Announcement

NEW ISSUE OF SECURITIES (CHAPTER 6 OF LISTING REQUIREMENTS) : FUND RAISING PARAGON UNION BERHAD ("PUB" OR THE "COMPANY") PROPOSED PRIVATE PLACEMENT OF UP TO 20% OF THE TOTAL NUMBER OF ISSUED SHARES OF PUB (EXCLUDING TREASURY SHARES) IN ACCORDANCE WITH A GENERAL MANDATE PURSUANT TO SECTION 75 AND SECTION 76 OF THE COMPANIES ACT 2016 ("PROPOSED PRIVATE PLACEMENT")

PARAGON UNION BERHAD

Type	Announcement
Subject	NEW ISSUE OF SECURITIES (CHAPTER 6 OF LISTING REQUIREMENTS) FUND RAISING
Description	PARAGON UNION BERHAD ("PUB" OR THE "COMPANY") PROPOSED PRIVATE PLACEMENT OF UP TO 20% OF THE TOTAL NUMBER OF ISSUED SHARES OF PUB (EXCLUDING TREASURY SHARES) IN ACCORDANCE WITH A GENERAL MANDATE PURSUANT TO SECTION 75 AND SECTION 76 OF THE COMPANIES ACT 2016 ("PROPOSED PRIVATE PLACEMENT")

*Reference is made to the Company's announcement dated 23 August 2021 in relation to the Proposed Private Placement ("**Initial Announcement**"). Unless otherwise defined, the definitions set out in the announcement shall apply therein.*

This announcement is dated 26 August 2021 ("**Announcement**").

On behalf of the Board, AmInvestment Bank Berhad wishes to provide additional information in relation to the Proposed Private Placement.

Please refer to the attachment below for the additional information.

Announcement Info

Company Name	PARAGON UNION BERHAD
Stock Name	PARAGON
Date Announced	26 Aug 2021
Category	General Announcement for PLC
Reference Number	GA1-26082021-00098

PARAGON UNION BERHAD ("PUB" OR THE "COMPANY")

PROPOSED PRIVATE PLACEMENT OF UP TO 20% OF THE TOTAL NUMBER OF ISSUED SHARES OF PUB (EXCLUDING TREASURY SHARES) IN ACCORDANCE WITH A GENERAL MANDATE PURSUANT TO SECTION 75 AND SECTION 76 OF THE COMPANIES ACT 2016 ("PROPOSED PRIVATE PLACEMENT")

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This announcement is dated 26 August 2021 ("**Announcement**").

Further to the Initial Announcement, the Board wishes to provide additional information relating to the Proposed Private Placement as follows:-

1. Rationale for the Proposed Private Placement:

Value creation and impact of the Proposed Private Placement to PUB and its shareholders

Further to Section 4.3 of the Initial Announcement, the Board wishes to elaborate that whilst the Proposed Private Placement has an immediate dilutive impact on the Group's EPS, the interest savings from the repayment of bank overdraft through the funds raised via the Proposed Private Placement is expected to have a positive impact on the earnings of the Group. Additionally, the funds raised will give the Group more flexibility in managing its cashflow requirements and planning and supporting its operations during this uncertain time. The Proposed Private Placement also strengthens the Group's financial position and improves the Group's standing with suppliers and customers.

2. Effects of the Proposed Private Placement:

Further to Section 6.0 of the Initial Announcement, the Board wishes to elaborate that the Proposed Private Placement will also result in an immediate dilution in the shareholdings of the shareholders of PUB as a result of the increase in the number of PUB Shares in issue upon completion of the Proposed Private Placement.

3. Prospects and Outlook

Further to Section 5.0 of the Initial Announcement, the Board wishes to provide additional information on the carpet market in Malaysia as follows:

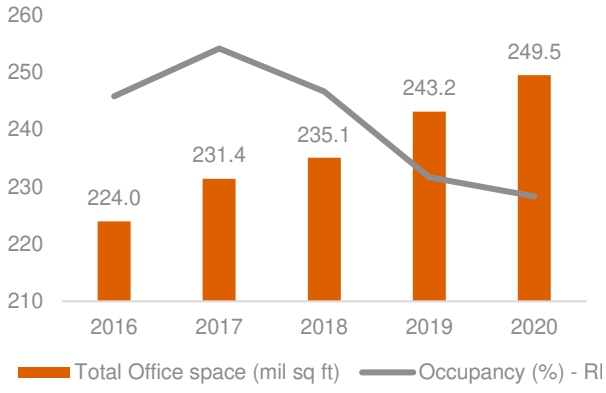
Overview of the manufacturing and trading of carpet market in Malaysia

Commercial carpets are used as flooring solutions in office environments. They are also used in hospitality, education and healthcare facilities as they offer durability, ease of cleaning and noise reduction. Automotive carpets are used in vehicle interior floors and in luggage areas to avoid exposure to dust and corrosion and for aesthetic purposes. Given their end-use, the growth outlook for commercial and automotive carpets is largely linked to the growth of commercial establishments and passenger vehicles.

