

Announcement

MULTIPLE PROPOSALS PARAGON UNION BERHAD ("PUB" OR THE "COMPANY") (I) PROPOSED DIVERSIFICATION; AND (II) PROPOSED NEW SHAREHOLDERS MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE (COLLECTIVELY, REFERRED TO AS THE "PROPOSALS")

PARAGON UNION BERHAD

Type	Announcement
Subject	MULTIPLE PROPOSALS
Description	PARAGON UNION BERHAD ("PUB" OR THE "COMPANY") (I) PROPOSED DIVERSIFICATION; AND (II) PROPOSED NEW SHAREHOLDERS MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE (COLLECTIVELY, REFERRED TO AS THE "PROPOSALS")

This announcement is dated 7 October 2022 ("**Announcement**").

On behalf of the Board of Directors of PUB ("**Board**"), AmInvestment Bank Berhad ("**AmInvestment Bank**") wishes to announce that PUB proposes to undertake the following:-

1. proposed diversification of its existing core business to include recycling businesses ("**Proposed Diversification**"); and
2. proposed new shareholders' mandate for recurrent related party transactions to be entered by PUB and its subsidiaries ("**PUB Group**" or the "**Group**") with related parties pursuant to the Proposed Diversification ("**Proposed New Shareholders' Mandate**").

Please refer to the attachment for further details

Announcement Info

Company Name	PARAGON UNION BERHAD
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PARAGON UNION BERHAD (“PUB” OR THE “COMPANY”)

- (I) **PROPOSED DIVERSIFICATION OF THE EXISTING CORE BUSINESS OF PARAGON UNION BERHAD AND ITS SUBSIDIARIES TO INCLUDE RECYCLING BUSINESSES; AND**
- (II) **PROPOSED NEW SHAREHOLDERS’ MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE**

(COLLECTIVELY, REFERRED TO AS THE “PROPOSALS”)

This announcement is dated 7 October 2022 (“**Announcement**”).

1. INTRODUCTION

On behalf of the Board of Directors of PUB (“**Board**”), AmInvestment Bank Berhad (“**AmInvestment Bank**”) wishes to announce that PUB proposes to undertake the following:-

- (i) proposed diversification of its existing core business to include recycling businesses (“**Proposed Diversification**”); and
- (ii) proposed new shareholders’ mandate for recurrent related party transactions to be entered by PUB and its subsidiaries (“**PUB Group**” or the “**Group**”) with related parties pursuant to the Proposed Diversification (“**Proposed New Shareholders’ Mandate**”).

(collectively, referred to as the “**Proposals**”)

Further details of the Proposals are set out in the ensuing sections of this Announcement.

2. PROPOSED DIVERSIFICATION

Currently, the principal activities of the Company are investment holding and provision of management services, whilst its subsidiary companies are involved in the manufacturing and sale of car carpets, car components and commercial carpets.

The Group has 2 business segments, namely:-

- (i) automotive for car carpets and noise, vibration and harshness components; and
- (ii) commercial carpets.

A summary of the key financial information of PUB Group for the past 3 financial years (“**FY**”) and the 6 months ended 30 June 2022 are set out below:-

	Audited			Unaudited
	FY 31 December			6 months ended
	2019	2020	2021	30 June 2022
	RM’000	RM’000	RM’000	RM’000
Revenue				
- Automotive	42,566	32,312	33,994	23,980
- Commercial	13,816	7,134	6,451	4,168
	<u>56,382</u>	<u>39,446</u>	<u>40,445</u>	<u>28,148</u>
Profit/(Loss) after tax	2,809	(5,691)	(15,401)	(3,236)

The Board is cognisant of the Group's loss-making performance and has been seeking opportunities to diversify its income stream and improve its revenue and profitability. To this end, the Board has identified recycling businesses ("**Recycling Business**") as an appropriate business to be pursued.

