

PARAGON UNION BERHAD (Company No: 286457-V)





























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Notice of Twenty-Third Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Twenty-Third Annual General Meeting ("AGM") of the Company will be held at Dewan Berjaya, Bukit Kiara Equestrian Club, Jalan Bukit Kiara, Off Jalan Damansara, 60000 Kuala Lumpur on Thursday, 8 June 2017 at 10.30 a.m. for the following purposes:-

AGENDA

1. To receive the Audited Financial Statements for the financial year ended 31 December 2016 together with the Reports of the Directors and Auditors thereon.

To approve the payment of Directors' fees for the financial year ended 31 December 2016.

3. To approve the payment of Directors' fees for the financial year ending 31 December

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

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

SPECIAL BUSINESS

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

6. Authority for Mr. Michael Lim Hee Kiang to continue in office as Senior **Independent Non-Executive Director**

"THAT authority be and is hereby given to Mr. Michael Lim Hee Kiang who has served as Senior 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."

7. Authority for Directors to issue and allot shares in the Company pursuant to Section 75 of the Companies Act, 2016

"THAT, subject to the Companies Act, 2016, the Articles of Association of the Company and the approval from the relevant authorities, where such approval is necessary, the Directors be and are hereby authorised, pursuant to Section 75 of the Companies Act, 2016, 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 share capital of the Company (excluding treasury shares) for the time being AND THAT the Directors be and are also empowered to obtain the approval from Bursa Malaysia Securities Berhad ("Bursa Securities") for the listing of and quotation for the additional shares so issued."

Please refer to Note B on this agenda

Resolution 1

Resolution 2

Resolution 3

Resolution 4

Resolution 5

Resolution 6

8. To transact any other business of the Company of which due notice shall have been given in accordance with the Company's Articles of Association and the Companies Act, 2016.

By Order Of The Board PARAGON UNION BERHAD

WONG YOUN KIM (MAICSA 7018778)

Company Secretary Kuala Lumpur

28 April 2017

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(ies) to attend and vote on his(her) behalf.
- 2. A proxy may but need not be a member of 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.
- 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 Level 2, Tower 1, Avenue 5, Bangsar South City, 59200 Kuala Lumpur, not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting.
- 7. In respect of deposited securities, only members whose names appear on the Record of Depositors on 2 June 2017 (General Meeting Record of Depositors) shall be eligible to attend, speak and vote at the meeting or appoint proxy(ies) to attend and/or vote on his(her) behalf.

B. Audited Financial Statements for the Financial Year ended 31 December 2016

The Audited Financial Statements under Agenda 1 are laid in accordance with Section 340(1)(a) of the Companies Act, 2016 for discussion only as the approval of shareholders is not required, Hence, this Agenda is not put forward for voting by the shareholders of the Company.

Notice of Twenty-Third Annual General Meeting (Cont'd)

EXPLANATORY NOTES ON SPECIAL BUSINESS

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

Mr. Michael Lim Hee Kiang has served as Senior 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. He has been with the Company long and therefore understands the Company's operations which enable him to contribute actively and effectively during deliberations or discussions at the meeting. 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 6 under item 7 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-Second Annual General Meeting held on 8 June 2016. 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-Second Annual General Meeting as the need does not arise for any fund raising activity for the purpose of investment, acquisition or working capital.

STATEMENT ACCOMPANYING THE NOTICE OF ANNUAL GENERAL MEETING

- 1. The Twenty-Third Annual General Meeting of the Company will be held at the at Dewan Berjaya, Bukit Kiara Equestrian Club, Jalan Bukit Kiara, Off Jalan Damansara, 60000 Kuala Lumpur on Thursday, 8 June 2017 at 10.30 a.m.
- 2. The Directors who are standing for re-election at the Twenty-Third Annual General Meeting of the Company pursuant to Article 75 of the Articles of Association of the Company is:-

(i) Mr. Fung Beng Ee

The details of the above Director seeking re-election are set out in the Profile of Directors as disclosed on page 6 of this Annual Report.

3. The details of attendance of the Directors of the Company at Board of Directors' Meetings held during the financial year ended 31 December 2016 are disclosed in the Corporate Governance Statement set out on page 17 of this Annual Report.

BOARD OF DIRECTORS

Michael Lim Hee Kiang

(Senior 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)

Funa Bena 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

Wong Youn Kim (MAICSA 7018778)

REGISTERED OFFICE

Level 2, Tower 1, Avenue 5 Bangsar South City 59200 Kuala Lumpur

Tel: 603-2241 5800 Fax: 603-2282 5022

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

ANNUAL REPORT 2016

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 69, Male, Malaysian Senior 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 was subsequently re-designated as Senior Independent Non-Executive Director on 18 January 2017. 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 five years.

FUNG BENG EE

Aged 54, Male, 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. 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 five years.

LAU YOKE KEEN

Aged 51, Male, 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 20 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 five years.

LEE CHOON HEE

Aged 47, Male, 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 five years.

Senior Managements' Profile

SHAHRUL HISHAM BIN MUSA

Aged 43, Male, Malaysian Group Senior General Manager Management Representative IATF16949 Management Representative EHS

Mr. Shahrul Hisham Musa was appointed as a General Manager for Automotive Division in year of 2013 and subsequently redesignated as a Group General Manager in 2016. Mr Shahrul is currently oversee both business and operations for the Group. He holds a Degree in Economics (Hons) from National University of Malaysia. With approximately 18 years of working experience with two automotive manufacturing companies, Mr. Shahrul was adequately exposed to a managing standard of business and operations. He has no convictions for any offences within the past five years.

HALEZA BINTI HUSSIN

Aged 47, Female, Malaysian Senior Head of Costings for Automotive Division

Pn. Haleza started her career with Paragon in year 1995. She graduated from University Pertanian Malaysia (UPM) in 1994 with a Bachelor in Accountancy. She has more than 20 years working experience in all aspects of accounting and finance. She is currently in charge of Costings Department for Automotive Division. Her duties include overseeing operation of the Finance Departments with responsibility for budgets preparation, forecasting, Accounts Payable and Receivable. She has no convictions for any offences within the past five years.

HIEW SIEW SHAN

Aged 38, Female, Malaysian Senior Finance Manager

Ms. Hiew started her career with Paragon in year 2003. She holds an Advance Diploma in Accountancy. She has approximately 15 years working experience in all aspects of accounting system. She is currently in charge of Finance Department and responsible for all the finance related matters and financial reporting. She is also acting as Executive Personal Assistant for Executive Director. She has no convictions for any offences within the past five years.

DEAR SHAREHOLDERS,

I am pleased to present, on behalf of the Board of Directors of the Company, the Annual Report and the Audited Financial Statements for the financial year ended 31 December 2016 of Paragon Union Berhad.

On behalf of the Board of Directors, I wish to extend my thanks to the staff and management in their dedication in carrying out their duties over the past year. I would also like to thank our customers, shareholders, business partners, government authorities and business associates for their continued support and trust.

Further information of Paragon's performance in the financial year is detailed in the Management Discussion and Analysis on Page 10.

MICHAEL LIM HEE KIANG
Independent Non-Executive Chairman



Management Discussion and Analysis

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 2016 due to continuous and encouraging support from our existing clientele together with on-going improvements in management efficiencies.

The Group registered a turnover of RM67.4 million (2015: RM67.3 million) and an improvement on Group's profit before taxation of RM3.7 million after inclusive of stock written-off amounted to RM4.1 million as compared to a profit before tax of RM2.0 million in the proceeding financial year ended 2015. This was mainly attributed by better profit margin, on-going cost saving processes and reversal of impairment loss.

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, Renaissance Hotel, UOA Vertical Tower C, IRDK Mall, TGV Cinemas, Majlis Bandaraya Ipoh Convention Hall 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 reengineering and identifying potential opportunities for further growth.

PROPERTY DEVELOPMENT DIVISION

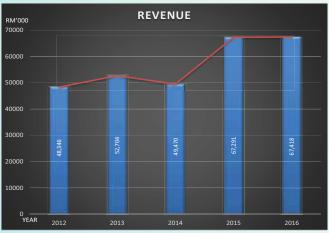
The Group has not engaged in any property development in recent years. Nonetheless, the Group would embark in property development in future when viable opportunity arises.

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.

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 2016. 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 indepth 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)

A. ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (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 have unrestricted access to all information pertaining to the Group's business and affair. This is to enable them to carry out their duties effectively and diligently. As and when necessary, the Board may obtain independent professional advice, in furtherance of their duties, at the expense of the Group, in furtherance if their duties.

The external auditors also briefed the Board members on the Malaysian Financial Reporting Standards that would affect the Group's financial statements during the year.

Company Secretary

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 their removal and appointment of successor which is a matter for the Board to decide.

The Company Secretary plays 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 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.

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 2016, one (1) NC meeting was held on 26 January 2016 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.

