defendants are to pay the Plaintiff RM18,000,000 on or before 15 January 2010.
- (ii) The Defendants' application to set aside the ex-parte injunction order dated 27 April 2009 was dismissed with costs.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

- (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. The Court concluded trial of the matter and fixed for oral submissions on 5 September 2013.

The Court fixed for further submissions on 3 December 2013. Subsequently, the Court fixed for continued submissions on 14 February 2014.

On 14 February 2014, the Court vacated the hearing for oral submissions and fixed for the hearing to be on 22 April 2014.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

On 22 April 2014, the Court fixed the decision date to be on 18 June 2014.

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.

30. 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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

31. 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 were as follows:-

Functional Currency	United States Dollar RM	Sterling Pound RM	Euro Dollar RM	Total RM
Group				
2013				
Trade receivables	349,195	-	-	349,195
Cash and bank balances	118,214	-	-	118,214
Trade payables	(570,723)	-	-	(570,723)
	(103,314)	-	-	(103,314)
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

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

Currency risk sensitivity analysis

The following table shows the sensitivity of the Group's equity and 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 net of tax RM
USD/RM – strengthening 5%	<u>(3,875)</u>

(c) Interest rate risk

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

Exposure to interest rate risk

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

	Group	
	2013 RM	2012 RM
Floating rate instruments		
Term loans	2,815,357	3,474,052
Bills payables	<u>4,491,827</u>	<u>3,038,861</u>

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	23,827
Bills payables	<u>33,689</u>
	<u>57,516</u>

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(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 statements 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	8,937,938	-	-	8,937,938
Bank borrowings	17,393,359	2,117,091	-	19,510,450
Finance lease liabilities	142,643	447,565	38,559	628,767
	<u>26,473,940</u>	<u>2,564,656</u>	<u>38,559</u>	<u>29,077,155</u>

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(f) Fair values

The aggregate fair values of the financial liabilities as at 31 December 2013 are as follows:-

	2013		2012	
	Carrying amount RM	Fair value RM	Carrying amount RM	Fair Value RM
Group				
Financial liabilities				
Finance lease liabilities	486,124	476,027	322,552	308,299

- (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 statements 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 statements 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 Finance lease liabilities carried on the statements 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.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

Interest rates used to determined fair value:-

	2013	2012
	% p.a.	% p.a.
Finance lease liabilities	2.22	2.45

32. 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	
	2013	2012
	RM	RM
Borrowings	19,510,450	17,690,763
Less: Cash and bank balances	(879,467)	(1,107,566)
Less: Cash held under Housing Development Account	-	(310,421)
	(879,467)	(1,417,987)
Net borrowings	18,630,983	16,272,776
Equity attributable to owners of the Company	57,544,295	58,128,995
Gearing ratio	32%	28%

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

33. 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	
	2013	2012
	RM	RM
Total accumulated losses of the Company and its subsidiary companies:-		
Realised profits	15,597,072	16,460,930
Unrealised losses	(19,213,588)	(19,492,746)
	<u>(3,616,516)</u>	<u>(3,031,816)</u>

	Company	
	2013	2012
	RM	RM
Total accumulated losses of the Company:-		
Realised profits	408,461	1,642,124
Unrealised losses	(16,660,000)	(16,660,000)
	<u>(16,251,539)</u>	<u>(15,017,876)</u>

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

34. DATE OF AUTHORISATION FOR ISSUE

The financial statements of the Group and of the Company for the financial year ended 31 December 2013 were authorised for issue in accordance with a resolution of the Board of Directors on 23 April 2014.

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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 Twentieth 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 Wednesday, 25 June 2014 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 2013.		
2.	To re-elect Mr. Michael Lim Hee Kiang who is retiring in accordance with Article 75 of the Company's Articles of Association.		
3.	To re-elect Mr. Lee Choon Hee who is retiring in accordance with Article 81 of the Company's Articles of Association.		
4.	To re-appoint Auditors.		
5.	Retention of Independent Non-Executive Director		
6.	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 _____, 2014

Signature of Member / Common Seal

Number of shares held:

Notes:

1. A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies 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

Then fold here

Stamp

The Company Secretary

PARAGON UNION BERHAD

(COMPANY NO. 286457-V)

UNIT 07-02, LEVEL 7, PERSOFT TOWER

6B PERSIARAN TROPICANA

47410 PETALING JAYA

SELANGOR DARUL EHSAN

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