PARAGON UNION BERHAD

Company No: 199401000779 (286457-V)

ANNUAL REPORT 2019

Contents

Corporate Information

BOARD OF DIRECTORS

Fung Beng Ee
(Senior Independent Non-Executive Chairman)

Lau Yoke Keen
(Independent Non-Executive Director)

Kong See Kuan
(Non-Independent Non-Executive Director)

Lee Choon Hee
(Executive Director)

AUDIT COMMITTEE

Lau Yoke Keen
(Chairman)
Fung Beng Ee
Kong See Kuan

NOMINATION COMMITTEE

Fung Beng Ee
(Chairman)
Lau Yoke Keen
Kong See Kuan

REMUNERATION COMMITTEE

Kong See Kuan
(Chairman)
Fung Beng Ee
Lee Choon Hee

RISK MANAGEMENT COMMITTEE

Lau Yoke Keen
(Chairman)
Fung Beng Ee
Lee Choon Hee

COMPANY SECRETARY

Wong Youn Kim
(MAICSA 7018778)
SSM Practising Certificate
No. 201908000410

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

PRINCIPLE BANKERS

CIMB Bank Berhad
Malayan Banking Berhad

REGISTRAR

Boardroom Share Registrars Sdn Bhd (378993-D)
11th Floor, Menara Symphony
No. 5, Jalan Professor Khoo Kay Kim
Seksyen 13
46200 Petaling Jaya
Selangor Darul Ehsan

Tel : 603 - 7890 4700
Fax : 603 - 7890 4670

AUDITORS

Morison AAC PLT
(formerly known as
Morison Anuarul Azizan Chew)
(LLP 0022843-LCA & AF 001977)
No 18 Jalan Pinggir 1/64
Jalan Kolam Air
Off Jalan Sultan Azlan Shah
(Jalan Ipoh)
51200 Kuala Lumpur

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

SOLICITORS

Jaffar & Menon
Tai Wah & Co
TS Teoh & Partners
Wilson Wong & Tan

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

Profile of Board of Directors

FUNG BENG EE

Aged 57, Male, Malaysian

Senior Independent Non-Executive Chairman
Chairman of Nomination Committee
Member of Audit Committee
Member of Remuneration Committee
Member of Risk Management Committee

Mr. Fung Beng Ee was appointed to the Board of Paragon on 22 July 2010. He was subsequently re-designated as Senior Independent Non-Executive Chairman on 28 January 2018. 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 Kamarudin & 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 54, Male, Malaysian

Independent Non-Executive Director
Chairman of Audit Committee
Chairman of Risk Management Committee
Member of Nomination Committee

Mr. Lau Yoke Keen was appointed to the Board of Paragon on 11 August 2011. Mr. Lau is a Chartered Accountant by profession and a member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants. He is also a member of the Chartered Tax Institute of Malaysia. Mr Lau started his professional career with the public accounting firms of Hanafiah Raslan & Mohamad, (Arthur Andersen & Co) in 1986 and subsequently in 1991 with Hew & Tan (Moores Rowland) until 1993. During the periods from 1994 until 2001, Mr. Lau has served in various financial management capacities with several companies (public listed and non public listed) mainly in the retail, manufacturing, information technology and property development sectors. In 2002, he went into Public practice and currently he is the Managing Partner of Messrs KL Associates, a Partner of Messrs YC Chong & Co and also sits on the Board of Directors of Major Team Holdings Berhad. He has more than 25 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.

Profile of Board of Directors (Cont'd)

LEE CHOON HEE

Aged 50, 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. He is a fellow member of The Australian Society of Certified Practising Accountant and a member of The Malaysian Institute of Accountants. Mr. Lee has more than 25 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.

KONG SEE KUAN

Aged 63, Female, Malaysian

Non-Independent Non-Executive Director
Chairman of Remuneration Committee
Member of Audit Committee
Member of Nomination Committee

Madam Kong See Kuan was appointed to the Board of Paragon on 29 January 2018. She graduated from Cambridge University with Master in Business Administration. Madam Kong is a businesswoman with approximately 40 years of experience in various industries such as property development and construction. She presently sits on the Board of Directors of Major Team Holdings Berhad and several private companies. She is the major shareholder of Asia Avenue Sdn Bhd, the substantial shareholder of Paragon. Save for the above, she has no family relationship with any Director and/or substantial shareholders of Paragon and her directorship in Paragon does not give rise to any conflict of interest situation. She has no convictions for any offences within the past five years.

SENIOR MANAGEMENTS' PROFILE

SHAHRUL HISHAM BIN MUSA

Aged 46, Male, Malaysian

Group Senior General Manager
Management Representative IATF 16949
Management Representative SHE

Mr. Shahrul was appointed as a Group Senior General Manager in 2016. He holds a Degree in Economics (Hons) from National University of Malaysia. Mr. Sharul currently oversees both business and operations for the Group. With approximately 21 years of working experience with two automotive manufacturing companies, Mr. Shahrul was adequately exposed to a managing standard of business and operations.

HALEZA BINTI HUSSIN

Aged 50, 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 25 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 Department with responsibility for budgets preparation, forecasting, Accounts Payable and Receivable.

HIEW SIEW SHAN

Aged 41, Female, Malaysian

Group Senior Finance Manager

Ms. Hiew started her career with Paragon in year 2003. She holds an Advance Diploma in Accountancy. She has approximately 18 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.

None of the Senior Management have:

a) *Any family relationship with any Director and/or substantial shareholders of Paragon*
b) *Any conflict of interest with the Company*
c) *Any conviction of offences within the past five years*

Letter To Shareholders

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 2019 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 7.

FUNG BENG EE
Senior Independent Non-Executive Chairman



MANAGEMENT DISCUSSION AND ANALYSIS

PERFORMANCE AND FINANCIAL REVIEWS

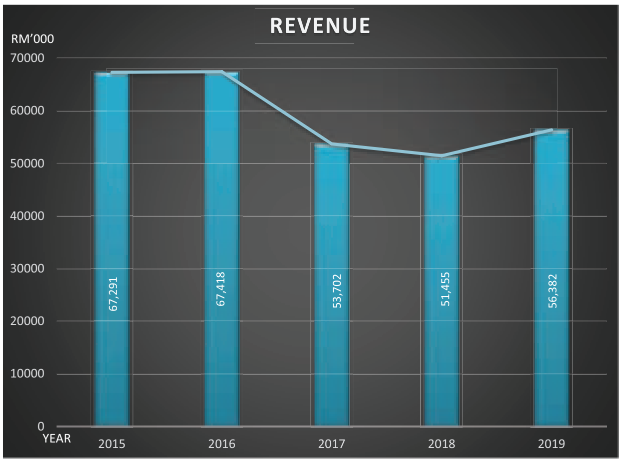
The Group registered a turnover of RM56.4 million (2018: RM51.5 million) with an erosion of margin due to higher costs which had adversely affected the operation performance of the Group.

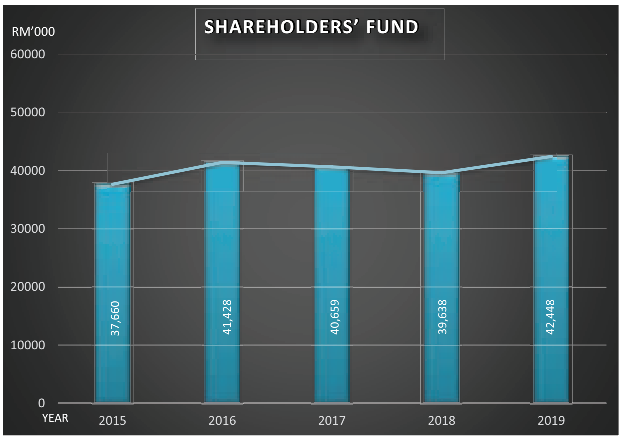
An improvement on Group's profit before taxation of RM 1.8 million (2018: loss of RM 1.5 million) mainly attributable by recognition of Other Income amounted to RM 13.0 million (2018: RM 3.5 million) in relation to settlement of material litigation.

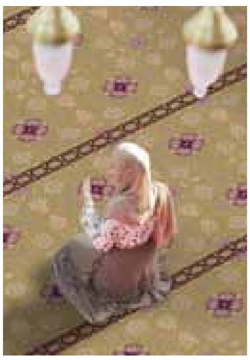
In terms of market share, the Group is able to maintain its main existing automotive clientele, which comprises of Perodua, Proton, Honda, Nissan, BMW, Naza and Isuzu. The Group is able to secure additional projects from our existing clients with the launches of new models.

For the commercial carpet division, we have selected on-going projects in our order book, which among others are Masjid An-Nur Singapore; Goldsand Hotel Penang; MBSB Bank; SICC Sabah; Putrajaya International Convention Centre; Emperor Cinema Johor; Petronas UTP Tronoh and Mahkamah Kota Baru Kelantan;

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







MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

PROPERTY DEVELOPMENT DIVISION

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

PROSPECTS AND OUTLOOK

In general, the Group prospects and outlook in the coming year would largely rely on the implementation of the secured projects and the success rate of tenders in both automotive and commercial sectors. Dealers' performance throughout the year would also contribute to our total revenue generated.

Our outlook and market competitiveness would remain challenging for the year ahead and could be subjected to unforeseen factors which may affect our price competitiveness. For instance in the recent year, the cost of production had escalated drastically, which affected our price competitiveness, particularly the hike in the raw material prices. Generally, such factor is 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.







SUSTAINABILITY STATEMENT

Paragon recognise the importance of sustainability related issues which can have a significant impact on Paragon Group's business. In line with governance recommendations, Paragon now makes a formal statement disclosing its sustainability strategy.

Sustainability is embedded within the Company and sustainability matters are managed by various departments within the Paragon Group. Based on the Economic, Environment and Social framework and workplace as set out in the guideline.

ECONOMIC

a) Logistics Activities

The Group's existing business are involve in Automotive and Commercial Sector and efforts are continuing to achieve greater sustainability of earnings from this Sectors.

b) Business Ethics & Transparency

The Board has a Code of Conduct and Ethics to ensure all business dealings are conducted in an ethical and transparent manner. The Group also has in place a Whistle-blower Policy where complaints are investigated while identity of whistle-blower protected.

c) Regulatory Compliance

The Group keeps abreast of changes in relevant laws, regulations and practices to ensure compliance with the regulatory changes taking place. Quarterly Financial Reports are prepared and submitted to Bursa Securities in accordance with Bursa Securities' Listing requirements.

ENVIRONMENT

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.

SOCIAL

The Group's contributions in the social sector include generating employment and business opportunities in its areas of operations. It also strives to provide a safe working environment for all its employees and business partners and also makes annual financial contributions to community and society.

WORKPLACE

The Board fully acknowledges that employees are the backbone of the operations and central to the success and continued viability of the Group.

To this end, the Group strives to provide a healthy, comfortable and safe working environment for its diverse workforce and offers its employees fair compensation for their contributions and efforts. Employee's welfare is also taken care of through competitive medical benefits and occupational safety, particularly for production floor employees, is given appropriate attention. Employees will also be given opportunities to enhance their knowledge and skills which will not only enhance their productivity but also position them to undertake increased responsibilities and more challenging tasks in future.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Malaysian Code of Corporate Governance defines corporate governance as "the process and structure used to direct and manage the business and affairs of the company towards promoting business prosperity and corporate accountability with the ultimate objective of realising long-term shareholder value, whilst taking into account the interests of the other stakeholders."

The Board of Directors remains committed to subscribe to the principles of good corporate governance that is central to the effective operation of the Company and to ensure the highest standards of accountability and transparency. The Board supports the Corporate Governance Framework and continues to improve existing practices and achieve the objectives of the Company.

The Board is pleased to set out below the manner in which the Group has applied the three main principles in the Malaysian Code on Corporate Governance ("MCCG[1]) during the financial year ended 31 December 2019. This statement is prepared in compliance with Main Market Listing Requirement ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Securities") and it is to be read together with the CG Report 2019 of the Company which is available on Paragon's website at www.paragon.com.my.

PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS

Board Responsibilities

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 (available at the Company's website: www.paragon.com.my) which, inter alia, sets a list of specific functions that are reserved for the Board and Chairman; and the authorisation limit which defines relevant matters and applicable limits reserved for Chairman/ /Executive Director that are further cascaded to senior management team within the Company.

The Board has delegated specific responsibilities to various Board Committees namely the Audit Committee, Nomination Committee, Remuneration Committee and Risk Management Committee whose functions are within their respective terms of reference approved by the Board. The said terms of reference are periodically reviewed by the Board, as and when necessary and the Board appoints the Chairman and members of each committees. These Committees assist the Board in making informed decisions through in-depth discussions on issues in discharge of the respective committees' terms of reference and responsibilities. The terms of reference of the Board Committees are available at the Company's website.

