PARAGON UNION BERHAD

A MODEL OF EXCELLENCE IN CARPETS

(Company No: 286457-V)

ANNUAL REPORT 2015

Contents

Notice of Twenty-Second Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Twenty-Second Annual General Meeting of the Company will be held at Dewan Berjaya, Bukit Kiara Resort Berhad, Jalan Bukit Kiara, Off Jalan Damansara, 60000 Kuala Lumpur on Wednesday, 8 June 2016 at 10.30 a.m. for the following purposes:-

AGENDA

1. To receive the Audited Financial Statements for the financial year ended 31 December 2015 together with the Reports of the Directors and Auditors thereon. **Please refer to Note B on this agenda**

2. To re-elect Mr. Lee Choon Hee who is retiring as a Director of the Company in accordance with Article 75 of the Company's Articles of Association. **Resolution 1**

3. To re-appoint Messrs. Morison Anuarul Azizan Chew, the retiring Auditors and to authorise the Board of Directors to fix their remuneration. **Resolution 2**

SPECIAL BUSINESS

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

4. Authority for Mr. Michael Lim Hee Kiang to continue in office as Independent Non-Executive Director **Resolution 3**

   "**THAT** authority be and is hereby given to Mr. Michael Lim Hee Kiang who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine (9) years, to continue to act as an Independent Non-Executive Director of the Company until the conclusion of the next annual General Meeting in accordance with Recommendation 3.3 of the Malaysian Code on Corporate Governance 2012."

5. Authority for Directors to issue and allot shares in the Company pursuant to Section 132D of the Companies Act, 1965 **Resolution 4**

   "**THAT** pursuant to Section 132D of the Companies Act, 1965, the Directors be and are hereby authorised to issue and allot 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, if required"

Notice of Twenty-Second Annual General Meeting
(cont'd)

6. 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
Petaling Jaya
Selangor Darul Ehsan

29 April 2016

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, Tropicana Golf & Country Resort, 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 2015

The Audited Financial Statements in Agenda 1 are 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 Twenty-Second Annual General Meeting
(cont'd)

EXPLANATORY NOTES ON SPECIAL BUSINESS

a) Authority for Mr. Michael Lim Hee Kiang to continue in office as Independent Non-Executive Director

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"). He has at all times exercised his independency in all matters in the best interest of the Company. Thus, the Board has recommended that he should be retained as an Independent Non-Executive Director.

b) Authority For Directors To Allot and Issue Shares

The proposed Resolution 4 under item 5 of the Agenda, if passed, from the date of the above Annual General Meeting, will empower the Directors of the Company, 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 Twenty-First Annual General Meeting held on 29 June 2015. 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 Twenty-First 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 2 June 2016. Only a depositor whose name appears on the Record of Depositors as at 2 June 2016 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)

Lee Choon Hee
(Executive Director)

AUDIT COMMITTEE

Michael Lim Hee Kiang
(Chairman)

Fung Beng Ee
Lau Yoke Keen

NOMINATION COMMITTEE

Michael Lim Hee Kiang
(Chairman)

Fung Beng Ee
Lau Yoke Keen

REMUNERATION COMMITTEE

Fung Beng Ee
(Chairman)

Michael Lim Hee Kiang
Lee Choon Hee

RISK MANAGEMENT COMMITTEE

Lau Yoke Keen
(Chairman)

Fung Beng Ee
Lee Choon Hee

COMPANY SECRETARY

Ng Yim Kong (LS 0009297)

REGISTERED OFFICE

Strategy Corporate
Secretariat Sdn Bhd
Unit 07-02, Level 7
Persoft Tower
6B Persiaran Tropicana
Tropicana Golf & Country Resort
47410 Petaling Jaya
Selangor Darul Ehsan

Tel: 603-7804 5929
Fax: 603-7805 2559

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

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 Pinggir 1/64
Jalan Kolam Air
Off Jalan Sultan Azlan Shah
(Jalan Ipoh)
51200 Kuala Lumpur

Tel: 603-4048 2888
Fax: 603-4048 2999

SOLICITORS

Jaffar & Menon
Kamarudin & Partners
TS Teoh & Partners

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

Stock Code : 9407

Directors' Profile

MICHAEL LIM HEE KIANG
Aged 68, 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 in1973. 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, Hektar Assets Management Bhd, Sumatec Resources Bhd and Seloga Holdings Berhad as well as various private companies. He has no family relationship with any Director and/or substantial shareholders of Paragon and his directorship in Paragon does not give rise to any conflict of interest situation. He has no convictions for any offences within the past ten years.

FUNG BENG EE
Aged 53, Malaysian
Independent Non-Executive Director
Member of Audit Committee
Member of Nomination Committee
Chairman of Remuneration Committee
Member of Risk Management 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. He sits on the Board of Directors of Major Team Holdings Berhad, Celedon Capital Sdn. Bhd., and Climate Systems Sdn. Bhd. He has no family relationship with any Director and/or substantial shareholders of Paragon and his directorship in Paragon does not give rise to any conflict of interest situation. He has no convictions for any offences within the past ten years.

Directors' Profile
(cont'd)

LAU YOKE KEEN
Aged 50, Malaysian
Independent Non-Executive Director
Member of Audit Committee
Member of Nomination Committee
Chairman of Risk Management 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 sits on the Board of Director of Major Team Holdings Berhad. He has more than 18 years of exposure to various aspects of auditing, taxation and accounting. He has no family relationship with any Director and/or substantial shareholders of Paragon and his directorship in Paragon does not give rise to any conflict of interest situation. He has no convictions for any offences within the past ten years.

LEE CHOON HEE
Aged 46, Malaysian
Executive Director
Member of Remuneration Committee
Member of Risk Management Committee

Mr. Lee Choon Hee was appointed to the Board of Paragon on 7 April 2014 as a Finance Director and has been redesignated on 26 August 2014 as Executive 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 ten years.

Chairman's Statement

DEAR SHAREHOLDERS,

ON BEHALF OF THE BOARD OF DIRECTORS, I AM PLEASED TO PRESENT THE GROUP'S ANNUAL REPORT & AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015.

PERFORMANCE AND FINANCIAL REVIEWS

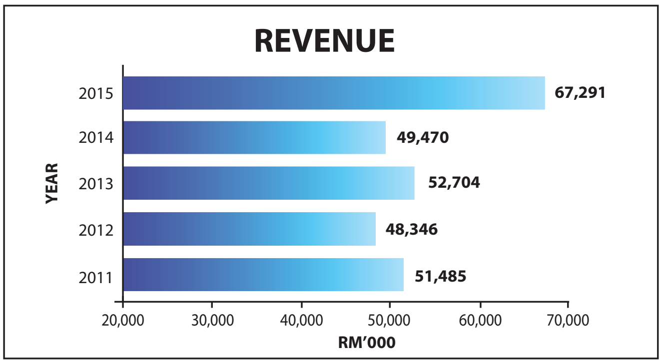
Despite a softer economic climate and increases in raw material costs; the Group achieved a much better results for the financial year ended 2015 due to continuous and encouraging support from our existing clientele together with on-going improvements in management efficiencies.

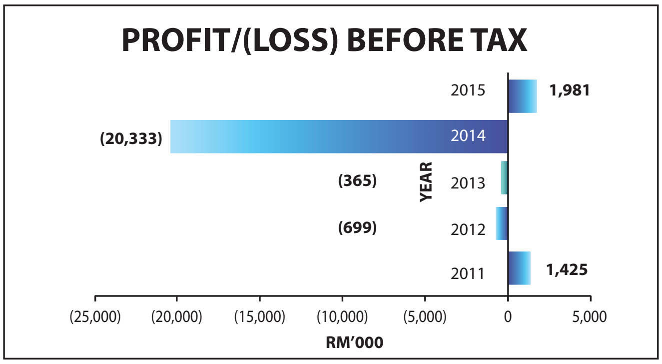
The Group registered higher turnover of RM67.3 million (2014 : RM49.5 million) and a significant improvement on Group's profit before taxation of RM2.0 million as compared to a loss of RM20.3 million in the proceeding financial year ended 2014 which was attributed by better profit margin and no provision of doubtful debt (FYE 2014 : loss inclusive of provision of doubtful debt of non-trade receivables amounted to RM18.4 million.)

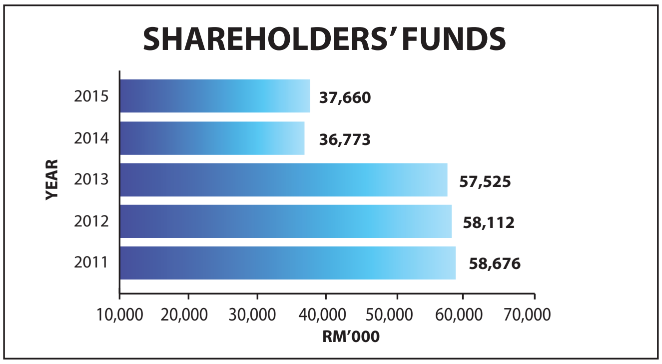
In terms of market share, the Group is able to maintain its main existing automotive clientele, which comprises Perodua, Proton, Honda, Nissan, BMW, Volvo and Isuzu. The Group is able to secure additional projects from our existing clients with the launches of new models.

For the commercial carpet division, we have selected on-going projects in our order book, which among others are Grand Millennium KL, Koperasi Felda Hotel, Swiss Inn JB, Park Royel Hotel-KL, TGV Cinemas, Oriental Group of Restaurant, Universiti Teknologi Petronas (UTP), and Universiti Malaysia Terengganu (UMT).

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.







Chairman's Statement
(cont'd)



PROPERTY DEVELOPMENT DIVISION

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

PROSPECTS AND OUTLOOK

In general, the Group prospects and outlook in the coming year would largely rely on the implementation of the secured projects and the success rate of tenders in both automotive and commercial sectors. Dealers' 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 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.



Chairman's Statement
(cont'd)

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

Corporate Governance Statement

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 2015. 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.

The Board has delegated specific responsibilities to various Board Committees namely the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Management Committee whose functions are within their respective terms of reference approved by the Board. The said terms of reference are 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 in discharge of the respective committees' terms of reference and responsibilities. The Chairmen 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.

The salient features of the Board Charter had been uploaded on the Company's website at www.paragon. com.my

For certain day-to-day operations, the Board has delegated authorities and powers to Management with the prescribed limits of authority.

Code of Ethics and 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, the Board of Directors adheres to the Code of Ethics for Company Directors issued by the Companies Commission of Malaysia. This Code of Ethics provides good guidance for a standard of ethical behaviour for Directors based on trustworthiness and honest values that are acceptable and to uphold the spirit of responsibility including social responsibility in line with the legislation, regulations and guidelines for administrating a company.

Whistle-Blowing Policy

To enhance corporate governance practices across the Group, a whistle-blowing policy was adopted which provide Directors, Employees, Shareholders, Vendors or any parties with a business relationship of the Group with an avenue to report suspected wrongdoings that may adversely impact the Group.

