PARAGON UNION BERHAD
(Company No. 286457-V)
(Incorporated in Malaysia)

FINANCIAL STATEMENTS

31 DECEMBER 2009

Registered office:
Unit 07-02, Level 7
Menara Luxor
6B, Persiaran Tropicana
47410 Petaling Jaya
Selangor Darul Ehsan

Principal place of business:
Lot 14, Jalan Satu
Kawasan Perindustrian Cheras Jaya
Batu 11, Cheras
43200 Selangor Darul Ehsan

Company No. | 286457 | V |

PARAGON UNION BERHAD
(Incorporated in Malaysia)

FINANCIAL STATEMENTS

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INDEX
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PARAGON UNION BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors hereby present their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2009.

Principal Activities

The principal activity of the Company is that of investment holding.

The principal activities of the subsidiary companies are disclosed 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
Net loss for the financial year		
-Attributable to equity holders of the Parent	17,328,126	16,481,928

In the opinion of the Directors, the results of the operations of the Group and of the Company for the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature, except as disclosed in Note 23.

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 current financial year.

Dividend

A first and final dividend of 1% less income tax at 25% on 64,698,300 ordinary shares of RM1.00 each, amounting to a total net dividend of RM485,239 in respect of the financial year ended 31 December 2008 was paid on 17 July 2009.

There was a reduction in dividend paid amounting to RM202 over the amount of RM485,441 as disclosed in the Directors' report of the previous financial year. The reduction was due to the share buy-back of 27,100 ordinary shares from the open market prior to the date of dividend payment.

Reserves and Provisions

There were no material transfers to or from reserves or provisions during the financial year under review other than those disclosed in the financial statements.

Issue of Shares and Debentures

There were no issues of shares or debentures during the financial year under review.

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.

Repurchase of Shares

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 last 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.

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:

In the 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 the requirements of section 67A of the Companies Act, 1965. There has been no sale or cancellation of such shares to date.

At 31 December 2009, the total number of treasury shares held by the Company is 5,301,700 ordinary shares.

Employees' Share Option Scheme ("ESOS")

In the financial year 2005, the Company obtained approval from the shareholders of the Company and the relevant authorities for the establishment of an ESOS known as Paragon Union Berhad Employees' Share Option Scheme ("ESOS" or "the Scheme"). The Scheme enables the Company to establish an ESOS adopting the current flexibilities under the Listing Requirements on ESOS, for the benefits of the eligible employees as well as both executive and non-executive Directors of the Group to subscribe up to 15% of the issued and paid-up share capital of the Company under the Scheme.

The eligible Directors are as follows:

Full time Director
- Mr. Tan Hong Kien

Independent non-executive Director
- Dato' Zainol Abidin Bin Haji A. Hamid (deceased on 19.4.2010)

The Scheme became operative on 1 September 2005 for all eligible employees and on 22 September 2005 for all eligible independent Directors for a period of five years and the options may be exercised from 1 September 2005 for all eligible employees and 22 September 2005 for all eligible independent Directors and the Scheme expire on 20 July 2010.

The option price for each share shall be at a discount of not more than ten percent (10%) from the weighted average market price of the shares of the five (5) market days immediately preceeding the date of offer or the par value of the shares, whichever is higher.

The consideration is payable in full on application and the options granted do not confer any rights to participate in any share issue of any other companies of the Group.

No other options were granted to any person to take up the unissued shares of the Company during the financial year.

The movements in the options during the financial year to take up unissued new ordinary shares of RM1.00 each and the exercise price are as follows:

		Number of options over ordinary shares			
Date option granted	**Exercise price RM**	**At 1.1.2009**	**Exercised**	**Forfeited**	**At 31.12.2009**
1 September 2005	1.00	3,680,000	-	(500,000)	3,180,000
22 September 2005	1.00	250,000	-	-	250,000
		3,930,000	-	(500,000)	3,430,000

The salient features and other terms of the ESOS are disclosed in Note 29 to the financial statements.

The Company obtained exemption pursuant to Section 169(11) of the Companies Act, 1965 by the Companies Commission of Malaysia from having to disclose the names of option holders, other than Directors, who have been granted options to subscribe for less than 250,000 options each and details of their option holdings during the financial year.

The names of option holders who have been granted options to subscribe for 250,000 and more options during the financial year are as follows:

		Number of options over ordinary shares			
	Option Price RM	**At 1.1.2009**	**Granted**	**Exercised**	**At 31.12.2009**
Ngau Poo	1.00	250,000	-	-	250,000
Poh Tzu Seng	1.00	250,000	-	-	250,000

Details of the options granted to Directors are disclosed in the section on Directors' Interests in this report.

Directors

The Directors who served since the date of the last report are as follows:

Tan Hong Kien
Toh Hong Wooi
Goh Chee Heng
Chin Nam Onn
Dato' Zainol Abidin Bin Haji A. Hamid (deceased on 19.4.2010)

Directors' Interests

Details of holdings and deemed interests in the share capital and options over the shares of the Company or its related corporations by the Directors holding office at the end of the financial year, according to the register required to be kept under Section 134 of the Companies Act, 1965, were as follows:

	Number of options over ordinary shares of RM1.00 each ("ESOS")			
	At 1.1.2009	**Granted**	**Exercised**	**At 31.12.2009**
Paragon Union Berhad				
Tan Hong Kien	500,000	-	-	500,000
Dato' Zainol Abidin Bin Haji A. Hamid (deceased on 19.4.2010)	250,000	-	-	250,000

None of the other Directors holding office at the end of the financial year had any interest in the ordinary shares of the Company or its related corporations during the financial year under review.

Directors' Benefits

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any 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 the Director is a member, or with a company in which the Director has a substantial financial interest.

Neither during nor at the end of the financial year, was the Company a party to any arrangement the object of which is to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate other than those arising from the share options granted under the Paragon Union Berhad ESOS.

Other Statutory Information

(a) Before the income statements and balance sheets of the Group and of the Company were made out, the Directors took reasonable steps:

(i) to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and

(ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

(b) 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 allowance for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent;

(ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading;

(iii) any amount stated in the financial statements of the Group and of the Company misleading; and

(iv) adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

(c) No contingent or other liabilities of the Group and of the Company have become enforceable, or are 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 or the Company or its subsidiary companies to meet their obligations as and when they fall due.