The NC also considered the performance and contribution of the Directors who stand for re-election at the forthcoming Annual General Meeting to determine whether they are eligible for re-election. The NC will recommend the re-election of Directors to the Board for approval. All the retiring Directors will abstained from deliberations and decisions on their own eligibility to stand for re-election at the Board Meeting.

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.

Corporate Governance Statement (Cont'd)

B. STRENGTHEN COMPOSITION (CONT'D)

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:-

- Mr Fung Beng Ee (Chairman)
- 2. Mr Michael Lim Hee Kiang
- 3. Mr Lee Choon Hee

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 2016, 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.

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	42,000	554,400	_
Non-Executive Directors	126,000	_	_

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

^{*} Successive bands of RM50,000 are not shown entirely as these are not represented.

For security and confidential reasons, the details of individual Directors' remuneration are not shown. The Board is of the opinion that the transparency and accountability aspects of corporate governance as applicable to Director's remuneration as appropriately served by the disclosure made above.

B. STRENGTHEN COMPOSITION (CONT'D)

Board Risk Management Committee

The Board Risk Management Committee ("RMC") comprises of three (3) members, the majority of which is Independent Non-Executive Directors. The member of RMC are as follows:-

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

The key function of the RMC is to review and report to the AC 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 2016, the RMC had met with the AC and tabled the Risk Management Report for its review in quarterly basis.

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.

Corporate Governance Statement (Cont'd)

C. REINFORCE INDEPENDENCE (CONT'D)

Annual Assessment of Independence (Cont'd)

Any Director who considers that he has or may have a conflict of interest or a material personal interest or a direct or indirect interest or relationship that could reasonably be considered to influence in a material way the Director's decisions in any matter concerning 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 2016, 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.

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 Senior 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.

C. REINFORCE INDEPENDENCE (CONT'D)

Chairman and Executive Director

The position of Chairman is held by Mr Michael Lim Hee Kiang, an Senior 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.

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 five (5) 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	5/5
Fung Bee Ee	5/5
Lau Yoke Keen	5/5
Lee Choon Hee	5/5

Corporate Governance Statement (Cont'd)

D. FOSTERING COMMITMENT (CONT'D)

Directors' Training

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

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

Name of Directors	Training Attended	Date
Michael Lim Hee Kiang	Risk Awareness Program. Updates on the Companies Bill 2015, Proposed Malaysian Code on Corporate Governance 2016 and Listing Requirements of Bursa Malaysia – Impact to Board and Audit Committee and Disclosure in Annual Report and Announcements.	25 March 2016 27 June 2016
Lau Yoke Keen	 CG Breakfast series with Director: Future of Auditor for Directors Reporting The Game Changer for Boardroom. Corporate Governance Statement Workshop for Directors: The Interplay between CG, Non-Financial Information (NFI) & Investment Decision. 	27 June 2016 28 September 2016
Lee Choon Hee	 Corporate Governance Statement Workshop for Directors: The Interplay between CG, Non-Financial Information (NFI) & Investment Decision. Advocacy Sessions on Management Discussion & Analysis (MD&A) for CEO and CFO of Lister Issuers. 	28 September 2016 16 August 2016
Fung Beng Ee	Half day Seminar on Amendments to Bursa's Listing Requirement.	1 June 2016

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.

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 30 to 32 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 Audit Committee and Board place great emphasis on the objectivity and independence of the external auditors in providing true and fair report to the shareholders. Through the Audit Committee, the Board maintains a transparent relationship with the Internal and External Auditors in seeking professional advice on the internal control and ensuring compliance with the appropriate accounting standards. The Audit Committee is empowered to communicate directly with the external and internal auditors and vice versa to highlight any issues of concern at any point in time.

The Internal Auditors met the Audit Committee at two (2) times during the financial year to discuss the nature, scope of the audit, internal controls and issues that may require the attention of the Audit Committee or the Board. Audit Plan was also discussed on that score taking into account of the historical risk and control matters and the ongoing risk exposure to the Group.

During the financial year under review, the fees for External Auditors were RM74,500.00 in audit fee and RM3,000.00 for non-audit fee for services rendered by the External Auditors to the Group for the financial year ended 31 December 2016.

The External Auditors have confirmed to the Audit Committee 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.

In compliance with Main MMLR of Bursa Malaysia and the Code, the Audit Committee within its duties reviews the scope of work, independence, objectivity and findings and recommendations of the audits conducted by both the Internal and External Auditors.

The Audit Committee also made arrangements to meet and discuss with the Internal and External Auditors separately without the presence of Management on any matters relating to the Group and its audit activities.

Corporate Governance Statement (Cont'd)

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 30 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.

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. This is to encourage more shareholders to attend the AGM so that they can participate in the meeting. The voting on all resolutions to be tabled at the Twenty-Third AGM will be way of poll. The detailed results of the voting in terms of number of votes and percentage for and against the respective resolution will be announced to Bursa Securities.

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 2016 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)

COMPLIANCE STATEMENT

The Board confirms that the Group has made significant effort to maintain high standards of corporate governance throughout the year under review. The Board acknowledges that achieving excellence in corporate governance is a continuous process and is committed to play a pro-active role in steering the Group towards the highest level of integrity and ethical standards.

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 RM3,000.00.

2. Material contracts

There were no material contracts entered into by the Company and/or its subsidiaries that involve Directors' or substantial shareholders' interests either still subsisting at the end of the financial year ended 31 December 2016 or entered into since the end of the previous financial year.

3. Share Buy-back

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

4. Utilisation of Proceeds Raised from Corporate Proposals

There were no proceeds raised from corporate proposals during the financial year ended 31 December 2016.

5. 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 2016 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.

The Board is assisted by Senior Management in implementing the Board approved policies and procedures to assure that the Group's risk management and internal controls systems are operating adequately and effectively by:

- a. Identifying and analysing risk information;
- b. Designing and operating suitable internal controls to manage these risks; and
- c. Monitoring risk changes and the appropriate action plans.

The key features of the risk management and internal control system are described below.

3. Key Elements of Internal Controls

(a) Risk Management Framework

The Board has formed a Risk Management Committee ("RMC") which will assist the Board on the ongoing process for identifying, evaluating and managing the significant risks faced by the Group, which had been in place for the year under review. This process is regularly reviewed by the Board and is in accordance 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.

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

3. Key Elements of Internal Controls

(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.
- The AC met the RMC on quarterly basis to bring to the AC's attention significant matters related to internal controls, ensuring that it maintains full and effective supervision over appropriate controls.
- 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.

(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 this Statement on Risk Management and Internal Control for the inclusion in the Annual Report of the Company for the financial year ended 31 December 2016.

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 material control failure that would have material adverse effect on the financial results of the Group for the year under review and up to the date of issuance of the financial statements.

Statement of Risk Management and Internal Control

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 materials price variation as well as business competition.

3. Key Elements of Internal Controls (Cont'd)

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 completely eliminating the risks involved in these 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.

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.

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

3. Key Elements of Internal Controls (Cont'd)

Financial Reporting

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

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

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

Main Risks

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

Risk category	Risk description	Mitigation
Procedure and Process - Quality 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 and process controls and improvements. 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 management of stock.

3. Key Elements of Internal Controls (Cont'd)

Main Risks (Cont'd)

Risk category	Risk description	Mitigation
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	Obsolete technology leads to low confidence of products. Machines running under/over optimisation. Specific risks are: May lead to high maintenance cost. Phase out of spare parts.	To keep on tracing and studying latest technology and innovation in the industry. To look into machine integrations and upgrading.
Economic Environment and market trend	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 via multi sourcing. 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, 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:-

Safety Training

- Basic occupational first Aid, CPR and introduction to AED training
- Safe operation of forklift training
- Emergency response plan and preparedness and accident investigation and reporting procedure
- Audiometric Test
- Fire Fighting Training
- Noise exposure
- Fire drill
- Chemical spillage
- Personal Protection Equipment (PPE)

Other Training

- Introducing Sophos XG firewall
- ISO 14001 : 2015 requirement
- Security treat trending and technologies updates
- EHS Laws and Regulations
- ISO 9001 : 2015 requirement
- QMS Risk Analysis for ISO 9001 : 2015
- Managing your business risks
- Sophos discover synchronization end user security
- Technical report preparation workshop for EiMAS CepSWaM
- Quality policy and objectives

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

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 Paragon Union Berhad 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

COMPOSITION

The Audit Committee of Paragon Union Berhad ("the Company"), chaired by an Independent Director, comprises three members, all of whom are Independent Non-Executive Director. The current composition meets the requirement of Paragraphs 15.09 and 15.10 of the Main Market Listing Requirements ("Listing Requirements") of Bursa Malaysia Securities Berhad ("Bursa Securities"). The Audit Committee currently comprises the following Independent Non-Executive Directors, namely:-

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

The Audit Committee is authorised by the Board to independently investigate any activity within its Terms of Reference and shall have unrestricted access to information pertaining to the Group, from the internal and external auditors, Management and all employees.