The aim of this policy is to encourage the reporting of such matters in good faith, with the confidence that the person filing the report, as far as possible, be protected from reprisal, harassment or subsequent discrimination.

Corporate Governance Statement
(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 environment, the requirements of shareholders and stakeholders and economic success.

In transition, 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 individual Director 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 regulatories 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").

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.

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 four (4) members comprising three (3) Independent Non-Executive Directors and one (1) Executive Director. The profile of each Director is set out on pages 6 to 7 of this Annual Report.

Corporate Governance Statement
(cont'd)

Nomination Committee

The Company's Nomination Committee ("NC") comprised 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 2015, one (1) NC meeting was held on and attended by all the NC members.

The NC has 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.

With the current composition, the NC opines that all the Board 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 extensive experience with their many years of experience on the Boards of other companies and/or also as professionals in their respective fields of expertise.

The NC will recommend 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 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 no specific policy on gender, age and ethnicity for 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. The NC, will however continue to take steps to ensure that gender, age and ethnicity of the candidates will be taken into consideration as part of its recruitment exercise.

Remuneration Committee

The Remuneration Committee ("RC") comprises three (3) Members, the majority of which is 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 Lee Choon Hee

Corporate Governance Statement
(cont'd)

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 Director's remuneration which is linked to the performance of the Executive Director and performance of the Group. Individual Director do not participate in the decisions regarding his individual remuneration.

During the financial year ended 31 December 2015, one (1) RC meeting was held on 27 January 2015.

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

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

Category	Fees (RM)	Salaries & Other Emoluments (RM)	Benefit in Kind (RM)
Executive Director	36,000	431,000	–
Non-Executive Directors	108,000	–	–

Directors' remuneration is broadly categorised into the following bands:

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

One (1) RC meeting was held on 26 January 2016 and attended by all the RC members to review the Remuneration Package of the Executive Director and Directors' Fees for the financial year ended 31 December 2015.

Board Risk Management Committee

The Board Risk Management Committee ("RMC") was officially formed by the Board of Directors on Thursday, 20 August 2015 with the following members:

1. Lau Yoke Kean (Chairman)
2. Fung Beng Ee and
3. Lee Choon Hee

Prior to the formation of the RMC, the Risk Management Working Group Report was included in the Management Reports of the Executive Director and presented to the Audit Committee on a quarterly basis for the Audit Committee's review. Effective 20 August 2015, the RMC becomes a Board Committee.

The key function of the RMC is to review and report to the Board the risks faced by the Group and the effectiveness of Management's measures in the identification and assessment of risks as well as the design, management and monitoring of internal controls to mitigate risks.

For the financial year ended 31 December 2015, the RMC had met once on 26 November 2015.

Corporate Governance Statement
(cont'd)

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 director is 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 director.

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 Non-Executive 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 Independent 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.

An assessment on the independence of the Directors based on the provisions of the MMLR of Bursa Securities is carried out before the appointment of any new Independent Non-Executive Director. Further, the Board with the assistance from the 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 Non-Executive Director can continue to bring independence and objective judgment to Board deliberations.

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 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 2015, 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 Board 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 and the candidate's performance.

Corporate Governance Statement
(cont'd)

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 annual performance evaluation and assessment on Mr Michael Lim Hee Kiang and is of the opinion that he was remained objective and independent in expressing his view. The Board has benefited from the leadership, wisdom and advice of Mr Michael Lim Hee Kiang. 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;
- 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 wisdom, 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. Lee Choon Hee 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.

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. 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.

Corporate Governance Statement
(cont'd)

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 Secretary.

The Board met six (6) 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	6/6
Fung Bee Ee	6/6
Lau Yoke Keen	6/6
Lee Choon Hee	6/6

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:

Name of Directors	Training Attended	Date
Michael Lim Hee Kiang	• Planning Approval Permits for Property Development in Malaysia and the supporting legislations • Board Chairman Series Part 2 - Leadership Excellence from the Chair	5 January 2015 28 July 2015
Lau Yoke Keen	• Budget Seminar • Comparative Analysis of PERS, MPERS & MFRS Framework	23 November 2015 7 April 2015
Lee Choon Hee	• CG Breakfast Series with Directors - Future of Auditor Reporting (The game changer for Boardroom)	21 September 2015

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 circulated 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.

Corporate Governance Statement
(cont'd)

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 26 to 29 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

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 in accordance with the independence criteria set out by the Malaysian Institute of Accountants.

F. RECOGNISE AND MANAGE RISKS

The Board has overall responsibility of maintaining a system of internal controls and risk management 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 and risk management. 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 Insight Advisory Services Sdn. Bhd. who is 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 of the Company. The appointed internal auditor reports directly to the AC.

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 28 to 29 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 call be accessed via www.paragon.com.my

Corporate Governance Statement
(cont'd)

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 Director and Senior Management to communicate and meet with bankers and analysts to brief them on the ongoing business scenario. Information is disseminated in strict adherence to disclosure requirements of Bursa Malaysia Securities Berhad.

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.

The Directors are satisfied that in preparing the financial statements of the Company and of the Group for the financial year ended 31 December 2015 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.

Corporate Governance Statement
(cont'd)

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 RM5,000.

2. **Material contracts**

   There were no material contracts entered into by the Company and/or its subsidiaries that involve Directors' or substantial shareholders' interests either still subsisting at the end of the financial year ended 31 December 2015 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 2015.

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 risk management and internal controls to safeguard shareholders' investments and the Group's assets. The Board is pleased to outline the state of risk management and internal control of the Group for the financial year ended 31 December 2015 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 risk management and internal controls and for reviewing its effectiveness, adequacy and integrity. However, in view of the limitations that are inherent in any system of risk management and 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.

- 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.

Statement of Risk Management and Internal Control
(cont'd)

(d) Review Of The Statement By External Auditors

Pursuant to Paragraph 15.23 of the Listing Requirements, the External Auditors, Messrs Morison Anuarul Azizan Chew have reviewed and affirmed this Statement on Risk Management and Internal Control for inclusion in the Annual Report of the Company for the financial year ended 31 December 2015.

The Board has received assurance from the Executive Director and is pleased to report 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.

Satement 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 Risk Management Committee 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.

Statement of Risk Management and Internal Control
(cont'd)

Governance

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

Internal Control in Operating Companies

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

Code of Business Conduct

The compliance of Company's Business Conduct procedure is supported through continuous monitoring of its effectiveness and its periodic reviews. Employees may report suspected cases of serious misconduct to their direct superior and the Management oversees the process and its confidentiality. The Management will report on quarterly basis to the Board and Audit Committee respectively 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 loss of business and high warranty 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 and 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.	Utilising the flexibility in contracts. 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 and Implementation of back-up scenarios.
Technology Improvement and Machinery Efficiency	Machines running under/over optimisation. Specific risks are: May lead to high maintenance cost. Phase out of spare parts.	To look into machine integrations and upgrading.
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 prioritisation of business improvement projects. Involvement of management in all major projects. Planning of projects and monitoring of project costs and benefits. Enhance project governance organisation 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:-

- Audiometric Test
- First Aid & CPR
- Fire Fighting Training
- Forklift Handling and Safety Programme
- Personal Protective Equipment Training
- Fire Drill
- Chemical Drill
- Design Failure Mode & Effects Analysis
- Documentation ISO/TS 16949 Training
- Calibration Training
- The Rise of Cybercrime
- Industrial Efficient Treatment System
- Certified Environment Professional in Scheduled Waste Management

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.

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.

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

Audit Committee Report

1. COMPOSITION

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

2. TERMS OF REFERENCE OF AUDIT COMMITTEE

2.1 Membership

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

At least one member of the Audit Committee:-

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

(a) he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
(b) he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967; or
(c) fulfills such other requirements as prescribed or approved by Bursa Malaysia Securities Berhad.

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

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

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

2.2 Authority

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

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

Audit Committee Report
(cont'd)

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, their valuation of the system of internal accounting controls;
   (iii) with the external auditors, their audit report;
   (iv) the assistance given by the employees of the Company to the external auditors;
   (v) the adequacy of the scope, functions, competency and resources of the internal audit functions and that it has the necessary authority to carry out its work;
   (vi) the internal audit programme, processes, the results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendations of the internal audit function;
   (vii) the quarterly results and year end financial statements, prior to the approval by the Board of Directors, focusing particularly on:-
      (aa) changes in or implementation of major accounting policy changes;
      (bb) significant and unusual events; and
      (cc) compliance with accounting standards and other legal requirements;
   (viii) any related party transaction and conflict of interest situation that may arise within the Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity;
   (ix) any letter of resignation from the external auditors of the Company; and
   (x) whether there is reason (supported by grounds) to believe that the Company's external auditors is not suitable for re-appointment; and

b) to recommend the nomination of a person or persons as external auditors, together with such other functions as may be agreed to by the Audit Committee and the Board of Directors.

2.4 Meetings

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

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

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

The Company Secretary shall be the Secretary of the Committee.

2.5 Reporting Procedures

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

2.6 Audit Committee Report

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

2.7 Reporting of Breaches to Bursa Malaysia Securities Berhad

Where the Audit Committee is of the view that a matter reported by it to the Board of Directors has not been satisfactorily resolved resulting in a breach of the Listing Requirements of Bursa Malaysia Securities Berhad, the Audit Committee must promptly report such matter to Bursa Malaysia Securities Berhad.

Audit Committee Report
(cont'd)

3. MEETINGS

There were five Meetings of the Audit Committee held during the financial year ended 31 December 2015. The record of attendance of each Committee Member is as follows:-

Committee Member	Attendance
Mr. Michael Lim Hee Kiang	5/5
Mr. Fung Beng Ee	5/5
Mr. Lau Yoke Keen	5/5

4. SUMMARY OF ACTIVITIES

During the year ended 31 December 2015, 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.
- Reviewed the Report on Goods & Services Tax Readiness.
- Reviewed the Related Party Transactions.
- Received the Management Report of Executive Director.

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.

Audit Committee Report
(cont'd)

During the financial year, the outsourced internal audit function has carried out various risk-based audit reviews on the key processes of Purchasing Department of Paragon Union Berhad and its subsidiaries. These review areas included as follows:-

1. To evaluate the effectiveness, adequacy and existence of existing control of Purchasing Department.

2. Control Risk Assessment which includes:-

    - Selection of Vendor;
    - Procurement Planning;
    - Source for Competitive Prices;
    - Purchasing Authority Limit;
    - Payment Process; and
    - Vendor Performance Appraisal.

The cost incurred for internal audit in financial year ended 31 December 2015 was RM14,420. The audit steps involved are as follows:-

- Defined the audit objectives and audit scope based on the risk factors as identified in the Internet Audit Plan;
- Evaluated internal control system established for the Purchasing Department in terms of its effectiveness, efficiency and economic considerations;
- Performed walk-through and compliance tests on the Purchasing Department to ensure that the control are being applied as prescribed;
- 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.