(d) At the date of this report, there does not exist:

  (i) any charge on the assets of the Group or the Company which has arisen since the end of the financial year which secures the liabilities of any other person; and

  (ii) any contingent liability in respect of the Group or the Company or its subsidiary companies which has arisen since the end of the financial year.

Holding Company

The holding company is Asia Avenue Sdn Bhd, a company incorporated in Malaysia.

Auditors

The auditors, Anuarul Azizan Chew & Co., have expressed their willingness to accept re-appointment.

Signed in accordance with a resolution of the Directors.

TAN HONG KIEN	TOH HONG WOOI

KUALA LUMPUR

PARAGON UNION BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS
Pursuant to Section 169(15) of the Companies Act, 1965

We, TAN HONG KIEN and TOH HONG WOOI, 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 12 to 66 are drawn up in accordance with the applicable approved Financial Reporting Standards and the Companies Act, 1965 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 2009 and of their financial performance and cash flows for the financial year then ended.

Signed in accordance with a resolution of the Directors.

TAN HONG KIEN	TOH HONG WOOI

KUALA LUMPUR

PARAGON UNION BERHAD
(Incorporated in Malaysia)

STATUTORY DECLARATION
Pursuant to Section 169(16) of the Companies Act, 1965

I, TAN HONG KIEN, 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 12 to 66 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 TAN HONG KIEN at Kuala Lumpur in the Federal Territory this)

TAN HONG KIEN

Before me,

COMMISSIONER FOR OATHS

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PARAGON UNION BERHAD
(Company No: 286457-V)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Paragon Union Berhad, which comprise the balance sheets as at 31 December 2009 of the Group and of the Company, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 12 to 66.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with the applicable approved Financial Reporting Standards and the Companies Act, 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgements, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with the applicable approved Financial Reporting Standards and the Companies Act, 1965 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 2009 and of their financial performance and cash flows for the financial year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

(a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiary companies have been properly kept in accordance with the provisions of the Act.

(b) We are satisfied that the accounts of the subsidiary companies that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

(c) The auditor's reports on the financial statements of the subsidiary companies were not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

ANUARUL AZIZAN CHEW & CO
Firm Number: AF 0791
Chartered Accountants

CHEW KOK BIN
Approved Number: 1294/06/10 (J)
Partner of Firm

KUALA LUMPUR

PARAGON UNION BERHAD
(Incorporated in Malaysia)

BALANCE SHEETS AS AT 31 DECEMBER 2009

		Group		Company	
		2009	2008	2009	2008
	Note	RM	RM	RM	RM
Non-Current Assets					
Property, plant and equipment	3	29,396,107	24,141,764	-	-
Prepaid lease payments	4	8,738,425	8,858,708	-	-
Investment in subsidiary companies	5	-	-	13,297,231	13,297,231
Intangible asset	6	-	-	-	-
Deferred tax assets	7	141,345	-	-	-
		38,275,877	33,000,472	13,297,231	13,297,231
Current Assets					
Land and property development costs	8	-	-	-	-
Inventories	9	17,280,475	15,927,526	-	-
Trade receivables	10	18,833,847	27,172,870	-	-
Other receivables	11	19,082,729	37,584,561	18,004,465	34,648,723
Tax recoverable		595,087	483,905	87,723	111,818
Amount owing by subsidiary companies	12	-	-	23,648,826	32,229,730
Cash held under Housing Development Account	13	282,362	22,353	-	-
Cash and bank balances	14	1,039,825	1,063,735	92,557	702,757
		57,114,325	82,254,950	41,833,571	67,693,028
Current Liabilities					
Trade payables	15	4,121,280	4,471,393	-	-
Other payables	16	4,529,485	5,370,355	1,397,803	1,536,883
Amount owing to subsidiary company	12	-	-	-	8,742,000
Hire purchase payables	17	1,103,143	342,750	-	-
Bank borrowings	18	18,430,491	21,018,882	-	-
Tax payables		405,931	1,515,978	-	-
		28,590,330	32,719,358	1,397,803	10,278,883
Net current assets		28,523,995	49,535,592	40,435,768	57,414,145
		66,799,872	82,536,064	53,732,999	70,711,376

PARAGON UNION BERHAD
(Incorporated in Malaysia)

BALANCE SHEETS AS AT 31 DECEMBER 2009 (CONT'D)

		Group		Company	
		2009	2008	2009	2008
	Note	RM	RM	RM	RM
Equity					
Share Capital	19	70,000,000	70,000,000	70,000,000	70,000,000
Reserves	20	743,497	826,424	-	-
Treasury shares	21	(4,220,708)	(4,209,498)	(4,220,708)	(4,209,498)
(Accumulated loss)/Retained profits		(10,819,773)	6,910,665	(12,046,293)	4,920,874
Total equity attributable to equity holders of the parent		55,703,016	73,527,591	53,732,999	70,711,376
Non -Current Liabilities					
Hire purchase payables	17	3,099,789	645,375	-	-
Bank borrowings	18	4,670,279	5,307,343	-	-
Deferred tax liabilities	7	3,326,788	3,055,755	-	-
		11,096,856	9,008,473	-	-
		66,799,872	82,536,064	53,732,999	70,711,376

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

PARAGON UNION BERHAD
(Incorporated in Malaysia)

INCOME STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009

		Group		Company	
		2009	2008	2009	2008
	Note	RM	RM	RM	RM
Revenue	22	52,582,436	88,964,877	800,000	800,000
Cost of sales		(43,691,215)	(77,771,452)	-	-
Gross profit		8,891,221	11,193,425	800,000	800,000
Other operating income		96,263	597,357	204	69,180
Selling and distribution costs		(4,261,214)	(4,495,732)	-	-
Exceptional item	23	(16,540,000)	-	(16,540,000)	-
Administrative and general expenses		(4,039,555)	(5,886,233)	(569,353)	(311,926)
Finance costs	24	(1,551,747)	(531,529)	-	-
(Loss)/Profit before taxation	25	(17,405,032)	877,288	(16,309,149)	557,254
Taxation	26	76,906	(742,317)	(172,779)	(193,555)
Net (loss)/profit for the financial year - Attributable to equity holders of the Parent		(17,328,126)	134,971	(16,481,928)	363,699
(Loss)/Earnings per share attributable to equity holders of the Parent (sen)					
Basic	27	(26.78)	0.21		
Net dividend per ordinary share (sen)	28	0.75	0.74	0.75	0.74