MEETINGS

During the financial year, the Audit Committee conducted 5 meetings of which all were duly convened with sufficient notices given to all Audit Committee members together with the agenda, report and proposals for deliberation at the meetings. The Executive Director was invited to all Audit Committee meetings to facilitate direct communication as well as to provide clarification on audit issues and the operations of the Group.

Representatives from the External Auditors and Internal Auditors, as the case may be, were in attendance to present the relevant reports and proposals to the Audit Committee at the meetings which included inter alia, the Auditors' audit plans and audit reports and the audited financial statements for the financial year ended 31 December 2016.

In the Audit Committee meetings, the external auditors were given opportunities to raise any matters and gave unrestricted access to the external auditors to contact them at any time should they become aware of incidents or matters during the course of their audits or reviews. Minutes of the Audit Committee meetings were tabled for confirmation at the following Audit Committee meeting and subsequently presented to the Board for notation.

Details of attendance of the Audit Committee members at the Audit Committee meetings during the financial year are as follows:

Committee Men	nber	Meeting attended
Michael Lim Hee	Kiang	5/5
Fung Bee Ee		5/5
Lau Yoke Keen		5/5

SUMMARY ACTIVITIES

The Audit Committees' activities during the financial year under review comprised the following:-

Quarterly Financial Statements and Audited Financial Statements

- reviewed the audited financial statements of the Company prior to submission to the Directors for their perusal and approval. This was to ensure compliance of the financial statements with the provisions of the Companies Act, 1965 and the applicable approved accounting standards as per Malaysian Accounting Standards Board;
- reviewed the unaudited financial results before recommending them for Board's approval, focusing particularly on:-
 - Any change in accounting policies
 - Significant adjustments arising from audit
 - Compliance with accounting standards and other legal requirements

External Auditors

- reviewed the external audit planning memorandum, outlining the audit scope, audit process and areas of emphasis based on the external auditors' presentation of audit plan;
- reviewed the external audit review memorandum and the response from the Management;
- consideration and recommendation to the Board for approval of the audit fees payable to the external auditors;
- reviewed the performance and effectiveness of the external auditors in the provision of statutory audit services and recommend to the Board for approval on the re-appointment of external auditors; and
- reviewed and evaluated the factors relating to the independence of the external auditors.

At the Audit Committee Meeting held on 28 November 2016, the Audit Committee recommended to the Board for approval of the audit fee of RM74,500.00 in respect of the financial year ended 31 December 2016.

The Board at its meeting held on 28 November 2016, approved the audit fee based on the recommendation of the Audit Committee.

Internal Auditors

The Group outsources its Internal Audit Function to a professional services firm. The Internal Auditors were engaged to conduct regular review and appraisals of the effectiveness of the governance, risk management and internal control process within the Company and the Group.

The Internal Audit Report directly to the Audit Committee, the appointed Internal Auditors are given full access to all the documents relating to the Company and Group's governance, financial statements and operational assessments.

The Audit Committee had reviewed:-

- internal audit on the area of revenue and credit control management of the Group
- follow-up audit on Purchasing Department of the Group
- suggestion on improvement opportunities in the areas of internal controls, systems, adequancy and efficiency improvements.

Internal Control and Risk Management

- reviewed the internal audit plan for adequacy scope and coverage and risk areas;
- reviewed risk management report and internal audit reports;
- reviewed the effectiveness and adequacy of risk management, operational and compliance processes;
- reviewed the adequacy and effectiveness of corrective actions taken by the Management on all significant matters raised;
- · reviewed an audit work programme and processes; and
- reviewed the adequacy and independence of the Group's Internal Audit Function.

Audit Comittee Report (Cont'd)

RELATED PARTY TRANSACTION AND CONFLICT OF INTEREST

At each quarterly meeting, the Audit Committee reviewed the recurrent related party transactions ("RPT") and conflict of interest situation that may arise within the Company and its Group including any transaction, procedure or course of conduct that raises questions of Management integrity.

The Audit Committee review the RPT and conflict of interest situation presented by the Management prior to the Company entering into such transaction. The Audit Committee also ensure that the adequate oversight over the controls on the identification of the interested parties and possible conflict of interest situation before entering into transaction.

INTERNAL AUDIT FUNCTION

The purpose of the Internal Audit function is to provide the Board, through the Audit Committee, with reasonable assurance of the effectiveness of the risk management, control and governance processes in the Group. To ensure that the responsibilities of internal auditors are fully discharged, the Audit Committee reviews the adequacy of the scope, functions and resources of the Internal Audit function as well as the competency of the Internal Auditors.

The Internal Auditors also highlighted to the Audit Committee the audit findings which required follow-up action by Management as well as outstanding audit issues which required corrective action to ensure an adequate and effective internal control system within the Group.

All Internal Audit activities in financial year ended 31 December 2016 were outsourced to an independent assurance provider and the total costs incurred were amounted to RM8,950.00.

Subsidiary Companies

EQUITY INTEREST

Nam	e of Company	2016	2015	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 and trading in 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)

Net Book Value as at 31.12.2016 (RM)	5,455,505	4,161,806	5,965,739	35,921
Build-Up Area (sq. m.)	3,190 (factory) 3,929 (office)	4,177 (factory) 873 (office)	7,919 (factory)	74
Land Area (sq. m.)	8,094	6,833	12,128	L
Description	Leasehold Land Factory & Office	Leasehold Land Factory & Office	Leasehold Land Factory & Office	Leasehold Building
Tenure	Leasehold (Expiry 14.05.2088)	Leasehold (Expiry 14.05.2088)	Leasehold (Expiry 14.05.2088)	Leasehold (Expiry 18.09.2093)
Age of Building	26 years	25 years	21 years	3 year
	37 ndustrian 00 Cheras I Ehsan	odustrian 00 Cheras I Ehsan	t1 u ndustrian 00 Cheras I Ehsan	rah ai Selatan
Location	Lot No. PT 7637 14, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	Lot No. PT 7667 21, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	Lot No. PT 7641 11A, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	Lot No. 6669 Mukim 15 Daerah Seberang Perai Selatan Pulau Pinang

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 20 MARCH 2017

Size of Holdings	No. of Shareholders	No. of Shares	Percentage (%)
1 – 99	23	345	0.00
100 – 1,000	584	549,821	0.85
1,001 – 10,000	1,194	5,452,800	8.43
10,001 - 100,000	369	11,329,200	17.51
100,001 - 3,378,414*	39	11,997,040	18.54
3,378,415 and above **	2	35,369,094	54.67
Total	2,211	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.

DIRECTORS' SHAREHOLDINGS AS PER THE REGISTER OF DIRECTORS' SHAREHOLDINGS AS AT 20 MARCH 2017

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 20 MARCH 2017

Substantial Shareholders	No. of Shares (Direct)	Percentage (%)	No. of Shares (Indirect)	Percentage (%)
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.

^{***} 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.

THIRTY (30) LARGEST SHAREHOLDERS AS AT 20 MARCH 2017

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. Yayasan Kelantan Darulnaim	1,000,000	1.55
6. Lee Poh Yee	843,800	1.30
7. CIMSEC Nominees (Tempatan) Sdn E		0.77
Pledged Securities Account for Ng Ge		
8. Gan Lam Seong	491,500	0.76
9. CIMSEC Nominees (Asing) Sdn Bhd I	Exempt An for CIMB Securities 466,500	0.72
(Singapore) Pte Ltd (Retail Clients)		
10. Soniia Cheah Su-Ya	358,400	0.55
11. Wong Boon Choy	315,000	0.49
12 Low Wan Chin	300,000	0.46
13. RHB Nominees (Tempatan) Sdn Bhd	296,500	0.46
Pledged Securities Account for Tan Ga	aik Suan	
14. Lee Kuan Sang	250,000	0.39
15. Lee Poh Ting	248,000	0.38
16. Sit Peng Chok	218,000	0.34
Maybank Securities Nominees (Tempa	·	
Pledged Securities Account for Lee Al	n Kim 214,500	0.33
18. Goh Yoke Choo	203,500	0.31
19. Lee Kok Loong	203,300	0.31
20. Lim Chir Ching	200,000	0.31
21. Wong Ah Yong	200,000	0.31
22. Tan Lee Hwa	170,000	0.26
23. Liw Kwei Sunn	167,500	0.26
24. Chin Tung Leong	154,800	0.24
25. See Kee Hoot	152,700	0.24
26. Maybank Nominees (Tempatan) Sdn B	_	0.23
27. Phong Chiew Khim	147,800	0.23
28. Tang Siew Geok	145,000	0.22
39. Yee Kwek Keong	140,000	0.22
30. Chong Tong Siew	134,000	0.21
Total	46,075,134	71.22

Directors' Report

The Directors have pleasure in submitting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2016.