On 23 September 2015, Bursa Malaysia Securities Berhad ("Bursa Malaysia") had written to the Audit Committee of the Company regarding the importance of internal audit function particularly towards evaluation of processes established to identify any weaknesses in the internal controls of the Company towards detection and prevention of fraud, testing controls and monitoring compliance as part of Bursa Malaysia's review of listed issuers' internal audit function. As part of this exercise, the Audit Committee had undertaken an assessment and review of the area of internal audit in the Company as set out on paragraph 15.12 and had reported the same to the Board of the Company within 5 months from 23 September 2015. A written confirmation of the completion of this report was given to Bursa Malaysia on 18 February 2016.

Subsidiary Companies

EQUITY INTEREST

	Name Of Company	2015	2014	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 in 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 2015

Location	Age of Building	Tenure	Description	Land Area (sq. m.)	Build-Up Area (sq. m.)	Net Book Value as at 31.12.2015 (RM)
Lot No. PT 7637 14, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	25 years	Leasehold (Expiry 14.05.2088)	Leasehold Land Factory & Office	8,094	3,190 (factory) 3,929 (office)	5,643,233
Lot No. PT 7667 21, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	24 years	Leasehold (Expiry 14.05.2088)	Leasehold Land Factory & Office	6,833	4,177 (factory) 873 (office)	4,262,073
Lot No. PT 7641 11A, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	20 years	Leasehold (Expiry 14.05.2088)	Leasehold Land Factory & Office	12,128	7,919 (factory)	6,097,584
Lot No. 6669 Mukim 15 Daerah Seberang Perai Selatan Pulau Pinang	2 year	Leasehold (Expiry 18.09.2093)	Leasehold Building	111	74	36,729

Analysis of Shareholdings

Authorised Share Capital	:	RM100,000,000 divided into 100,000,000 ordinary shares of 1.00 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 22 MARCH 2016

Size of Holdings	No. of Shareholders	No. of Shares	Percentage (%)
1 – 99	22	344	0.00
100 – 1,000	611	578,222	0.89
1,001 – 10,000	1,245	5,622,200	8.69
10,001 – 100,000	383	11,480,400	17.75
100,001 – 3,234,914*	41	11,648,040	18.00
3,234,915 and above **	2	35,369,094	54.67
Total	2,304	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.

Analysis of Shareholdings
(cont'd)

DIRECTORS' SHAREHOLDINGS AS PER THE REGISTER OF DIRECTORS' SHAREHOLDINGS AS AT 22 MARCH 2016

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

SUBSTANTIAL SHAREHOLDERS AS PER THE REGISTER OF SUBSTANTIAL SHAREHOLDERS AS AT 22 MARCH 2016

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
Tan Choon Hock	3,428,000	5.30	–	–

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

Analysis of Shareholdings
(cont'd)

THIRTY (30) LARGEST SHAREHOLDERS AS AT 22 MARCH 2016

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.	Lee Poh Yee	843,800	1.30
6.	CIMSEC Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Ng Geok Wah (B BRKlang-CL)	500,000	0.77
7.	CIMSEC Nominees (Asing) Sdn. Bhd. Exempt An for CIMB Securities (Singapore) Pte Ltd (Retail Clients)	466,500	0.72
8.	RHB Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Teh Teaw Kee	388,900	0.60
9.	Soniia Cheah Su-Ya	358,400	0.55
10.	Wong Boon Sim	357,000	0.55
11.	RHB Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Tan Gaik Suan	353,500	0.55
12.	Gan Lam Seong	341,500	0.53
13	Wong Boon Choy	315,000	0.49
14.	Low Wan Chin	300,000	0.46
15.	Chiang Siew Eng @ Le Yu Ak Ee	260,000	0.40
16.	Lee Poh Ting	245,000	0.38
17.	TA Nominees (Tempatan) Sdn. Bhd Pledged Securities Account for Teh Teaw Kee	230,300	0.36
18.	Maybank Securities Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Lee Ah Kim	214,500	0.33
19.	Lim Chir Ching	200,000	0.31
20.	Wong Ah Yong	200,000	0.31
21.	Maybank Nominees (Tempatan) Sdn. Bhd. Pledged Securities Account for Liau Siong Kee @ Liew Siong Kee	179,600	0.28
22.	Liw Kwei Sunn	167,500	0.26
23.	Goh Yoke Choo	160,400	0.25
24.	Chin Tung Leong	154,800	0.24
25.	Phong Chiew Khim	147,800	0.23
26.	Tang Siew Geok	145,000	0.22
27.	Yee Kwek Keong	140,000	0.22
28.	TA Nominees (Tempatan) Sdn. Bhd Pledged Securities Account for Chooi Yeow Onn	138,500	0.21
29.	Yeow Teck Chai	138,000	0.21
30.	Chong Tong Siew	134,000	0.21
Total		**45,482,334**	**70.30**

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 2015.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and provision of management services.

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 principal activities during the financial year.

FINANCIAL RESULTS

	Group RM	Company RM
Profit/(Loss) for the financial year attributable to:		
- Owners of the Company	889,420	(734,728)
- Non-controlling interests	(2,177)	–
	887,243	(734,728)

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 issuance 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 and at the date of this report are as follows:

Michael Lim Hee Kiang
Fung Beng Ee
Lau Yoke Keen
Lee Choon Hee

DIRECTORS' INTERESTS

None of the Directors holding in 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.

(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.

Directors' Report
(cont'd)

OTHER STATUTORY INFORMATION (continued)

(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 were not substantially affected by any item, transaction or event of a material and unusual nature; and

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

AUDITORS

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

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors.

LEE CHOON HEE

MICHAEL LIM HEE KIANG

Kuala Lumpur
18 April 2016

Statement by Directors

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

We, LEE CHOON HEE 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 42 to 91 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 2015 and of their financial performance and cash flows for the financial year then ended.

The information set out in page 92 to the financial statements have been prepared in accordance with the 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.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors.

LEE CHOON HEE	MICHAEL LIM HEE KIANG

Kuala Lumpur
18 April 2016

Statutory Declaration

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

I, LEE CHOON HEE, being the Director primarily responsible for the financial management of PARAGON UNION BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 42 to 91 and the supplementary information set out on page 92 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 LEE CHOON HEE)
at)
)
on this date of 18 April 2016)

LEE CHOON HEE

Before me,

COMMISSIONER FOR OATHS
KAPT. (B) JASNI BIN YUSOFF
NO. W465

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 2015 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 flows of the Group and of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 42 to 91.

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 controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 controls relevant to the Company'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 Company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as of 31 December 2015 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

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 Companies Act, 1965 in Malaysia to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Companies Act, 1965 in Malaysia.

(b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

(c) The audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Companies Act, 1965 in Malaysia.

Independent Auditors' Report
To the Members of Paragon Union Berhad
(cont'd)

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in page 92 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
No.: AF 001977
Chartered Accountants

SATHIEA SEELEAN A/L MANICKAM
No.: 1729/05/16 (J/PH)
Chartered Accountant

KUALA LUMPUR
18 April 2016

Statements of Financial Position
As at 31 December 2015

		Group		Company	
	Note	2015 RM	2014 RM	2015 RM	2014 RM
Non-Current Assets					
Property, plant and equipment	3	30,219,663	32,264,359	–	–
Investment in subsidiary companies	4	–	–	11,607,745	11,607,745
		30,219,663	32,264,359	11,607,745	11,607,745
Current Assets					
Inventories	5	27,621,316	26,848,425	–	–
Trade receivables	6	12,967,777	9,531,079	–	–
Other receivables	7	792,094	831,588	51,000	–
Amount owing by subsidiary companies	8	–	–	29,386,086	23,307,906
Tax recoverable		4,402	502,269	–	22,933
Cash and bank balances	9	830,437	400,600	46,455	27,743
		42,216,026	38,113,961	29,483,541	23,358,582
Current Liabilities					
Trade payables	10	8,535,324	4,753,163	–	–
Other payables	11	5,406,153	5,911,105	1,532,433	2,086,312
Amount owing to subsidiary companies	8	–	–	7,827,696	414,130
Finance lease liabilities	12	356,837	295,952	–	–
Bank borrowings	13	15,192,901	17,657,056	–	–
Tax payables		469,586	299,412	–	–
		29,960,801	28,916,688	9,360,129	2,500,442
Net current assets		12,255,225	9,197,273	20,123,412	20,858,140
		42,474,888	41,461,632	31,731,157	32,465,885

Statements of Financial Position

As at 31 December 2015
(cont'd)

		Group		Company	
	Note	2015 RM	2014 RM	2015 RM	2014 RM
Equities attributable to owners of the Company					
Share capital	14	70,000,000	70,000,000	70,000,000	70,000,000
Merger reserves	15	(4,618,481)	(4,618,481)	–	–
Treasury shares	16	(4,220,708)	(4,220,708)	(4,220,708)	(4,220,708)
Accumulated losses		(23,477,266)	(24,366,686)	(34,048,135)	(33,313,407)
		37,683,545	36,794,125	31,731,157	32,465,885
Non-controlling interests		(23,464)	(21,287)	–	–
		37,660,081	36,772,838	31,731,157	32,465,885
Non-Current Liabilities					
Finance lease liabilities	12	879,462	950,545	–	–
Bank borrowings	13	999,662	1,541,172	–	–
Deferred tax liabilities	17	2,935,683	2,197,077	–	–
		4,814,807	4,688,794	–	–
		42,474,888	41,461,632	31,731,157	32,465,885

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 2015

	Note	Group 2015 RM	Group 2014 RM	Company 2015 RM	Company 2014 RM
Revenue	18	67,291,344	49,470,202	480,000	–
Cost of sales		(57,157,919)	(45,467,339)	–	–
Gross profit		10,133,425	4,002,863	480,000	–
Other operating income		213,222	3,003,099	331	2,810,948
Selling and distribution costs		(3,975,179)	(4,042,502)	–	–
Administrative expenses		(3,128,771)	(21,996,598)	(1,066,621)	(19,872,816)
Finance costs	19	(1,261,448)	(1,300,255)	–	–
Profit/(Loss) before taxation	20	1,981,249	(20,333,393)	(586,290)	(17,061,868)
Taxation	21	(1,094,006)	(418,825)	(148,438)	–
Total comprehensive income/(loss) for the financial year		887,243	(20,752,218)	(734,728)	(17,061,868)
Total comprehensive income/(loss) attributable to:					
Owners of the Company		889,420	(20,750,170)	(734,728)	(17,061,868)
Non-controlling interests		(2,177)	(2,048)	–	–
		887,243	(20,752,218)	(734,728)	(17,061,868)
Profit/(Loss) per share attributable to owners of the Company:					
Basic and diluted (sen)	22	1.37	(32.07)	–	–