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

PARAGON UNION BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009

		Attributable to Equity Holders of the Parent					
			< ----Non-Distributable ---->		< ------- Distributable ------->		
	Note	Share Capital RM	Merger Reserve RM	Asset Valuation Reserve RM	Treasury Shares RM	Retained Profits RM	Total RM
Group							
At 1 January 2008		70,000,000	(4,618,481)	5,527,832	(3,858,033)	7,174,137	74,225,455
Realisation of reserve on amortisation of revalued properties		-	-	(82,927)	-	82,927	-
Shares purchased during the financial year held as treasury shares	21	-	-	-	(351,465)	-	(351,465)
Net profit for the financial year		-	-	-	-	134,971	134,971
Dividend	28	-	-	-	-	(481,370)	(481,370)
At 31 December 2008		70,000,000	(4,618,481)	5,444,905	(4,209,498)	6,910,665	73,527,591

PARAGON UNION BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONT'D)

		Attributable to Equity Holders of the Parent					
			< ----Non-Distributable ---->		< ------- Distributable ------->		
	Note	**Share Capital** RM	**Merger Reserve** RM	**Asset Valuation Reserve** RM	**Treasury Shares** RM	**Retained Profits/ (Accumulated Loss)** RM	**Total** RM
Group							
At 1 January 2009		70,000,000	(4,618,481)	5,444,905	(4,209,498)	6,910,665	73,527,591
Realisation of reserve on amortisation of revalued properties		-	-	(82,927)	-	82,927	-
Shares purchased during the financial year held as treasury shares	21	-	-	-	(11,210)	-	(11,210)
Net loss for the financial year		-	-	-	-	(17,328,126)	(17,328,126)
Dividend	28	-	-	-	-	(485,239)	(485,239)
At 31 December 2009		70,000,000	(4,618,481)	5,361,978	(4,220,708)	(10,819,773)	55,703,016

PARAGON UNION BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009

			< ------- Distributable ------->		
	Note	**Share Capital** RM	**Treasury Shares** RM	**Retained Profits/ (Accumulated Loss)** RM	**Total** RM
Company					
At 1 January 2008		70,000,000	(3,858,033)	5,038,545	71,180,512
Shares purchased during the financial year held as treasury shares	21	-	(351,465)	-	(351,465)
Net profit for the financial year		-	-	363,699	363,699
Dividend	28	-	-	(481,370)	(481,370)
At 31 December 2008		70,000,000	(4,209,498)	4,920,874	70,711,376
At 1 January 2009		70,000,000	(4,209,498)	4,920,874	70,711,376
Shares purchased during the financial year held as treasury shares	21	-	(11,210)	-	(11,210)
Net loss for the financial year		-	-	(16,481,928)	(16,481,928)
Dividend	28	-	-	(485,239)	(485,239)
At 31 December 2009		70,000,000	(4,220,708)	(12,046,293)	(53,732,999)

PARAGON UNION BERHAD
(Incorporated In Malaysia)

CASH FLOW STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009

	Group		Company	
	2009	2008	2009	2008
	RM	RM	RM	RM
Cash Flows From Operating Activities				
(Loss)/Profit before taxation	(17,405,032)	877,288	(16,309,149)	557,254
Adjustments for:				
Allowance for doubtful debts	16,684,000	146,393	16,540,000	-
Allowance for doubtful debts written back	(37,839)	(76,399)	-	-
Amortisation of prepaid lease payments	120,283	120,283	-	-
Bad debts written off	299,544	240,000	-	-
Depreciation of property, plant and equipment	2,426,497	1,884,746	-	-
Dividend income	-	-	(800,000)	(800,000)
Gain on disposal of property, plant and equipment	(5,500)	(72,000)	-	-
Impairment loss on goodwill on consolidation	-	980,621	-	-
Interest income	(204)	(173,172)	(204)	(69,180)
Interest expense	1,551,747	531,529	-	-
Loss on disposal of property, plant and equipment	-	25,022	-	-
Operating profit/(loss) before working capital changes	3,633,496	4,484,311	(569,353)	(311,926)
Decrease/(Increase) in working capital				
Inventories	(1,352,949)	(3,941,711)	-	-
Land and property development costs	-	10,690,689	-	-
Trade and other receivables	9,895,150	(6,483,177)	104,258	(16,874,758)
Trade and other payables	(1,190,983)	(26,298,059)	(139,080)	1,224,256
Amount owing by/to subsidiary companies	-	-	(161,096)	15,631,249
	7,351,218	(26,032,258)	(195,918)	(19,253)
Cash generated/(used in) from operations	10,984,714	(21,547,947)	(765,271)	(331,179)

PARAGON UNION BERHAD
(Incorporated In Malaysia)

CASH FLOW STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (CONT'D)