The Group intends to venture into the Recycling Business, focusing on metal initially, via its subsidiary, Paragon Metal Sdn Bhd ("**Paragon Metal**"). The Group plans to have Paragon Metal starting off by trading metal whereby it will buy metal scrap materials (mainly copper and aluminium) from designated vendors, after which the metal scrap materials will be outsourced to be sorted and treated. Once treated and sorted, Paragon Metal will sell these semi-finished materials to smelter plants locally. The smelter will then re-melt the materials into copper/aluminum ingot as a finished product for exports. The Group believes that this initial stage of trading metal is more cost effective and will help to improve the Group's financial performance and position within a shorter timeframe with less risk. Subsequently, the Group plans to venture further into the metal recycling industry by going upstream either through acquisition or joint venture with existing vendors (i.e. the sorting and treatment party) to value add on the materials and further enhance the Group's presence throughout the supply chain.

Once the metal recycling business is on track, the Group intends to venture into other areas of recycling including but not limited to collection, recycling and recovery of liquid and solid industrial waste, treatment of industrial chemicals and chemical related products and provision of recycling management services.

The Group intends to leverage on the experience and network of Mr Koon Hoi Chun ("**Mr Koon**"), the Executive Chairman and a major shareholder of PUB in this industry, further details of which are set out in Section 2.1.1 below. Mr Koon is currently an indirect shareholder of several companies that are involved in the management of industrial waste, which includes recycling and processing of industrial waste and metal scraps into ingots, as well as sales and marketing of processed products and related products. To kick-start the Recycling Business, the Group proposes to secure contracts with the companies related to Mr Koon as well as other scrap metal providers. The Group also intends to leverage on the experience of Mr Wong Ee-Coln ("**Mr Wong**"), the Managing Director of PUB to develop the Recycling Business in view of his diverse experiences in managing companies from various industries, amongst others, property development, investment, business development. Mr Wong will be involved in the strategic planning, direction and development of the Recycling Business.

The Board expects that over time, the Recycling Business would grow and may result in a diversion of 25% or more of PUB's net assets ("**NA**") from the Group's existing business/operation. Taking into consideration the Group's loss of approximately RM15.40 million for its existing business for FY2021, barring unforeseen circumstances, the Recycling Business' profit could contribute 25% or more to the Group's net profit going forward.

Accordingly, PUB's shareholders' approval is sought to undertake the Proposed Diversification pursuant to the Paragraph 10.13(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("**Bursa Securities**") ("**Listing Requirements**").

Notwithstanding the Proposed Diversification, the Company remains committed to its existing core business.

2.1 Key management personnel

The Board believes that the Group has the capability and resources to diversify into the Recycling Business by leveraging on the experience of its Executive Chairman, Mr Koon, who was appointed to the Board on 9 March 2021 and its Managing Director, Mr Wong, who was appointed to the Board on 14 March 2022.

The Group will also be recruiting a team of approximately 5 personnel to operate the Recycling Business.

2.1.1 Background of Mr Koon

Mr Koon, the Executive Chairman of the Company, has more than 5 years of experience within the recycling industry. In 2015, he co-founded and oversaw the operations of KYH Trading Sdn Bhd, which is principally involved in collecting, sorting and cleaning industrial waste and metal scraps such as aluminium and copper and selling them to international markets in most ASEAN countries, Bangladesh and Africa region. On 1 January 2020, he ventured into the processing of industrial waste and metal scraps into ingots, through Technovate Holdings Sdn Bhd (“**Technovate Holdings**”). Technovate Holdings wholly-owns Technovate Trading Sdn Bhd (“**Technovate Trading**”) which is principally involved in trading of precious metal materials and precious metal scraps.

2.1.2 Background of Mr Wong

Mr Wong, the Managing Director of the Company has over 20 years of working experience in property development, investment, business development and senior management in Malaysia and Philippines. He joined Berjaya Land Berhad as General Manager in 2013 and was promoted to be Executive Director of Berjaya Group Berhad from 2018 until 2021. He was also appointed as the President of Berjaya Philippines Inc. from 2016 until 2021. Throughout his career, Mr Wong has gained extensive experience in managing businesses, from operations to finance, and is expected to contribute to the development of the Recycling Business.