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

Statements of Changes in Equity
For the Financial Year Ended 31 December 2015

	Attributable to Owners of the Company						
		Non-Distributable					
	Share Capital RM	Merger Reserves RM	Treasury Shares RM	Accumulated Losses RM	Total RM	Non-Controlling Interests RM	Total Equity RM
Group							
At 1 January 2015	70,000,000	(4,618,481)	(4,220,708)	(24,366,686)	36,794,125	(21,287)	36,772,838
Total comprehensive income for the financial year	–	–	–	889,420	889,420	(2,177)	887,243
At 31 December 2015	70,000,000	(4,618,481)	(4,220,708)	(23,477,266)	37,683,545	(23,464)	37,660,081
At 1 January 2014	70,000,000	(4,618,481)	(4,220,708)	(3,616,516)	57,544,295	(19,239)	57,525,056
Total comprehensive loss for the financial year	–	–	–	(20,750,170)	(20,750,170)	(2,048)	(20,752,218)
At 31 December 2014	70,000,000	(4,618,481)	(4,220,708)	(24,366,686)	36,794,125	(21,287)	36,772,838

Statements of Changes in Equity
For the Financial Year Ended 31 December 2015
(cont'd)

	Share Capital RM	Treasury Shares RM	Accumulated Losses RM	Total RM
Company				
At 1 January 2015	70,000,000	(4,220,708)	(33,313,407)	32,465,885
Total comprehensive loss for the financial year	–	–	(734,728)	(734,728)
At 31 December 2015	70,000,000	(4,220,708)	(34,048,135)	31,731,157
At 1 January 2014	70,000,000	(4,220,708)	(16,251,539)	49,527,753
Total comprehensive loss for the financial year	–	–	(17,061,868)	(17,061,868)
At 31 December 2014	70,000,000	(4,220,708)	(33,313,407)	32,465,885

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

Statements of Cash Flows
For the Financial Year Ended 31 December 2015

	Group		Company	
	2015 RM	2014 RM	2015 RM	2014 RM
Cash Flows From Operating Activities				
Profit/(Loss) before taxation	1,981,249	(20,333,393)	(586,290)	(17,061,868)
Adjustments for:				
Depreciation of property, plant and equipment	2,874,877	2,816,838	–	–
Reversal of impairment loss on trade receivables	(127,518)	(69,035)	–	–
Impairment loss for other receivables	–	18,387,064	–	18,359,349
Interest expense	1,261,448	1,300,255	–	–
Finance income	(496)	(297)	(331)	(294)
Gain on disposal of property, plant and equipment	(14)	(44,880)	–	–
Operating profit/(loss) before working capital changes	5,989,546	2,056,552	(586,621)	1,297,187
Changes in working capital:				
Inventories	(772,891)	(4,556,389)	–	–
Trade and other receivables	(3,269,686)	3,424,005	(51,000)	–
Trade and other payables	3,277,209	1,726,330	(553,879)	(197,582)
Amount owing by/(to) subsidiary companies	–	–	1,335,386	(1,092,999)
Cash generated from operations	5,224,178	2,650,498	143,886	6,606
Interest received	496	297	331	294
Interest paid	(1,261,448)	(1,300,255)	–	–
Tax paid	(222,162)	(352,522)	(150,380)	–
Tax refund	534,803	–	24,875	–
Net cash generated from operating activities	4,275,867	998,018	18,712	6,900

Statements of Cash Flows
For the Financial Year Ended 31 December 2015
(cont'd)

	Group		Company	
	2015	**2014**	**2015**	**2014**
	RM	**RM**	**RM**	**RM**
Cash Flows From Investing Activities				
Purchase of property, plant and equipment	(534,941)	(1,029,608)	–	–
Proceeds from disposal of property, plant and equipment	3,774	52,215	–	–
Net cash used in investing activities	(531,167)	(977,393)	–	–
Cash Flows From Financing Activities				
Repayment of term loans	(582,461)	(695,272)	–	–
Net withdrawal of banker's acceptances	(3,161,642)	(125,853)	–	–
Net addition of usance letter of credit	579,498	431,507	–	–
Repayment of finance lease liabilities	(309,198)	(187,270)	–	–
Net cash used in financing activities	(3,473,803)	(576,888)	–	–
Net increase/(decrease) in cash and cash equivalents	270,897	(556,263)	18,712	6,900
Cash and cash equivalents at the beginning of the financial year	(11,880,062)	(11,323,799)	27,743	20,843
Cash and cash equivalents at the end of the financial year	(11,609,165)	(11,880,062)	46,455	27,743
Cash and cash equivalents at the end of the financial year comprises:				
Cash and bank balances	830,437	400,600	46,455	27,743
Bank overdrafts	(12,439,602)	(12,280,662)	–	–
	(11,609,165)	(11,880,062)	46,455	27,743

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

Notes to the Financial Statements

1. CORPORATE INFORMATION

The principal activities of the Company are investment holding and provision of management services.

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, Tropicana Golf & Country Resort, 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. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements of the Group and the Company have been prepared in accordance with the provisions of the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

The financial statements have been prepared under the historical cost convention except as disclosed in summary of significant accounting policies.

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires Directors to exercise their judgment in the process of applying the Group and Company's accounting policies. Although these estimates and judgment are based on the Directors' best knowledge of current events and actions, actual results may differ. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2(c) to the financial statements.

Amendments to accounting standards that are effective for the Group and the Company's financial year beginning on or after 1 January 2015 are as follows:

- Amendments to MFRS 1, "First-time Adoption of Malaysian Financial Reporting Standards" (Annual Improvements 2011-2013 Cycle)
- Amendments to MFRS 2, "Share-based Payment" (Annual-Improvements 2010-2012 Cycle)
- Amendments to MFRS 3, "Business Combinations" (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)
- Amendments to MFRS 8, "Operating Segments" (Annual Improvements 2010-2012 Cycle)
- Amendments to MFRS 13, "Fair Value Measurement" (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)
- Amendments to MFRS 116, "Property, Plant and Equipment" and MFRS 138, "Intangible Assets" (Annual Improvements 2010-2012 Cycle)
- Amendments to MFRS 119, "Defined Benefit Plans Employee Contribution"
- Amendments to MFRS 124, "Related Party Disclosures" (Annual Improvements 2010-2012 Cycle)
- Amendments to MFRS 140, "Investment Property" (Annual Improvements 2011-2013 Cycle)

The above amendments to accounting standards effective during the financial year do not have any significant impact to the financial results and position of the Group and the Company.

Notes to the Financial Statements
(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

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

Annual periods beginning on/after 1 January 2016

Amendments to MFRS 5 Non-Current Assets Held for Sale and Discontinued Operations

The Amendments introduce specific guidance in MFRS 5 for when an entity reclassifies an asset (or disposal group) from held-for-sale to held-for-distribution to owners (or vice versa), or when held-for-distribution is discontinued.

Amendments to MFRS 7 Financial Instruments: Disclosures

The amendments provide additional guidance to clarify whether servicing contracts constitute continuing involvement for the purposes of applying the disclosure requirement of MFRS 7. The Amendments also clarify the applicability of Amendments of MFRS 7, Disclosure-Offsetting Financial Assets and Financial Liabilities to condensed interim financial statements.

Amendments to MFRS 11 Joint Arrangements

These Amendments clarify that when an entity acquires an interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in MFRS 3, it shall apply the relevant principles on business combinations accounting in MFRS 3, and other MFRSs, that do not conflict with MFRS 11. Some of the impact arising may be the recognition of goodwill, recognition of deferred tax assets/liabilities and recognition of acquisition-related costs as expenses.

Amendments to MFRS 101 Presentation of Financial Statements

The Amendments aim to improve the effectiveness of disclosures and are designed to encourage companies to apply professional judgement in determining the information (including where and in what order) to be disclosed in the financial statements.

Amendments to MFRS 116 Property, plant and equipment

These Amendments to MFRS 116 prohibit revenue-based depreciation because revenue does not, as a matter of principle, reflect the way in which an item of property, plant and equipment is used or consumed.

Amendments to MFRS 119 Employee Benefits

The Amendments clarify that the high quality corporate bond used estimate the discount rate for post-employment benefits obligations should be denominated in the same currency as the liability. The Amendments also clarifies that the depth of the market for high quality corporate bonds should be assessed at a currency level.

Amendments to MFRS 127 Separate Financial Statements

The Amendments allow a parent and investors to use the entity equity method in its separate financial statement to account for investments in subsidiaries, joint ventures and associates, in addition to the existing options.

Notes to the Financial Statements
(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

Annual periods beginning on/after 1 January 2016 (continued)

<u>Amendments to MFRS 134 Interim Financial Reporting</u>

The Amendments clarifies the meaning of disclosure of information 'elsewhere in the interim financial report' as used in MFRS 134. The Amendments requires such disclosures to be given either in the interim financial statements or incorporated by cross-reference from the interim financial statements to some other statement that is available to users of the financial statements on the same terms as the interim financial statements and at the same time.

<u>Amendments to MFRS 138 Intangible assets</u>

These Amendments to MFRS 138 introduce a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate. This presumption can be overcome only in the limited circumstances:

- in which the intangible asset is expressed as a measure of revenue, i.e. in the circumstance in which the predominant limiting factor that is inherent in an intangible asset is the achievement of a revenue threshold; or
- when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

Annual periods beginning on/after 1 January 2018

<u>MFRS 9 Financial Instruments</u>

This Standard addresses the classification, measurement and recognition of financial assets and financial liabilities.

Classification determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. The Standard introduces an approach for classification of financial assets which is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, thereby removing a source of complexity associated with previous accounting requirements. If a financial asset is a simple debt instrument and the objective of the entity's business model within which it is held is to collect its contractual cash flows, the financial asset is measured at amortised cost. In contrast, if that asset is held in a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets, then the financial asset is measured at fair value in the balance sheet, and amortised cost information is provided through profit or loss. If the business model is neither of these, then fair value information is increasingly important, so it is provided both in the profit or loss and in the balance sheet.

The Standard introduces a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, it requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis. The model requires an entity to recognise expected credit losses at all times and to update the amount of expected credit losses recognised at each reporting date to reflect changes in the credit risk of financial instruments. This model is forward-looking and it eliminates the threshold for the recognition of expected credit losses, so that it is no longer necessary for a trigger event to have occurred before credit losses are recognised.

Notes to the Financial Statements
(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

Annual periods beginning on/after 1 January 2018 (continued)

MFRS 9 Financial Instruments (continued)

In addition, the Standard introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements. As a result of these changes, users of the financial statements will be provided with better information about risk management and the effect of hedge accounting on the financial statements.

MFRS 15 Revenue from Contracts with Customers

The Standard provides clarification on revenue recognition especially on areas where existing requirements unintentionally created diversity in practice. Under MFRS 15, an entity recognises revenue to depict the transfer of promised good or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Extensive disclosures are required to provide greater insight into both revenue that has been recognised, and revenue that is expected to be recognised in the future from existing contracts.

Effective date yet to be determined by the Malaysian Accounting Standards Board

Amendments to MFRS 10 Consolidated Financial Statements and MFRS 128 Investment in Associates and Joint Ventures

The Amendments address an acknowledged inconsistency between the requirements in MFRS 10 and those in MFRS 128, in dealing with the sale or contribution of assets between an investor and its associates or joint venture. The main consequence of Amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in subsidiary or not), as defined in MFRS 3. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

The Group is in the process of assessing the impact of MFRS 9 and MFRS 15 in the year of initial application. Aside from the above mentioned, the adoption of the accounting standards and amendments to accounting standards are not expected to have any significant impact to the financial statements of the Group and the Company.