	Note	Group 2009 RM	Group 2008 RM	Company 2009 RM	Company 2008 RM
Dividend received from subsidiary company		-	-	600,000	592,000
Interest received		204	173,172	204	69,180
Interest paid		(1,551,747)	(532,733)	-	-
Tax refunded		51,316	184,179	51,316	-
Tax paid		(1,065,951)	(2,627,768)	-	-
		(2,566,178)	(2,803,150)	651,520	661,180
Net cash from/(used in) operating activities		8,418,536	(24,351,097)	(113,751)	330,001
Cash Flows From Investing Activities					
Purchase of property, plant and equipment	3(d)	(3,304,374)	(2,284,699)	-	-
Proceeds from disposal of property, plant and equipment		5,500	153,000	-	-
Net cash used in investing activities		(3,298,874)	(2,131,699)	-	-
Cash Flows From Financing Activities					
Repurchase of shares		(11,210)	(351,465)	(11,210)	(351,465)
Drawdown of term loans		-	6,000,000	-	-
Repayment of term loans		(613,041)	(394,261)	-	-
Net changes in bills payable		(3,169,309)	5,562,830	-	-
Repayment of hire purchase payables		(1,161,659)	(375,336)	-	-
Dividend paid	28	(485,239)	(481,370)	(485,239)	(481,370)
Net cash (used in)/ from financing activities		(5,440,458)	9,960,398	(496,449)	(832,835)
Net decrease in cash and cash equivalents		(320,796)	(16,522,398)	(610,200)	(502,834)
Cash and cash equivalents at beginning of the financial year		(12,166,288)	4,356,110	702,757	1,205,591
Cash and cash equivalents at end of the financial year		(12,487,084)	(12,166,288)	92,557	702,757
Cash and cash equivalents at end of the financial year comprises:					
Cash and bank balances		1,039,825	1,063,735	92,557	702,757
Cash held under Housing Development Account		282,362	22,353	-	-
Bank overdrafts		(13,809,271)	(13,252,376)	-	-
		(12,487,084)	(12,166,288)	92,557	702,757

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

PARAGON UNION BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

1. **Corporate Information**

The principal activity of the Company is that of investment holding.

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 Unit 07-02, Level 7, Menara Luxor, 6B, Persiaran Tropicana, 47410 Petaling Jaya, Selangor Darul Ehsan.

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 accounting

The financial statements of the Group and of the Company have been prepared under the historical cost convention unless otherwise stated in the accounting policies below and in accordance with the provisions of the Companies Act, 1965 and applicable approved Financial Reporting Standards ("FRS") in Malaysia.

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 8	Operating Segments	1 July 2009
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.

(b) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the Company's functional currency.

(c) Significant accounting estimates and judgements

Estimates, assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on historical experience and other 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 balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

(i) Estimation of fair value of properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location (or subject to different lease or other contracts) adjusted to reflect those differences; or

(b) recent prices of similar properties based on less active market, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices.

(ii) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis, in accordance with the accounting policy stated in Note 2(h). This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(iii) Depreciation of property, plant and equipment

The costs of property, plant and equipment of the Group are depreciated on a straight-line basis over the useful lives of the assets. Management estimates the useful lives of the property, plant and equipment as disclosed in Note 2(e)(iii). These are common life expectancies applied in the industry. Changes in the expected level of usage and technological developments could have impact on the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. The carrying amount of the Group's property, plant and equipment as at 31 December 2009 is stated in Note 3.

(iv) Amortisation of prepaid lease payments

The costs of prepaid lease payments of the Group are amortised on a straight-line basis over the useful lives of the assets. These are common life expectancies applied in the industry. Changes in the expected level of usage could impact the economic useful lives and the residual values of these assets, therefore future amortisation charges could be revised. The carrying amount of the Group's prepaid lease payment as at 31 December 2009 is disclosed in Note 4.

(v) Property development costs

The Group recognised property development revenue and expenses in the income statement by using the stage of completion method. The stage of completion is determined by the proportion that property development costs incurred for work performed to date bear to the estimated total property development costs. Significant judgement is required in determining the stage of completion, the extent of the property development costs incurred the estimated total property development revenue and costs, as well as the recoverability of the development projects. In making the judgement, the Group evaluates based on past experience and by relying on the work of specialists.

(vi) Income taxes

There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgement is involved especially in determining tax base allowances and deductibility of certain expenses in determining the Group-wide provision for income taxes. The Group recognised liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will have impact on the income tax and deferred tax provisions in the period in which such determination is made.

(vii) Deferred tax asset

Deferred tax asset is recognised for unutilised tax losses to the extent that is probable that taxable profit will be available in future against which tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax asset that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

(d) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiary companies, which are made up to the end of the financial year.

In the Company's separate financial statements, investments in subsidiary companies are stated at cost less impairment losses in accordance with Note 2(h). On disposal of these investments, the difference between the net disposal proceeds and the carrying amount is recognised in the income statement.

(i) Subsidiary companies

Subsidiary companies are those companies in which the Group has long term equity interest and has the power, directly or indirectly, to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights.

Acquisitions of subsidiary companies are accounted for using the purchase method of accounting except for Paragon Car Carpets & Components Sdn Bhd and its subsidiaries which are consolidated on the merger method of accounting in accordance with the provisions of Malaysian Accounting Standards ("MAS") No. 2 – Accounting for Acquisitions and Mergers. The Group has applied the transitional provisions of FRS 3: Business Combinations prospectively, for which the agreement date is on or after 1 January 2006. Accordingly, the effects of the merger method of accounting under MAS No. 2 have been retained.

The purchase method of accounting involves allocating the cost of a business combination to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed and equity instruments issued, plus any costs directly attributable to the acquisition. The excess of the cost of a business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. Any excess of Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities recognised, over the Group's cost of a business combination is recognised immediately in the consolidated income statement after reassessment.

Under the merger method of accounting, the results of the subsidiary companies acquired during the financial year are accounted for on a full year basis irrespective of the date of merger. The difference between the nominal value of shares issued plus any cash paid as consideration for the merger and the nominal value of the share capital of the subsidiary companies acquired is reflected as merger reserve within equity.

All intra-group balances, transactions, income and expenses are eliminated in full on consolidation and the consolidated financial statements reflect external transactions only. Unrealised profits and losses resulting from intra-group transactions that are recognised in assets are also eliminated in full. The temporary differences arising from the elimination of unrealised profits and losses are recognised in accordance with Note 2(s).

The gain or loss on disposal of a subsidiary company is the difference between net disposal proceeds and the Group's share of its net assets together with any unimpaired balance of goodwill which were not previously recognised in the consolidated income statement.

Minority interests, if any, represent the portion of profit or loss and net assets of subsidiary companies, attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the Company. Minority interests are presented separately in the consolidated balance sheet within equity while minority interests in the profit or loss of the Group are separately disclosed in the consolidated income statement.

(ii) Changes in Group composition

Where a subsidiary issues new equity shares to minority shareholders for cash consideration and the issue price has been established at fair value, the reduction in the Group's interests in the subsidiary is accounted for as a disposal of equity interest with the corresponding gain or loss recognised in the income statement.