3. PROPOSED NEW SHAREHOLDERS’ MANDATE

As disclosed in Section 2 above, PUB intends to leverage on the network of Mr Koon to venture into the Recycling Business and by doing so, the Group may, from time to time, enter into recurrent related party transactions of a revenue and/or trading nature (“**RRPTs**”) with companies related to Mr Koon. In this regard, PUB proposes to seek the shareholders’ mandate for RRPTs pursuant to Paragraph 10.09 of the Listing Requirements at an extraordinary general meeting (“**EGM**”) to be convened.

As at the date of this Announcement, assuming the Proposed Diversification is implemented, the estimated RRPT between the PUB Group and companies related to Mr Koon are as follows:-

No.	Transacting party	Nature of relationship	Transacting party within the Group	Nature of transaction	*Estimated aggregate value to be incurred from the EGM to the next annual general meeting (RM'000)
1	Technovate Trading	Mr. Koon is the Executive Chairman and major shareholder of PUB. He is also a director and shareholder holding 45.00% equity interest in Technovate Holdings which wholly-owns Technovate Trading.	Paragon Metal, a wholly-owned subsidiary of PUB.	Trading of precious metal materials and precious metal scraps	60,000
2	KYH Recycle Industries Sdn Bhd ("KYH Recycle")	Mr. Koon is the Executive Chairman and major shareholder of PUB. He is also a director and shareholder holding 45.00% equity interest in Technovate Holdings which owns 90.00% equity interest in KYH Recycle.	Paragon Metal	Trading of precious metal materials and precious metal scraps	40,000

Note:-

* The estimated values stated are determined by the management of PUB Group. Actual transaction values may differ from the values stated.

4. RATIONALE FOR THE PROPOSALS

4.1 Proposed Diversification

The Group believes its outlook and market competitiveness would remain challenging for the year ahead and are subject to factors such as fluctuating materials prices, and freight costs in the supply chain and exchange rate which may affect its price competitiveness and profitability. The Proposed Diversification facilitates the Group's plan to expand its core business and provide an avenue for the Group to broaden its revenue stream and earnings base and reduce its dependency on its existing core business.

Considering the outlook and prospects of the Recycling Business as set out in Section 5 below and coupled with the experience of Mr Koon and Mr Wong, the Board believes that barring unforeseen circumstances, the Recycling Business should contribute positively to the Group's future earnings over time and at the same time diversify the Group's existing portfolios.

4.2 Proposed New Shareholders' Mandate

The Proposed New Shareholders' Mandate will enhance the Group's ability to pursue business opportunities which are time-sensitive in nature and allow the Group to enter into transactions within the ordinary course of its proposed diversified business with companies related to Mr Koon. The Proposed New Shareholders' Mandate will enable the Group to undertake RRPTs necessary for day-to-day operations of the diversified business in a more expeditious manner, without the need to announce and convene separate general meetings on each occasion to seek shareholders' prior approval for the relevant company in the Group to enter into such transactions.

This will substantially reduce the expenses associated with the convening of general meetings on an ad-hoc basis, improve administrative efficiency considerably, and allow manpower resources and time to be channelled towards attaining other corporate objectives.

Premised on the above, the Proposals are expected to contribute positively to the Group's overall earnings moving forward.

5. INDUSTRY OVERVIEW AND PROSPECTS

5.1 Overview and outlook of the Malaysian economy

The Malaysian economy registered a strong growth of 8.9% in the second quarter of 2022 (1Q 2022: 5.0%). While growth was lifted to some extent by the low base from the Full Movement Control Order ("FMCO") in June 2021, growth in April and May 2022 was particularly robust, underpinned by the continued recovery in labour market conditions and policy support. The improvement also reflected normalising economic activity as the country moved towards endemicity and reopened international borders. Exports remain supported by strong demand for E&E products. In terms of economic activity, the services and manufacturing sectors continued to drive growth. On a quarter-on-quarter seasonally-adjusted basis, the economy increased by 3.5% (1Q 2022: 3.8%).