PRINCIPAL ACTIVITIES

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

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

FINANCIAL RESULTS

	Group RM	Company RM
Profit for the financial year attributable to:		
- Owners of the Company	3,770,969	3,917,091
- Non-controlling interests	(3,113)	_
	3,767,856	3,917,091

DIVIDENDS

Since the end of the previous financial year, no dividend has been paid or declared by the Company. The Directors do 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 other than those disclosed in the financial statements.

ISSUE OF SHARES AND DEBENTURES

There were no issuances of shares or debentures during the financial year.

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 in office during the financial year and during the period from the end of the financial year to the date of this report are:

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

DIRECTORS' INTERESTS

The Directors in office at the end of the financial year did not hold any interest in shares or debentures in the Company or its subsidiaries or its holding company or subsidiaries of the holding company during the financial year.

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.

There were no arrangements during and at the end of the financial year which had the object of enabling 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 financial statements of the Group and of the Company were prepared, the Directors took reasonable steps:
 - to ascertain that proper action had been taken in relation to the writing off of bad debts and the making
 of provision for doubtful debts and satisfied themselves that all known bad debts had been written off
 and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to be realised in the ordinary course of business including the value of current assets as shown in the accounting records of the Group and of the Company have been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the Directors are not aware of any circumstances which would render:
 - (i) the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; or
 - (ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading; or
 - (iii) adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate; or
 - (iv) any amount stated in the financial statements of the Group and of the Company misleading.

OTHER STATUTORY INFORMATION (CONT'D)

- (c) No contingent or other liabilities of any company in the Group has become enforceable, or is 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 and of the Company to meet their obligations 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 of 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 of 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 Directors regard Asia Avenue Sdn. Bhd., a company incorporated in Malaysia, as the holding company.

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 17 April 2017

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 45 to 95 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 2016 and of their financial performance and cash flows for the financial year then ended.

The information set out on page 96 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 17 April 2017

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 45 to 95 and the supplementary information set out on page 96 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 KUALA LUMPUR) on this date of 17 April 2017

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 (Company No.: 286457-V) (Incorporated in Malaysia)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of Paragon Union Berhad, which comprise the statements of financial position as at 31 December 2016 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 year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 45 to 95.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016, and of their financial performance and their 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.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

How our audit addressed the key audit matter

Valuation of inventories (Refer to Note 2(c)(i) and Note 5 to the financial statements)

The Group carries significant inventories as disclosed in Note 5 to the financial statements. There is a risk that certain inventories of the Group that may not be recoverable due to old and out of design carpets as well as economic deterioration of the carpets' condition over time. Significant judgments and estimation are involved in forming expectations about the demand and future sales value of those inventories.

The Group carries significant We evaluated the Group's inventory management process over the inventories as disclosed in Note 5 identification of indicators which may result in the net realisable value of to the financial statements. There is inventories being lower than their recorded carrying values.

In addition, we perused the inventory ageing that had shown little or no recent movement and corroborated such findings during our physical stockcount observation of the Group's inventories at the end of the financial year.

Significant judgments and estimation are involved in forming expectations about the demand and future sales value of those inventories.

We have also discussed with the management on their action plans to address the slow moving inventories and have evaluated the reasonableness and adequacy of the write-off made by the management amounting to RM4,078,153 during the financial year.

INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITORS' REPORT THEREON

The Directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

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

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the
 Company, whether due to fraud or error, design and perform audit procedures responsive to those risks,
 and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not
 detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may
 involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's and the Company's internal control.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business
 activities within the Group to express an opinion on the financial statements of the Group. We are responsible
 for the direction, supervision and performance of the group audit. We remain solely responsible for our audit
 opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 auditors' 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 (Cont'd)

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in page 96 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 any responsibility to any other person for the content of this report.

MORISON ANUARUL AZIZAN CHEW

Firm Number: AF 001977 Chartered Accountants

KUALA LUMPUR 17 April 2017 SATHIEA SEELEAN A/L MANICKAM Approved Number: 1729/05/18 (J/PH)

Chartered Accountant

Statements of Financial Position as at 31 December 2016

			Group	С	ompany
	Note	2016 RM	2015 RM	2016 RM	2015 RM
	Note	KIVI	KIVI	IXIVI	KIVI
Non-Current Assets					
Property, plant and equipment Investment in subsidiary companies	3 4	28,457,460	30,219,663	- 11,607,745	- 11,607,745
investment in subsidiary companies	4				
		28,457,460	30,219,663	11,607,745	11,607,745
Current Assets					
Inventories	5	21,358,942	27,621,316	_	_
Trade receivables	6	14,890,076	12,967,777	_	_
Other receivables	7	1,592,838	792,094	51,000	51,000
Amount owing by subsidiary					
companies	8	-	-	32,334,992	29,386,086
Tax recoverable		16,311	4,402		—
Cash and bank balances	9	331,503	830,437	16,929	46,455
		38,189,670	42,216,026	32,402,921	29,483,541
Current Liabilities					
Trade payables	10	4,439,602	8,535,324	_	_
Other payables	11	4,745,173	5,406,153	1,681,632	1,532,433
Amount owing to subsidiary					
companies	8	- / .	_	6,680,786	7,827,696
Finance lease liabilities	12	310,380	356,837	_	_
Bank borrowings	13	11,809,792	15,192,901	_	_
Tax payables		48,458	469,586		
		21,353,405	29,960,801	8,362,418	9,360,129
Net current assets		16,836,265	12,255,225	24,040,503	20,123,412
		45,293,725	42,474,888	35,648,248	31,731,157

Statements of Financial Position (Cont'd)

			Group	С	ompany
	Note	2016 RM	2015 RM	2016 RM	2015 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		(19,706,297)	(23,477,266)	(30,131,044)	(34,048,135)
		41,454,514	37,683,545	35,648,248	31,731,157
Non-controlling interests		(26,577)	(23,464)		
		41,427,937	37,660,081	35,648,248	31,731,157
Non-Current Liabilities					
Finance lease liabilities	12	573,371	879,462	_	_
Bank borrowings	13	336,794	999,662	_	_
Deferred tax liabilities	17	2,955,623	2,935,683	-	-
		3,865,788	4,814,807	_	_
		45,293,725	42,474,888	35,648,248	31,731,157

Statements of Profit or Loss and Other Comprehensive Income for the financial year ended 31 December 2016

			Group	Co	ompany
	Note	2016 RM	2015 RM Restated	2016 RM	2015 RM
Revenue	18	67,417,903	67,291,344	480,000	480,000
Cost of sales		(50,134,321)	(52,182,377)	-	-
Gross profit		17,283,582	15,108,967	480,000	480,000
Other operating income		5,073,984	213,222	5,000,030	331
Selling and distribution costs		(3,880,754)	(3,975,179)	-	-
Administrative expenses		(13,983,757)	(8,104,313)	(1,562,939)	(1,066,621)
Finance costs	19	(779,680)	(1,261,448)	-	-
Profit/(Loss) before taxation	20	3,713,375	1,981,249	3,917,091	(586,290)
Taxation	21	54,481	(1,094,006)	-	(148,438)
Profit/(Loss)/Total comprehensive income/(expense) for the financial year		3,767,856	887,243	3,917,091	(734,728)
Profit/(Loss)/Total comprehensive income/(expense) attributable to: Owners of the Company Non-controlling interests		3,770,969 (3,113) 3,767,856	889,420 (2,177) 887,243	3,917,091 - 3,917,091	(734,728) - (734,728)
Earnings per share: Basic and diluted (sen)	22	5.83	1.37	-	_

Statements of Changes in Equity for the financial year ended 31 December 2016

		Attributable	Attributable to Owners of the Company	the Company			
		Z	Non-Distributable	ole		Non-	
	Share Capital RM	Merger Reserves RM	Treasury Shares RM	Treasury Accumulated Shares Losses RM RM	Total RM	Controlling Interests RM	Total Equity RM
Group							
At 1 January 2016	70,000,000	(4,618,481)	(4,220,708)	(23,477,266)	37,683,545	(23,464)	37,660,081
Profit/Total comprehensive income for the financial year	l	ı	I	3,770,969	3,770,969	(3,113)	3,767,856
At 31 December 2016	70,000,000	(4,618,481)	(4,220,708)	(19,706,297)	41,454,514	(26,577)	41,427,937
At 1 January 2015	70,000,000	(4,618,481)	(4,220,708)	(24,366,686)	36,794,125	(21,287)	36,772,838
Profit/Total comprehensive income for the financial year	1	ı	I	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

	Share Capital RM	Treasury Shares RM	Accumulated Losses RM	Total RM
Company				
At 1 January 2016	70,000,000	(4,220,708)	(34,048,135)	31,731,157
Profit/Total comprehensive income for the financial year		-	3,917,091	3,917,091
At 31 December 2016	70,000,000	(4,220,708)	(30,131,044)	35,648,248
At 1 January 2015	70,000,000	(4,220,708)	(33,313,407)	32,465,885
Loss/Total comprehensive expense for the financial year	_		(734,728)	(734,728)
At 31 December 2015	70,000,000	(4,220,708)	(34,048,135)	31,731,157