When a group purchases a subsidiary's equity shares from minority shareholders for cash consideration and the purchase price has been established at fair value, the accretion of the Group's interests in the subsidiary is accounted for as a purchase of equity interest for which the acquisition accounting method of accounting is applied.

The Group treats all other changes in group composition as equity transactions between the Group and its minority shareholders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

(iii) Transaction costs

Costs directly attributable to an acquisition are included as part of the cost of acquisition.

(e) Property, plant and equipment

(i) Recognition and measurement

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, except for the buildings of the Group which are stated at valuation carried out in 1998 less accumulated depreciation and any accumulated impairment losses. The policy of recognition and measurement of impairment losses is in accordance with Note 2(h).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

The cost of property, plant and equipment recognised as a result of a business combination is based on fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of other items of plant and equipment is based on the quoted market prices for similar items.

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.

The Company has applied the transitional provision of FRS 116: Property, Plant and Equipment, to retain the revalued amount as if it is at the cost basis. It is not the Group's policy to carry out regular valuations of its property, plant and equipment. The revaluation carried out in 1998 was a one-off exercise, and the carrying amount of the revalued buildings has been retained on the basis of its previous revaluation as surrogate cost. Accordingly, this valuation has not been update.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

(iii) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives for the current and comparative periods are as follows:

Factory buildings and building improvements	50 years
Plant and machinery	6 - 30 years
Motor vehicles	5 - 10 years
Furniture, fittings and equipment	3 - 10 years
Electrical installation and renovation	10 years

The depreciable amount is determined after deducting the residual value.

The residual values, useful lives and depreciation method are reviewed at each financial year end to ensure that the amount, method of depreciation are the expected pattern of consumption of future economic benefits embodied in the items of property, plant and equipment.

Upon disposal of an asset, the difference between the net disposal proceeds and the carrying amount of the assets is charged or credited to the income statement. On disposal of a revalued asset, the attributable revaluation surplus remaining in the revaluation reserve is transferred to distribution reserve.

(f) Leases

A lease is recognised as a finance lease if it transfers substantially to the Group and the Company all the risks and rewards incident to ownership. All other leases are treated as operating leases.

The upfront payments made under an operating lease are classified as prepaid lease payments and are amortised to the income statements on a straight line basis over the lease period.

Lease rental under operating lease is charged to the income statements on a straight line basis over the term of the relevant lease

(g) Goodwill arising on consolidation

Goodwill arising on consolidation represents the difference between the costs of the acquisition over the fair value of the net identifiable assets of subsidiary companies acquired at the date of acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Following the initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortised but instead, it is reviewed for impairment annually or more frequent when there is objective evidence that the carrying value may be impaired, in accordance with Note 2(h).

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(h) Impairment of assets

The carrying amounts of assets are reviewed at each reporting date to determine whether there is any indication of impairment.

If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount is estimated at each reporting date or more frequently when indications of impairment are identified.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount unless the asset is carried at a revalued amount, in which case the impairment loss is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement in the period in which it arises. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the unit (groups of units) and then to reduce the carrying amount of the other assets in the unit (groups of units) on a pro-rata basis.

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.

An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in income statement, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

(i) Property development costs

Property development costs comprise all costs that are directly attributable to development activities or that can be allocated on a reasonable basis to such activities.

Property development costs not recognised as an expense are recognised as an asset, which are measured at the lower of cost and net realisable value.

Property development costs shall be classified as non-current asset where no development activities have been carried out or where development activities are not expected to be completed within the normal operating cycle.

Property development costs shall be reclassified to current assets when the development activities have commenced and are expected to be completed within the normal operating cycle.

When the financial outcome of development activity can be reliably estimated, property development revenue and expenses are recognised in the income statement by using the stage of completion method. The stage of completion is determined by the proportion that property development costs incurred for work performed to date bear to the estimated total property development costs.

When the financial outcome of a development activity cannot be reliably estimated, property development revenue is recognised only to the extent of property development costs incurred that is probable will be recoverable, and property development costs on units sold are recognised as an expense in the period in which they are incurred.

When the revenue recognised in the income statements exceed billings to purchaser, the balance is shown as accrued billings under current assets and when the billings to purchaser exceed the revenue recognised in the income statement, the balance is shown as progress billings under current liabilities.

Any expected loss on a development project including costs to be incurred over the defects liability period shall be recognised as an expense immediately.

(j) Inventories

Inventories are valued at the lower of cost and net realisable value after adequate allowance has been made for all deteriorated, damaged, obsolete or slow-moving inventories.

Cost is determined using the first in, first out method. The cost of raw materials comprises the original cost of purchase plus the cost of bringing the stocks to its present location and condition.

Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

(k) Trade and other receivables

Trade and other receivables are initially recognised at their cost when the contractual right to receive cash or another financial asset from another entity is established.

Subsequent to initial recognition, receivables are stated at cost less allowance for doubtful debts. Doubtful debts are provided based on specific review of the receivables. Bad debts are written off when identified.

(l) Cash and cash equivalents

Cash and cash equivalents include cash and bank balances, deposits and other short term highly liquid investments that are readily convertible to cash and are subject to insignificant risk of changes in value. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts and pledged deposits, if any.

(m) Trade and other payables

Trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received.

(n) Hire purchase

Assets acquired by way of hire purchase are stated at an amount equal to the lower of their fair values and the present value of the minimum hire purchase payments at the inception of the hire purchase, less accumulated depreciation and impairment losses. The corresponding liability is included in the balance sheet as liabilities. In calculating the present value of the minimum hire purchase payments, the discount factor used is the interest rate implicit in the hire purchase, when it is practical to determine; otherwise, the Group's incremental borrowing rate is used.

Hire purchase payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised as an expense in the income statements over the term of the relevant hire purchase so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for hire purchase assets is consistent with that for depreciable property, plant and equipment which are owned.

(o) Borrowing costs

Borrowing costs which are not eligible for capitalisation are recognised as an expense in the income statement in the period in which they are incurred.

(p) Foreign currencies

Transactions in currencies other than the Group's functional currency, which is the currency of the primary economic environment in which the Company operates, are recorded in the functional currency using the exchange rates prevailing at the date of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in the income statement for the year.