The Board of Directors adopted the Code of Conduct and Ethics for Company Directors and employees within the Group. This Code of Conduct and 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.

The Group aims to ensure a balance of power and authority between the Chairman and Executive Director with a clear division of responsibility between the running of the Board and the Company's business respectively. The Group also emphasizes and practices a division of responsibility between the Executive and Non-Executive Directors.

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.

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.

PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

Board Responsibilities (Cont'd)

All Directors have the right to 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.

The Board has also formalised its ethical standards in its Code of Conduct and Ethics and Whistleblowing Policy that published on the Company's website at www.paragon.com.my for stakeholders' information.

Board Composition

The Board acknowledges the call by the Government and MCCG for boards to comprises at least 30% woman on board.

The Board is mindful that any gender representation should be in the best interest of the Company. Although the Company has not reached the 30% woman representation target at Board level as require, the Board is putting its effort in getting other suitable women who could meet the objective criteria, merit and with due regard for diversity in skills, experience, age to join the Board.

The Board does not have specific policy on diversity policy and measures, However, the issue of diversity is discussed by the Nomination Committee. The Board will take steps towards formalising such policy, targets and measures to reflect the Company's commitment towards gender diversity.

In connection with this policy, the Board have appointed one woman director to the Board, which represent 25% of the total number of board members.

In accordance to Board Charter, the tenure of an Independent Director should not exceed a cumulative term of nine (9) years from the date of first appointment as Director. In the event the Board wishes to retain the independence status of an Independent Director who has served for more than nine (9) years, Board justification and shareholders' approval are required. Two tier voting process will be applied in the Annual General Meeting for retaining any Independent Director serving beyond twelve (12) years.

The Company currently does not have a policy to limit the tenure of its Independent Directors. Nevertheless, the Board has considered the independence of the Independent Director whose tenure had exceeded nine (9) years during the financial year 2020, namely Mr. Fung Beng Ee ("Mr. Fung") and Mr. Lau Yoke Keen ("Mr. Lau"). Both confirmed that they do not have personal interest or conflict of interest and have not entered or expected to enter into any transaction or contract with the Company or with the Group and do not assist the Company in any operational matters of the Group. In addition to that, Mr. Fung and Mr. Lau confirmed that they have their own business which are not same industry as the Group.

Based on the assessment, the Board generally satisfied with the level of independence demonstrated by Mr. Fung and Mr. Lau. In view thereof, the Company will seek shareholders' approval to retain Mr. Fung and Mr. Lau who had served as Independent Directors for more than nine (9) years during the financial year 2020 had abstained from any deliberations or voting pertaining to their independence at the Board level.

With the current composition, the Nomination Committee 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.

None of the Directors of the Company hold more than five (5) directorships of listed companies as provided under Paragraph 15.06 of the MMLR.

Corporate Governance Overview Statement (Cont'd)

PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

Board Composition (Cont'd)

The Board meets on a quarterly basis with additional meetings being convened when necessary to address urgent matters. All the Directors have complied with the minimum attendance requirements as stipulated by the MMLR. The Board met seven occasions during the year ended 31 December 2019 and the details of attendance at Board Meetings is set out below:-

Name of Directors	Meeting attended
Fung Beng Ee	7/7
Lau Yoke Keen	7/7
Kong See Kuan	7/7
Lee Choon Hee	7/7

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.

Training programmes and seminars attended by the Directors of the Company during the financial year ended 31 December 2019 are as follows:-

Name of Directors	Training Attended	Date
Fung Beng Ee	• Evaluating Effective Internal Audit Function – Audit Committee's Guide On How To	15 October 2019
Lau Yoke Keen	• Preparing MFRS Compliance Financial Statements 2019 • 2020 Budget Seminar	14 & 15 October 2019 24 October 2019
Lee Choon Hee	• Evaluating Effective Internal Audit Function – Audit Committee's Guide On How To • Corporate Governance and Anti-Corruption	15 October 2019 31 October 2019

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

During the financial year ended 31 December 2019, besides from attending the briefings conducted by the Company Secretary pertaining to the updates on the Listing Requirements and Section 17A of the Malaysian Anti-Corruption Commission Act. In addition, the External Auditors also briefed the Board members on any changes to the Malaysian Financial Reporting Standard that affect the Group's financial Statement during the year.

Company Secretary

The Board is supported by a qualified secretary who is a fellow of the Malaysian Institute of Chartered Secretaries and Administrators ("MAICSA") and is qualified to act as Company Secretary under the Companies Act, 2016. As a practicing company secretary, she has also attended continuous professional development programmes as required by MAICSA.

The Company Secretary support the Board in carrying out their fiduciary duties and stewardship role in shaping the standard of corporate governance of the Group. The Company Secretary also served as an advisory role to the Board, particularly with regards to the Company's Constitution, Board's policies and procedures and various compliance with regulatory requirement, codes, guidelines, regislation and the principles of corporate governance practices.

PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

Company Secretary (Cont'd)

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. Throughout their period in office, the Directors are continually updated on the Group's business and the regulatory requirements.

Nomination Committee

The Company's Nomination Committee ("NC") comprised three (3) Non-Executive Directors. The members of the NC are as follows:-

1. Mr Fung Beng Ee (Chairman)
2. Mr Lau Yoke Keen
3. Madam Kong See Kuan

The Board has been through the NC, assessed on an annual basis with the use of board matrix, questionnaires and other evaluation forms, the size, composition, mix of skills, experience, competencies of the existing Board, the individual Directors, the independence and tenure of the Independent Directors, and the effectiveness of the Board and the Board Committees, to identify gaps in the Board composition and the needs to identify and select new members to the Board or Board Committees.

Based on the assessment, the NC concluded that the current structure, size and composition of the Board, which comprises people who posses a wide range of expertise, experience and skill in various fields to enable them to discharge their duties and responsibilities effectively. The Board Chairman had performed in an excellent manner and contributed to the Board.

The terms of reference of the NC are available at the Company's website at **www.paragon.com.my**.

The Company's Constitution provides that one third (1/3) or nearest to one-third (1/3) of the Directors for the time being shall retire from office and be eligible for re-election provided always that all the Directors shall retire from office at least once in every three (3) years, but shall be eligible for re-election. All the retiring Directors will abstain from deliberations and decisions on their own eligibility to stand for re-election at the Board Meeting.

In considering whether to recommend a Director who is eligible to stand for re-election, the NC would consider a variety of factors, including:

- the Director's contributions to the Board and ability to continue to contribute productively;
- the Director's attendance at Board and committee meetings;
- the Director's compliance with the Code;
- whether the Director continues to possess the attributes, capabilities and qualifications considered necessary or desirable for Board service; and
- the independence of the Director.

Directors' Remuneration

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

1. Madam Kong See Kuan (Chairman)
2. Mr Fung Beng Ee
3. Mr Lee Choon Hee

Corporate Governance Overview Statement (Cont'd)

PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS (CONT'D)

Directors' Remuneration (Cont'd)

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

The Company aims to set remuneration at levels which are sufficient to attract and retain the Directors and Senior Management needed to run the Company successfully, taking into consideration all relevant factors including the function, workload and responsibilities involved, and after giving due consideration to the Group's performance.

Pursuant to Section 230(1) of the Companies Act, 2016, fees and any benefits payable to the Directors of a listed company and its subsidiaries shall be approved at a general meeting.

The annual review during the financial year ended 31 December 2019 was conducted by the RC on 16 January 2019.

The details of the Directors' remuneration comprising remuneration received from the Company in the financial year ended 31 December 2019 are as follows:-

Category	Fees (RM)	Bonus (RM)	Salaries (RM)	Benefit in Kind (RM)	Total (RM)
Executive Director					
Lee Choon Hee	48,000	133,000	456,000	–	637,000
Non-Executive Directors					
Fung Beng Ee	48,000	–	–	–	48,000
Lau Yoke Keen	48,000	–	–	–	48,000
Kong See Kuan	44,000	–	–	–	44,000

The details of the remuneration of the top Senior Management (including salary, bonus, benefit in kind and other emoluments) in each successive bands of RM50,000 during the financial year ended 31 December 2019 are as follows:-

Range of Remuneration (RM)	Designation of Top Senior Management
50,000 – 100,000	–
100,001 – 150,000	Group Senior Finance Manager Senior Head of Costings for Automotive Division
150,001 – 200,000	–
200,001 – 250,000	–
250,001 – 300,000	Group Senior General Manager

PRINCIPLE B – EFFECTIVE AUDIT AND RISK MANAGEMENT

Audit Committee

The Board is assisted by the Audit Committee ("AC") which comprises two (2) Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director, to oversee the Group's financial reporting process. In line with the principles of the MCCG, the Terms of Reference of the AC was amended to include a policy that requires a former key audit partner who was part of the engagement team to observe a cooling-off period of at least 2 years before being appointed as a member of the AC.

The Chairman of the AC is not the Chairman of the Board. The AC Chairman is able to assess to the Executive Director, Senior Management, External and Internal Auditors.

The composition of the AC is reviewed annually with the view to maintain an independent and effective AC, and in line with the principles of the MCCG, all members of the AC have continuously improved their financial literacy by attending trainings on the developments and changes in the Malaysian Financial Reporting Standards in order for them to discharge their duties effectively.

The independence, suitability and appointment/re-appointment of the External Auditors is reviewed by the AC annually based on the External Auditors Appointment and Independence Policy established by the Company.

Risk Management and Internal Control Framework

The Risk Management Committee has been formed to assist the Board on the ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This process is regularly reviewed and is in accordance with the Statement on Risk Management and Internal Control: Guidance for Directors of Public Listed Companies.

The Executive Director and Senior 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.

The Internal Audit Function is carried out by Insight Advisory Services Sdn. Bhd., an internal audit consulting firm. The internal audit function is headed by a Director who is assisted by a manager and support by account staff. The Director in charge is a qualified accountant while the rest of the team members have an accounting background. The Internal Auditors have performed its work with reference to the principles of the International Professional Practice Framework of Institute of Internal Auditors covering the conduct of the audit planning, execution, documentations, communication of findings and consultation with key stakeholders. The AC will review the engagement between the Group and the Internal Auditors to ensure that the Internal Auditors' objectivity and independence are not impaired or affected.

The Board is of the view that the system of internal control and risk management is in place, is sound and sufficient in safeguarding the Group's assets and shareholders' investment and interests of all stakeholders.

Statement on Risk Management and Internal Control furnished on pages 19 to 23 of this Annual Report provides an overview on the state of risk management and internal controls within the Group.

Corporate Governance Overview Statement (Cont'd)

PRINCIPLE C – INTEGRITY IN CORPORATE REPORTING AND MEANING RELATIONSHIP WITH STAKEHOLDERS

Communication with Stakeholders

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.

Conduct of General Meetings

The Annual General Meeting ("AGM") represents the principal forum for dialogue and interaction with shareholders. At each AGM, the Board presents the performance and progress of the Company and provides ample opportunity for shareholders to raise questions pertaining to the business activities of the Company. All the Directors and key management personnel are available to provide responses to questions raised by the shareholders during the AGM.

In line with the MCCG, the Notice of the Twenty-Sixth AGM and Annual Report 2019 of the Company are sent 28 days prior to the AGM, so as to provide sufficient time for shareholders to read through the Annual Report and make the necessary attendance and voting arrangements.

In compliance with Bursa Securities' Listing Requirements, voting for all resolutions set out in the Notice of the Twenty Sixth AGM shall be conducted by poll as it fairly reflects shareholders' views by ensuring that every vote is recognised, in accordance with the "one share one vote" principle which enforces greater shareholders' rights. At least one (1) independent scrutineer is appointed to validated the votes cast at the meeting.

The outcome of the meeting will be announced to Bursa Securities on the same day, the same is also accessible on the Company's website.

STATEMENT OF DIRECTORS' RESPONSIBILITY FOR PREPARING THE FINANCIAL STATEMENTS

The Directors are required by the Companies Act, 2016 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 2019. 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.

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.

The Board has complied most of the recommended practices of the MCCG throughout the financial year, except for the following: -

(a) Step Up Practice 4.3 – To have a policy which limits the tenure if its independent directors to nine years.

(b) Practice 4.5 – To have a policy on gender diversity, its targets and measures to meet those targets.

(c) Practice 7.2 – To disclose the top five (5) senior management's remuneration component including salary, bonus, benefits in-kind and other emoluments in bands of RM50,000.

(d) Step Up Practice 7.3 – To fully disclose the detailed remuneration of each member of senior management on a named basis.