Key economic sectors continued to expand in the second quarter of 2022. The services sector grew by 12.0% (1Q 2022: 6.5%). Consumer-related subsectors such as retail and leisure-related activities continued to recover amid the transition to endemicity, reopening of the international borders, improving labour market conditions and the additional support from policy assistance. The strong expansion was also seen in business-related activities including transport and storage, due in part to higher growth in air passenger traffic and tourist arrivals. Furthermore, growth of the real estate subsector continued to improve as property transactions recovered. Additionally, the information and communication subsector provided further support to growth following greater usage of e-commerce services.

During the quarter, domestic demand registered a higher growth of 13.0% (1Q 2022: 4.4%). This was mainly supported by a robust growth in private expenditure amid further normalisation of economic activity, as well as improving labour market conditions. On the external front, demand for Malaysia's exports, particularly for E&E products, remained strong.

Private consumption grew at a faster pace of 18.3% (1Q 2022: 5.5%), driven by higher spending on necessities and selected discretionary items such as restaurants and hotels, recreational services and household furnishings. The strength in consumer expenditure was primarily driven by the recovery in the labour market. Policy support, including the implementation of minimum wage hike,¹ Bantuan Keluarga Malaysia and an Employees Provident Fund ("EPF")-related measure also provided additional lift to consumer spending.

Public consumption expanded at a moderate pace of 2.6% (1Q 2022: 6.7%), weighed down by lower supplies and services spending, reflecting smaller COVID-19 related expenditure.

(Source: Bank Negara Malaysia's Quarterly Bulletin for 2nd Quarter 2022)

5.2 Overview of the recycling market

In 2021, a total of 13.95 million tonnes of municipal solid waste was generated per annum in Malaysia, equivalent to 38,207 tonnes generated per day by household, institutional, commercial, industrial (excluding scheduled waste) and construction establishments. This showed an increase from previous years as municipal solid waste amounted to 13.91 million tonnes and 13.88 million tonnes in 2020 and 2019 respectively. This waste typically ends up at a landfill site if it is not recycled or reused, thereby requiring more landfill usage and expansions. The limited land and high cost of landfill facilitation operations have intensified environmental and financial concerns for the Government.

As Malaysia moves towards zero-waste, the Government is actively playing a pivotal role in strengthening waste management and transforming environmental governance to enable better management of the environment and natural resources, including reducing its economic impacts. These initiatives have been highlighted in the Twelfth Malaysia Plan, 2021-2025 (“**12MP**”) as part of Malaysia’s commitment to achieving a net-zero carbon emission country by 2050. Under 12MP, the Government has set out to achieve a National Recycling Rate (“**NRR**”) of 40% by 2025. The NRR reached 31.52% in 2021, a promising increase as compared to 30.67% in 2020.

The 12MP also highlights the importance of establishing a circular economy where businesses are encouraged to adopt this concept in the design, production, logistics, consumption and waste management of their products and services.

To accelerate the transition of solid waste management from a linear economy to a circular economy, Malaysia is banking on Waste to Energy (“**WTE**”) solutions. The Ministry of Housing and Local Government (“**KPKT**”) is planning to establish six WTE plants across Malaysia by 2025.

WTE solutions are now recognised as a preferred waste treatment option for residual waste and a sustainable waste management approach in the country. Additionally, the establishment of waste eco-parks, development of waste management technologies and closure of all open landfills are encouraged to achieve Malaysia’s commitment to become a net-zero carbon emission country by 2050.

Malaysian Investment Development Authority (“**MIDA**”) has been promoting environmental management through recycling since the 1980s as well as green technology projects and services since 2014. The facilitation offered by the Government include Investment Tax Allowance for companies that intend to undertake WTE projects and integrated waste management projects.

MIDA also continues to intensify its efforts to assist both local and foreign investors by formulating policies, incentives and providing facilities as well as support services for the green technology industry towards further strengthening Malaysia’s green ecosystem, building climate resilience and achieving global sustainable development goals.

