

**PARAGON UNION BERHAD (286457-V)  
 QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE THIRD QUARTER  
 ENDED 31 DECEMBER 2010**

**NOTES TO THE INTERIM FINANCIAL REPORT**

1) Accounting Policies

The interim financial report is unaudited and has been prepared in accordance with the requirements of Financial Reporting Standard (“FRS”) 134 : “Interim Financial Reporting” and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad and should be read in conjunction with the 31 December 2009 Annual Financial Report.

The interim financial report has been prepared based on accounting policies and methods of computation which are consistent with those adopted in the 31 December 2009 Annual Financial Report.

The Directors of the Group and of the Company anticipate that the application of the following new FRSs, revised FRSs, Issues Committee (“IC”) Interpretations, amendments to FRSs and IC Interpretations which are mandatory and will be effective for financial periods as stated below will have no material impact on the financial statements of the Group and of the Company:

	Effective date for financial periods beginning on or after	
FRS 4	Insurance Contracts	1 January 2010
FRS 7	Financial Instruments: Disclosures	1 January 2010
FRS 101	Presentation of Financial Statements	1 January 2010
FRS 123	Borrowing Costs	1 January 2010
FRS 139	Financial Instruments: Recognition and Measurement	1 January 2010
Amendments to FRS 1: First-time Adoption of Financial Reporting and FRS127: Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate		1 January 2010
Amendments to FRS 2: Share-based Payment – Vesting Conditions and Cancellations		1 January 2010
Amendments to FRS 132: Financial Instruments: Presentation		1 January 2010
Amendments to FRS 139, Financial Instruments: Recognition and Measurement, FRS 7, Financial Instruments: Disclosures and IC Interpretation 9, Reassessment of Embedded Derivatives		1 January 2010
IC Interpretation 9: Reassessment of Embedded Derivatives		1 January 2010
IC Interpretation 10: Interim Financial Reporting and Impairment		1 January 2010
IC Interpretation 11: FRS 2 - Group and Treasury Share Transaction		1 January 2010
IC Interpretation 13: Customer Loyalty Programmes		1 January 2010
IC Interpretation 14: FRS 119 - The Limit on a Defined		

Benefit Asset, Minimum Funding Requirements and their interaction	1 January 2010
Amendments to FRSs contained in the document entitled "Improvements to FRSs (2009)"	1 January 2010
FRS 1: First-time Adoption of Financial Reporting Standards	1 July 2010
FRS 3: Business Combination	1 July 2010
FRS 127: Consolidated and Separate Financial Statements	1 July 2010
Amendments to FRS 2: Share-based Payment	1 July 2010
Amendments to FRS 5: Non-current Assets Held for Sale and Discontinued Operations	1 July 2010
Amendments to FRS 138: Intangible Assets	1 July 2010
IC Interpretation 12: Service Concession Arrangements	1 July 2010
IC Interpretation 15: Agreements for the Construction of Real Estate	1 July 2010
IC Interpretation 16: Hedge of a Net Investment in a Foreign Operation	1 July 2010
IC Interpretation 17: Distribution of Non-cash Assets to Owners	1 July 2010
Amendments IC Interpretation 9: Reassessment of Embedded Derivatives	1 July 2010
Amendments to FRS 1: Limited Exemption from Comparative FRS 7 Disclosures of First-time Adopters	1 January 2011
Amendments to FRS 7 : Improving Disclosures about Financial Instruments	1 January 2011
Amendments to FRS 132: Financial Instruments: Presentation - paragraphs 95A, 97AA and 97AB	1 January 2010
- paragraphs 11,16 and 97E	1 March 2010

The Company plans to adopt the abovementioned FRSs, revised FRSs, Issues Committee ("IC") Interpretations, amendments to FRSs and IC Interpretations which are relevant to the Company's operation when they become effective.

The Directors of the Company anticipate that the application of the above FRSs, revised FRSs, Issues Committee ("IC") Interpretations, amendments to FRSs and IC Interpretations will have no material impact on the financial statements of the Company except for the changes in disclosures arising from the adoption of FRS 101 and Amendment to FRS 132.

The Company has applied the transitional provisions in FRS 7 and FRS 139 which exempt the Company from disclosing the possible impact arising from initial application of the respective standards on the financial statements of the Company.