Exchange differences arising on the translation of non-monetary items carried at fair value are recognised in income statement for the year except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

The closing exchange rates used for each unit of the main foreign currency in the Group is:

	2009 RM	2008 RM
United States Dollar (US$)	3.4245	3.8327
Euro (EUR)	4.9067	4.8759
Japanese Yen (JPY100)	3.7114	3.8300
Sterling Pound (£)	5.5001	4.9989

(q) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and the Company and when the revenue can be measured reliably, on the following bases:

(i) Goods sold and services rendered

Revenue from sale of goods is measured at the fair value of the consideration received or receivable, net of returns and discounts and is recognised in the income statement when significant risks and rewards of the ownership have been transferred to the customers.

(ii) Property development

Revenue derived from property development activities is recognised based on the percentage of completion method. The stage of completion is determined by the proportion that property development costs incurred for work performed to date bear to the estimated total property development costs.

(iii) Interest income

Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset.

(iv) Dividend income

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

(r) Employee benefits

(i) Short term employee benefits

Salaries, Wages, 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 compensated absences. Short term non-accumulating compensated absences such as sick and medical leave are recognised when the absences occur. Non-monetary benefits such as medical care, housing, and other staff related expenses are charged to the income statement as and when incurred.

(ii) Defined contribution plans

As required by law, companies in Malaysia make contributions to the Employees Provident Fund (“EPF”). Such contributions are recognised as an expense in the income statement as incurred.

(iii) Employees' Share Option Scheme ("ESOS")

The Paragon Union Berhad ESOS, an equity-settled, share-based compensation plan, allows the Company's and its subsidiary companies' employees to acquire ordinary shares of the Company. The total fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in the share option reserve within equity over the vesting period and taking into account the probability that the options will vest. The fair value of share options is measured at grant date, taking into account, if any, the market vesting conditions upon which the options were granted but excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable on vesting date.

At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable on vesting date. It recognised the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. The equity amount is recognised in the share option reserve until the option is exercised, upon which it will be transferred to share premium, or until the option expires, upon which it will be transferred directly to unappropriated profit.

The proceeds received net of any directly attributable transaction costs are credited to equity when the options are exercised.

(s) Income taxes

Income tax on the profit or loss for the financial year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the financial year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is recognised on the liability method for all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base at the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an 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 tax asset and liability is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantively enacted by the balance sheet date. The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it becomes probable that sufficient future taxable profit will be available.

Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

(t) Financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

(i) Financial instruments recognised in the balance sheets

Financial instruments carried on the balance sheet include cash and bank balances, deposits, other investments, receivables, payables and borrowings. Financial instruments are recognised in the balance sheet when the Group has become a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends and gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group and the Company have a legally enforceable right to offset and intends to settle either on a net basis or to recognised the asset and settle the liability simultaneously.

The particular recognition method adopted for financial instruments recognised on the balance sheet is disclosed in the individual accounting policy statements associated with each item.

(ii) Financial instruments not recognised in the balance sheets

Unsecured guarantees

The Company has provided unsecured guarantees in respect of banking facilities granted to subsidiaries which represent present obligations existed at the balance sheet date but are not recognised in the financial statements at inception because it is not probable that an outflow of economic benefits will be required to settle the obligations.

3. **Property, Plant and Equipment**

	<-- At Valuation -->	< ----------At Cost					---------- >
Group	**Factory buildings and building improvements** 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
Cost/Valuation							
At 1 January 2009	12,080,000	68,756	28,124,866	2,518,333	7,545,098	3,603,475	53,940,528
Additions	-	-	6,120,192	-	1,092,119	468,529	7,680,840
Disposals	-	-	(56,235)	(3,600)	-	-	(59,835)
At 31 December 2009	12,080,000	68,756	34,188,823	2,514,733	8,637,217	4,072,004	61,561,533
Accumulated depreciation							
At 1 January 2009	2,662,159	7,899	17,187,117	1,927,350	5,188,818	2,825,421	29,798,764
Charge for the financial year	241,600	1,375	1,180,814	76,630	632,465	293,613	2,426,497
Disposals	-	-	(56,235)	(3,600)	-	-	(59,835)
At 31 December 2009	2,903,759	9,274	18,311,696	2,000,380	5,821,283	3,119,034	32,165,426
Carrying amount							
At 31 December 2009	9,176,241	59,482	15,877,127	514,353	2,815,934	959,970	29,396,107

3. **Property, Plant and Equipment**

	<-- At Valuation -->	< ---At Cost					--- >
Group	**Factory buildings and building improvements** 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
Cost/Valuation							
At 1 January 2008	12,080,000	47,756	27,041,662	3,241,833	5,745,962	3,556,116	51,713,329
Additions	-	21,000	1,083,204	-	1,799,136	47,359	2,950,699
Disposals	-	-	-	(723,500)	-	-	(723,500)
At 31 December 2008	12,080,000	68,756	28,124,866	2,518,333	7,545,098	3,603,475	53,940,528
Accumulated depreciation							
At 1 January 2008	2,420,559	6,630	16,257,247	2,444,608	4,834,455	2,567,997	28,531,496
Charge for the financial year	241,600	1,269	929,870	100,220	354,363	257,424	1,884,746
Disposals	-	-	-	(617,478)	-	-	(617,478)
At 31 December 2008	2,662,159	7,899	17,187,117	1,927,350	5,188,818	2,825,421	29,798,764
Carrying amount							
At 31 December 2008	9,417,841	60,857	10,937,749	590,983	2,356,280	778,054	24,141,764

3. **Property, Plant and Equipment (Cont'd)**

(a) The factory buildings were revalued by the Directors based on a valuation carried out by an independent firm of professional valuers in 1998 on the open market value basis.

Had the revalued factory buildings been included in the financial statements at historical cost, the carrying amount of the revalued factory buildings would have been RM6,861,023 (2008: RM7,066,299) respectively.