Commercial segment outlook

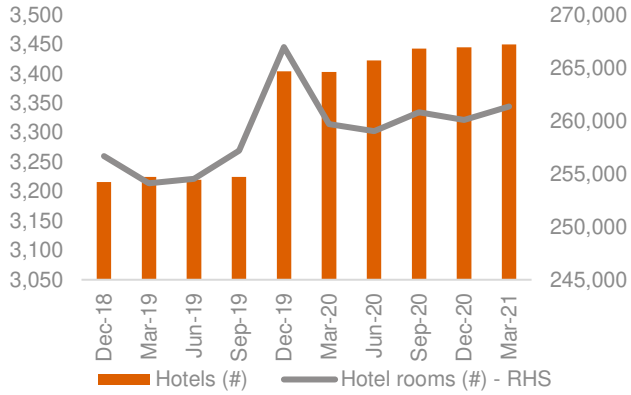
The commercial segment of the carpet market consists of broadloom carpets and modular carpet tiles used across institutional applications, including office buildings, hotels, restaurant chains, schools, cinemas, mosques and other commercial establishments. The demand for carpets is highly intertwined with that of commercial real estate, including office buildings and hotels. The total office space in Malaysia has grown from 224.0 million square feet at end-2016 to 249.5 million square feet at end-2020 at a CAGR of 2.7%, with the occupancy rate hovering between 80% and 83%[(i)]. Headwinds, such as the adoption of the hybrid working model (work from home or WFH) due to the Covid-19 pandemic, and the oversupply of office space arising from several ongoing mega office projects such as Merdeka 118 by Permodalan Nasional Bhd (PNB), are expected to constrain demand for office space in the near term.

Chart 1: Supply/occupancy of purpose-built offices (government/private) in Malaysia



Source: National Property Information Centre (Napic)

Chart 2: Number of hotels and hotel rooms in Malaysia



Source: Valuation and Property Services Department, Ministry of Finance

On the other hand, the number of hotels in Malaysia rose to 3,450 at end-Mar-2021 from 2,383 at end-Mar-2000, while the number of hotel rooms rose to 261,347 at end-Mar-2021 from 117,236 at end-Mar-2000[(ii)]. The short-term outlook for the Malaysian hospitality industry remains bleak, given that hotels were shut down because of the imposition of a movement control order (MCO) in response to the pandemic. As a result, the average occupancy rate (AOR) was projected at 27.8% for 2021, as compared with 25.4% in 2020[(iii)].

Automotive segment outlook

The demand for automotive carpets is majorly driven by the production and sale of passenger vehicles. In Malaysia, the impact of the pandemic led total automotive sales to decline by 12.4% on-year in 2020[(iv)]. The key drivers for the increasing demand for passenger vehicles are a growing population and rising disposable income. The median disposable household income per capita in Malaysia has been rising over the last few years, having grown 4.2% to RM5,116 in 2019 from RM4,513 in 2016[(v)]. Growing disposable income bode well for the segment as they could drive demand for automotive passenger vehicles, which in turn could spur the demand for automotive carpets.

Furthermore, the National Automotive Policy 2020 (NAP2020) aims to produce more than 1.4 million vehicles annually in Malaysia by 2030 (1.2 million vehicles are expected to be sold domestically), and increase the export value of completely built-up (CBU) vehicles to RM12.3 billion a year (from RM2 billion in 2018)[vi]. Its rollout is expected to give the Malaysian automotive industry the required impetus to make it one of the largest in Southeast Asia. This, in turn, will bolster demand for automotive carpets.

Sources:

(i) Data published by the National Property Information Centre (NAPIC);
(ii) Valuation and Property Services Department, Ministry of Finance;
(iii) Ministry of Tourism, Arts and Culture (MoTAC);
(iv) Press release dated 21 January 2021 by Malaysia Automotive Association (MAA);
(v) Department of Statistics Malaysia; and
(vi) National Automotive Policy 2020 by Ministry of International Trade and Industry (MITI).