The Group has adopted the amendment to FRS 117 which clarifies the classification of lease of land and requires entities with existing lease of land and buildings to reassess the classification of land as finance or operating lease. The reclassification of leasehold land from prepaid land lease payments to property, plant and equipment has been accounted for retrospectively in accordance with the transitional provision of the amendment and the following comparatives were restated:

	Previously Stated	Reclassification Restated	
	RM'000	RM'000	RM'000
As at 31 December 2009			
Property, plant and equipment	29,396	8,739	38,135
Prepaid lease payments	8,739	(8,739)	-

2) Qualified Audit Report

The auditors' report on the financial statements for the year ended 31 December 2009 was not qualified.

3) Seasonal or Cyclical Factors

The business operations of the Group were not significantly affected by any seasonal or cyclical factors for the financial period under review.

4) Unusual Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flows

There were no items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence.

5) Changes In Estimates

There were no material changes in estimates of amounts reported in prior interim periods of the current financial year or prior financial year that have had a material impact on the current quarter results.

6) Issuance and Repayment of Debts and Equity Securities

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities for the current financial period ended 31 December 2010.

7) Dividends Paid

The Company did not pay any dividend for the current quarter under review.

8) Operating Segments

	Automotive		Commercial		Consolidated	
	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue from external customers	29,733	23,491	28,258	29,070	57,991	52,582
Segment results	2,647	1,165	958	268	3,605	1,455
Unallocated expenses					(543)	(768)
Profit from operations					3,063	(687)

9) Valuation of Property, Plant & Equipment

There were no amendments in the valuation of property, plant and equipment brought forward from the previous annual financial statements.

#### 10) Subsequent Material Events

There were no material events subsequent to the end of the interim period reported on that have not been reflected in the financial statements for the said period, made up to the date of issue of this quarterly report.

#### 11) Changes in the composition of the Group

There were no changes in the composition of the Group for the financial period under review, including business combinations, acquisition or disposal of subsidiaries and long term investments, restructurings and discontinuing operations.

#### 12) Contingent Liabilities and Contingent Assets

There were no changes in contingent liabilities (other than material litigation disclosed in Note 23) and contingent assets since the last annual balance sheet as at 31 December 2009 up to the date of issue of this quarterly report.

#### 13) Performance Review

The Group recorded a gross revenue of RM57,991,000 in the current financial period compared to the corresponding period of RM52,582,000 and the Group's profit before taxation stood at RM1,578,000 compared to loss before taxation of RM17,405,000 in the corresponding period in the preceding year.

The better sales performance was contributed by the increase in both automotive and commercial carpet division

#### 14) Quarterly Profit or Loss Before Taxation Comparison

The Group recorded a gross revenue of RM16,264,000 in the current quarter compared to the immediate preceding quarter of RM16,370,000 and the Group's profit before taxation stood at RM1,709,000 compare to profit before taxation of RM834,000 in the immediate preceding quarter.

#### 15) Current Year Prospects

The growth of the GDP in the local economy has lately boasted business confidence and consumer spending in the country when compared to 2009. The better economic sentiment has generally strengthened the demand for manufactured goods both locally and overseas. But the recently implemented AFTA has inadvertently change the business landscape in the country particularly the increase market competitiveness for manufactured goods in the region.

For the automotive division, the prospects for the next quarter looks encouraging in view of the increased in demand for automotive components both local and export sector. However, the sales would largely depend on securing contracts of the anticipated launching of new models as well as the increase in demand of existing models both locally and overseas. To further expand our market share and to enhance our market competitive edge, the automotive division is increasing our product range to complement our existing carpet range as well as seeking potential export market, mainly to countries such as Singapore, Thailand, Indonesia, Korea, Australia and Mexico.

With the increased business confidence in the local economy, the sales for commercial carpets is expected to be better for the second half of the year. The commercial carpet is also planning to expand its market share through introducing new carpet range and design. Effort is being undertaken to increase the export segment through introducing our company and products to potential clients in other countries such as Indonesia, Singapore, Vietnam, Thailand and India.

With the forecast of 6% GDP growth in 2011, we expect to continue with our business growth momentum. However, with the drastic hike in raw materials prices the profit margin will be adversely affected in the coming year.

#### 16) Profit Forecast or Profit Guarantee

This note is not applicable.