(e) Step Up Practice 8.4 – The Audit Committee should comprise solely of Independent Directors.

(f) Practice 11.2 – To adopt integrated reporting based on a globally recognised framework.

(g) Practice 12.3 – To leverage on technology to facilitate voting in absentia and remote shareholders' participation at general meeting.

This Corporate Governance Overview Statement was approved by the Board on 26 March 2020.

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 RM 2,000.

2. **Material contracts**

   There were no material contracts entered into by the Company and/or its subsidiaries that involve Directors' or substantial shareholders' interests either still subsisting at the end of the financial year ended 31 December 2019 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 2019.

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 statement of risk management and internal control of the Group for the financial year ended 31 December 2019 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 Issuers.

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 (Cont'd)**

(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 Audit Committee (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.

  The AC 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 AC 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 AAC PLT 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 2019.

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 recognised 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.

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

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 RMC supports the Board with their responsibility for risk management. The RMC 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 two independent directors and one Non-Independent Non-Executive Director. 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
Products and Process- Quality and standard of our products Labour Intensive Process	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. Manpower depending process lead to high recruitments	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. Cost down committed to customer without official support from existing suppliers	Utilising the flexibility in contracts. Improvement of our knowledge of the market and management of stock. Multi sourcing and continued negotiation with suppliers on cost down activities.
Disruptions in the supply chain	Supply chain disruption may lead to inability to deliver products to key customers on time. Specific risks are: Failure of delivery systems.	Business continuity plans and Implementation of back-up scenarios.

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

Main Risks (Cont'd)

Risk category	Risk description	Mitigation
Manufacturing Capacity 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 and customers
Business improvement and transformation	Risk of cost overruns and of lower than required deliverables. Specific risks are: Estimated benefits too high. Ineffective or inefficient programme execution.	Selection and prioritisation of business improvement projects. Involvement of management in all major projects. Planning of projects and monitoring of project costs and benefits. Enhance project governance organisation including project management and progress reporting.

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

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Corporate social responsibility is concerned with the integration of economic, environmental and social imperatives while considering the interests of shareholders and stakeholders.

At Paragon Union Berhad or 'PUB', we strived to achieve the best industrial practices to ensure that we integrate our business values with environmental and social responsibilities.

EMPLOYEE WELFARE

We recognise employees are important assets to the Group. In line with our commitment to protect and safeguard the health and safety of our employees, we have achieved OHSAS 18001, a health and safety management system since 2002. To ensure a safe and zero accident workplace, we have provided trainings to our workers on safety procedures and upgraded our facilities to comply with the latest safety requirements. Among the trainings conducted for the year include:-

Safety Training

- Pengurusan Buangan Terjadual & Pematuhan Peraturan Kualiti Alam Sekeliling.
- Fire Fighting Training
- Fire Drill
- Safe Operation Of Forklift Training
- Chemical Spilage
- Basic Occupational First Aid Training
- 8D Training
- Automotive Core Tools Linkages Training

Other Training

- IATF 16949:2016 & ISO 45001:2018 REQ & Internal Audit
- Our Environment Our Future – Be A Part Of The Solution Not The Polution
- Turning Industrial By Product Into Profit Through Innovate Waste Management
- Kaspersky Technical Training
- Effective Management Skills On Industrial Effluent Treatment
- Employment Laws Latest Amendment & Implications Of Impending Changes

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.

COMMUNITY WELFARE

At PUB, we support practical training for students whereby we welcome aspiring students who need to meet their practical training requirements. Besides that, we also support community activities.

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

AUDIT COMMITTEE REPORT

COMPOSITION

The Audit Committee ("AC") of Paragon Union Berhad ("PUB" or "the Company"), chaired by an Independent Director, comprises three members, all of whom are Non-Executive Directors, with a majority of whom are Independent Directors. 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 AC currently comprises the following Non-Executive Directors, namely:-

Mr. Lau Yoke Keen *(Chairman)*
Mr. Fung Beng Ee
Madam Kong See Kuan

The AC 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 AC conducted 5 meetings of which all were duly convened with sufficient notices given to all AC members together with the agenda, report and proposals for deliberation at the meetings. The Executive Director was invited to all AC 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 AC 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 2019.

In the AC 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 AC meetings were tabled for confirmation at the following AC meeting and subsequently presented to the Board for notation.

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

Committee Member	Meeting attended
Lau Yoke Keen	5/5
Fung Beng Ee	5/5
Kong See Kuan	5/5

Audit Committee Report (Cont'd)

SUMMARY ACTIVITIES

The AC 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, 2016 and the applicable approved accounting standards as per Malaysian Accounting Standards Board; and
- 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 making recommendation to the Board for the re-appointment of external auditors or the appointment of new external auditors; and
- reviewed and evaluated the factors relating to the independence of the external auditors.

The AC recommended to the Board for approval of the audit fee of RM85,000 in respect of the financial year ended 31 December 2019.

The Board at its meeting held on 15 January 2020, approved the audit fee based on the recommendation of the AC.

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 AC, 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 AC had reviewed:-

- internal audit on the areas of Revenue and Accounts Receivables Management and Human Resources Management of the Group.
- suggestion on improvement opportunities in the areas of internal controls, systems, adequacy 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; and
- reviewed the adequacy and effectiveness of corrective actions taken by the Management on all significant matters raised.

RELATED PARTY TRANSACTION AND CONFLICT OF INTEREST

At each quarterly meeting, the AC 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 AC review the RPT and conflict of interest situation presented by the Management prior to the Company entering into such transaction. The AC 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 AC, 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 AC 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 AC 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 2019 were outsourced to an independent assurance provider and the total costs incurred were amounted to RM8,000.

SUBSIDIARY COMPANIES

Name Of Company		Equity Interest	Principal Activities
	Paragon Car Carpets & Components Sdn Bhd (108988-M)	100%	Manufacturing and trading in car carpets and automotive components
*	Paragon Carpetmaker Sdn Bhd (246013-P)	100%	Manufacturing and trading in car carpets and commercial carpets
**	Paragon Carpet Distributor Sdn Bhd (162824-P)	100%	Distribution and trading in commercial carpets
	Paragon Expression Sdn Bhd (437303-P)	100%	Investment holding and property development related activities
***	Paragon Property Development Sdn Bhd (503011-P)	100%	Inactive
	Paragon Precision Industries Sdn Bhd (277004-P)	78%	Inactive
	Paragon Metal Components Sdn Bhd (267454-U)	77%	Inactive

* Held through Paragon Car Carpets & Components Sdn Bhd (108988-M)
** Held through Paragon Carpetmaker Sdn Bhd (246013-P)
*** Held through Paragon Expression Sdn Bhd (437303-P)

LIST OF PROPERTIES

Held by The Group as at 31st December 2019

Location	Age of Building	Tenure	Description	Land Area (sq. m.)	Build-Up Area (sq. m.)	Net Book Value as at 31.12.2019 (RM)
Lot No. PT 7637 14, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	27 years	Leasehold (Expiry 14.05.2088)	Leasehold Land Factory & Office	8,094	3,190 (factory) 3,929 (office)	5,661,011
Lot No. PT 7667 21, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	26 years	Leasehold (Expiry 14.05.2088)	Leasehold Land Factory & Office	6,833	4,177 (factory) 873 (office)	3,840,367
Lot No. PT 7641 11A, Jalan Satu Kawasan Perindustrian Cheras Jaya Balakong, 43200 Cheras Selangor Darul Ehsan	22 years	Leasehold (Expiry 14.05.2088)	Leasehold Land Factory & Office	12,128	7,919 (factory)	6,123,010
Lot No. 6669 Mukim 15 Daerah Seberang Perai Selatan Pulau Pinang	4 years	Leasehold (Expiry 18.09.2093)	Leasehold Building	111	74	–
HS(D) No. 166682 PT 3300 Mukim of Ulu Semenyih District of Ulu Langat Selangor Darul Ehsan	3 years	Leasehold (Expiry 23.10.2093)	Leasehold Factory	1375	816	3,582,000
HS(D) No. 166683 PT 3301 Mukim of Ulu Semenyih District of Ulu Langat Selangor Darul Ehsan	3 years	Leasehold (Expiry 23.10.2093)	Leasehold Factory	1375	816	3,582,000
HS(D) No. 166679 PT 3297 Mukim of Ulu Semenyih District of Ulu Langat Selangor Darul Ehsan	3 years	Leasehold (Expiry 23.10.2093)	Leasehold Factory	1375	816	3,582,000

ANALYSIS OF SHAREHOLDINGS

Issued Paid-up Capital	:	RM70,000,000
Number of Issued Shares	:	70,000,000 #
Class of Shares	:	Ordinary shares
Voting Rights	:	One (1) vote per ordinary share held

Inclusive of 5,301,700 treasury shares

ANALYSIS BY SIZE OF SHAREHOLDINGS AS AT 23 MARCH 2020

Size of Holdings	No. of Shareholders	No. of Shares	Percentage (%)
1 – 99	26	407	0.00
100 – 1,000	543	507,826	0.79
1,001 – 10,000	1,069	4,890,533	7.56
10,001 – 100,000	321	9,487,200	14.66
100,001 – 3,234,914*	39	14,443,240	22.32
3,234,915 and above **	2	35,369,094	54.67
TOTAL	**2,000**	**64,698,300*****	**100.00**

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

DIRECTORS' SHAREHOLDINGS AS PER THE REGISTER OF DIRECTORS' SHAREHOLDINGS AS AT 23 MARCH 2020

Names	No. of Shares (Direct)	Percentage (%)	No. of Shares (Indirect)	Percentage (%)
Kong See Kuan	–	–	31,941,094*	49.37
Fung Beng Ee	–	–	–	–
Lau Yoke Keen	–	–	–	–
Lee Choon Hee	–	–	–	–

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

SUBSTANTIAL SHAREHOLDERS AS PER THE REGISTER OF SUBSTANTIAL SHAREHOLDERS AS AT 23 MARCH 2020

Substantial Shareholders	No. of Shares (Direct)	(%)	No. of Shares (Indirect)	(%)
Asia Avenue Sdn. Bhd.	31,941,094	49.37	–	–
Kong See Kuan	–	–	31,941,094 *	49.37
Tan Choon Hock	3,428,000	5.30	–	–

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

Analysis of Shareholdings (Cont'd)

THIRTY (30) LARGEST SHAREHOLDERS AS AT 23 MARCH 2020

No.	Names	No. of Shares	Percentage (%)
1.	Asia Avenue Sdn. Bhd.	31,941,094	49.37
2.	Tan Choon Hock	3,428,000	5.30
3.	Kong Say Thor	2,788,200	4.31
4.	Su Ming Keat	1,196,040	1.85
5.	Yayasan Kelantan Darulnaim	1,000,000	1.55
6.	Lee Poh Ting	996,700	1.54
7.	Lee Poh Yee	843,800	1.30
8.	Gan Lam Seong	718,200	1.11
9.	Sit Peng Chok	584,200	0.90
10.	GSC-CIMB Nominees (Tempatan) Sdn Bhd *Pledged Securities Account for Ng Geok Wah (B BRKLANG-CL)*	500,000	0.77
11.	GSC-CIMB Nominees (Asing) Sdn Bhd *Exempt an for CGS-CIMB Securities (Singapore) Pte Ltd (Retail Clients)*	466,500	0.72
12.	Wong Mei Sun	463,000	0.72
13.	Soniia Cheah Su-Ya	358,400	0.55
14.	Esmond Sit Bo Sheng	319,100	0.49
15.	Low Wan Chin	300,000	0.46
16.	Tan Yew Chuan	240,000	0.37
17.	Chew Weng Khak @ Chew Weng Kiak	219,100	0.34
18.	Lim Chir Ching	200,000	0.31
19.	Wong Ah Yong	200,000	0.31
20.	Goh Yoke Choo	198,200	0.31
21.	Yeow Teck Chai	188,000	0.29
22.	Liw Kwei Sunn	167,500	0.26
23.	Lim Swee Ing	162,200	0.25
24.	Wong Boon Choy	159,700	0.25
25.	Chin Tung Leong	154,800	0.24
26.	See Kee Hoot	152,700	0.24
27.	Phong Chiew Khim	147,800	0.23
28.	Tang Siew Geok	144,000	0.22
29.	Maybank Nominees (Tempatan) Sdn Bhd *Ng Hai Sim*	142,000	0.22
30.	Yee Kwek Keong	140,000	0.22
Total		**48,519,234**	**75.00**

Financial Statements

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 2019.

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 5 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year.