Statements of Cash Flows for the financial year ended 31 December 2016

		Group	Co	mpany
	2016 RM	2015 RM	2016 RM	2015 RM
	KIVI	KW	KIVI	KIVI
Cash Flows From Operating Activities				
Profit/(Loss) before taxation	3,713,375	1,981,249	3,917,091	(586,290)
Adjustments for:				
Depreciation of property, plant and	2.044.050	0.074.077		
equipment Reversal of impairment loss on:	2,914,050	2,874,877	_	_
- trade receivables	(20,000)	(127,518)	_	_
- other receivables	(5,000,000)	(121,010)	(5,000,000)	_
Impairment loss on trade receivables	668,453	_		
Interest expense	779,680	1,261,448	_	_
Interest income	(490)	(496)	(30)	(331)
Inventories written off	4,078,153	_	_	_
Gain on disposal of property, plant	(F00)	(4.4)		
and equipment	(500)	(14)		
Operating profit/(loss) before changes				
in working capital	7,132,721	5,989,546	(1,082,939)	(586,621)
Changes in working capital:				
Inventories	2,184,221	(772,891)	-	(54.000)
Trade and other receivables	1,628,504	(3,269,686)	5,000,000	(51,000)
Trade and other payables Amount owing (to)/by subsidiary	(4,756,702)	3,277,209	149,199	(553,879)
companies	_	_	(4,095,816)	1,335,386
Companies			(1,000,010)	
Cash generated from/(used in) operations	6,188,744	5,224,178	(29,556)	143,886
Interest received	490	496	30	331
Interest paid	(779,680)	(1,261,448)	_	
Tax paid	(358,616)	(222,162)	_	(150,380)
Tax refund	_	534,803	_	24,875
Net cash generated from/(used in)	<u> </u>			
operating activities	5,050,938	4,275,867	(29,526)	18,712

		Group	Con	npany
	2016 RM	2015 RM	2016 RM	2015 RM
Cash Flows From Investing Activities				
Purchase of property, plant and equipment Proceeds from disposal of property,	(1,170,008)	(534,941)	-	-
plant and equipment	18,661	3,774		_
Net cash used in investing activities	(1,151,347)	(531,167)		
Cash Flows From Financing Activities				
Repayment of term loans Net addition/(withdrawal) of	(583,702)	(582,461)	-	-
banker's acceptances	598,851	(3,161,642)	_	_
Net addition of usance letter of credit	439,219	579,498	_	_
Repayment of finance lease liabilities	(352,548)	(309,198)	-	_
Net cash generated from/(used in)				
financing activities	101,820	(3,473,803)		_
Not increase//decrease) in each and				
Net increase/(decrease) in cash and cash equivalents	4,001,411	270,897	(29,526)	18,712
Cash and cash equivalents at the beginning 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	(7,607,754)	(11,609,165)	16,929	46,455
Cash and cash equivalents at the end of the financial year comprises: Cash and bank balances	331,503	830.437	16,929	46,455
Bank overdrafts	(7,939,257)	(12,439,602)		-
	(7,607,754)	(11,609,165)	16,929	46,455

Notes to the **Financial Statements**

CORPORATE INFORMATION 1.

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 Level 2, Tower 1, Avenue 5, Bangsar South City, 59200 Kuala Lumpur, Wilayah Persekutuan.

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.

Accounting standard and amendments to accounting standards that are effective for the Group and the Company's financial year beginning on or after 1 January 2016 are as follows:

- MFRS 14, "Regulatory Deferral Accounts"
- Amendment to MFRS 5, "Non-Current Assets Held for Sale and Discontinued Operations" (Annual Improvements 2012-2014 Cycle)
- Amendments to MFRS 7, "Financial Instruments: Disclosures" (Annual-Improvements 2012-2014 Cycle)
- Amendments to MFRS 10, MFRS 12 and MFRS 128, "Investment Entities: Applying the Consolidation Exception"
- Amendments to MFRS 11, "Accounting for Acquisitions of Interests in Joint Operations"
- Amendments to MFRS 101, "Disclosure Initiative"
- Amendments to MFRS 116 and MFRS 138, "Clarification of Acceptable Methods of Depreciation and Amortisation"
- Amendments to MFRS 116 and MFRS 141, "Agriculture: Bearer Plants"
- Amendment to MFRS 119, "Employee Benefits" (Annual-Improvements 2012-2014 Cycle)
- Amendments to MFRS 127, "Equity Method in Separate Financial Statements"

 Amendment to MFRS 134, "Interim Financial Reporting" (Annual Improvements 2012-2014 Cycle)

The above accounting standard and 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 of the Company.

(a) Basis of preparation (Cont'd)

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 2017

Amendments to MFRS 107 Disclosure Initiative

The Amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes. The disclosure requirement could be satisfied in various ways, and one method is by providing reconciliation between the opening and closing balances in the balance sheet for liabilities arising from financing activities.

Amendments to MFRS 112 Recognition of Deferred Tax Assets for Unrealised Losses

The Amendments clarify that decreases in value of a debt instrument measured at fair value for which the tax base remains at its original cost give rise to a deductible temporary difference. The estimate of probable future taxable profits may include recovery of some of an entity's assets for more than their carrying amounts if sufficient evidence exists that it is probable the entity will achieve this. An example is when an entity holds a fixed-rate debt instrument (measured at fair value) and expects to collect all the contractual cash flows.

The Amendments also clarify that deductible temporary differences should be compared with the entity's future taxable profits excluding tax deductions resulting from the reversal of those deductible temporary differences when an entity evaluates whether it has sufficient future taxable profits. In addition, when an entity assesses whether taxable profits will be available, it should consider tax law restrictions with regards to the utilisation of the deduction.

Annual periods beginning on/after 1 January 2018

Amendments to MFRS 2 Classification and Measurement of Share-Based Payment Transactions

The Amendments provides specific guidance on how to account for the following situations:

- the effects of vesting and non-vesting conditions on the measurement of cash-settledshare-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations;
- a modification to the terms and conditions of a share-based payment that changes the classification
 of the transaction from cash-settled to equity-settled.

(a) Basis of preparation (Cont'd)

Annual periods beginning on/after 1 January 2018 (Cont'd)

MFRS 9 Financial Instruments

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.

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.

(a) Basis of preparation (Cont'd)

Annual periods beginning on/after 1 January 2018 (Cont'd)

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.

(b) Functional and presentation currency

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

(c) Significant accounting estimates and judgements

Estimates, assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group 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) 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.

(c) Significant accounting estimates and judgements (Cont'd)

(ii) Impairment of financial assets (Cont'd)

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) 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.

(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.

(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.

(d) Basis of consolidation (Cont'd)

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

In the Company's separate financial statements, 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.

(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.

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:

Financial assets at fair value through profit or loss

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.

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.

(j) Financial assets (Cont'd)

(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.

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.

(j) Financial assets (Cont'd)

(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.

(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.

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.

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised 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.

(I) 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:

	2016 RM	2015 RM
United States Dollar ("USD")	4.4860	4.2950
Chinese Renminbi ("RMB")	0.6457	0.6612

(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 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.

(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.

(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

Factory buildings and building I	12,217,380	12,217,380	4,194,491 300,366 	4,494,857	7 722 523
Plant and machinery RM	35,125,949 83,441 (648,911) (16,500)	34,543,979	24,797,871 1,054,314 (630,750) (2,750)	25,218,685	9.325.294
Motor vehicles RM	776,418	674,562	270,519 122,133 (101,856)	290,796	383,766
Furniture, fittings and equipment RM	13,128,916 1,012,270 - (5,000)	14,136,186	10,912,765 1,099,084 - (1,805)	12,010,044	2,126,142
Electrical installation and renovation RM	5,529,735 74,297 21,500	5,625,532	4,399,819 217,871 4,555	4,622,245	1.003.287
Total RM	76,908,398 1,170,008 (750,767)	77,327,639	46,688,735 2,914,050 (732,606)	48,870,179	28.457.460

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

Factory buildings Leasehold and building Plate land improvements mad	10,130,000 11,502,892 35,4 -	10,130,000 12,217,380 35,1	Accumulated depreciation 1,992,987 3,887,563 24,0 At 1 January 2015 120,283 306,928 1,1 Charge for the financial year 120,283 306,928 1,1 Disposal - - - Write off - - -	2,113,270 4,194,491 24,7	8,016,730 8,022,889 10,3
Plant and Motor machinery vehicles RM RM	35,403,797 463,994 132,506 317,224 - (4,800) - (410,354) – –	35,125,949 776,418	24,076,564 187,024 1,131,661 84,535 - (1,040) - (410,354)	24,797,871 270,519	10,328,078 505,899
Furniture, fittings and equipment RM	12,778,564 350,352 -	13,128,916	9,920,845 991,920 -	10,912,765	2,216,151
Electrical installation and renovation RM	6,218,564 33,859 - (8,200) (714,488)	5,529,735	4,168,469 239,550 - (8,200)	4,399,819	1,129,916
Total	76,497,811 833,941 (4,800) (418,554)	76,908,398	44,233,452 2,874,877 (1,040) (418,554)	46,688,735	30,219,663

