

PARAGON UNION BERHAD (286457-V)
(Incorporated In Malaysia)

INTERIM FINANCIAL STATEMENT FOR THE FIRST QUARTER ENDED 31 MARCH 2011

PART A: EXPLANATORY NOTES AS PER FRS 134

A1. Basis of Preparation

The unaudited interim financial statement for the first quarter ended 31 March 2011 has been prepared in accordance with the requirements of Financial Reporting Standard (“FRS”) 134 : “Interim Financial Reporting” and paragraph 9.22 and Part A of Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”) and should be read in conjunction with the Group’s audited Financial Statements for the financial year ended 31 December 2010 and the accompanying explanatory notes.

The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since year ended 31 December 2010.

A2. Accounting Policies

The interim financial statement has been prepared based on accounting policies and methods of computation which are consistent with those adopted in the 31 December 2010 audited Annual Financial Statement.

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 8 Operating Segments	1 July 2009
FRS 101 Presentation of Financial Statements (Revised)	1 January 2010
FRS 123 Borrowing Costs (Revised)	1 January 2010
FRS 139 Financial Instruments: Recognition and Measurement	1 January 2010
Amendments to FRS 1: First-time Adoption of Financial Reporting Standards 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.

A3. Auditors' Report on Preceding Annual Financial Statements

There has not been any qualification made by the auditors on the annual financial statements of the Group for the financial year ended 31 December 2010.

A4. 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.

A5. Unusual Items Affecting Interim Financial Report

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

A6. Material Changes In Estimates

There were no significant changes in the nature and amount of estimates used in prior interim periods or prior financial years that have a material effect in the current quarter under review.

A7. 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 March 2011.

A8. Dividends Paid

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

A9. Operating Segments

	Automotive		Commercial		Consolidated	
	31 March 2011	31 March 2010	31 March 2011	31 March 2010	31 March 2011	31 March 2010
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue from external customers	8,047	6,690	6,760	5,330	14,807	12,020
Segment results	1,316	334	(178)	(99)	1,138	235
Unallocated expenses					(47)	(120)
Profit from operations					1,091	115

A10. 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.

A11. Material Subsequent 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.

A12. 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.

A13. Contingent Liabilities and Contingent Assets

There were no changes in contingent liabilities (other than material litigation disclosed in Note 35) and contingent assets since the last annual balance sheet as at 31 December 2010 up to the date of issue of this quarterly report.

PART B: ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA SECURITIES

B1. Performance Review

The Group recorded a gross revenue of RM14,807,469 in the current financial period compared to the corresponding period of RM12,020,190 and the Group's profit before taxation stood at RM723,494 compared to loss before taxation of RM256,157 in the corresponding period in the preceding year.

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

B2. Quarterly Profit or Loss Before Taxation Comparison

The Group recorded a gross revenue of RM14,807,469 in the current quarter compared to the immediate preceding quarter of RM16,264,026 and the Group's profit before taxation stood at RM732,494 compare to profit before taxation of RM1,620,983 in the immediate preceding quarter.

B3. Current Year Prospects

With the forecast of 6% GDP growth in 2011, we expect to continue with our business growth momentum.

For the automotive division, the prospect for the next quarter looks challenging in view of uncertainties in world financial situation. Sales would largely depend on securing contracts of the anticipated launch of new models as well as the increase in demand of existing models both locally and overseas. To further expand our market share and our competitive edge, the automotive division is increasing our product range to complement the existing carpet range.

Performance of commercial carpets is expected to improve in view of the favourable economic growth in the country. To increase our business prospect and market share efforts is being undertaken in introducing new products range. In view of continuous finance cost, the division is continuously embarked in increasing its efficiencies to stay ahead.

B4. Variance of Actual and Forecast Profit

Not applicable as the Group does not make any profit forecast for financial year 2010.

B5. Taxation

There is no tax charge for the current quarter.

B6. Unquoted Investments and/or Properties

The Group did not dispose of any investments in any unquoted investments and/or properties during the financial year under review.

B7. 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.

B8. Status of Corporate Proposals

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

B9. Group Borrowings

The total group borrowings are as follows:

	31 March 2011 RM'000
Short Term Bank Borrowings	
Secured :	
Bills payable	3,016
Bank Overdrafts	9,029
Current portion of term loan	704
Sub-Total	<u>12,749</u>
Unsecured:	
Bills payable	323
Bank Overdrafts	4,204
Sub-Total	<u>4,527</u>
Total	<u>17,276</u>
Long Term Bank Borrowings	
Secured : Term Loan	<u>3,835</u>

B10. Off-Balance Sheet Financial Instruments

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

B11. 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 June 2010. The application for leave was dismissed with cost by the Federal Court. On 17 May 2010, the Federal Court has dismissed the Company's application for leave to appeal with costs.

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

On 14 March 2011, the Court heard PUB's application for summary judgment for the refund of RM18 million 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 misrepresentations prior to the contract, despite our contention that the Share Sale Agreement is a stand alone agreement and no extrinsic evidence is permissible.

PUB's has instructed the solicitors to proceed with an appeal to the Court of Appeal and also to apply for the sum of RM18 million to be paid into Court by the defendants.

The Record of Appeal has yet to be lodged with the Court of Appeal as the solicitors are awaiting the notes of evidence and grounds of decision of the learned Judicial Commissioner.

B12. Dividend Payable

No dividend has been proposed for the first quarter ended 31 March 2011.

B13. Basic and Diluted Earnings Per Share

The basic and diluted earnings per share (EPS) for the current quarter and the financial year- to-date 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.

	Individual Quarter		Cumulative Quarters	
	Current Year Quarter 31.03.2011	Preceding Year Quarter 31.03.2010	Current Year To-Date 31.03.2011	Preceding Year To-Date 31.03.2011
i) Earnings				
Profit/(Loss) attributable to equity holders of the parent (RM'000)	723	(256)	723	(256)

ii) Weighted average number of ordinary shares

Weighted average number of shares in issue ('000)	64,699	64,699	64,699	64,699
Basic Earnings per share (sen)	1.12	(0.40)	1.12	(0.40)
Diluted Earnings per share (sen)	N/A	N/A	N/A	N/A

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.

The diluted EPS is not applicable as there were no potential ordinary share in issue in the current quarter and cumulative quarters.

B14. Realised and Unrealised Retained Profits

The retained profits of the Group is analysed as follows:

	Current Quarter Ended 31.03.2011 RM'000	Immediate Preceding Quarter Ended 31.12.2010 RM'000
Total retained profits of Company and its subsidiaries		
- Realised	11,771	11,145
- Unrealised	<u>(21,654)</u>	<u>(21,773)</u>
	(9,883)	(11,264)
Less: Consolidation adjustments	<u>3,070</u>	<u>3,070</u>
Total Group retained profits as per consolidation accounts	<u><u>(6,813)</u></u>	<u><u>(7,558)</u></u>

The determination of realized and unrealized profits or losses is compiled based on Guidance of Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Securities Listing Requirements, issued by the Malaysian Institute of Accountants on 20 December 2010.

This disclosure of realized and unrealized retained profits above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Securities and should not be applied for any other purposes.