FINANCIAL RESULTS

	Group RM	Company RM
Profit/(Loss) for the financial year attributable to:		
- Owners of the Company	2,811,558	11,419,730
- Non-controlling interests	(2,246)	–
	2,809,312	11,419,730

DIVIDEND

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

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:

Fung Beng Ee
Lau Yoke Keen
Lee Choon Hee
Kong See Kuan

Directors' Report (Cont'd)

DIRECTORS' INTERESTS IN SHARES OR DEBENTURES

According to the register of Directors' shareholdings required to be kept under Section 59 of the Companies Act, 2016, none of the Directors who held office at the end of the financial year held any shares or debentures in the Company or its subsidiaries or its holding company or subsidiaries of the holding company during the financial year except as follows:

	Number of ordinary shares			
	At 1.1.2019	Acquired	Disposed	At 31.12.2019
Interest in the Company, Paragon Union Berhad				
Indirect interest				
Kong See Kuan [1]	31,941,094	–	–	31,941,094

[1] Deemed interested by virtue of her interest in Asia Avenue Sdn. Bhd.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive a 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 he is a member, or with a company in which he 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 of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' REMUNERATION

Details of Directors' remuneration are disclosed in Note 25 to the financial statements.

SUBSIDIARY COMPANIES

Details of the subsidiary companies are disclosed in Note 5 to the financial statements.

AUDITORS' REMUNERATION

Details of auditors' remuneration are disclosed in Note 21 to the financial statements.

OTHER STATUTORY INFORMATION

Before the financial statements of the Group and of the Company were prepared, the Directors took reasonable steps:

(i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of 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.

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.

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.

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; or

(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.

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.

Directors' Report (Cont'd)

AUDITORS

The auditors, Messrs. Morison AAC PLT (LLP0022843-LCA & AF001977), have expressed their willingness to accept re-appointment.

Morison AAC PLT (LLP0022843-LCA & AF001977) was registered on 8 January 2020 and with effect from that date, Morison AAC (AF001977) which was formerly known as Morison Anuarul Azizan Chew (AF001977), a conventional partnership was converted to a limited liability partnership.

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

LEE CHOON HEE

FUNG BENG EE

KUALA LUMPUR
16 MARCH 2020

STATEMENT BY DIRECTORS

Pursuant to Section 251(2) of the Companies Act, 2016

We, **LEE CHOON HEE** and **FUNG BENG EE**, being two of the Directors of **PARAGON UNION BERHAD**, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 41 to 95 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 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 2019 and of their financial performance and cash flows for the financial year then ended.

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

LEE CHOON HEE

FUNG BENG EE

KUALA LUMPUR
16 MARCH 2020

STATUTORY DECLARATION

Pursuant to Section 251(1) of the Companies Act, 2016

I, **LEE CHOON HEE** (MIA Membership No: 12337), 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 41 to 95 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 16 MARCH 2020)

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
Registration No.: 199401000779 (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 2019 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 41 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 2019, 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, 2016 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. We have determined that there are no key audit matters to communicate in our report on the financial statements of the Company. These matters were addressed in the context of our audit of the financial statements of the Group 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 7 to the financial statements) The Group carries significant inventories as disclosed in Note 7 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.	We evaluated the Group's inventory management process over the identification of indicators which may result in the net realisable value of 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 stock count observation of the Group's inventories at the end of the financial year. We have also obtained the sales listing, including the promotional stock listing after year end and compared its net selling price against the respective cost of inventories to identify potential write downs required for expected future sales below its cost. 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 and allowance for impairment loss on inventories amounting to RM2,471,834 and RM1,489,153 respectively during the financial year.

Independent Auditors' Report (Cont'd)

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, 2016 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

Independent Auditors' Report (Cont'd)

Auditors' Responsibilities for the Audit of the Financial Statements (Cont'd)

- 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.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act, 2016 in Malaysia and for no other purpose. We do not assume any responsibility to any other person for the content of this report.

MORISON AAC PLT
(LLP0022843-LCA & AF001977)
Chartered Accountants

CHEW LOONG JIN
Approved Number: 03279/03/2021 J
Chartered Accountant

KUALA LUMPUR
16 MARCH 2020

STATEMENTS OF FINANCIAL POSITION
as at 31 December 2019

		Group		Company	
	Note	2019 RM	2018 RM	2019 RM	2018 RM
Non-Current Assets					
Property, plant and equipment	3	37,326,737	26,995,150	–	–
Investment properties	4	–	–	10,746,000	–
Investment in subsidiary companies	5	–	–	11,297,231	11,297,231
Amount owing by subsidiary companies	6	–	–	35,817,435	32,046,123
		37,326,737	26,995,150	57,860,666	43,343,354
Current Assets					
Inventories	7	21,081,528	22,225,528	–	–
Trade receivables	8	8,505,787	8,865,025	–	–
Other receivables	9	2,815,475	4,871,793	3,250	3,621,000
Amount owing by subsidiary companies	6	–	–	1,300,000	250,000
Tax recoverable		382,890	173,920	–	–
Cash and bank balances	10	2,289,121	749,798	47,248	52,708
		35,074,801	36,886,064	1,350,498	3,923,708
Current Liabilities					
Trade payables	11	3,931,823	4,105,017	–	–
Other payables	12	4,117,677	2,757,182	512,306	309,917
Amount owing to subsidiary companies	6	–	–	8,682,360	8,360,377
Lease liabilities	13	482,860	627,415	–	–
Bank borrowings	14	8,366,493	12,127,533	–	–
Tax payable		38,033	323	–	–
		16,936,886	19,617,470	9,194,666	8,670,294
Net current assets/(liabilities)		18,137,915	17,268,594	(7,844,168)	(4,746,586)
		55,464,652	44,263,744	50,016,498	38,596,768

Statements of Financial Position as at 31 December 2019 (Cont'd)

		Group		Company	
		2019	2018	2019	2018
	Note	RM	RM	RM	RM
Equities attributable to owners of the Company					
Share capital	15	70,000,000	70,000,000	70,000,000	70,000,000
Merger reserves	16	(4,618,481)	(4,618,481)	–	–
Treasury shares	17	(4,220,708)	(4,220,708)	(4,220,708)	(4,220,708)
Accumulated losses		(18,679,776)	(21,491,334)	(15,762,794)	(27,182,524)
		42,481,035	39,669,477	50,016,498	38,596,768
Non-controlling interests		(33,382)	(31,136)	–	–
		42,447,653	39,638,341	50,016,498	38,596,768
Non-Current Liabilities					
Lease liabilities	13	700,613	1,180,273	–	–
Bank borrowings	14	11,408,075	1,579,320	–	–
Deferred tax liabilities	18	908,311	1,865,810	–	–
		13,016,999	4,625,403	–	–
		55,464,652	44,263,744	50,016,498	38,596,768

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

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for The Financial Year Ended 31 December 2019

		Group		Company	
	Note	2019 RM	2018 RM	2019 RM	2018 RM
Revenue	19	56,382,469	51,454,866	480,000	480,000
Cost of sales		(49,538,662)	(43,338,890)	–	–
Gross profit		6,843,807	8,115,976	480,000	480,000
Other operating income		13,193,468	4,176,556	13,000,000	3,500,000
Selling and distribution costs		(3,088,358)	(3,243,313)	–	–
Administrative expenses		(13,859,183)	(9,573,189)	(2,060,270)	(1,730,713)
Finance costs	20	(1,278,649)	(953,371)	–	–
Profit/(Loss) before taxation	21	1,811,085	(1,477,341)	11,419,730	2,249,287
Taxation	22	998,227	550,138	–	–
Profit/(Loss)/ Total comprehensive income/ (expense) for the financial year		2,809,312	(927,203)	11,419,730	2,249,287
Profit/(Loss)/ Total comprehensive income/ (expense) for the financial year attributable to:					
- Owners of the Company		2,811,558	(924,572)	11,419,730	2,249,287
- Non-controlling interests		(2,246)	(2,631)	–	–
		2,809,312	(927,203)	11,419,730	2,249,287
Earnings/(Loss) per share: Basic and diluted (sen)	23	4.35	(1.43)	–	–

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

STATEMENTS OF CHANGES IN EQUITY
for The Financial Year Ended 31 December 2019

	Attributable to Owners of the Company						
		← Non-Distributable		→			
	Share Capital RM	Merger Reserves RM	Treasury Shares RM	Accumulated Losses RM	Total RM	Non-Controlling Interests RM	Total Equity RM
Group							
At 1 January 2019	70,000,000	(4,618,481)	(4,220,708)	(21,491,334)	39,669,477	(31,136)	39,638,341
Profit/(Loss)/Total comprehensive income/ (expense) for the financial year	–	–	–	2,811,558	2,811,558	(2,246)	2,809,312
At 31 December 2019	70,000,000	(4,618,481)	(4,220,708)	(18,679,776)	42,481,035	(33,382)	42,447,653
At 1 January 2018	70,000,000	(4,618,481)	(4,220,708)	(20,566,762)	40,594,049	(28,505)	40,565,544
Loss/Total comprehensive expense for the financial year	–	–	–	(924,572)	(924,572)	(2,631)	(927,203)
At 31 December 2018	70,000,000	(4,618,481)	(4,220,708)	(21,491,334)	39,669,477	(31,136)	39,638,341

Statements of Changes in Equity for the financial year ended 31 December 2019 (Cont'd)

	Share Capital RM	Treasury Shares RM	Accumulated Losses RM	Total RM
Company				
At 1 January 2019	70,000,000	(4,220,708)	(27,182,524)	38,596,768
Profit/Total comprehensive income for the financial year	–	–	11,419,730	11,419,730
At 31 December 2019	70,000,000	(4,220,708)	(15,762,794)	50,016,498
At 1 January 2018	70,000,000	(4,220,708)	(29,431,811)	36,347,481
Profit/Total comprehensive income for the financial year	–	–	2,249,287	2,249,287
At 31 December 2018	70,000,000	(4,220,708)	(27,182,524)	38,596,768

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

STATEMENTS OF CASH FLOWS
for The Financial Year Ended 31 December 2019

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Cash Flows from Operating Activities				
Profit/(Loss) before taxation	1,811,085	(1,477,341)	11,419,730	2,249,287
Adjustments for:				
Depreciation of property, plant and equipment	2,702,050	2,916,857	–	–
Depreciation of investment properties	–	–	54,000	–
Impairment loss on:				
- trade receivables	496,171	136,383	–	–
- other receivables	–	44,500	–	–
- inventories	1,489,153	180,000	–	–
Impairment loss on investment in subsidiary company	–	–	–	310,514
Interest expense	1,278,649	953,371	–	–
Interest income	(1,561)	(5,151)	–	–
Inventories written off	2,471,834	372,887	–	–
Gain on disposal of property, plant and equipment	–	(56,021)	–	–
Other receivables written off	200,000	–	200,000	–
Property, plant and equipment written off	12,124	92,243	–	–
Reversal of impairment loss on:				
- trade receivables	(173,640)	(203,428)	–	–
- other receivables	(13,044,500)	(3,500,000)	(13,000,000)	(3,500,000)
Operating loss before changes in working capital	(2,758,635)	(545,700)	(1,326,270)	(940,199)
Changes in working capital:				
Inventories	(2,816,987)	(3,619,534)	–	–
Trade and other receivables	4,137,525	4,567,328	5,617,750	(70,000)
Trade and other payables	1,187,301	(1,233,835)	202,389	31,240
Amount owing to/by subsidiary companies	–	–	(4,499,329)	1,021,505
Cash (used in)/generated from operations	(250,796)	(831,741)	(5,460)	42,546
Interest received	1,561	5,151	–	–
Interest paid	(1,278,649)	(953,371)	–	–
Tax paid	(176,536)	(260,149)	–	–
Tax refund	46,004	2,430	–	–
Net cash (used in)/generated from operating activities	(1,658,416)	(2,037,680)	(5,460)	42,546

Statements of Cash Flows for the financial year ended 31 December 2019 (Cont'd)

	Group		Company	
	2019 RM	**2018 RM**	**2019 RM**	**2018 RM**
Cash Flows from Investing Activities				
Purchase of property, plant and equipment	(2,245,761)	(1,424,117)	–	–
Proceeds from disposal of property, plant and equipment	–	173,244	–	–
Net cash used in investing activities	(2,245,761)	(1,250,873)	–	–
Cash Flows from Financing Activities				
Repayment of term loans	(2,047,564)	(523,552)	–	–
Drawdown of term loans	13,772,616	–	–	–
Net (repayment)/addition of bankers' acceptance	(1,345,353)	162,901	–	–
Net addition/(repayment) of usance letter of credit	945,040	(224,761)	–	–
Repayment of lease liabilities	(624,215)	(593,099)	–	–
Net increase in fixed deposit pledged	(700,000)	–	–	–
Net cash generated from/(used in) financing activities	10,000,524	(1,178,511)	–	–
Net increase /(decrease) in cash and cash equivalents	6,096,347	(4,467,064)	(5,460)	42,546
Cash and cash equivalents at the beginning of the financial year	(8,694,591)	(4,227,527)	52,708	10,162
Cash and cash equivalents at the end of the financial year	(2,598,244)	(8,694,591)	47,248	52,708
Cash and cash equivalents at the end of the financial year comprises:				
Cash and bank balances	2,289,121	749,798	47,248	52,708
Less:				
- Bank overdrafts	(4,187,365)	(9,444,389)	–	–
- Fixed deposit with licensed bank	(700,000)	–	–	–
	(2,598,244)	(8,694,591)	47,248	52,708

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

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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

The principal activities of the subsidiary companies are disclosed in Note 5 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. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements of the Group and of 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, 2016 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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount 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).