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

- (a) The remaining period of the lease term of the leasehold land is 72 (2015: 73) 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	
	2016 RM	2015 RM	
Leasehold land	7,896,448	8,016,730	
Factory buildings	7,722,523	8,022,889	
	15,618,971	16,039,619	

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

		Group	
	2016 RM	2015 RM	
Plant and machinery Motor vehicles	1,120,496 258,862	1,199,045 379,176	
	1,379,358	1,578,221	

(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	
	2016 RM	2015 RM
Aggregate costs Finance lease financing	1,170,008 –	833,941 (299,000)
Cash payments	1,170,008	534,941

4. INVESTMENT IN SUBSIDIARY COMPANIES

(a) Investment in subsidiary companies

	2016 RM	ompany 2015 RM
In Malaysia Unquoted shares, at cost Less: Accumulated impairment losses	14,511,655 (2,903,910)	14,511,655 (2,903,910)
	11,607,745	11,607,745

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

Name of companies	Country of incorporation/ Principal place of business	owne	ctive ership voting erest 2015 %	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 of commercial carpets

4. INVESTMENT IN SUBSIDIARY COMPANIES

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

Name of companies	Country of incorporation/ Principal place of business	owne and v	ctive ership roting rest 2015 %	Principal activities
Subsidiary company of Paragon Expression Sdn. Bhd.:				
Paragon Property Development Sdn. Bhd.	Malaysia	100	100	Inactive

5. INVENTORIES

	2016 RM	Group 2015 RM
At cost:		
Raw materials	10,663,949	10,416,370
Work-in-progress	1,323,105	2,600,686
Finished goods	9,371,888	14,604,260
	21,358,942	27,621,316

During the year, there were inventories written off amounting to RM4,078,153, which was recognised to administrative expenses.

6. TRADE RECEIVABLES

	Group	
	2016	2015
	RM	RM
Trade receivables	15,994,128	13,424,350
Less: Accumulated impairment losses	(1,104,052)	(456,573)
	14,890,076	12,967,777

The Group's normal trade credit term range from 60 to 90 days (2015: 60 to 90 days). Other credit terms are assessed and approved on a case to case basis.

6. TRADE RECEIVABLES (CONT'D)

Ageing analysis of trade receivables

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

	Group	
	2016 RM	2015 RM
Neither past due or impaired	10,796,390	4,894,571
1 - 90 days past due but not impaired 91 - 180 days past due but not impaired 181 - 365 days past due but not impaired	2,714,284 1,281,616 97,786	6,722,808 1,350,398 –
Individually impaired	4,093,686 1,104,052	8,073,206 456,573
	15,994,128	13,424,350

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.

Movements in allowance for impairment loss are as follows:

	Group	
	2016 RM	2015 RM
At 1 January Additional impairment Reversal of impairment loss Written off	456,573 668,453 (20,000) (974)	584,091 - (127,518) -
At 31 December	1,104,052	456,573

The currency exposure profiles of trade receivables are as follows:

		Group		
	2016 RM	2015 RM		
Ringgit Malaysia	14,888,943	12,908,809		
United States Dollar	1,133	58,968		
	14,890,076	12,967,777		

7. OTHER RECEIVABLES

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Other receivables Deposits Prepayments	19,587,772 253,384 138,746	35,343,732 247,421 128,005	18,410,349 - -	34,950,349 - -
Less: Allowance for impairment loss	19,979,902	35,719,158	18,410,349	34,950,349
Other receivables Deposits Prepayments	(18,384,514) (2,050) (500)	(34,924,514) (2,050) (500)	(18,359,349)	(34,889,349)
	(18,387,064)	(34,927,064)	(18,359,349)	(34,899,349)
	1,592,838	792,094	51,000	51,000

Movements in allowance for impairment loss are as follows:

		Group	Co	ompany
	2016	2015	2016	2015
	RM	RM	RM	RM
At 1 January	34,927,064	34,927,064	34,899,349	34,899,349
Reversal of impairment loss	(5,000,000)	-	(5,000,000)	-
Written off	(11,540,000)	-	(11,540,000)	-
At 31 December	18,387,064	34,927,064	18,359,349	34,899,349

Included in allowance for impairment loss is an amount of RM18,000,000 (2015: RM34,540,000) recognised in relation to the Group's and Company's pending material litigation as disclosed in Note 30 to the financial statements.

8. AMOUNT OWING BY/(TO) SUBSIDIARY COMPANIES

		Company
	2016 RM	2015 RM
Amount owing by subsidiary companies Less: Accumulated impairment losses	34,190,336 (1,855,344)	31,241,430 (1,855,344)
	32,334,992	29,386,086
Amount owing to subsidiary companies	6,680,786	7,827,696

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:

	G	roup	Con	npany
	2016 RM	2015 RM	2016 RM	2015 RM
Ringgit Malaysia United States Dollar	300,675	514,194	16,929	46,455
United States Dollar	30,828	316,243 830,437	16,929	46,455

10. TRADE PAYABLES

The currency exposure profiles of trade payables are as follows:

		Group
	2016 RM	2015 RM
Ringgit Malaysia United States Dollar Chinese Renminbi	3,291,518 599,771 548,313	3,340,805 3,664,713 1,529,806
	4,439,602	8,535,324

The normal trade credit terms granted to the Group range from 60 to 120 days (2015: 60 to 120 days).

11. OTHER PAYABLES

		Group	C	Company
	2016 RM	2015 RM	2016 RM	2015 RM
Other payables Accruals	4,013,707 731,466	4,487,680 918,473	1,636,882 44,750	1,349,683 182,750
	4,745,173	5,406,153	1,681,632	1,532,433

12. FINANCE LEASE LIABILITIES

	Group	
	2016 RM	2015 RM
Minimum finance lease payments		
Within one year	350,063	416,790
Between one and five years	604,671	949,723
	954,734	1,366,513
Less: Future finance charges	(70,983)	(130,214)
Present value of finance lease liabilities	883,751	1,236,299
Present value of finance lease liabilities		
Within one year	310,380	356,837
Between one to five years	573,371	879,462
	883,751	1,236,299
Analysed as:		
Repayable within twelve months	310,380	356,837
Repayable after twelve months	573,371	879,462
	883,751	1,236,299

The effective interest rates of the Group are between 4.55% and 6.27% (2015: 4.55% and 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

	2016 RM	Group 2015 RM
Current Bank overdrafts Banker's acceptances Usance letter of credit Term loans	7,939,257 1,803,183 1,450,224 617,128	12,439,602 1,204,332 1,011,005 537,962
	11,809,792	15,192,901
Non-Current Term loans	336,794	999,662
	12,146,586	16,192,563
Secured Bank overdrafts Banker's acceptances Usance letter of credit Term loans	7,939,257 1,803,183 1,450,224 953,922 12,146,586	12,439,602 1,204,332 1,011,005 1,537,624 16,192,563
Maturity of borrowings is as follows:		
Within one year Between one and five years	11,809,792 336,794	15,192,901 999,662
	12,146,586	16,192,563

- (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(b) to the financial statements; and
 - (ii) Corporate guarantee by the Company.
- (b) The unsecured bills payable and bank overdrafts are guaranteed by the Company.

13. BANK BORROWINGS (CONT'D)

The weighted average effective interest rate is as follows:

	Group	
	2016	
	RM	RM
Bank overdrafts	8.50	8.60
Banker's acceptances	5.00	5.00
Usance letter of credit	8.10	8.10
Term loans	5.59	6.35

14. SHARE CAPITAL

	Grou Number of ordinary shares of RM1 each		p/Company	Amount
	2016 Units	2015 Units	2016 RM	2015 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

15. MERGER RESERVES

	2016 RM	Group 2015 RM
Non-distributable: Merger reserves	4,618,481	4,618,481

16. TREASURY SHARES

	Group/Company	
	2016 RM	2015 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.