The remaining period of the factory buildings is 80 (2008: 81) 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 18 are as follows:

	Group	
	2009	2008
	RM	RM
Factory buildings	9,235,732	9,478,698
Plant and machinery	10,731,620	5,342,991
Motor vehicle	10,012	16,896
	19,977,364	14,838,585

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

	Group	
	2009	2008
	RM	RM
Plant and machinery	5,134,029	941,188
Motor vehicles	379,500	541,833
Furniture, fittings and equipment	430,104	480,700
	5,943,633	1,963,721

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

	Group	
	2009	2008
	RM	RM
Aggregate costs	7,680,840	2,950,699
Hire purchase financing	(4,376,466)	(666,000)
Cash payments	3,304,374	2,284,699

4. Prepaid Lease Payments

	Group 2009 RM	Group 2008 RM
At surrogated cost		
At 1 January/31 December	10,130,000	10,130,000
Accumulated amortisation		
At 1 January	1,271,292	1,151,009
Amortisation for the financial year	120,283	120,283
At 31 December	1,391,575	1,271,292
Carrying amount		
At 31 December	8,738,425	8,858,708

(a) The above prepaid lease payments consist of upfront payments made for long term leasehold land.

(b) The remaining period of the lease term is 80 years (2008: 81 years).

(c) The prepaid lease payments of the Group have been pledged to licensed banks as security for banking facilities granted to the Company and its subsidiary companies as disclosed in Note 18.

5. Investment in Subsidiary Companies

(a) Investment in subsidiary companies

	Company 2009 RM	Company 2008 RM
In Malaysia		
Unquoted shares, at cost	14,511,655	14,511,655
Accumulated impairment losses	(1,214,424)	(1,214,424)
	13,297,231	13,297,231

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

Name of company	Country of incorporation	Effective interest 2009 %	Effective interest 2008 %	Principal activities
Direct holding:				
Paragon Car Carpets & Components Sdn Bhd	Malaysia	100	100	Manufacturing and distribution of car carpets and automotive components
Paragon Expression Sdn Bhd	Malaysia	100	100	Investment holding and property development related activities
Paragon Precision Industries Sdn Bhd ("PPI")	Malaysia	78	78	Inactive
Paragon Metal Components Sdn Bhd ("PMC")	Malaysia	77	77	Inactive
Indirect holding:				
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 in commercial carpets
Subsidiary company of Paragon Expression Sdn Bhd :				
Paragon Property Development Sdn Bhd	Malaysia	100	100	Dealing in land, properties and other property development related activities

(c) In the previous financial years, the Company had recognised impairment losses amounting to RM1,214,424 in respect of its entire investments in PPI and PMC as both of the subsidiary companies had ceased operations and had deficits in their shareholders' equity. As these two subsidiary companies have since remained inactive, the Company does not expect to derive any future economic benefits from their activities or from their disposal.

6. Intangible Asset

	Group	
	2009	2008
	RM	RM
Goodwill arising on consolidation		
Cost		
At 1 January	-	2,743,926
Written off	-	(2,743,926)
At 31 December	-	-
Accumulated impairment losses		
At 1 January	-	1,763,305
Impairment loss recognised in income statement	-	980,621
Written off	-	(2,743,926)
At 31 December	-	-
Carrying amount		
At 31 December	-	-

Goodwill arising on consolidation had been allocated to the Group's cash generating unit (CGU) which is the Group's development projects.

In the previous financial year, the Group fully impaired the goodwill arising on consolidation as the development project on which this goodwill was allocated to has been completed and fully recognised to the income statement, therefore having no future recoverable values.

7. **Deferred Taxation**

	Group 2009 RM	Group 2008 RM
At 1 January	3,055,755	3,097,730
Recognised in income statement	145,871	(171,164)
(Over)/Under provision in prior year	(16,183)	129,189
At 31 December	3,185,443	3,055,755

Represented after appropriate offsetting as follows:

	Group 2009 RM	Group 2008 RM
Deferred Tax Liabilities	3,326,788	3,055,755
Deferred Tax Assets	(141,345)	-
	3,185,443	3,055,755

This is represented by the components and movements of deferred tax liabilities and assets of the Group and of the Company prior to its offsetting during the financial year as follows:-

Deferred tax liabilities of the Group:-

	Accelerated capital allowances RM	Revaluation of leasehold properties RM	Total RM
At 1 January 2009	2,738,919	1,814,967	4,553,886
Recognised in income statement	113,521	(27,642)	85,879
Over provision in prior year	(53,690)	-	(53,690)
	2,798,750	1,787,325	4,586,075
Offsetting			(1,259,287)
At 31 December 2009			3,326,788
As at 1 January 2008	2,598,908	1,842,610	4,441,518
Recognised in income statements	24,605	(27,643)	(3,038)
Under provision in prior year	115,406	-	115,406
	2,738,919	1,814,967	4,553,886
Offsetting			(1,498,131)
At 31 December 2008			3,055,755

Deferred tax assets of the Group:-

	Unabsorbed tax losses and tax credits RM	Unabsorbed capital allowances RM	Allowance for doubtful debts RM	Total RM
At 1 January 2009	180,299	1,257,832	60,000	1,498,131
Recognised in income statement	203,214	(299,206)	36,000	(59,992)
Over provision in prior year	3,757	18,736	(60,000)	(37,507)
	387,270	977,362	36,000	1,400,632
Offsetting				(1,259,287)
At 31 December 2009				141,345
At 1 January 2008	238,080	1,047,623	60,000	1,345,703
Recognised in income statement	(4,904)	171,115	-	166,211
Over provision in prior year	(52,877)	39,094	-	(13,783)
At 31 December 2008	180,299	1,257,832	60,000	1,498,131
Offsetting				(1,498,131)
At 31 December 2008				-

The recognition of deferred tax assets of the Group is dependent on future taxable profits in excess of profits arising from reversed of existing temporary differences. The evidence used to support this recognition is the management's budget, which shows that it is probable that deferred tax assets would be realised in future years.