Accounting standards, amendments to accounting standards and IC interpretation that are effective for the Group and the Company’s financial year beginning on or after 1 January 2019 are as follows:

- MFRS 16, “Leases”
- Amendments to MFRS 3, “Business Combination”(Annual improvements to 2015-2017 Cycle)
- Amendments to MFRS 9, “Prepayment Features with Negative Compensation”
- Amendments to MFRS 11, “Joint Arrangement”(Annual improvements to 2015-2017 Cycle)
- Amendments to MFRS 112, “Income taxes”(Annual improvements to 2015-2017 Cycle)
- Amendments to MFRS 119, “Employee Benefits”(Plan amendment, curtailment or settlement)
- Amendments to MFRS 123, “Borrowing Costs”(Annual improvements to 2015-2017 Cycle)
- Amendments to MFRS 128, “Long-term Interests in Associates and Joint Ventures”
- IC Interpretation 23, “Uncertainty over Income Tax Treatments”

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (Cont'd)

The above accounting standards, amendments to accounting standards and IC interpretation effective during the financial year do not have any significant impact to the financial results and position of the Group and the Company, except as follows:

Adoption of MFRS 16 "Leases"

As a result of the adoption of MFRS 16, the existing requirements for a lessee to distinguish between finance leases and operating leases under the MFRS 117 Leases are no longer required. MFRS 16 introduces a single accounting model, requiring the lessee to recognise the right-of-use of the underlying lease asset and the present value of future lease payments, discounted using the lessee's incremental borrowing rate.

The adoption of this Standard results in changes in accounting policies for lease recognition, and has no material financial impact other than the disclosures made in the Group's and the Company's financial statements.

Accounting standards, amendments to accounting standards, IC interpretation and amendments to IC interpretations 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 2020

- Amendments to References to the Conceptual Framework in MFRS Standards:
  - Amendments to MFRS 2, "Share Based Payments"
  - Amendments to MFRS 3, "Business Combinations"
  - Amendments to MFRS 6, "Exploration for and Evaluation of Mineral Resources"
  - Amendments to MFRS 14, "Regulatory Deferral Accounts"
  - Amendments to MFRS 101, "Presentation of Financial Statements"
  - Amendments to MFRS 108, "Accounting Policies, Changes in Accounting Estimates and Errors"
  - Amendments to MFRS 134, "Interim Financial Reporting"
  - Amendment to MFRS 137, "Provisions, Contingent Liabilities and Contingent Assets"
  - Amendment to MFRS 138, "Intangible Assets"
  - Amendment to IC Interpretation 12, "Service Concession Arrangements"
  - Amendment to IC Interpretation 19, "Extinguishing Financial Liabilities with Equity Instruments"
  - Amendment to IC Interpretation 20, "Stripping Costs in the Production Phase of a Surface Mine"
  - Amendment to IC Interpretation 22, "Foreign Currency Transactions and Advance Considerations"
  - Amendments to IC Interpretation 132, "Intangible Assets- Web Site Costs"

- Amendments to MFRS 3, "Business Combinations" (Definition of a Business)

- Amendments to MFRS Standards arising from Definition of Material:
  - Amendments to MFRS 101, "Presentation of Financial Statements"
  - Amendments to MFRS 108, "Accounting Policies, Changes in Accounting Estimates and Errors"

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (Cont'd)

Annual periods beginning on/after 1 January 2020 (Cont'd)

- Amendments to MFRS Standards arising from Interest Rate Benchmark Reform:
  - Amendments to MFRS 7, "Financial Instruments: Disclosures"
  - Amendments to MFRS 9, "Financial Instruments"
  - Amendments to MFRS 139, "Financial Instruments: Recognition and Measurement"

Annual periods beginning on/after 1 January 2021

- MFRS 17, "Insurance Contracts"

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

- Amendments to MFRS 10 and MFRS 128, "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"

The above accounting standards, amendments to accounting standards, amendments to IC Interpretation, and IC interpretation which may have a significant impact to the financial statements are as follows:

<u>Amendments to References to the Conceptual Framework in MFRS Standards</u>

The Malaysian Accounting Standards Board has issued a revised Conceptual Framework for Financial Reporting and amendments to fourteen MFRS Standards.

The revised Conceptual Framework comprises a comprehensive set of concepts of financial reporting. The changes to the chapters on the objective of financial reporting and qualitative characteristics of useful information are limited, but with improved wordings to give more prominence to the importance of providing information needed to assess the management's stewardship of the entity's economic resources.

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) 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.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) 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 the 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.

(c) Significant accounting estimates and judgements

Accounting estimates and judgements, are assessed on an on-going basis and are based on 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

(ii) Measurement of expected credit loss allowance for financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group and the Company use judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's and the Company's past history, existing market conditions as well as forward looking estimates at the end of reporting period.

(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.

(d) 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.

(e) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as expenses in profit or loss during the financial period in which they are incurred.

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.

Gains and losses on disposals are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised as net in the profit or loss.

(ii) Depreciation

Depreciation is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leasehold land and is amortised over the period of the lease. The estimated useful lives are 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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Property, plant and equipment (Cont'd)

(ii) Depreciation (Cont'd)

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

At the end of the reporting period, the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. (Refer to accounting policy Note 2(g) on impairment of non-financial assets).

(f) Investment properties

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment properties are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using a straight-line method to allocate the depreciable amounts over the estimated useful lives of 50 years. The residual values, useful lives and depreciation method of investment properties are reviewed, and adjusted as appropriate, at the end of each reporting period. The effects of any revision are included in profit or loss when the changes arise.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use.

Where the fair value of the investment property under construction is not reliably determinable, the investment property under construction is measured at cost until either its fair value becomes reliably determinable or construction is complete, whichever is earlier.

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the period in which the item is derecognised.

(g) Impairment of non-financial assets

Assets that have an indefinite useful life, such as goodwill or intangible assets not ready to use, are not subject to amortisation and are tested annually for impairment. 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) Impairment of non-financial assets (Cont'd)

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) Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional and presentation currency.

(ii) Transactions and balances

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.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Foreign currencies (Cont'd)

(ii) Transactions and balances (Cont'd)

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

	2019 RM	2018 RM
United States Dollar ("USD")	4.0925	4.1385
Chinese Renminbi ("RMB")	0.5866	0.6017
Euro Dollar ("EUR")	4.5822	4.7340

(k) Financial assets

(i) Classification

The Group classifies its financial assets in the following measurement categories:
- Amortised cost;
- Fair value through other comprehensive income ("FVOCI"); and
- Fair value through profit or loss ("FVTPL")

The classification depends on the Group's business model for managing the financial assets as well as the contractual terms of the cash flows of the financial asset.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt instruments when and only when its business model for managing those assets changes.

(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.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

(iii) Subsequent measurement

Debt instruments

Debt instruments mainly comprise of trade receivables, other receivables, amount owing by subsidiary companies and cash and bank balances.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(k) Financial assets (cont'd)

(iii) Subsequent measurement (Cont'd)

Debt instruments

There are three subsequent measurement categories, depending on the Group's business model for managing the asset and the cash flow characteristics of the asset:

- Amortised cost

  Debt instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt instrument that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in interest income using the effective interest rate method.

- FVOCI

  Debt instruments that are held for collection of contractual cash flows and for sale, and where the assets' cash flows represent solely payments of principal and interest, are classified as FVOCI. Movements in fair values are recognised in Other Comprehensive Income ("OCI") and accumulated in fair value reserve, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is recognised using the effective interest rate method in profit or loss.

- FVTPL

  Debt instruments that are held for trading as well as those that do not meet the criteria for classification as amortised cost or FVOCI are classified as FVTPL. Movement in fair values and interest income is recognised in profit or loss in the period in which it arises.

Equity instruments

The Group subsequently measures all its equity investments at fair value. Equity investments are classified as FVTPL with movements in their fair values recognised in profit or loss in the period in which the changes arise, except for those equity securities which are not held for trading. The Group has elected to recognise changes in fair value of equity securities not held for trading in OCI as these are strategic investments and the Group considers this to be more relevant. Movements in fair values of investments classified as FVOCI are recognised in OCI. Dividends from equity investments are recognised in profit or loss when the Group's and Company's right to receive payments is established.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(k) Financial assets (Cont'd)

(iv) Impairment

The Group and the Company assess expected credit losses associated with its debt instruments carried at amortised cost and at FVOCI on a forward-looking basis. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Expected credit losses represent a probability-weighted estimate of the difference between present value of cash flows according to contract and present value of cash flows the Group and the Company expect to receive, over the remaining life of the financial instrument.

For trade receivables, the Group applies the simplified approach, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

While cash and cash equivalents are also subject to the impairment requirements of MFRS 9, the identified impairment loss was immaterial.

In measuring expected credit losses, trade receivables are grouped based on shared credit risk characteristics and days past due.

In calculating the expected credit loss rates, the Group considers historical loss rates for each category of customers and adjusts to reflect current and forward-looking factors affecting the ability of the customers to settle the receivables.

The Group and the Company define a financial instrument as default, which is aligned with the definition of credit-impaired, when the debtor meets unlikeliness to pay criteria, which indicates the debtor is in significant financial difficulty. The Group and the Company consider the following instances:

- The debtor is in breach of financial covenants
- Concessions have been made by the Group and the Company related to the debtor's financial difficulty
- It is becoming probable that the debtor will enter bankruptcy or other financial reorganisation
- The debtor is insolvent

Financial assets that are credit-impaired are assessed for impairment on an individual basis.

The Group and the Company write off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. The assessment of no reasonable expectation of recovery is based on unavailability of debtor's sources of income or assets to generate sufficient future cash flows to repay the amount. The Group and the Company may write-off financial assets that are still subject to enforcement activity.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Financial liabilities

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

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

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

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.

(m) Finance leases

(A) Accounting policies applied until 31 December 2018

(i) Accounting by lessee

<u>Finance leases</u>

Leases of property, plant and equipment where the Group and the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at lease commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest on the remaining balance of the liability. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Initial direct costs incurred by the Group and the Company in negotiating and arranging finance leases are added to the carrying amount of the leased assets and recognised as an expense in profit or loss over the lease term on the same basis as the lease expense.

<u>Operating leases</u>

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on the straight-line basis over the lease period.

Initial direct costs incurred by the Group in negotiating and arranging operating leases are recognised in profit or loss when incurred.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) Finance leases (Cont'd)

(B) Accounting policies applies from 1 January 2019

(i) Accounting by lessee (Cont'd)

Leases are recognised as right-of-use assets and a corresponding liability at the commencement date on which the leased asset is available for use by the Group and the Company.

In determining the lease term, the Group and the Company considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension or termination options are taken into consideration in determining the lease term if it is reasonably certain that the lease will be extended or terminated.

Right-of-use assets are initially measured at cost comprising the following:
- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentive received;
- Any initial direct costs; and
- Decommissioning or restoration costs

Right-of-use assets are subsequently measured at cost, less accumulated depreciation and impairment loss. The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group and the Company is reasonably certain that it will exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Lease liabilities are initially measured at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Short-term leases are leases with a lease term of 12 months or less. Payments associated with short-term leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

(ii) Accounting by lessor

The Group and the Company determines at lease inception whether each lease is a finance lease or operating lease. To classify each lease, the Group and the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset to the lessee.

Finance leases

The Group and the Company classifies a lease as a finance lease if the lease transfers substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee.

The Group and the Company derecognises the underlying asset and recognises a receivable at an amount equal to the net investment in a finance lease. Net investment in a finance lease is measured at an amount equal to the sum of the present value of lease payments from lessee and the unguaranteed residual value of the underlying asset. Initial direct costs are also included in the initial measurement of the net investment. Lease income is recognised over the term of the lease using the net investment method so as to reflect a constant periodic rate of return.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) Finance leases (Cont'd)

(ii) Accounting by lessor

Operating leases

The Group and the Company classifies a lease as an operating lease if the lease does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee.