(Source: MIDA Newsletter July 2022, Waste to Energy (WTE): The Preferred Approach for Waste Management in Malaysia, MIDA)

5.3 Overview of the metal scraps (steel) market in Malaysia

Malaysia’s steel industry is a large consumer of imported ferrous scrap. In the past several years, the nation has grown as a leading destination for the world’s non-ferrous scrap, with secondary aluminium alloy and brass producers thriving in the nation.

The average of Malaysia metal scraps (steel) consumption is around 3.3 million tonnes per year (2017 – 2021). The consumption in 2020 declined by 17 % compared to 2019 due to the slowing down of production activity during the nation's Movement Control Order ("MCO") and it slightly rebounded back in 2021 after the MCO was lifted. Same situation happened to the metal scrap importation.

Many local recycling centres sell the scrap metals by weight, often at prices below the imported price. Hence, the local recycling centres export the metal scrap for higher price, taking advantage of the 0% export duty implemented in 2016 and the good currency exchange, which indirectly cause the shortage of metal scrap locally. In order to resolve the shortage of metal scraps, an export duty of 15 % has been imposed in 2020.

(Source: Issue 1 Newsletter 2022, Metal Scraps (Steel) Importation, Malaysia Steel Institute)

5.4 Prospects of PUB Group

The Group recorded a loss after tax of RM15.40 million for its latest FY2021. This was attributable to, amongst others, the negative impact and uncertainties generated by the COVID-19 pandemic and the associated MCO during the year. The performance of the Group had also been adversely impacted by a natural flood disaster in FY2021, which damaged some of the Group's finished goods raw materials and production machineries. The re-opening of the economy subsequent to the various movement control orders is expected to have a positive impact on the overall Group performance and the Group anticipates that the revenue for both the automotive and commercial sectors to recover at an incremental pace. Nonetheless, the Group remains cautious on the outlook due to the increase in raw material prices, shipping costs, energy prices such as oil and natural gas, the gazetted minimum wages and the amendments to the Employment Act 1955 which were gazetted in 2022 and proposed to take effect on 1 January 2023, will collectively have an impact on the production and transportation cost.

In an effort to diversify the Group's income stream and improve revenue and profitability, the Board intends to undertake the Proposed Diversification. The Board of PUB views the recycling industry as being prospective due to the increasing emphasis on environmental, social and governance practices and compliance by companies locally and globally. Countries around the world are focusing on various environmental issues, to reduce global warming through amongst others controlling carbon dioxide emissions, treatment of wastewater, regulating the way of handling trash and industrial waste.

Although many sectors or materials fall under the recyclable category, the Group will initially focus on metal scrap recycling namely aluminium and copper mainly due to Mr Koon's experience and network within this sector. The Board is of the view that Mr Koon's knowledge and network within the metal recycling industry will be able to help to establish the Recycling Business whilst the Group work on building its network within the recycling industry. The Group envisions to eventually enter into joint venture arrangements with other players within the industry to venture upstream as stated in Section 2 of this Announcement.

The Board believes that barring any unforeseen circumstances, the Recycling Business would provide PUB Group with a new source of revenue which in turn should contribute positively towards PUB's earnings in the long run.

(Source: Management of PUB)

6. RISK FACTORS RELATING TO THE PROPOSED DIVERSIFICATION

The Proposed Diversification would result in the diversification of the Group's existing core business of manufacturing and distribution of commercial carpets, car carpets and noise, vibration and harshness components business to include the Recycling Business. Accordingly, the Group is expected to be subjected to new challenges and certain risks arising from the Group's involvement in the Recycling Business which the Group has not been exposed to.

The risks relating to the Proposed Diversification include, but is not limited to fluctuation in steel prices, laws, changes in the regulations and political condition, dependence on cooperation of external parties, failure to obtain the necessary operating permits, license, certificates and/or regulatory approvals and competition.

A detailed discussion of the risk factors will be set out in the circular to shareholders of PUB for the Proposed Diversification to be issued in due course.