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

- Amendments to MFRS 10, MFRS 12 and MFRS 128, "Investment Entities: Applying the Consolidation Exception"
- MFRS 14, "Regulatory Deferral Accounts"
- Amendments to MFRS 116 and MFRS 141, "Agriculture: Bearer Plants"

(b) Functional and presentation currency

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

Notes to the Financial Statements
(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 and Company'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 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 discussed below:

(i) Depreciation of property, plant and equipment

The costs of property, plant and equipment are depreciated on a straight-line basis over the useful lives of the property, plant and equipment. Management estimates the useful lives of the property, plant and equipment as stated in Note 2(f)(iii) to the financial statements. These are common life expectancies applied in the industries. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

(ii) Impairment of financial assets

The impairment is established when there is objective evidence that the Group or the Company will not be able to collect all amounts due according to the original terms of receivables. This is determined based on the ageing profile, expected collection patterns of individual receivable balances, credit quality and credit losses incurred. Management carefully monitors the credit quality of receivable balances and makes estimates about the amount of credit losses that have been incurred at each financial statements reporting date. Any changes to the ageing profile, collection patterns, credit quality and credit losses can have an impact on the impairment recorded.

(iii) Impairment of non-financial assets

The Group assesses impairment of property, plant and equipment when the events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. In assessing such impairment, the recoverable amount of the assets is estimated using the expected value in use of the relevant assets.

(iv) Allowance for inventory write down

Allowance for inventory write down is made based on an analysis of the ageing profile and expected sales patterns of individual items held in inventory. This requires an analysis of inventory usage based on expected future sales transactions taking into account current market prices and expected costs to sell. Changes in the inventory ageing and expected usage profiles can have an impact on the allowance recorded.

(v) Provisions for liabilities

Provisions for liabilities are recognised in accordance with accounting policy in Note 2(m) to the financial statements. To determine whether it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made, the Group takes into consideration factors such as existence of legal/contractual agreements, past historical experience, external advisors' assessments and other available information.

Notes to the Financial Statements
(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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) Investment in subsidiaries

Investment in subsidiaries is carried at cost less accumulated impairment losses. On disposal of investments in subsidiaries, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

Notes to the Financial Statements
(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) 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(g) 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.

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 the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the 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 property, plant and equipment.

Leasehold land is depreciated on a straight line method over the period of the lease. All other property, plant and equipment are depreciated on a straight-line method at rates calculated to write off the cost of the assets to their residual values over their estimated useful lives as follows:

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

Depreciation methods, useful lives and residual values are reassessed at each reporting period, and adjusted as appropriate.

Gains or losses on disposals are determined by comparing net disposal proceeds with carrying amount and are recognised in the profit or loss.

(g) Impairment of non-financial assets

Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units.

Notes to the Financial Statements
(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Impairment of non-financial assets (continued)

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

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss unless it reverses a previous revaluation in which it is charged to the revaluation surplus. Impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

(h) Inventories

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

Cost is determined using the first in first out method. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads.

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

(i) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three month or less, and are used by the Group and the Company in the management of their short term commitments. For the purpose of the statements of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

(j) Financial assets

(i) Classification

The Group classifies its financial assets based on the purpose for which the financial assets were acquired at initial recognition in the following categories:

<u>Financial assets at fair value through profit or loss</u>

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

Notes to the Financial Statements
(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial assets (continued)

(i) Classification (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

(ii) Recognition and initial measurement

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss.

(iii) Subsequent measurement

Gains and losses

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are subsequently carried at amortised cost using the effective interest method.

Changes in the fair values of financial assets at fair value through profit or loss, including the effects of currency translation, interest and dividend income are recognised in profit or loss in the period in which the changes arise.

Changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income. Impairment losses and exchange differences on monetary assets are recognised in profit or loss, whereas exchange differences on non-monetary assets are recognised in other comprehensive income as part of fair value change.

Notes to the Financial Statements
(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial assets (continued)

(iii) Subsequent measurement (continued)

Gains and losses (continued)

Interest and dividend income on available-for-sale financial assets are recognised separately in profit or loss. Interest on available-for-sale debt securities calculated using the effective interest method is recognised in profit or loss. Dividend income on available-for-sale equity instruments are recognised in profit or loss when the Group right to receive payments is established.

Impairment of financial assets

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

An impairment loss in respect of loans and receivables and held-to-maturity investments is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortization) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity to profit or loss.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale is not reversed through profit or loss.

If, in a subsequent period, the fair value of a financial asset measured at amortised cost and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

(iv) De-Recognition

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

When available-for-sale financial assets are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss.

Notes to the Financial Statements
(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial liabilities

Financial liabilities are initially recognised at fair value net of transaction costs for all financial liabilities not carried at fair value through profit or loss. Financial liabilities carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss.

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

All financial liabilities are subsequently measured at amortised cost using the effective interest method other than those categorised as fair value through profit or loss.

(l) Finance leases as lessee

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 positions as liabilities. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the 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.

(m) Provisions for liabilities

Provisions for liabilities are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

(n) Foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. 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 profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as qualifying cash flow hedges and qualifying net investment hedges, which are recognised in other comprehensive income.

The closing exchange rates used for the main foreign currency in the Group are:

	2015 RM	2014 RM
United States Dollar (USD)	4.2950	3.4950

Notes to the Financial Statements
(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses or unused tax credits can be utilised.

Deferred tax is not recognised if the temporary difference arises from goodwill or from the initial recognition of 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 is recognised on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(p) Revenue recognition

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

(i) Goods sold and services rendered

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

Revenue from services rendered is recognised in profit or loss upon performance of services and is measured at the fair value of the consideration receivable.

(ii) Interest income

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

(iii) Dividend income

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

Notes to the Financial Statements
(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Employee benefits

(i) Short term benefits

Wages, salaries, 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 compensation absences. Short term non-accumulating compensated absences such as sick and medical leave are recognised when the absences occur.

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 state pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in profit or loss as incurred.

(r) 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.

(s) Treasury shares

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares that are not subsequently cancelled are classified as treasury shares and are presented as a deduction from total equity.

Where treasury shares are reissued by re-sale in the open market, the difference between the sales consideration net of directly attributable costs and the carrying amount of the treasury shares is recognised in equity.

(t) 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.

Notes to the Financial Statements
(cont'd)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) 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.

(v) 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.

(w) Borrowing costs

Borrowing costs are recognised as an expense in the profit or loss in the period in which they are incurred.

3. PROPERTY, PLANT AND EQUIPMENT

	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
Group							
2015							
Cost							
At 1 January 2015	10,130,000	11,502,892	35,403,797	463,994	12,778,564	6,218,564	76,497,811
Additions	–	–	132,506	317,224	350,352	33,859	833,941
Disposal	–	–	–	(4,800)	–	–	(4,800)
Write off	–	–	(410,354)	–	–	(8,200)	(418,554)
Reclassification	–	714,488	–	–	–	(714,488)	–
At 31 December 2015	10,130,000	12,217,380	35,125,949	776,418	13,128,916	5,529,735	76,908,398
Accumulated depreciation							
At 1 January 2015	1,992,987	3,887,563	24,076,564	187,024	9,920,845	4,168,469	44,233,452
Charge for the financial year	120,283	306,928	1,131,661	84,535	991,920	239,550	2,874,877
Disposal	–	–	–	(1,040)	–	–	(1,040)
Write off	–	–	(410,354)	–	–	(8,200)	(418,554)
At 31 December 2015	2,113,270	4,194,491	24,797,871	270,519	10,912,765	4,399,819	46,688,735
Carrying amount							
At 31 December 2015	8,016,730	8,022,889	10,328,078	505,899	2,216,151	1,129,916	30,219,663

3. PROPERTY, PLANT AND EQUIPMENT (continued)

	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
Group							
2014							
Cost							
At 1 January 2014	10,130,000	11,439,101	34,582,216	1,820,282	11,946,725	6,155,967	76,074,291
Additions	–	63,791	821,581	54,800	831,839	62,597	1,834,608
Disposal	–	–	–	(1,411,088)	–	–	(1,411,088)
At 31 December 2014	10,130,000	11,502,892	35,403,797	463,994	12,778,564	6,218,564	76,497,811
Accumulated depreciation							
At 1 January 2014	1,872,706	3,645,218	22,900,432	1,467,523	9,001,551	3,932,937	42,820,367
Charge for the financial year	120,281	242,345	1,176,132	123,254	919,294	235,532	2,816,838
Disposal	–	–	–	(1,403,753)	–	–	(1,403,753)
At 31 December 2014	1,992,987	3,887,563	24,076,564	187,024	9,920,845	4,168,469	44,233,452
Carrying amount							
At 31 December 2014	8,137,013	7,615,329	11,327,233	276,970	2,857,719	2,050,095	32,264,359

Notes to the Financial Statements
(cont'd)

3. PROPERTY, PLANT AND EQUIPMENT (continued)

(a) The remaining period of the lease term of the leasehold land is 73 (2014: 74) 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 13 to the financial statements are as follows:

	Group	
	2015 RM	**2014 RM**
Leasehold land	8,016,730	8,137,013
Factory buildings	8,022,889	7,615,329
	16,039,619	15,752,342

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

	Group	
	2015 RM	**2014 RM**
Plant and machinery	1,199,045	1,271,391
Motor vehicles	379,176	128,274
	1,578,221	1,399,665

(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	
	2015 RM	**2014 RM**
Aggregate costs	833,941	1,834,608
Finance lease financing	(299,000)	(805,000)
Cash payments	534,941	1,029,608

4. INVESTMENT IN SUBSIDIARY COMPANIES

(a) Investment in subsidiary companies

	Company	
	2015 RM	**2014 RM**
In Malaysia		
Unquoted shares, at cost	14,511,655	14,511,655
Less: Accumulated impairment losses	(2,903,910)	(2,903,910)
	11,607,745	11,607,745

Notes to the Financial Statements
(cont'd)

4. INVESTMENT IN SUBSIDIARY COMPANIES (continued)

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

Name of companies	Country of incorporation/ Principal place of business	Effective ownership and voting interest 2015 %	2014 %	Principal activities
Direct holding:				
Paragon Car Carpets & Components Sdn. Bhd.	Malaysia	100	100	Manufacturing and trading in car carpets and automotive components
Paragon Expression Sdn. Bhd.	Malaysia	100	100	Investment holding and property development related activities
Paragon Precision Industries Sdn. Bhd.	Malaysia	78	78	Inactive
Paragon Metal Components Sdn. Bhd.	Malaysia	77	77	Inactive
Subsidiary company of Paragon Car Carpets & Components Sdn. Bhd.:				
Paragon Carpetmaker Sdn. Bhd.	Malaysia	100	100	Manufacturing and trading in car carpets and commercial carpets
Subsidiary company of Paragon Carpetmaker Sdn. Bhd.:				
Paragon Carpet Distributor Sdn. Bhd.	Malaysia	100	100	Distribution and trading in commercial carpets
Subsidiary company of Paragon Expression Sdn. Bhd.:				
Paragon Property Development Sdn. Bhd.	Malaysia	100	100	Inactive

Notes to the Financial Statements
(cont'd)

5. INVENTORIES

	Group	
	2015 RM	2014 RM
At cost:		
Raw materials	10,416,370	10,017,168
Work-in-progress	2,600,686	2,415,401
Finished goods	14,604,260	14,415,856
	27,621,316	26,848,425

6. TRADE RECEIVABLES

	Group	
	2015 RM	2014 RM
Trade receivables	13,424,350	9,984,464
Retention sum	–	130,706
	13,424,350	10,115,170
Less: Accumulated Impairment losses	(456,573)	(584,091)
	12,967,777	9,531,079

The Group's normal trade credit term range from 60 to 90 days (2014: 60 to 90 days). Other credit terms are assessed and approved on a case to case basis.