The Group and the Company recognises lease payments received under operating leases as lease income on a straight-line basis over the lease term.

(n) 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.

(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 current 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.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(p) Revenue and income recognition

(i) Revenue from contracts with customers

Revenue is recognised by reference to each distinct performance obligation promised in the contract with customer when or as the Group transfers the control of the goods or services promised in a contract and the customer obtains control of the goods or services. Depending on the substance of the respective contract with customer, the control of the promised goods or services may transfer over time or at a point in time.

A contract with customer exists when the contract has commercial substance, the Group and its customer has approved the contract and intend to perform their respective obligations, the Group's and the customer's rights regarding the goods or services to be transferred and the payment terms can be identified, and it is probable that the Group will collect the consideration to which it will be entitled to in exchange of those goods or services.

<u>Sale of carpets</u>

Revenue from sale of carpets is recognised when the Group satisfies a performance obligation by transferring a promised good (i.e. an asset) to a customer. An asset is transferred as and when the customer obtains control of that asset, which coincides with the delivery of goods and services and acceptance by customers.

Contracts that bundle the sale and installation of carpets are recognised as a single performance obligation as the installation includes a significant integration service. Revenue is recognised progressively over time determined by reference to the completion of the physical proportion of contract work to-date.

<u>Management fee</u>

Management fees represent fees charged to subsidiary companies for assisting in the management of the subsidiary companies and these are recognised upon performance of services.

(ii) Other revenue and income

Revenue and income from other sources are recognised as follows:

<u>Dividend income</u>

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

<u>Interest income</u>

Interest income is recognised on an accrual basis using the effective interest method.

<u>Rental income</u>

Rental income is recognised on a straight-line basis over the tenure of the lease.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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) 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.

(v) Borrowing costs

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

3. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land RM	Factory buildings and building improvements RM	Plant and machinery RM	Motor vehicles RM	Furniture, fittings and equipment RM	Electrical installation and renovation RM	Total RM
Group							
2019							
Cost							
At 1 January 2019	10,130,000	12,842,821	33,133,193	674,562	17,037,360	6,243,640	80,061,576
Additions	–	11,282,000	580,000	123,590	400,171	660,000	13,045,761
Written off	–	(28,192)	–	–	(1,132)	–	(29,324)
At 31 December 2019	10,130,000	24,096,629	33,713,193	798,152	17,436,399	6,903,640	93,078,013
Accumulated depreciation							
At 1 January 2019	2,474,117	4,933,021	25,175,182	472,371	14,919,911	5,091,824	53,066,426
Charge for the financial year	120,283	345,171	736,206	96,745	1,212,650	190,995	2,702,050
Written off	–	(16,351)	–	–	(849)	–	(17,200)
At 31 December 2019	2,594,400	5,261,841	25,911,388	569,116	16,131,712	5,282,819	55,751,276
Carrying amount							
At 31 December 2019	7,535,600	18,834,788	7,801,805	229,036	1,304,687	1,620,821	37,326,737

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

	Leasehold land RM	Factory buildings and building improvements RM	Plant and machinery RM	Motor vehicles RM	Furniture, fittings and equipment RM	Electrical installation and renovation RM	Total RM
Group							
2018							
At 1 January 2018	10,130,000	13,039,380	33,068,793	674,562	16,287,587	5,806,940	79,007,262
Addition	–	–	64,400	–	923,017	436,700	1,424,117
Disposals	–	–	–	–	(173,244)	–	(173,244)
Written off	–	(196,559)	–	–	–	–	(196,559)
At 31 December 2018	10,130,000	12,842,821	33,133,193	674,562	17,037,360	6,243,640	80,061,576
Accumulated depreciation							
At 1 January 2018	2,353,835	4,766,124	24,327,001	394,247	13,613,272	4,855,427	50,309,906
Charge for the financial year	120,282	271,213	848,181	78,124	1,362,660	236,397	2,916,857
Disposals	–	–	–	–	(56,021)	–	(56,021)
Written off	–	(104,316)	–	–	–	–	(104,316)
At 31 December 2018	2,474,117	4,933,021	25,175,182	472,371	14,919,911	5,091,824	53,066,426
Carrying amount							
At 31 December 2018	7,655,883	7,909,800	7,958,011	202,191	2,117,449	1,151,816	26,995,150

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

(a) The remaining period of the lease term of the leasehold land is 69 years (2018: 70 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 14 to the financial statements are as follows:

	Group	
	2019 RM	**2018 RM**
Leasehold land	7,535,600	7,655,883
Factory buildings	8,088,787	7,900,943
	15,624,387	15,556,826

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

	Group	
	2019 RM	**2018 RM**
Plant and machinery	953,724	2,307,388
Motor vehicles	36,599	99,340
	990,323	2,406,728

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

	Group	
	2019 RM	**2018 RM**
Aggregate costs	13,045,761	1,424,117
Compensation from legal case (Note 32)	(10,800,000)	–
Cash payments	2,245,761	1,424,117

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4. INVESTMENT PROPERTIES

	Company 2019 RM	2018 RM
Factory buildings		
Cost		
At 1 January	–	–
Additions	10,800,000	–
At 31 December	10,800,000	–
Accumulated depreciation		
At 1 January	–	–
Charge for the financial year	54,000	–
At 31 December	54,000	–
Carrying amount	10,746,000	–
Fair value	10,800,000	–

The fair values of the investments as at 31 December 2019 are arrived at by reference to market evidence of transaction prices for similar properties or are performed by registered valuers having appropriate recognised professional qualification and recent experience in the location and category of the property being valued.

There was no rental income generated and direct operating expenses incurred for the investment properties for the financial year ended 31 December 2019.

The following table analyses the investment properties carried at fair value, by valuation method. The different levels have been defined as follows:

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

The investment properties are classified as level 2. There were no transfers between level 1 and level 2 fair values during the year.

Level 2 fair values of factory buildings have been mainly derived using the sales comparison approach. Sales price of comparable land and buildings in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot.

The aggregate additional cost for the investment properties of the Company during the financial year are as follows:

	Company 2019 RM	2018 RM
Aggregate costs	10,800,000	–
Compensation from legal case (Note 32)	(10,800,000)	–
Cash payments	–	–

5. INVESTMENT IN SUBSIDIARY COMPANIES

(a) Investment in subsidiary companies

	Company 2019 RM	2018 RM
In Malaysia		
Unquoted shares, at cost	14,511,655	14,511,655
Less: Accumulated impairment losses	(3,214,424)	(3,214,424)
	11,297,231	11,297,231

Movement of accumulated impairment losses are as follows:

	Company 2019 RM	2018 RM
At 1 January	3,214,424	2,903,910
Additional impairment	–	310,514
At 31 December	3,214,424	3,214,424

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

Name of companies	Country of incorporation/ Principal place of business	Effective ownership and voting interest 2019 %	2018 %	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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5. INVESTMENT IN SUBSIDIARY COMPANIES (CONT'D)

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

Name of companies	Country of incorporation/ Principal place of business	Effective ownership and voting interest 2019 %	2018 %	Principal activities
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
Subsidiary company of Paragon Expression Sdn. Bhd.:				
Paragon Property Development Sdn. Bhd.	Malaysia	100	100	Inactive

6. AMOUNT OWING BY/(TO) SUBSIDIARY COMPANIES

	Company 2019 RM	2018 RM
Amount owing by subsidiary companies	38,972,779	34,151,467
Less: Accumulated impairment losses	(1,855,344)	(1,855,344)
	37,117,435	32,296,123
Analysed as:		
Non-current assets	35,817,435	32,046,123
Current assets	1,300,000	250,000
	37,117,435	32,296,123
Amount owing to subsidiary companies	(8,682,360)	(8,360,377)

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

7. INVENTORIES

	Group	
	2019 RM	2018 RM
At cost:		
Raw materials	13,639,093	11,194,973
Work-in-progress	556,584	1,362,958
Finished goods	8,555,004	9,847,597
	22,750,681	22,405,528
Less: Allowance for impairment losses	(1,669,153)	(180,000)
	21,081,528	22,225,528

Movement of allowance for accumulated impairment losses are as follows:

	Group	
	2019 RM	2018 RM
At 1 January	180,000	–
Additional impairment	1,489,153	180,000
At 31 December	1,669,153	180,000

During the financial year, there were inventories written off amounting to RM2,471,834 (2018: RM372,887), which were recognised in administrative expenses.

8. TRADE RECEIVABLES

	Group	
	2019 RM	2018 RM
Trade receivables	9,692,589	9,729,296
Less: Accumulated impairment loss (Note 30(c))	(1,186,802)	(864,271)
	8,505,787	8,865,025

The Group's normal trade credit term range from 60 to 90 days (2018: 60 to 90 days). Other credit terms are assessed and approved on a case to case basis.

The currency exposure profiles of trade receivables are as follows:

	Group	
	2019 RM	2018 RM
Ringgit Malaysia	8,505,787	8,861,949
United States Dollar	–	3,076
	8,505,787	8,865,025

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

9. OTHER RECEIVABLES

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Other receivables	220,612	17,020,567	1,000	16,551,000
Deposits	298,718	225,413	2,250	70,000
Prepayments	2,296,145	670,313	–	–
	2,815,475	17,916,293	3,250	16,621,000
Less: Allowance for impairment loss (Note 30(c))				
- Other receivables	–	(13,000,000)	–	(13,000,000)
- Deposits	–	(44,500)	–	–
	–	(13,044,500)	–	(13,000,000)
	2,815,475	4,871,793	3,250	3,621,000

Included in allowance for impairment loss of other receivables is an amount of RMNil (2018: RM13,000,000) recognised in relation to the Group's and Company's material litigation as disclosed in Note 32 to the financial statements.

10. CASH AND BANK BALANCES

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

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Ringgit Malaysia	2,252,002	702,531	47,248	52,708
United States Dollar	37,119	47,267	–	–
	2,289,121	749,798	47,248	52,708

Included in cash and bank balances above is fixed deposit amounting to RM700,000 (2018:RMNil) with interest of 3.90% (2018: Nil) per annum with a maturity of 12 months.

The carrying amount of the fixed deposit of the Group has been pledged to a licensed bank as securities for credit facilities granted to the Group as disclosed in Note 14 to the financial statements.

11. TRADE PAYABLES

The currency exposure profiles of trade payables are as follows:

	Group	
	2019 RM	**2018 RM**
Ringgit Malaysia	3,496,349	3,536,127
Chinese Renminbi	191,941	245,686
Euro Dollar	–	15,257
United States Dollar	197,581	206,813
Thailand Baht	45,952	101,134
	3,931,823	4,105,017

The normal trade credit terms granted to the Group range from 60 to 120 days (2018: 60 to 120 days).

12. OTHER PAYABLES

	Group		Company	
	2019 RM	**2018 RM**	**2019 RM**	**2018 RM**
Other payables	3,319,391	2,153,004	417,186	158,717
Deposit	154,043	–	–	–
Accruals	644,243	604,178	95,120	151,200
	4,117,677	2,757,182	512,306	309,917

13. LEASE LIABILITIES

	Group	
	2019 RM	**2018 RM**
Minimum lease payment		
- less than one year	537,058	713,213
- between one to five years	732,770	1,269,829
	1,269,828	1,983,042
Less: Future finance charges	(86,355)	(175,354)
	1,183,473	1,807,688
Present value of lease liabilities		
- less than one year	482,860	627,415
- between one to five years	700,613	1,180,273
	1,183,473	1,807,688
Analysed as:		
Repayable within twelve months	482,860	627,415
Repayable after twelve months	700,613	1,180,273
	1,183,473	1,807,688

The effective interest rates of the Group are between 4.55% and 5.82% (2018: 4.55% and 6.27%) per annum.

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

14. BANK BORROWINGS

	Group 2019 RM	2018 RM
Current		
Bank overdrafts	4,187,365	9,444,389
Banker's acceptance	913,000	2,258,353
Usance letter of credit	1,144,861	199,821
Term loans	2,121,267	224,970
	8,366,493	12,127,533
Non-Current		
Term loans	11,408,075	1,579,320
	19,774,568	13,706,853
Secured		
Bank overdrafts	4,187,365	9,444,389
Banker's acceptance	913,000	2,258,353
Usance letter of credit	1,144,861	199,821
Term loans	13,529,342	1,804,290
	19,774,568	13,706,853
Maturity of borrowings is as follows:		
Within one year	8,366,493	12,127,533
Between one and two years	635,572	250,886
Between two and five years	2,234,194	949,769
More than five years	8,538,309	378,665
	19,774,568	13,706,853

(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;

(ii) Assignment of a Single Premium Reducing Term Plan under the name of a Director of a Company for a sum insured of not less than RM1,000,000;

(iii) Corporate guarantee by the Company and its subsidiary company; and

(iv) Joint and several guarantee by certain Directors of the Company.