17. DEFERRED TAX LIABILITIES

The movement on the net deferred tax liabilities are as follows:

	Group	
	2016 RM	2015 RM
At 1 January Recognised in profit or loss (Note 21):	2,935,683	2,197,077
- Property, plant and equipment	(170,988)	(240,848)
- Unutilised tax losses	15,053	7,159
- Unabsorbed capital allowances	30,283	344,568
- Reinvestment allowance	145,592	627,727
At 31 December	2,955,623	2,935,683

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

	Group	
	2016 RM	2015 RM
Deferred tax assets:		
- Unutilised tax losses	(8,807)	(23,860)
- Unabsorbed capital allowances	(202,739)	(233,022)
- Reinvestment allowance		(145,592)
	(211,546)	(402,474)
Offsetting	211,546	402,474
Deferred tax liability:		
- Property, plant and equipment	3,167,169	3,338,157
Offsetting	(211,546)	(402,474)
	2,955,623	2,935,683

18. REVENUE

		Group		Company
	2016 RM	2015 RM	2016 RM	2015 RM
Sale of carpets Management fee	67,417,903 -	67,291,344 –	480,000	480,000
	67,417,903	67,291,344	480,000	480,000

19. FINANCE COSTS

		Group
	2016	2015
	RM	RM
Finance costs on:		
Bank overdrafts	F20 10F	020 065
	539,105	928,865
Banker's acceptances	109,197	102,566
Finance lease liabilities	59,232	70,788
Usance letter of credit	48	53,027
Term loans	72,098	106,202
		4 004 440
	779,680	1,261,448

20. PROFIT/(LOSS) BEFORE TAXATION

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

		Group		Company
	2016 RM	2015 RM Restated	2016 RM	2015 RM
Auditors' remuneration				
- Current year	74,500	62,500	23,000	17,000
- Under provision in prior year Depreciation of property, plant	2,500	4,500	14,000	3,000
and equipment *	2,914,050	2,874,877	_	_
Directors' remuneration:				
- fees	168,000	144,000	168,000	144,000
- salaries and other emoluments	495,000	431,000	495,000	431,000
- EPF	59,400	45,000	59,400	45,000
Impairment loss on trade receivables	668,453	_	_	_
Rental of warehouse	345,600	345,600	_	_
Realised loss/(gain) on foreign				
exchange	177,809	(19,552)	_	_
Reversal of impairment loss on:				
- trade receivables	(20,000)	(127,518)	_	_
- other receivables	(5,000,000)	_	(5,000,000)	_
Gain on disposal of property, plant				
and equipment	(500)	(14)	_	_
Inventories written off	4,078,153	_	_	_
Interest income	(490)	(496)	(30)	(331)
_				

^{*} Included in depreciation of property, plant and equipment of the Group are amounts charged to costs of sales amounting to RM1,994,822 (2015: RM2,061,363).

21. TAXATION

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Income tax is calculated at the Malaysian statutory tax rate of 24% (2015: 25%) of the estimated assessable profit for the financial year.

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

		Group	Co	mpany
	2016 RM	2015 RM	2016 RM	2015 RM
Profit/(Loss) before taxation	3,713,375	1,981,249	3,917,091	(586,290)
Taxation at Malaysian statutory tax rate of 24% (2015: 25%) Effect of changes in tax rate	891,210 -	495,312 (49,474)	940,012 -	(146,573) –
Expenses not deductible for tax purposes Income not subject to tax Deferred tax asset not recognised	467,670 (1,200,000) 143,217	516,698 - -	259,988 (1,200,000) —	146,573 _ _
Utilisation of deferred tax asset not recognised Under provision of income taxation	-	(67,671)	-	_
in prior year Under provision of deferred tax	(271,984)	160,699	-	148,438
in prior year	(84,594)	38,442		
Taxation for the financial year	(54,481)	1,094,006		148,438

21. TAXATION (CONT'D)

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

		Group
	2016 RM	2015 RM
Unabsorbed capital allowances Unutilised tax losses Deductible temporary differences	1,566,962 1,805,172 435,598	1,497,738 1,263,169 416,349
	3,807,732	3,177,256
Deferred tax asset not recognised at 24% (2015: 24%)	913,856	762,541

22. EARNINGS PER SHARE

(a) Basic earnings per share

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

	Group	
	2016 RM	2015 RM
Profit for the financial year attributable to owners of the Company	3,770,969	889,420
Weighted average number of ordinary shares in issue Less: Treasury shares	70,000,000 (5,301,700)	70,000,000 (5,301,700)
_	64,698,300	64,698,300
Basic earnings per share (sen)	5.83	1.37

(b) Diluted earnings per share

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

23. STAFF COSTS

		Group
	2016	2015
	RM	RM
Staff costs (excluding Directors)	10,968,323	10,929,258

Included in the staff costs above are contributions made to the Employees Provident Fund under a defined contribution plan for the Group amounting to RM716,037 (2015: RM695,348).

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	
	2016	2015	2016	2015
	RM	RM	RM	RM
Short-term employee benefits				
- Fees	168,000	144,000	168,000	144,000
- Salaries and other emoluments	1,325,344	1,256,604	495,000	431,000
- Estimated monetary value of				
benefits-in-kind	13,900	13,900	_	_
	1,507,244	1,414,504	663,000	575,000
Post employment benefits				
- Defined contribution plan	148,488	134,322	59,400	45,000
	1,655,732	1,548,826	722,400	620,000

25. RELATED PARTY TRANSACTIONS

For the purpose of these financial statements, parties are considered to be related to the Group if the Group or the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

The significant related party transactions of the Company, other than key management personnel compensation, are as follows:

		2016 RM	Company 2015 RM
	Management fee received/receivable from subsidiary companies	480,000	480,000
26.	FINANCIAL LIABILITIES		
			Company
		2016	2015
		RM	RM
	Unsecured corporate guarantees in respect of banking facilities		
	granted to subsidiary companies	12,166,586	16,192,563

27. 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.

(a) Business segment

	Commercial RM	Automotive RM	Non- Reportable Segments RM	Inter- Segment Eliminations RM	Total RM
2016 Revenue					
External revenue Inter-segment revenue	24,571,396 16,075,715	42,846,507 1,868,896	480,000	(18,424,611)	67,417,903
Total revenue	40,647,111	44,715,403	480,000	(18,424,611)	67,417,903
Results					
Finance income Reversal of impairment loss on:	148	312	30	-	490
trade receivablesother receivables	20,000	_	5,000,000	_	20,000 5,000,000
Impairment loss on	_	_	3,000,000	_	
trade receivables	_	(668,453)	_	_	(668,453)
Finance cost Depreciation of property,	(374,969)	(404,711)	-	_	(779,680)
plant and equipment	(909,236)	(2,004,814)	_	_	(2,914,050)
Inventories written off	(3,111,264)	(966,889)	_	_	(4,078,153)
Taxation	290,456	(235,975)	_	_	54,481
Segment results	(373,320)	267,417	3,861,231	12,528	3,767,856
Segment assets	46,585,445	41,734,505	57,343,132	(79,015,952)	66,647,130
Segment liabilities	31,515,460	29,328,666	17,670,624	(53,295,557)	25,219,193

27. SEGMENT INFORMATION (CONT'D)

(a) Business segment (Cont'd)

	Commercial RM	Automotive RM	Non- Reportable Segments RM	Inter- Segment Eliminations RM	Total RM
2015 Revenue					
External revenue Inter-segment revenue	24,107,390 13,604,495	43,183,954 2,441,642	480,000	(16,526,137)	67,291,344
Total revenue	37,711,885	45,625,596	480,000	(16,526,137)	67,291,344
Results					
Finance income Reversal of impairment loss on trade	69	96	331	-	496
receivables	127,518	(700,500)	-	-	127,518
Finance cost Depreciation of property,	(561,692)	(738,563)	_	_	(1,300,255)
plant and equipment	(909,602)	(1,965,275)	(400,000)	-	(2,874,877)
Taxation Segment results	22,544 (230,848)	(955,851) 1,858,950	(160,699) (756,611)	15,752	(1,094,006) 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

(b) Geographical information

Revenue by geographical location of customers

		Group
	2016 RM	2015 RM
Malaysia Korea UAE Singapore Brunei Maldives Others	66,930,208 147,324 54,920 148,953 136,498 - 67,417,903	65,214,418 1,088,896 390,796 370,240 172,886 - 54,108

28. 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:

	Loans and receivables/ other financial	2016	Loans and receivables/ other financial	2015
	liabilities RM	Total RM	liabilities RM	Total RM
Group				
Financial assets	44.000.070	44.000.070	40.007.777	40.007.777
Trade receivables Other receivables	14,890,076 1,454,592	14,890,076 1,454,592	12,967,777 664,589	12,967,777 664,589
Cash and bank balances	331,503	331,503	830,437	830,437
	16,676,171	16,676,171	14,462,803	14,462,803
Financial liabilities				
Trade payables	4,439,602	4,439,602	8,535,324	8,535,324
Other payables	4,013,707	4,013,707	4,487,680	4,487,680
Finance lease liabilities	883,751	883,751	1,236,299	1,236,299
Bank borrowings	12,146,586	12,146,586	16,192,563	16,192,563
	21,483,646	21,483,646	30,451,866	30,451,866
Company				
Financial assets				
Other receivables	51,000	51,000	51,000	51,000
Amount owing by subsidiary	,	•	,	,
companies	32,334,992	32,334,992	29,386,086	29,386,086
Cash and bank balances	16,929	16,929	46,455	46,455
	32,402,921	32,402,921	29,483,541	29,483,541
Cinemaial link !!!!				
Financial liabilities Amount owing to subsidiary				
companies	6,680,786	6,680,786	7,827,696	7,827,696
Other payables	1,636,882	1,636,882	1,349,683	1,349,683
	8,317,668	8,317,668	9,177,379	9,177,379

(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, liquidity risk and market 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 other than as disclosed in Note 6.