#### 17) Taxation

The breakdown of tax charge for the current quarter and financial year are as follows :

	Current Quarter RM'000	Current Year RM'000
Current tax expense		
- current period	3	3
- underestimated in prior year	-	-
	-----	-----
	3	3
	-----	-----
Deferred tax expense		
- current period	106	106
- overestimated in prior year	(1,947)	(1,947)
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	(1,841)	(1,841)
	-----	-----
	(1,838)	(1,838)
	=====	=====

There are reversal of deferred tax in certain subsidiary companies due to huge amount arises from components of deductible temporary differences comprises of unabsorbed capital allowances, reinvestment and unabsorbed losses have resulted for overprovision of deferred tax liabilities in respect of prior year.

#### 18) Profit/(Loss) on sale of Unquoted Investments and/or Properties

There were no disposals of unquoted investments or properties for the current quarter and financial year-to-date.

#### 19) Purchase and Disposal of Quoted Securities

a) There was no purchase or disposal of quoted investments for the current quarter and financial year-to-date.

- b) There were no investments in quoted securities at the end of the reporting period.

## 20) Status of Corporate Proposals

There are no other corporate proposals, which have been announced by the Company but pending completion as at 21 February 2011 (being the latest practicable date which is not earlier than 7 days from the issue date of this quarterly report).

## 21) Group Borrowings

The total group borrowings are as follows:

	31 December 2010 RM'000
<u>Short Term Bank Borrowings</u>	
Secured:	
Bills payable	2,297
Bank overdrafts	8,908
Current portion of term loan	621
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Sub-total	11,826
	-----
Unsecured:	
Bills payable	393
Bank overdrafts	4,213
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Sub-total	4,606
	-----
Total	16,432
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<u>Long Term Bank Borrowings</u>	
Secured Term Loan	4,065
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## 22) Off-Balance Sheet Financial Instruments

There were no off-balance sheet financial instruments as at 21 February 2011, the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report.

## 23) Material Litigation

### i) Paragon Union Berhad v Prestamewah Development Sdn. Bhd. and Liw Jun Wai

On 8 February 2010 the appeal by the Prestamewah Development Sdn Bhd and Liw Jun Wai ("the Defendants") against the decision of High Court which, inter alia, granted PUB the interlocutory mandatory injunction compelling the Defendants to refund RM13,500,000.00 and RM4,500,000.00 respectively to PUB 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. PUB has filed an application for leave to appeal to the Federal Court against the decision of the Court of Appeal and the hearing of the leave of application was fixed on 17 May 2010. The application for leave was dismissed with cost by the Federal Court.

PUB's application for summary judgment is fixed for hearing on 9<sup>th</sup> December 2010.

#### 24) Dividend

No dividend has been declared for the financial quarter ended 31 December 2010.

#### 25) Earnings Per Share

The basic and diluted earnings per share have been calculated based on the consolidated net profit or loss for the period and on weighted average number of ordinary shares in issue during the period.

	Current Year Quarter 31.12.2010	Preceding Year Quarter 31.12.2009	Current Year to date 31.12.2010	Preceding Year to date 31.12.2009
<b>i) Earnings</b>				
Net profit/(loss) for the period (RM'000)	3,547	336	3,416	(17,328)

	Current Year Quarter 31.12.2010	Preceding Year Quarter 31.12.2009	Current Year to date 31.12.2010	Preceding Year to date 31.12.2009
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#### ii) Weighted average number of ordinary shares

##### Basic and diluted

Weighted average number of ordinary shares at beginning of the period ('000)	64,699	64,726	64,699	64,726
Effect of shares buyback during the period ('000)	-	(7)	-	(7)
Weighted average number of ordinary shares at end of the period ('000)	64,699	64,719	64,699	64,719

The weighted average number of ordinary shares that would have been in issue after exercise of ESOS at fair value is anti-dilutive and is excluded in the computation of diluted earnings per share. Accordingly, there is no fully diluted earnings per share.

26) Realised and Unrealised Profits/(Losses) Disclosures

	Group RM'000	Company RM'000
Total retained profits/(accumulated losses) of Paragon Union Berhad and its subsidiaries:		
- Realised	10,112	7,220
- Unrealised	(21,376)	(19,610)
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	(11,264)	(12,390)
Less: Cosolidation adjustments	3,945	-
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Total group accumulated losses as per Consolidation Accounts.	(7,320)	(12,390)
	=====	=====