(v) Fixed deposit pledge as disclosed in Note 10 to the financial statements.

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

14. BANK BORROWINGS (CONT'D)

(c) The range of effective interest rates are as follows:

	Group 2019 %	Group 2018 %
Bank overdrafts	5.10 - 7.65	8.23
Banker's acceptance	5.42 - 6.10	4.73
Usance letter of credit	6.85 - 7.83	7.83
Term loans	4.40 - 7.68	4.73 - 8.23

15. SHARE CAPITAL

	Group/Company			
	2019		2018	
	Number of shares	Amount RM	Number of shares	Amount RM
Issued and fully paid				
At beginning/end of the financial year	70,000,000	70,000,000	70,000,000	70,000,000

16. MERGER RESERVES

	Group 2019 RM	Group 2018 RM
Non-distributable:		
Merger reserves	4,618,481	4,618,481

17. TREASURY SHARES

	Group/Company 2019 RM	Group/Company 2018 RM
At 1 January/31 December	4,220,708	4,220,708
No. of ordinary shares	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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

17. TREASURY SHARES (CONT'D)

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 Section 127 of the Companies Act, 2016 in Malaysia. There has been no sale or cancellation of such shares to date.

18. DEFERRED TAX LIABILITIES

The analysis of net deferred tax liabilities are as follows:

	Group	
	2019 RM	2018 RM
At 1 January	(1,865,810)	(2,504,837)
Recognised in profit or loss: (Note 22)		
- Unutilised tax losses	394,281	865
- Unabsorbed capital allowances	627,621	(133,043)
- Property, plant and equipment	23,768	554,392
- Provisions and others	(88,171)	216,813
	957,499	639,027
At 31 December	(908,311)	(1,865,810)

18. DEFERRED TAX LIABILITIES (CONT'D)

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

	Group 2019 RM	Group 2018 RM
Deferred tax assets:		
- Unutilised tax losses	407,073	12,792
- Unabsorbed capital allowances	714,902	87,281
- Provisions and others	178,562	266,733
	1,300,537	366,806
Offsetting	(1,300,537)	(366,806)
Deferred tax assets (after offsetting)	–	–
Deferred tax liabilities:		
- Property, plant and equipment	(2,208,848)	(2,232,616)
Offsetting	1,300,537	366,806
Deferred tax liabilities (after offsetting)	(908,311)	(1,865,810)

Deferred tax assets have not recognised in respect of the following:

	Group 2019 RM	Group 2018 RM	Company 2019 RM	Company 2018 RM
Unabsorbed capital allowances	74,964	–	–	–
Unutilised tax losses	5,232,087	2,636,961	2,314,488	1,567,327
Provision	1,492,299	90,483	–	–
	6,799,350	2,727,444	2,314,488	1,567,327
Deferred tax assets not recognised at 24% (2018: 24%)	1,631,844	654,587	555,477	376,158

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19. REVENUE

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Revenue recognised from contracts with customers:				
- Sale of carpets	56,382,469	51,454,866	–	–
Management fee	–	–	480,000	480,000
	56,382,469	51,454,866	480,000	480,000

Breakdown of revenue recognised from contracts with customers is as follows:

	Group	
	2019 RM	2018 RM
Major segments		
Commercial	13,816,037	15,225,060
Automotive	42,566,432	36,229,806
	56,382,469	51,454,866
Geographical market		
Malaysia	55,891,469	50,677,589
Singapore	389,939	259,309
Vietnam	–	241,738
Sri Lanka	–	164,766
Others	101,061	111,464
	56,382,469	51,454,866
Timing of revenue recognition		
At a point in time	44,559,869	42,654,726
Over time	11,822,600	8,800,140
	56,382,469	51,454,866

20. FINANCE COSTS

	Group	
	2019 **RM**	**2018** **RM**
Finance costs on:		
- Bank overdrafts	553,633	519,557
- Banker's acceptance	49,157	36,230
- Lease liabilities	88,999	131,165
- Usance letter of credit	80,564	48,501
- Term loans	506,296	217,918
	1,278,649	953,371

21. PROFIT/(LOSS) BEFORE TAXATION

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

	Group		Company	
	2019 **RM**	**2018** **RM**	**2019** **RM**	**2018** **RM**
Auditors' remuneration				
- Statutory audit	85,000	74,500	23,000	23,000
- Other services	3,000	4,000	3,000	4,000
Depreciation of property, plant and equipment *	2,702,050	2,916,857	–	–
Depreciation of investment properties	–	–	54,000	–
Impairment loss on:				
- trade receivables	496,171	136,383	–	–
- other receivables	–	44,500	–	–
- inventories	1,489,153	180,000	–	–
Impairment loss on investment in subsidiary company	–	–	–	310,514
Inventories written off	2,471,834	372,887	–	–
Other receivables written off	200,000	–	200,000	–
Property, plant and equipment written off	12,124	92,243	–	–
Reversal of impairment loss on				
- trade receivables	(173,640)	(203,428)	–	–
- other receivables #	(13,044,500)	(3,500,000)	(13,000,000)	(3,500,000)
Gain on disposal of property, plant and equipment	–	(56,021)	–	–
Interest income	(1,561)	(5,151)	–	–
Realised loss/(gain) on foreign exchange	96,275	(2,772)	–	–
Compensation from insurance claim	–	(318,193)	–	–

* Included in depreciation of property, plant and equipment of the Group are amounts charged to cost of sales amounting to RM1,752,983 (2018: RM1,936,058).

\# Reversal of impairment loss on other receivables mainly relates to the settlement received for the Group's and Company's material litigation as disclosed in Note 32 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

22. TAXATION

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Current tax:				
- Current year	–	42,086	–	–
- (Over)/under provision in prior years	(40,728)	46,803	–	–
	(40,728)	88,889	–	–
Deferred tax: (Note 18)				
- Current year	(919,425)	(406,118)	–	–
- Over provision in prior years	(38,074)	(232,909)	–	–
	(957,499)	(639,027)	–	–
Taxation for the financial year	(998,227)	(550,138)	–	–

Income tax is calculated at the Malaysian statutory tax rate of 24% (2018: 24%) of the estimated assessable profit for the financial year.

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

	Group		Company	
	2019 RM	2018 RM	2019 RM	2018 RM
Profit/(Loss) before taxation	1,811,085	(1,477,341)	11,419,730	2,249,287
Taxation at Malaysian statutory tax rate of 24% (2018: 24%)	434,660	(354,562)	2,740,735	539,829
Expenses not deductible for tax purposes	788,658	415,186	199,946	112,814
Income not subject to tax	(3,120,000)	(840,000)	(3,120,000)	(840,000)
Deferred tax asset not recognised	977,257	415,344	179,319	187,357
(Over)/under provision of current taxation in prior year	(40,728)	46,803	–	–
Over provision of deferred tax in prior year	(38,074)	(232,909)	–	–
Taxation for the financial year	(998,227)	(550,138)	–	–

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

23. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

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

	Group	
	2019	**2018**
	RM	**RM**
Profit/(Loss) for the financial year attributable to owners of the Company	2,811,558	(924,572)
Weighted average number of ordinary shares in issue	70,000,000	70,000,000
Less: Treasury shares	(5,301,700)	(5,301,700)
	64,698,300	64,698,300
Basic earnings/(loss) per share (sen)	4.35	(1.43)

(b) Diluted earnings/(loss) per share

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

24. STAFF COSTS

	Group	
	2019	**2018**
	RM	**RM**
Staff costs (excluding Directors)	10,725,610	10,067,473

Included in the staff costs above are contributions made to the Employees Provident Fund under a defined contribution plan for the Group amounting to RM691,956 (2018: RM582,820).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

25. 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	
	2019 RM	**2018 RM**	**2019 RM**	**2018 RM**
Directors' remuneration:				
Short-term employee benefits				
- Fees	192,000	188,000	192,000	188,000
- Salaries and other emoluments	532,000	589,000	532,000	589,000
	724,000	777,000	724,000	777,000
Post employment benefits				
- Defined contribution plan	63,840	70,680	63,840	70,680
	787,840	847,680	787,840	847,680
Other key management personnel:				
Short-term employee benefits				
- Salaries and other emoluments	479,600	705,748	–	–
- Estimated monetary value of benefits-in-kind	5,000	8,800	–	–
	484,600	714,548	–	–
Post employment benefits				
- Defined contribution plan	57,552	84,045	–	–
	542,152	798,593	–	–

26. 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:

	Company	
	2019 RM	**2018 RM**
Management fee received/receivable from subsidiary companies	480,000	480,000

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

27. FINANCIAL GUARANTEES

	Company	
	2019 RM	2018 RM
Unsecured corporate guarantees in respect of banking facilities granted to subsidiary companies	6,880,959	14,500,136

28. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Finance lease liabilities RM	Bank borrowings (excluding bank overdrafts) RM	Total RM
At 1 January 2018	2,400,787	4,847,876	7,248,663
Cash flows	(593,099)	(585,412)	(1,178,511)
At 31 December 2018	1,807,688	4,262,464	6,070,152
Cash flows	(624,215)	11,324,739	10,700,524
At 31 December 2019	1,183,473	15,587,203	16,770,676

29. SEGMENT INFORMATION

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

The reportable business segments of the Group comprise the following:

Automotive : Car carpets and components

Commercial : Commercial carpets

Other non-reportable segments comprise operations to subsidiary companies which are inactive and dormant.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

29. SEGMENT INFORMATION (CONT'D)

(a) Business segment

	Commercial RM	Automotive RM	Non-Reportable Segments RM	Inter-Segment Eliminations RM	Total RM
2019					
Revenue					
External revenue	13,816,037	42,566,432	–	–	56,382,469
Inter-segment revenue	5,094,435	753,508	480,000	(6,327,943)	–
Total revenue	18,910,472	43,319,940	480,000	(6,327,943)	56,382,469
Results					
Finance income	930	631	–	–	1,561
Reversal of impairment loss on:					
- trade receivables	173,640	–	–	–	173,640
- other receivables	–	–	13,044,500	–	3,044,500
Depreciation of property, plant and equipment	(795,308)	(1,852,742)	(54,000)	–	(2,720,050)
Impairment loss on:					
- trade receivables	(496,171)	–	–	–	(496,171)
- inventories	(147,396)	(1,341,757)	–	–	(1,489,153)
Finance cost	(621,258)	(657,391)	–	–	(1,278,649)
Inventories written off	(1,242,917)	(1,228,917)	–	–	(2,471,834)
Other receivables written off	–	–	(200,000)	–	(200,000)
Property, plant and equipment written off	–	(12,124)	–	–	(12,124)
Taxation	473,049	524,867	311	–	998,227
Segment results	(7,538,713)	(4,552,327)	11,360,459	3,539,893	2,809,312
Segment assets	49,703,453	39,810,547	72,527,470	(89,639,932)	72,401,538
Segment liabilities	44,401,569	33,959,908	18,654,934	(67,062,526)	29,953,885

29. SEGMENT INFORMATION (CONT'D)

(a) Business segment (Cont'd)

	Commercial RM	Automotive RM	Non-Reportable Segments RM	Inter-Segment Eliminations RM	Total RM
2018					
Revenue					
External revenue	15,225,060	36,229,806	–	–	51,454,866
Inter-segment revenue	12,839,697	970,433	480,000	(14,290,130)	–
Total revenue	28,064,757	37,200,239	480,000	(14,290,130)	51,454,866
Results					
Finance income	3,038	2,113	–	–	5,151
Reversal of impairment loss on:					
- trade receivables	129,622	73,806	–	–	203,428
- other receivables	–	–	3,500,000	–	3,500,000
Gain on disposal of property, plant and equipment	–	56,021	–	–	56,021
Depreciation of property, plant and equipment	(987,925)	(1,928,932)	–	–	(2,916,857)
Impairment loss on:					
- trade receivables	(136,383)	–	–	–	(136,383)
- other receivables	(44,500)	–	–	–	(44,500)
- inventories	(180,000)	–	–	–	(180,000)
Finance cost	(498,690)	(454,681)	–	–	(953,371)
Inventories written off	(230,957)	(141,930)	–	–	(372,887)
Property, plant and equipment written off	(37,411)	(54,832)	–	–	(92,243)
Taxation	174,352	373,500	2,286	–	550,138
Segment results	(1,923,947)	(940,103)	2,189,949	(253,102)	(927,203)
Segment assets	51,563,750	39,081,693	60,587,082	(87,351,311)	63,881,214
Segment liabilities	38,723,151	28,678,727	18,075,007	(61,234,012)	24,242,873

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

29. SEGMENT INFORMATION (CONT'D)

(b) Geographical information

Geographical information of revenue by location of customers is disclosed in Note 19 to the financial statements.