7. EFFECTS OF THE PROPOSALS

7.1 Share capital and substantial shareholders' shareholdings

The Proposals are not expected to have any effect on the issued share capital of PUB or its substantial shareholders' shareholdings in the Company as the Proposals do not involve any issuance of PUB shares.

7.2 NA, NA per share and gearing

The Proposals are not expected to have any material effect on the NA, NA per share and gearing of the Group for the financial year ending 31 December 2022. Future contribution from the Recycling Business may have a positive impact on the Group's NA. The gearing of the Group will depend on, amongst others, the manner of funding for the Recycling Business.

7.3 Earnings per share ("EPS")

The Proposals are not expected to have any material effect on the Group's earnings and EPS for the financial year ending 31 December 2022 but are expected to contribute positively to the Group's future earnings and EPS.

8. APPROVALS REQUIRED

The Proposals are subject to the following approvals being obtained:-

- (i) the shareholders of PUB at the EGM of the Company to be convened; and
- (ii) any other relevant parties/authorities (if applicable).

9. CONDITIONALITY

The Proposed New Shareholders' Mandate is conditional upon the Proposed Diversification but not vice versa. The Proposals are not conditional upon any other corporate proposals undertaken or to be undertaken by PUB.

10. INTEREST OF DIRECTORS, MAJOR SHAREHOLDERS AND PERSONS CONNECTED

None of the directors and/or major shareholders of the Company and/or persons connected to them has any interest, either direct or indirect, in the Proposed Diversification.

Save as disclosed below, none of the other directors and/or major shareholders and/or persons connected to them have any interest, direct or indirect, in the Proposed New Shareholders' Mandate:-

- (i) Mr Koon, the Executive Chairman of PUB is an indirect shareholder of Technovate Trading and KYH Recycle via his 45.00% equity interest in Technovate Holding. He is also an indirect major shareholder of PUB via his 100% equity interest in AKK Capital Sdn Bhd ("**AKK Capital**"). As at the date of this Announcement, AKK Capital holds 47.69% equity interest in PUB.

(Mr Koon and AKK Capital are collectively referred to as "**Interested Major Shareholders**").

(Mr Koon is referred to as "**Interested Director**").

Accordingly, Mr Koon has abstained and will continue to abstain from deliberating and voting on the Proposed New Shareholders' Mandate at the relevant board meetings. Further, Mr Koon and AKK Capital will abstain from voting in respect of their indirect shareholdings in the Company on the resolution pertaining to the Proposed New Shareholders' Mandate to be tabled at the forthcoming EGM. They will also undertake that they will ensure that the persons connected to them, if any, will abstain from voting in respect of their direct and/or indirect shareholdings (if any) in the Company on the ordinary resolution pertaining to the Proposed New Shareholders' Mandate to be tabled at the EGM to be convened.

11. AUDIT COMMITTEE'S STATEMENT

The Audit Committee of the Company, after having considered all relevant aspects of the Proposed New Shareholders' Mandate (including but not limited to the terms, rationale and financial effects of the Proposed New Shareholders' Mandate) is of the opinion that the Proposed New Shareholders' Mandate is in the best interest of the Company, fair, reasonable and on normal commercial terms, and not detrimental to the interest of the minority shareholders of the Company.

12. DIRECTORS' STATEMENT

The Board, having considered all aspects of the Proposed Diversification, including the rationale, prospects and risk factors, is of the opinion that the Proposed Diversification is in the best interest of the Company.

The Board, save for Mr Koon, having considered all aspects of the Proposed New Shareholders' Mandate, including the rationale and prospects, is of the opinion that the Proposed New Shareholders' Mandate is in the best interest of the Company.

13. PRINCIPAL ADVISER

AmInvestment Bank has been appointed as the Principal Adviser for the Proposals.

14. ESTIMATED TIMEFRAME FOR COMPLETION

Barring any unforeseen circumstances, the Board expects the Proposals to be completed by the fourth quarter of 2022.