<u>Ageing analysis of trade receivables</u>

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

	Group	
	2015 RM	2014 RM
Neither past due or impaired	4,894,571	3,265,529
1 - 90 days past due but not impaired	6,722,808	5,866,773
91 - 180 days past due but not impaired	1,350,398	398,777
	8,073,206	6,265,550
Individually impaired	456,573	584,091
	13,424,350	10,115,170

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 individually impaired receivables mainly relate to customers which are facing difficulties in cash flows.

Notes to the Financial Statements
(cont'd)

6. TRADE RECEIVABLES (continued)

Movements in allowance for impairment loss on trade receivables are as follows:

	Group	
	2015 RM	2014 RM
At 1 January	584,091	653,126
Reversal of impairment loss	(127,518)	(69,035)
At 31 December	456,573	584,091

	Group	
	2015 RM	2014 RM
Trade receivables – nominal amounts	456,573	584,091
Less: Accumulated impairment losses	(456,573)	(584,091)
	–	–

The currency exposure profiles of trade receivables are as follows:

	Group	
	2015 RM	2014 RM
Ringgit Malaysia	12,908,809	9,037,651
United States Dollar	58,968	493,428
	12,967,777	9,531,079

7. OTHER RECEIVABLES

	Group		Company	
	2015 RM	2014 RM	2015 RM	2014 RM
Other receivables	18,803,732	18,870,153	18,410,349	18,359,349
Deposits	16,787,421	16,756,191	16,540,000	16,540,000
Prepayments	128,005	132,308	–	–
	35,719,158	35,758,652	34,950,349	34,899,349
Less: Allowance for impairment loss				
Other receivables	(34,924,514)	(34,924,514)	(34,899,349)	(34,899,349)
Deposits	(2,050)	(2,050)	–	–
Prepayments	(500)	(500)	–	–
	(34,927,064)	(34,927,064)	(34,899,349)	(34,899,349)
	792,094	831,588	51,000	–

Notes to the Financial Statements
(cont'd)

7. OTHER RECEIVABLES (continued)

Movements on the allowance for impairment loss on other receivables are as follows:

	Group		Company	
	2015 RM	2014 RM	2015 RM	2014 RM
At 1 January	34,927,064	16,540,000	34,899,349	16,540,000
Provision during the financial year	–	18,387,064	–	18,359,349
At 31 December	34,927,064	34,927,064	34,899,349	34,899,349

Included in allowance for impairment loss is an amount of RM34,540,000 (2014: RM34,540,000) recognised in relation to the Group's and Company's pending material litigation as disclosed in Note 29 to the financial statements.

8. AMOUNT OWING BY/(TO) SUBSIDIARY COMPANIES

	Company	
	2015 RM	2014 RM
Amount owing by subsidiary companies	31,241,430	25,163,250
Less: Accumulated impairment losses	(1,855,344)	(1,855,344)
	29,386,086	23,307,906
Amount owing to subsidiary companies	7,827,696	414,130

These amount owing by/(to) the subsidiary companies are non-trade in nature, interest free and are repayable on demand.

9. CASH AND BANK BALANCES

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

	Group		Company	
	2015 RM	2014 RM	2015 RM	2014 RM
Ringgit Malaysia	514,194	399,755	46,455	27,743
United States Dollar	316,243	845	–	–
	830,437	400,600	46,455	27,743

Notes to the Financial Statements
(cont'd)

10. TRADE PAYABLES

The currency exposure profiles of trade payables are as follows:

	Group 2015 RM	Group 2014 RM
Ringgit Malaysia	3,340,805	1,720,100
United States Dollar	3,664,713	3,033,063
Renminbi (RMB)	1,529,806	–
	8,535,324	4,753,163

The normal trade credit terms granted to the Group range from 60 to 120 days (2014: 60 to 120 days).

11. OTHER PAYABLES

	Group 2015 RM	Group 2014 RM	Company 2015 RM	Company 2014 RM
Other payables	4,487,680	4,790,283	1,349,683	1,912,812
Accruals	918,473	1,120,822	182,750	173,500
	5,406,153	5,911,105	1,532,433	2,086,312

12. FINANCE LEASE LIABILITIES

	Group 2015 RM	Group 2014 RM
Minimum finance lease payments		
Within one year	416,790	363,228
Between one to five years	949,723	1,049,013
	1,366,513	1,412,241
Less: Future finance charges	(130,214)	(165,744)
Present value of finance lease liabilities	1,236,299	1,246,497

Notes to the Financial Statements
(cont'd)

12. FINANCE LEASE LIABILITIES (continued)

	Group 2015 RM	2014 RM
Present value of finance lease liabilities		
Within one year	356,837	295,952
Between one to five years	879,462	950,545
	1,236,299	1,246,497
Analysed as:		
Repayable within twelve months	356,837	295,952
Repayable after twelve months	879,462	950,545
	1,236,299	1,246,497

The contractual interest rates of the Group are between 4.55% to 6.27% (2014: 4.55% to 6.27%) per annum.

The finance lease liabilities are secured over the leased assets as disclosed in Note 3(c) to the financial statements.

13. BANK BORROWINGS

	Group 2015 RM	2014 RM
Current		
Bank overdrafts	12,439,602	12,280,662
Banker's acceptances	1,204,332	4,365,974
Usance letter of credit	1,011,005	431,507
Term loans	537,962	578,913
	15,192,901	17,657,056
Non-Current		
Term loans	999,662	1,541,172
	16,192,563	19,198,228
Secured		
Bank overdrafts	12,439,602	12,280,662
Banker's acceptances	1,204,332	4,365,974
Usance letter of credit	1,011,005	431,507
Term loans	1,537,624	2,120,085
	16,192,563	19,198,228

Notes to the Financial Statements
(cont'd)

13. BANK BORROWINGS (continued)

Maturity of borrowings is as follows:

	Group 2015 RM	Group 2014 RM
Within one year	15,192,901	17,657,056
Between one and five years	999,662	1,541,172
	16,192,563	19,198,228

(a) The bank borrowings are secured on the following:

(i) Charge over the leasehold land and factory 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 weighted average effective interest rate is as follows:

	Group 2015 RM	Group 2014 RM
Bank overdrafts	8.60	8.55
Banker's acceptances	5.00	5.00
Usance letter of credit	8.10	8.10
Term loans	6.35	6.35

14. SHARE CAPITAL

	Group/Company			
	Number of ordinary shares of RM1 each		Amount	
	2015 Units	2014 Units	2015 RM	2014 RM
Authorised				
At 1 January/31 December	100,000,000	100,000,000	100,000,000	100,000,000
Issued and fully paid				
At 1 January/31 December	70,000,000	70,000,000	70,000,000	70,000,000

Notes to the Financial Statements
(cont'd)

15. MERGER RESERVES

	Group 2015 RM	Group 2014 RM
Non-distributable:		
Merger reserves	4,618,481	4,618,481

16. TREASURY SHARES

	Group/Company 2015 RM	Group/Company 2014 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

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 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:

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

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

Notes to the Financial Statements
(cont'd)

17. DEFERRED TAXATION

The analysis of deferred tax asset and deferred tax liabilities is as follows:

	Group	
	2015	**2014**
	RM	**RM**
Deferred tax asset	–	–
Deferred tax liability	2,935,683	2,197,077
	2,935,683	2,197,077
At 1 January	2,197,077	1,828,694
Recognised in profit or loss (Note 21):		
- Property, plant and equipment	(240,848)	472,965
- Unutilised tax losses	7,159	107,823
- Unabsorbed capital allowances	344,568	(316,493)
- Reinvestment allowance	627,727	–
- Impairment loss on trade receivables	–	104,088
At 31 December	2,935,683	2,197,077

The components of deferred tax asset and liabilities of the Group during the financial year prior to offsetting are as follows:

	Group	
	2015	**2014**
	RM	**RM**
Deferred tax asset		
- Unutilised tax losses	(23,860)	(31,019)
- Unabsorbed capital allowances	(233,022)	(577,590)
- Reinvestment allowance	(145,592)	(773,319)
	(402,474)	(1,381,928)
Offsetting	402,474	1,381,928
	–	–
Deferred tax liability:		
- Property, plant and equipment	3,338,157	3,579,005
Offsetting	(402,474)	(1,381,928)
	2,935,683	2,197,077

18. REVENUE

	Group		Company	
	2015	**2014**	**2015**	**2014**
	RM	**RM**	**RM**	**RM**
Sale of carpets	67,291,344	49,470,202	–	–
Management fee	–	–	480,000	–
	67,291,344	49,470,202	480,000	–

Notes to the Financial Statements
(cont'd)

19. FINANCE COSTS

	Group	
	2015 RM	2014 RM
Finance costs on:		
Bank overdrafts	928,865	943,254
Banker's acceptances	102,566	142,187
Finance lease liabilities	70,788	46,501
Usance letter of credit	53,027	26,351
Term loans	106,202	141,962
	1,261,448	1,300,255

20. PROFIT/(LOSS) BEFORE TAXATION

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

	Group		Company	
	2015 RM	2014 RM	2015 RM	2014 RM
Auditors' remuneration				
- Current year	62,500	59,000	17,000	14,000
- Under provision in prior year	4,500	–	3,000	–
Depreciation of property, plant and equipment *	2,874,877	2,816,838	–	–
Directors' remuneration:				
- fees	144,000	165,000	144,000	165,000
- salaries and other emoluments	431,000	522,045	431,000	522,045
- EPF	45,000	53,051	45,000	53,051
- benefits-in-kind	–	12,296	–	–
Impairment loss on other receivables	–	18,387,064	–	18,359,349
Rental of warehouse	316,800	374,400	–	–
Realised (gain)/loss on foreign exchange	(19,552)	31,819	–	–
Reversal of impairment loss on trade receivables	(127,518)	(69,035)	–	–
Gain on disposal of property, plant and equipment	(14)	(44,880)	–	–
Compensation awarded on legal proceedings	–	(2,810,654)	–	(2,810,654)
Finance income	(496)	(297)	(331)	(294)

* Included in depreciation of property, plant and equipment of the Group are amounts charged to costs of sales amounting to RM2,637,633 (2014: RM2,585,356).