(c) Information about major customers

The following are major customers with revenue equal or more than 10% of the Group's total revenue:

	Segment	Group 2019 RM	Group 2018 RM
Customer A	Automotive	7,798,043	5,937,314
Customer B	Automotive	12,406,258	12,245,617
Customer C	Automotive	5,794,326	5,990,917
Customer D	Automotive	4,405,801	6,057,212

30. FINANCIAL INSTRUMENTS

(a) Classification of financial instruments

The following table analyses the financial assets and financial liabilities of the Group and of the Company by the classes and categories of financial instruments to which they are assigned, and therefore by the measurement basis:

	Financial assets and liabilities at amortised cost	
	2019 RM	**2018 RM**
Group		
Financial assets		
Trade receivables	8,505,787	8,865,025
Other receivables	519,330	4,201,480
Cash and bank balances	2,289,121	749,798
	11,314,238	13,816,303
Financial liabilities		
Trade payables	3,931,823	4,105,017
Other payables	4,117,677	2,757,182
Lease liabilities	1,183,473	1,807,688
Bank borrowings	19,774,568	13,706,853
	29,007,541	22,376,740

30. FINANCIAL INSTRUMENTS (CONT'D)

(a) Classification of financial instruments (Cont'd)

	Financial assets and liabilities at amortised cost 2019 RM	2018 RM
Company		
Financial assets		
Amount owing by subsidiary companies	37,117,435	32,296,123
Other receivables	3,250	3,621,000
Cash and bank balances	47,248	52,708
	37,167,933	35,969,831
Financial liabilities		
Other payables `	512,306	309,917
Amount owing to subsidiary companies	8,682,360	8,360,377
	9,194,666	8,670,294

Financial risk management

(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 if a counterparty of a financial asset fails to meet its contractual obligations. The Group'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 trade receivables ageing. At reporting date, there were no significant concentration of credit risk other than as disclosed in Note 8.

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

30. FINANCIAL INSTRUMENTS (CONT'D)

Financial risk management (Cont'd)

(c) Credit risk (Cont'd)

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

	Group	
	2019	**2018**
	RM	**RM**
Neither past due nor individually impaired	4,941,299	6,012,243
Past due but not individually impaired:		
- Between 1 - 90 days	3,247,920	1,359,101
- Between 91 - 180 days	275,960	732,573
- Between 181 - 365 days	41,352	519,952
- More than 365 days	124,602	344,723
	3,689,834	2,956,349
Individually impaired	1,061,456	760,704
	9,692,589	9,729,296

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

The Group's trade receivables of RM3,689,834 (2018: RM2,956,349) were past due but not individually impaired. These relate to a number of independent customers for whom there is no recent history of default.

The Group's trade receivables of RM1,061,456 (2018: RM760,704) were individually impaired. The individually impaired receivables mainly relate to customers which are facing difficulties in cash flows. As at the end of the reporting date, the impairment loss for these receivables is RM1,061,456 (2018: RM760,704).

30. FINANCIAL INSTRUMENTS (CONT'D)

Financial risk management (Cont'd)

(c) Credit risk (Cont'd)

Movements on the Group's and the Company's loss allowance for impairment of trade receivables and other receivables are as follows:

	Trade receivables RM	Other receivables RM	Total RM
Group			
2019			
At 1 January	864,271	13,044,500	13,908,771
Charge during the financial year	496,171	–	496,171
Reversal during the financial year	(173,640)	(13,044,500)	(13,218,140)
At 31 December	1,186,802	–	1,186,802
Represented by:			
Individual impairment	1,061,456	–	1,061,456
Lifetime expected credit loss impairment	125,346	–	125,346
	1,186,802	–	1,186,802
2018			
At 1 January	1,368,415	18,359,349	19,727,764
Charge during the financial year	136,383	44,500	180,883
Reversal during the financial year	(203,428)	(3,500,000)	(3,703,428)
Written off	(437,099)	(1,859,349)	(2,296,448)
At 31 December	864,271	13,044,500	13,908,771
Represented by:			
Individual impairment	760,704	13,044,500	13,805,204
Lifetime expected credit loss impairment	103,567	–	103,567
	864,271	13,044,500	13,908,771

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

30. FINANCIAL INSTRUMENTS (CONT'D)

Financial risk management (Cont'd)

(c) Credit risk (Cont'd)

	Other Receivables 2019 RM	Other Receivables 2018 RM
Company		
At 1 January	13,000,000	18,359,349
Reversal during the financial year	(13,000,000)	(3,500,000)
Written off	–	(1,859,349)
At 31 December	–	13,000,000
Represented by:		
Individual impairment	–	13,000,000

(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, lease liabilities and borrowings.

Cash flow 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.

In addition, the Group has unutilised bank facilities in which the Group is able to utilise these facilities to finance its capital expenditure, working capital and other funding requirements.

The Group have prepared a cash flow forecast to consider the availability of unutilised facilities coupled with its cash flows generated from its operating activities in supporting the management of liquidity risk that the Group will have sufficient financial resources for a period of at least 12 months from the end of the financial year. Significant assumptions and judgements are used in the preparation of the cash flow forecast.

30. FINANCIAL INSTRUMENTS (CONT'D)

(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:

	Carrying amount RM	Contractual interest rate %	Contractual cash flows RM	Within 1 year RM	Between 1 and 2 years RM	Between 2 and 5 years RM	More than 5 years RM
2019							
Group							
Trade payables	3,931,823	–	3,931,823	3,931,823	–	–	–
Other payables	4,117,677	–	4,117,677	4,117,677	–	–	–
Lease liabilities	1,183,473	2.42 - 3.10	1,269,828	537,058	488,292	244,478	–
Bank borrowings	19,774,568	4.40 - 7.68	25,605,029	9,019,744	1,224,576	3,682,316	11,678,393
	29,007,541		34,924,357	17,606,302	1,712,868	3,926,794	11,678,393
Company							
Other payables	512,306	–	512,306	512,306	–	–	–
Amount owing to subsidiary companies	8,682,360	–	8,682,360	8,682,360	–	–	–
	9,194,666		9,194,666	9,194,666	–	–	–
2018							
Group							
Trade payables	4,105,017	–	4,105,017	4,105,017	–	–	–
Other payables	2,757,182	–	2,757,182	2,757,182	–	–	–
Lease liabilities	1,807,688	2.42 - 3.35	1,983,042	713,213	537,058	732,771	–
Bank borrowings	13,706,853	4.73 - 8.23	14,429,611	12,323,494	420,480	1,261,440	424,197
	22,376,740		23,274,852	19,898,906	957,538	1,994,211	424,197
Company							
Other payables	309,917	–	309,917	309,917	–	–	–
Amount owing to subsidiary companies	8,360,377	–	8,360,377	8,360,377	–	–	–
	8,670,294		8,670,294	8,670,294	–	–	–

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

30. FINANCIAL INSTRUMENTS (CONT'D)

(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:

	Group				
	Chinese Renminbi RM	Euro Dollar RM	United States Dollar RM	Thai Baht RM	Total RM
2019					
Cash and bank balances	–	–	37,119	–	37,119
Trade payables	(191,941)	–	(197,581)	(45,951)	(435,473)
	(191,941)	–	(160,462)	(45,951)	(398,354)
2018					
Trade receivables	–	–	3,076	–	3,076
Cash and bank balances	–	–	47,267	–	47,267
Trade payables	(245,686)	(15,257)	(206,813)	(101,134)	(568,890)
	(245,686)	(15,257)	(156,470)	(101,134)	(518,547)

30. FINANCIAL INSTRUMENTS (CONT'D)

(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.

	Group Increase/(Decrease) profit or loss, net of tax	
	2019 RM	**2018 RM**
RMB/RM - strengthening 5%	(7,294)	(9,336)
Euro/RM - strengthening 5%	–	(580)
USD/RM - strengthening 5%	(6,098)	(5,946)
THB/RM - strengthening 5%	(1,746)	(3,843)

A 5% weakening of RM against the above currency at the end of the reporting period would have had equal opposite effect on the above currency to the amount shown above, on the basis that all other variables remain constant.

(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	
	2019 RM	**2018 RM**
Floating rate instruments		
Bank overdrafts	4,187,365	9,444,389
Banker's acceptance	913,000	2,258,353
Usance letter of credit	1,144,861	199,821
Term loans	13,529,342	1,804,290
	19,774,568	13,706,853
Fixed rate instruments		
Lease liabilities	1,183,473	1,807,688

Since the Group's 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.

30. FINANCIAL INSTRUMENTS (CONT'D)

(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 Increase/(Decrease) profit or loss	
	2019 RM	**2018 RM**
Increase of 100 basis points ("bp")	(150,287)	(104,172)

(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.

The following table analyses the fair value hierarchy for financial instruments not carried at fair value in the statements of financial position:

	2019		2018	
	Carrying amount RM	**Fair value RM**	**Carrying amount RM**	**Fair value RM**
Group				
Lease liabilities	1,183,473	1,063,905	1,807,688	1,690,978

(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.

31. 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.

	2019 RM	2018 RM
Bank borrowings	19,774,568	13,706,853
Lease liabilities	1,183,473	1,807,688
Less: Cash and bank balances	(2,289,121)	(749,798)
Net bank borrowings	18,668,920	14,764,743
Equity attributable to owners of the Company	42,481,035	39,669,477
Gearing ratio	43.95%	37.22%

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

32. MATERIAL LITIGATION

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

32. MATERIAL LITIGATION (CONT'D)

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

On 3 April 2009, the Company's lawyer issued a Letter of Demand to Datuk Liw, one of the vendors of DPSB (holding 25% of the issued and paid-up share capital of DPSB) to demand for repayment of the sum of RM4,950,000, being the amount due and owing by Datuk Liw to the Company comprising of RM4,500,000 as the monies paid to Datuk Liw by the Company under the SSA as stated above and RM450,000 as the liquidated and ascertained damages payable to the Company by Datuk 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 ex-parte injunction order dated 27 April 2009 and for transfer of these proceedings to the Shah Alam High Court was concluded on 26 October 2009. The decision with regard to these applications was fixed on 16 November 2009 and the learned Judge after considering the submissions from all parties made the following Orders:

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

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

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

On 8 February 2010, the appeal by the Defendants against the decision of the High Court which inter-alia, granted the Company the interlocutory mandatory injunction compelling the Defendants to refund RM13,500,000 and RM4,500,000 respectively to the Company was allowed by the Court of Appeal. The Order of the Court of Appeal essentially set aside the interlocutory mandatory Order granted by the High Court Judge on 16 November 2009.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

32. MATERIAL LITIGATION (CONT'D)

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

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 18 April 2018, the Company has filed the Notice of Motion for Leave to Appeal to the Federal Court against the decision of Court of Appeal on 16 March 2018 inter alia held that Company's agreement and other agreements entered by various parties are unenforceable.

The Company and the Respondents have come to a negotiation for the settlement of the restitution sum of RM18,000,000. The parties have agreed on a reduced settlement sum of RM16,500,000 and a settlement agreement was signed on 18 February 2019 with the repayment terms in the following manner:

- Upon execution of Settlement Agreement, the Company to receive RM3,100,000 in cash term;
- The Company to receive the balance settlement sum of RM2,400,000 in six monthly installments commencing 1 March 2019 in the amount of RM400,000 each; and
- Prestamewah Development Sdn Bhd shall cause the registered proprietor to transfer free of encumbrances 3 units of 3-storey factory at an agreed sum of RM11,000,000.

As all parties have reached a settlement, the Company had on 20 February 2019 and 1 March 2019 filed a Notice of Discontinuance in respect of winding-up petition and Bankruptcy Proceeding against Prestamewah Development Sdn Bhd and Liw Jun Wai with no order as to cost respectively.

Prestamewah Development Sdn Bhd and Liw Jun Wai had on 6 March 2019 filed a Notice of Discontinuance in respect of their Notice of Motion for leave to appeal to the Federal Court with no order as to costs and with no liberty to file afresh.

As at 31 December 2019, the Company has received the full settlement sum in cash and 3 units of 3-storey factory pursuant to the settlement agreement.

Accordingly, the Group and the Company recognised a reversal of other receivables amounting to RM13,000,000 (2018: RM3,500,000) as other income as disclosed in Note 9 to the financial statements.

33. DATE OF AUTHORISATION FOR ISSUE

The financial statements of the Group and of the Company for the financial year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Board of Directors on 16 March 2020.

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PARAGON UNION BERHAD

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