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.

Liquidity risk (Cont'd) **(**p)

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

	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
2016						
Group						
Trade payables Other payables Finance lease liabilities Bank borrowings	4,439,602 4,013,707 883,751 12,146,586	2.42 - 3.35 5.00 - 8.50	4,439,602 4,013,707 954,734 12,231,014	4,439,602 4,013,707 350,063 11,848,464	_ 325,890 382,550	_ _ _
	21,483,646		21,639,057	20,651,836	708,440	278,781
Company						
Amount owing to subsidiary companies Other payables	6,680,786	1 1	6,680,786	6,680,786	1-1	
	8,317,668		8,317,668	8,317,668	1	

(d) Liquidity risk (Cont'd)

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: (Cont'd)	maturity profile of the ments: (Cont'd)	Group and the Co	ompany's financial	liabilities as at the	end of the reportin	ig period based
	Carrying amount RM	Contractual interest rate %	Contractual cash flows	Within 1 year RM	Between 1 and 2 years RM	Between 2 and 5 years RM
2015						
Group						
Trade payables Other payables Finance lease liabilities Bank borrowings	8,535,324 4,487,680 1,236,299 16,192,563	2.42 - 3.35 5.00 - 8.60	8,535,324 4,487,680 1,366,513 16,349,089	8,535,324 4,487,680 416,790 15,310,739	350,063	- 599,660 382,550
	30,451,866		30,738,606	28,750,533	1,005,863	982,210
Company						
Amount owing to subsidiary companies Other payables	7,827,696	1 1	7,827,696	7,827,696	1 1	1 1
	9,177,379		9,177,379	9,177,379	1	I

(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.

Exposure to foreign currency risk

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

	United	Group
	States Dollar RM	Chinese Renminbi RM
2016		
Trade receivables Cash and bank balances Trade payables	1,133 30,828 (599,771)	- - (548,313)
	(567,810)	(548,313)
2015		
Trade receivables Cash and bank balances Trade payables	58,968 316,243 (3,664,713)	- (1,529,806)
	(3,289,502)	(1,529,806)

(e) Market risk (Cont'd)

(i) Foreign currency exchange risk (Cont'd)

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.

	Increase	Group e/(Decrease) it or loss
	2016 RM	2015 RM
USD/RM - strengthening 5% RMB/RM - strengthening 5%	(21,577) (20,836)	(123,356) (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
	2016 RM	2015 RM
Floating rate instruments		
Term loans	953,922	1,537,624
Banker's acceptances	1,803,183	1,204,332
Usance letter of credit	1,450,224	1,011,005
Bank overdrafts	7,939,257	12,439,602
	12,146,586	16,192,563
Fixed rate instruments		
Finance lease liabilities	883,751	1,236,299

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.

(e) Market risk (Cont'd)

(ii) Interest rate risk (Cont'd)

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
	2016 RM	2015 RM
Increase of 100 basis points ("bp")	(92,314)	(121,444)

(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.

		2016		2015
	Carrying amount	Fair value	Carrying amount	Fair value
Group				
Finance lease liabilities	883,751	798,016	1,236,299	1,214,604

- (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.

29. 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 bank borrowings divided by equity attributable to owners of the Company.

	Group		
	2016 RM	2015 RM	
Bank borrowings	12,146,586	16,192,563	
Finance lease liabilities	883,751	1,236,299	
Less: Cash and bank balances	(331,503)	(830,437)	
Net bank borrowings	12,698,834	16,598,425	
Equity attributable to owners of the Company	41,454,514	37,683,545	
Gearing ratio	30.63%	4.05%	

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

30. MATERIAL LITIGATION

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

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

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

On 1 April 2009, the Company's lawyer served a Notice pursuant to Section 218 of the Companies Act, 1965 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.

30. MATERIAL LITIGATION (CONT'D)

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

The details are as follows:

	RM
Monies paid by the Company to PDSB Agreed liquidated damages	13,500,000 1,350,000
Interest coloulated at the rate of 9 000/, per year upon PM14 950 000	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 Liw 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 exparte 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.

30. MATERIAL LITIGATION (CONT'D)

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

On 8 February 2010, the appeal by the Defendants against the decision of the High Court which interalia, 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, but on 17 May 2010, the Federal Court dismissed the Company's application for leave to appeal with costs.

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.

On 12 August 2011, The Company proceeded 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 Court came up for decision on 18 June 2014 to not allow the Company's claim for the refund of RM18,000,000. The Company had on 1 July 2014 filed an appeal with the Court of Appeal against the said decision.

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 Appeal by the Company to the Court of Appeal has yet to be fixed for a Decision. The Court of Appeal reserves its decision after the hearing came up on 24 February 2017.

On 24 February 2017, the Court of Appeal heard all the submissions and will fix a Decision Date, which will be determined and informed to all parties via notice.

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.

30. MATERIAL LITIGATION (CONT'D)

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

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

As at 31 December 2016, the full settlement sum of RM5,000,000 was received and a reversal of the impairment amounting to RM5,000,000 has been recognised as stated in Note 7 to the financial statements.

31. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation:

2015	As previously stated RM	Reclassification RM	As restated RM	
Statement of profit or loss and other comprehensive income				
Cost of sales	57,157,919	(4,975,542)	52,182,377	
Administrative expenses	3,128,771	4,975,542	8,104,313	

32. DATE OF AUTHORISATION FOR ISSUE

The financial statements of the Group and of the Company for the financial year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Board of Directors on 17 April 2017.

REALISED AND UNREALISED PROFITS/LOSSES (SUPPLEMENTARY INFORMATION)

The breakdown of the retained earnings of the Group and of the Company as of 31 December 2016 into realised and unrealised amounts is as follows:

		Group	Company		
	2016 RM	2015 RM	2016 RM	2015 RM	
Total accumulated losses:					
- Realised	(14,157,203)	(17,929,356)	(30,131,044)	(34,048,135)	
- Unrealised	(2,955,623)	(2,935,683)	_	-	
	(17,112,826)	(20,865,039)	(30,131,044)	(34,048,135)	
Less: Consolidation adjustments	(2,593,471)	(2,612,227)		_	
	(19,706,297)	(23,477,266)	(30,131,044)	(34,048,135)	

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.



(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 fail	ing whom(FULL NAME IN BLOCK LETTERS)		
	(FULL NAME IN BLOCK LETTERS)		
of	(FULL ADDRESS)		
or faili	ng whom, the Chairman of the Meeting as my/our proxy/proxies to vote for me/us and c	on my/our	hehalf at the
Twent	ry-Third Annual General Meeting of the Company to be held at Dewan Berjaya, Bukit k	Kiara Eque	estrian Club
Jalan	Bukit Kiara, Off Jalan Damansara, 60000 Kualá Lumpur on Thursday, 8 June 2017 a rnment thereof.	at 10.30 a	.m. and an
,			
My/O	ur proxy(ies) is(are) to vote as indicated below:-		
NO.	RESOLUTIONS	FOR	AGAINST
1.	To approve the payment of Directors' fees for the financial year ended 31 December 2016.		
2.	To approve the payment of Directors' fees for the financial year ending 31 December 2017.		
3.	To re-elect Mr. Fung Beng Ee who is retiring as a Director of the Company in accordance with Article 75 of the Company's Articles of Association.		
4.	To re-appoint Messrs. Morison Anuarul Azizan Chew, the retiring Auditors and to authorise the Board of Directors to fix their remuneration.		
5.	To re-appoint Mr. Michael Lim Hee Kiang to continue in office as Senior Independent Non-Executive Director		
6.	To authorise the Directors to issue and allot shares in the Company pursuant to Section 75 of the Companies Act, 2016.		
[Pleas	se indicate with (X) in the spaces provided how you wish your vote to be casted. If no	specific di	rection as to
voting	is given, the proxy will vote or abstain at his(her) discretion.]		
Dated	this day of , 2017		
Signa	ture of Member / Common Seal		

Notes

- A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy(ies) to attend and vote on his(her) behalf.
- 2. A proxy may but need not be a member of 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 Level 2, Tower 1, Avenue 5, Bangsar South City, 59200 Kuala Lumpur, not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting.
- 7. In respect of deposited securities, only members whose names appear on the Record of Depositors on 2 June 2017 (General Meeting Record of Depositors) shall be eligible to attend, speak and vote at the meeting or appoint proxy(ies) to attend and/or vote on his(her) behalf.

Fold this flap for sealing			

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AFFIX STAMP

The Company Secretary

PARAGON UNION BERHAD (NO. 286457-V) LEVEL 2, TOWER 1, AVENUE 5 BANGSAR SOUTH CITY 59200 KUALA LUMPUR

1st fold here

PARAGON UNION BERHAD

(Company No. 286457-V)

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