Notes to the Financial Statements
(cont'd)

21. TAXATION

	Group		Company	
	2015 RM	2014 RM	2015 RM	2014 RM
Income tax:				
- Current year	194,701	–	–	–
- Under provision in prior years	160,699	50,442	148,438	–
	355,400	50,442	148,438	–
Deferred tax (Note 17):				
- Current year	700,164	(314,865)	–	–
- Under provision in prior years	38,442	683,248	–	–
	738,606	368,383	–	–
Taxation for the financial year	1,094,006	418,825	148,438	–

Income tax is calculated at the Malaysia statutory tax rate of 25% (2014: 25%) of the estimated assessable profit for the financial year. The Malaysian statutory tax rate will be 24% of the assessable profit effective from year of assessment 2016.

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

	Group		Company	
	2015 RM	2014 RM	2015 RM	2014 RM
Profit/(Loss) before taxation	1,981,249	(20,333,393)	(586,290)	(17,061,868)
Taxation at Malaysian statutory tax rate of 25% (2014: 25%)	495,312	(5,083,348)	(146,573)	(4,265,467)
Effect of changes in tax rate	(49,474)	–	–	–
Expenses not deductible for tax purposes	516,698	5,337,754	146,573	4,968,131
Income not subject to tax	–	(718,948)	–	(702,664)
Deferred tax asset not recognised	–	149,677	–	–
Utilisation of deferred tax asset not recognised	(67,671)	–	–	–
Under provision of income taxation in prior year	160,699	50,442	148,438	–
Under provision of deferred tax in prior year	38,442	683,248	–	–
Taxation for the financial year	1,094,006	418,825	148,438	–

Notes to the Financial Statements
(cont'd)

21. TAXATION (continued)

Deferred tax asset has not recognised in respect of the following items:

	Group		Company	
	2015 RM	2014 RM	2015 RM	2014 RM
Taxable temporary differences	(112,702)	(112,622)	–	–
Unabsorbed capital allowances	1,610,440	1,610,440	–	–
Unutilised tax losses	1,263,169	1,521,627	–	–
Impairment loss on trade receivables	416,349	416,349	–	–
	3,177,256	3,435,794	–	–
Deferred tax asset not recognised at 24% (2014: 25%)	762,541	858,949	–	–

22. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The basic earnings/(loss) per share has been calculated by dividing the consolidated profit/(loss) after taxation attributable to Owners of the Company by the weighted average number of ordinary shares in issue during the financial year.

	Group	
	2015 RM	2014 RM
Profit/(Loss) for the financial year attributable to owners of the Company	889,420	(20,750,170)
Weighted average number of ordinary shares in issue	70,000,000	70,000,000
Less: Treasury shares	(5,301,700)	(5,301,700)
	64,698,300	64,698,300
Basic earnings/(loss) per share (sen)	1.37	(32.07)

(b) Diluted earnings/(loss) per share

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

23. STAFF COSTS

	Group	
	2015 RM	2014 RM
Staff costs (excluding Directors)	10,929,258	9,290,581

Included in the staff costs above are contributions made to the Employees Provident Fund under a defined contribution plan for the Group amounting to RM695,348 (2014: RM636,633).

Notes to the Financial Statements
(cont'd)

24. KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The key management personnel include all the Directors of the Group, and certain members of senior management of the Group.

The key management personnel compensation is as follows:

	Group		Company	
	2015 RM	2014 RM	2015 RM	2014 RM
Short-term employee benefits				
- Fees	144,000	165,000	144,000	165,000
- Salaries and other emoluments	1,256,604	1,014,501	431,000	522,045
- Estimated monetary value of benefits-in-kind	13,900	23,196	–	–
	1,414,504	1,202,697	575,000	687,045
Post employment benefits				
- Defined contribution plan	134,322	110,771	45,000	53,051
	1,548,826	1,313,468	620,000	740,096

25. FINANCIAL LIABILITIES

	Company	
	2015 RM	2014 RM
Unsecured corporate guarantees in respect of banking facilities granted to subsidiary companies	16,192,563	19,198,228

26. SEGMENT INFORMATION

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

The reportable business segments of the Group comprise the following:

Automotive : Car carpets and components

Commercial : Commercial carpets

Other non-reportable segments comprise operations to subsidiary companies which are inactive and 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 Executive Director. Segment total assets are used to measure the return of assets of each segment.

Notes to the Financial Statements
(cont'd)

26. SEGMENT INFORMATION (continued)

(a) Business Segment

	Commercial RM	Automotive RM	Non-Reportable Segments RM	Inter-Segment Eliminations RM	Total RM
2015					
Revenue					
External revenue	24,107,390	43,183,954	–	–	67,291,344
Inter-segment revenue	13,604,495	2,441,642	480,000	(16,526,137)	–
Total revenue	37,711,885	45,625,596	480,000	(16,526,137)	67,291,344
Results					
Finance income	69	96	331	–	496
Reversal of impairment loss on trade receivables	127,518	–	–	–	127,518
Finance costs	(521,539)	(739,909)	–	–	(1,261,448)
Depreciation of property, plant and equipment	(909,602)	(1,965,275)	–	–	(2,874,877)
Taxation	(67,117)	(127,584)	(160,699)	–	(355,400)
Segment results	(230,848)	1,858,950	(756,611)	15,752	887,243
Segment assets	48,790,011	42,856,802	54,465,777	(73,676,901)	72,435,689
Segment liabilities	33,346,707	30,718,381	18,601,556	(47,891,036)	34,775,608
2014					
Revenue					
External revenue	23,016,559	26,453,643	–	–	49,470,202
Inter-segment revenue	13,005,689	2,545,522	–	(15,551,211)	–
Total revenue	36,022,248	28,999,165	–	(15,551,211)	49,470,202
Results					
Finance income	3	–	294	–	297
Compensation awarded on legal proceedings	–	–	2,810,654	–	2,810,654
Reversal of impairment loss on trade receivables	69,035	–	–	–	69,035
Finance cost	(561,692)	(738,563)	–	–	(1,300,255)
Depreciation of property, plant and equipment	(994,170)	(1,822,668)	–	–	(2,816,838)
Impairment loss of other receivables	(27,715)	–	(18,359,349)	–	(18,387,064)
Taxation	(23,058)	(27,381)	(3)	–	(50,442)
Segment results	(2,213,434)	(1,420,767)	(17,101,078)	(16,939)	(20,752,218)
Segment assets	48,830,843	39,626,726	48,347,519	(66,426,768)	70,378,320
Segment liabilities	33,209,634	29,347,255	11,726,687	(40,678,094)	33,605,482

Notes to the Financial Statements
(cont'd)

26. SEGMENT INFORMATION (continued)

(b) Geographical information

Revenue by geographical location of customers

	Group	
	2015 RM	2014 RM
Malaysia	65,214,418	46,084,354
Korea	1,088,896	1,384,142
UAE	390,796	–
Singapore	370,240	185,233
Brunei	172,886	215,973
Japan	30,000	–
Bangladesh	24,108	1,562,433
Maldives	–	4,956
Colombo	–	17,876
Switzerland	–	15,235
	67,291,344	49,470,202

Notes to the Financial Statements
(cont'd)

27. FINANCIAL INSTRUMENTS

(a) Classification of financial instruments

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The following table analyses the financial assets and liabilities in the statements of financial position by the class of financial instruments to which they are assigned, and therefore by the measurement basis:

	2015		2014	
	Loans and receivables/ other financial liabilities RM	**Total RM**	**Loans and receivables/ other financial liabilities RM**	**Total RM**
Group				
Financial assets				
Trade receivables	12,967,777	12,967,777	9,531,079	9,531,079
Other receivables	664,589	664,589	699,280	699,280
Cash and bank balances	830,437	830,437	400,600	400,600
	14,462,803	14,462,803	10,630,959	10,630,959
Financial liabilities				
Trade payables	8,535,324	8,535,324	4,753,163	4,753,163
Other payables	4,487,680	4,487,680	4,790,283	4,790,283
Finance lease liabilities	1,236,299	1,236,299	1,246,497	1,246,497
Bank borrowings	16,192,563	16,192,563	19,198,228	19,198,228
	30,451,866	30,451,866	29,988,171	29,988,171
Company				
Financial assets				
Other receivables	51,000	51,000	–	–
Amount owing by subsidiary companies	29,386,086	29,386,086	22,307,906	22,307,906
Cash and bank balances	46,455	46,455	27,743	27,743
	29,483,541	29,483,541	22,335,649	22,335,649
Financial liabilities				
Amount owing to subsidiary companies	7,827,696	7,827,696	414,130	414,130
Other payables	1,349,683	1,349,683	1,912,812	1,912,812
	9,177,379	9,177,379	2,326,942	2,326,942

Notes to the Financial Statements
(cont'd)

27. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies

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

The following sections provide details regarding the Group's and the Company's exposure to the abovementioned financial risks and the objectives, policies and processes for the management of these risks.

(c) Credit risk

Credit risk is the risk of a financial loss to the Group and the Company if a counterparty of a financial asset fails to meet its contractual obligations. The Group's and the Company's exposure to credit risk arises mainly from receivables from customers.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis through the review of receivables ageing. At reporting date, there were no significant concentrations of credit risk.

The maximum exposure to credit risk for the Group and the Company is the carrying amount of the financial assets shown in the statements of financial position.

(d) Liquidity risk

Liquidity risk is the risk that the Group and the Company will not be able to meet its financial obligations as they fall due. The Group's and the Company's exposure to liquidity risk arises principally from trade and other payables and borrowings.

Cash flows forecasting is performed by monitoring the Group's and the Company's liquidity requirements to ensure that it has sufficient liquidity to meet operational, financing repayments and other liabilities as they fall due.

27. FINANCIAL INSTRUMENTS (continued)

(d) Liquidity risk (continued)

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

	Carrying amount RM	Contractual interest rate %	Contractual cash flows RM	Within 1 year RM	Between 1 and 2 years RM	Between 2 and 5 years RM	More than 5 years RM
2015							
Group							
Trade payables	8,535,324		8,535,324	8,535,324	–	–	–
Other payables	4,487,680		4,487,680	4,487,680	–	–	–
Finance lease liabilities	1,236,299	4.55 to 6.27	1,366,513	416,790	949,723	–	–
Bank borrowings	16,192,563	5.00 to 8.60	16,349,089	15,310,739	655,800	382,550	–
	30,451,866		30,738,606	28,750,533	1,605,523	382,550	–
Company							
Amount owing to subsidiary companies	7,827,696	–	7,827,696	7,827,696	–	–	–
Other payables	1,349,683	–	1,349,683	1,349,683	–	–	–
	9,177,379		9,177,379	9,177,379	–	–	–

27. FINANCIAL INSTRUMENTS (continued)

(d) Liquidity risk (continued)

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

	Carrying amount RM	Contractual interest rate %	Contractual cash flows RM	Within 1 year RM	Between 1 and 2 years RM	Between 2 and 5 years RM	More than 5 years RM
2014							
Group							
Trade payables	4,753,163	–	4,753,163	4,753,163	–	–	–
Other payables	4,790,283	–	4,790,283	4,790,283	–	–	–
Finance lease liabilities	1,246,497	4.55 to 6.27	1,412,241	363,228	632,454	416,559	–
Bank borrowings	19,198,228	5.00 to 8.55	20,413,395	18,638,835	729,264	1,045,296	–
	29,988,171		31,369,082	28,545,509	1,361,718	1,461,855	–
Company							
Amount owing to subsidiary companies	414,130	–	414,130	414,130	–	–	–
Other payables	1,912,812	–	1,912,812	1,912,812	–	–	–
	2,326,942		2,326,942	2,326,942	–	–	–

Notes to the Financial Statements
(cont'd)

27. FINANCIAL INSTRUMENTS (continued)

(e) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and cash flow and fair value interest rate risk that may affect the Group's and the Company's financial position and cash flows. The Group and the Company are not significantly affected by foreign exchange rate and price risks.

(i) Foreign currency exchange risk

The Group is exposed to foreign currency risk on sales, purchases, assets and liabilities that are denominated in a currency other than Ringgit Malaysia. The Group maintains a natural hedge that minimises the foreign exchange exposure by matching foreign currency income with foreign currency costs.

<u>Exposure to foreign currency risk</u>

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

	United States Dollar RM	Renminbi RM
2015		
Trade receivables	58,968	–
Cash and bank balances	316,243	–
Trade payables	(3,664,713)	(1,529,806)
	(3,289,502)	(1,529,806)
2014		
Trade receivables	493,428	–
Cash and bank balances	845	–
Trade payables	(3,033,063)	–
	(2,538,790)	–

Notes to the Financial Statements
(cont'd)

27. FINANCIAL INSTRUMENTS (continued)

(e) Market risk (continued)

(i) Foreign currency exchange risk (continued)

Currency risk sensitivity analysis

The following shows the sensitivity of the Group's post-tax profit or loss to a reasonably possible change in the foreign currency exchange rate against the Group's functional currency ("RM"), with all other variables remain constant.

	Group Increase/(Decrease) profit or loss	
	2015 RM	**2014 RM**
USD/RM – strengthening 5%	(123,432)	(95,205)
RMB/RM – strengthening 5%	(57,368)	–

(ii) 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	
	2015 RM	**2014 RM**
Floating rate instruments		
Term loans	1,537,624	2,120,085
Banker's acceptances	1,204,332	4,365,974
Usance letter of credit	1,011,005	431,507
Bank overdrafts	12,439,602	12,280,662
	16,192,563	19,198,228

Since the Group fixed rate financial assets and liabilities are measured at amortised cost, possible changes in interest rates are not expected to have a significant impact on the Group profit or loss.

Notes to the Financial Statements
(cont'd)

27. FINANCIAL INSTRUMENTS (continued)

(e) Market risk (continued)

(ii) Interest rate risk (continued)

Interest rate risk sensitivity analysis

A change in interest rates at the end of the reporting period would have increase/(decrease) post-tax profit or loss by the amounts shown below, assuming all other variables remain constant.

	Group Increase/(Decrease) profit or loss	
	2015 RM	**2014 RM**
Increase of 100 basis points ("bp")	(121,444)	(143,987)

(f) Fair value information

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

- Level 1 : Quoted prices in active markets for identical assets or liabilities.
- Level 2 : Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 : Inputs for the asset or liability that is not based on observable market data.

	2015		**2014**	
	Carrying amount RM	**Fair value RM**	**Carrying amount RM**	**Fair value RM**
Group				
Finance lease liabilities	1,236,299	1,214,604	1,246,497	1,135,290

(i) The carrying amounts of cash and cash equivalents and short-term receivables and payables reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

(ii) The carrying amount of long-term bank borrowings carried on the statements of financial position reasonably approximate their fair values as they are 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.

Notes to the Financial Statements
(cont'd)

28. 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 Company.

	Group	
	2015 RM	**2014 RM**
Bank borrowings	16,192,563	19,198,228
Finance lease liabilities	1,236,299	1,246,497
Less: Cash and bank balances	(830,437)	(400,600)
Net bank borrowings	16,598,425	20,044,125
Equity attributable to owners of the Company	37,683,545	36,794,125
Gearing ratio	44.05%	54.48%

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

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 in Malaysia 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)

29. MATERIAL LITIGATION (continued)

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

The details are as follows:

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

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

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

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

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

(i) The Plaintiff's application for injunction was allowed with costs. The Defendants are to pay the Plaintiff RM18,000,000 on or before 15 January 2010.

(ii) The Defendants' application to set aside the ex-parte injunction order dated 27 April 2009 was dismissed with costs.

(iii) The Defendants' application to transfer the proceedings to the Shah Alam High Court was dismissed with costs. However, the Court allowed a stay of these proceedings pending the Defendants' appeal to the Court of Appeal with respect to this application.

On 8 February 2010, the appeal by the Defendants against the decision of the High Court which inter-alia, granted the Company the interlocutory mandatory injunction compelling the Defendants to refund RM13,500,000 and RM4,500,000 respectively to the Company was allowed by the Court of Appeal. The Order of the Court of Appeal essentially set aside the interlocutory mandatory Order granted by the High Court Judge on 16 November 2009. The Company has since filed an application for leave to appeal to the Federal Court against the decision of the Court of Appeal and the hearing on the said application has been fixed on 1 June 2010.

Notes to the Financial Statements
(cont'd)

29. MATERIAL LITIGATION (continued)

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

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.

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

The Court came up for decision on 18 June 2014, the Court, regretfully, did not allow the Company's claim for the refund of RM18,000,000. The Company has on 1 July 2014 filed an appeal with the Court of Appeal against the said decision.

The Company had on 19 March 2015 filed the Memorandum of Appeal by way of a Supplemental Record of Appeal and the Court of Appeal has fixed 28 April 2015 as case management, which has been adjourned to 12 May 2015.

On 3 August 2015, the Company via its newly appointed solicitors Messrs Jaffar & Menon filed a Notice of Motion for leave to amend the Memorandum of Appeal dated 19 March 2015 prepared and filed by the Company's former solicitor, Messrs Kamaruddin & Partners.

The said Motion is to be heard on 10 September 2015 which is on the same date with another Motion filed by Mr. Tee Guan Pian, the Appeal lank in Civil Appeal WC.W-02(WCC) (W)-1238.07/2014.

The Honorable Court has fixed both appeals for case management on 10 September 2015 right after the hearing of the Notice of Motion for court to fix a hearing date for the Appeals.

Notes to the Financial Statements
(cont'd)

29. MATERIAL LITIGATION (continued)

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

On 10 September 2015, the company have obtained Order in Terms with no order as to costs for the Notice of Motion to amend the Memorandum of Appeal dated 19 March 2015 (Enclosure 5a).

The matter was also called up for case management on the same date wherein the Company was directed to file and extract the sealed amended Memorandum of Appeal before the next case management which is fixed on 8 October 2015.

On 8 October 2015, the sealed and duly enclosed Memorandum of Appeal dated 10 September 2015 was extracted.

The above Appeal is fixed for Hearing on 18 February 2016 subject to Panel of Judges' approval as the directions of the Court inter alia, that every appeal filed must be disposed off within a year from the date of entry of the appeal.

On 18 February 2016, the court rescheduled the hearing date to 26 June 2016 as the parties' solicitors need longer time to submit the factual matrix.

The Company has made full impairment loss for the aforesaid amount as disclosed in Note 7 to the financial statements in the previous financial year.

(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.

On 31 December 2014, the Court allowed the Company to claim the remaining RM16,540,000 plus interest from the defendants. The defendants appealed to the Court of Appeal on 9 January 2015. On 13 August 2015, the Court of Appeal dismissed the case.

On 30 October 2015, the defendant propose an out of court settlement. After numerous negotiations, both parties had on 29 January 2016 agreed on final settlement sum of RM5,000,000; of which upfront payment of RM1,000,000 been received on 6 February 2016 and the remaining RM4,000,000 will be settled in 10 equal monthly installments.

The Company has made full impairment loss for the aforesaid amount as disclosed in Note 7 to the financial statements in the previous financial years.

30. DATE OF AUTHORISATION FOR ISSUE

The financial statements of the Group and of the Company for the financial year ended 31 December 2015 were authorised for issue in accordance with a resolution of the Board of Directors on 18 April 2016.

Paragon Union Berhad
(Incorporated in Malaysia)

REALISED AND UNREALISED PROFITS/LOSSES (SUPPLEMENTARY INFORMATION)

The breakdown of the retained earnings of the Group and of the Company as of 31 December 2015 into realised and unrealised amounts is as follows:

	Group		Company	
	2015 RM	2014 RM	2015 RM	2014 RM
Total accumulated losses:				
- Realised	(17,929,356)	(19,539,453)	(34,048,135)	(33,313,407)
- Unrealised	(2,935,683)	(2,197,077)	–	–
	(20,865,039)	(21,736,530)	(34,048,135)	(33,313,407)
Less: Consolidation adjustments	(2,612,227)	(2,630,156)	–	–
	(23,477,266)	(24,366,686)	(34,048,135)	(33,313,407)

The determination of realised and unrealised profits or losses is based on the 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, issued by the Malaysian Institute of Accountants on 20 December 2010.

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.

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 Twenty-Second Annual General Meeting of the Company to be held at Dewan Berjaya, Bukit Kiara Resort Berhad, Jalan Bukit Kiara, Off Jalan Damansara, 60000 Kuala Lumpur on Wednesday, 8 June 2016 at 10.30 a.m. and any adjournment thereof.

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

NO.	RESOLUTIONS	FOR	AGAINST
1.	To re-elect Mr. Lee Choon Hee who is retiring as a Director of the Company in accordance with Article 75 of the Company's Articles of Association.		
2.	To re-appoint Messrs. Morison Anuarul Azizan Chew, the retiring Auditors and to authorise the Board of Directors to fix their remuneration.		
3.	To re-appoint Mr. Michael Lim Hee Kiang to continue in office as Independent Non-Executive Director		
4.	To authorise the Directors to issue and allot shares in the Company pursuant to Section 132D of the Companies Act, 1965		

[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 ______________ , 2016

Number of shares held:

____
Signature of Member / Common Seal

Notes:

1. *A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy 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, Tropicana Golf & Country Resort, 47410 Petaling Jaya, Selangor Darul Ehsan, not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting.*

Fold this flap for sealing

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AFFIX
STAMP

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

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PARAGON UNION BERHAD (Company No. 286457-V)

Lot 14, Jalan Satu, Kawasan Perindustrian Cheras Jaya, Batu 11, Cheras, 43200 Selangor Darul Ehsan, Malaysia
General Office Number: +603 9086 1100 **General Fax Number:** +603 9086 1107 **Email:** general@paragon.com.my

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