8. Property Development Costs

Current	Group 2009 RM	Group 2008 RM
Long term leasehold land, at cost		
At 1 January	-	11,704,159
Transferred to income statement	-	(11,704,159)
At 31 December	-	-
Development costs		
At 1 January	-	130,646,102
Additions during the financial year	-	24,675,512
Transferred to income statement	-	(155,321,614)
At 31 December	-	-
Less: Costs recognised in the income statement		
At 1 January	-	131,660,776
Recognised during the financial year	-	35,364,997
	-	167,025,773
Less: Completed projects	-	(167,025,773)
At 31 December	-	-
Total property development costs	-	-

Included in the property development costs for the financial year are the following:

	Note	Group 2009 RM	Group 2008 RM
Finance costs	24	-	1,204
Directors' remuneration			
- salaries and bonus		-	576,348
- EPF		-	61,488

9. Inventories

	Group 2009 RM	Group 2008 RM
Raw materials	7,367,986	6,992,192
Work-in-progress	3,396,039	3,247,066
Finished goods	6,516,450	5,688,268
	17,280,475	15,927,526

10. **Trade Receivables**

	Group 2009 RM	Group 2008 RM
Trade receivables	16,913,020	23,243,927
Stakeholders' fund	2,151,673	4,327,746
	19,064,693	27,571,673
Allowance for doubtful debts	(230,846)	(398,803)
	18,833,847	27,172,870

Movements in allowance for doubtful debts are as follows:

	Group 2009 RM	Group 2008 RM
At 1 January	398,803	328,809
Allowance written off	(274,118)	-
Allowance written back	(37,839)	(76,399)
Allowance made	144,000	146,393
At 31 December	230,846	398,803

The currency exposure profiles of trade receivables are as follows:

	Group 2009 RM	Group 2008 RM
Ringgit Malaysia	17,321,321	21,674,331
United States Dollar	1,512,526	5,498,539
	18,833,847	27,172,870

The Group's normal trade credit terms range from 60 to 90 days (2008: 60 to 90 days). Other credit terms are assessed and approved on a case by case basis.

11. Other Receivables

	Group		Company	
	2009	2008	2009	2008
	RM	RM	RM	RM
Other receivables	18,765,671	19,137,691	18,004,465	18,107,223
Deposits	16,736,155	18,527,519	16,540,000	16,541,500
Prepayments	384,887	183,335	-	-
	35,886,713	37,848,545	34,544,465	34,648,723
Less: Allowance for doubtful debts	(16,803,984)	(263,984)	(16,540,000)	-
	19,082,729	37,584,561	18,004,465	34,648,723

Included in deposits of the Group and the Company is an amount of RM16,540,000 (2008: RM16,540,000) representing deposits and advances paid pursuant to separate conditional agreements entered into by the Company in the financial year 1997 for the acquisition of the entire equity interest comprising 9,985,735 ordinary shares of RM1.00 each in an unquoted company, namely, KINMA Holdings Sdn Bhd (“KINMA”).

In the financial year 1999, the Company terminated the conditional agreements for the above acquisition and instructed its solicitors to commence legal proceedings against the vendors for the recovery of deposits and advances paid totaling RM17,770,000. The Company has obtained court judgement on 12 December 2007 for the refund of RM1,230,000, representing deposit paid to a vendor and the said amount was received by the Company. The outcome of the legal proceedings in respect of the balance of RM16,540,000 from the other vendors is still pending.

During the financial year, the Company decided to make allowance for doubtful debts on the full amount of RM16,540,000 of this deposit as stated in Note 23.

12. Amount Owing by/(to) Subsidiary Companies

	Company	
	2009	2008
	RM	RM
Amount Owing by Subsidiary Companies		
Advances	25,504,170	34,085,074
Allowance for doubtful debts	(1,855,344)	(1,855,344)
	23,648,826	32,229,730
Amount Owing to a Subsidiary Company	-	(8,742,000)

These represent unsecured interest free advances and are repayable on demand.

13. **Cash Held Under Housing Development Account**

Cash held under the Housing Development Account represents monies received from purchasers of residential properties less payments or withdrawals in accordance with Regulation 4 of the Housing Developers (Housing Development Account) Regulations.

14. **Cash and Bank Balances**

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

	Group		Company	
	2009	2008	2009	2008
	RM	RM	RM	RM
Ringgit Malaysia	378,691	997,279	92,557	702,757
United States Dollar	661,134	66,456	-	-
	1,039,825	1,063,735	92,557	702,757

15. **Trade Payables**

	Group	
	2009	2008
	RM	RM
Trade payables	4,121,280	4,471,393

The currency exposure profiles of trade payables are as follows:

	Group	
	2009	2008
	RM	RM
Ringgit Malaysia	3,375,159	3,028,546
United States Dollar	457,273	470,910
Sterling Pound	288,848	971,198
Japanese Yen	-	739
	4,121,280	4,471,393

The normal trade credit terms granted to the Group range from 60 to 120 days (2008: 60 to 120 days).

16. Other Payables

	Group 2009 RM	Group 2008 RM	Company 2009 RM	Company 2008 RM
Other payables	2,952,218	2,913,015	1,298,653	1,427,883
Accruals	1,577,267	2,447,340	99,150	109,000
Deposits	-	10,000	-	-
	4,529,485	5,370,355	1,397,803	1,536,883

17. Hire Purchase Payables

	Group 2009 RM	Group 2008 RM
(a) Minimum hire purchase payments		
Within one year	1,338,093	397,387
Between one and five years	3,385,799	713,292
	4,723,892	1,110,679
Future finance charges	(520,960)	(122,554)
Present value of hire purchase liabilities	4,202,932	988,125
(b) Present value of hire purchase liabilities		
Within one year	1,103,143	342,750
Between one and five years	3,099,789	645,375
	4,202,932	988,125
Analysed as:		
Repayable within twelve months	1,103,143	342,750
Repayable after twelve months	3,099,789	645,375
	4,202,932	988,125

The effective interest rates of the Group are between 3.30% and 4.05% (2008: 2.65% and 4.10%) per annum.

18. Bank Borrowings

	Group 2009 RM	Group 2008 RM
Secured		
Bank overdrafts	7,418,922	8,762,990
Bills payable	3,322,128	2,683,487
Term loans	5,272,371	5,885,412
	16,013,421	17,331,889
Unsecured		
Bank overdrafts	6,390,349	4,489,386
Bills payable	697,000	4,504,950
	7,087,349	8,994,336
Total bank borrowings	23,100,770	26,326,225

Analysed as follows:

	Group 2009 RM	Group 2008 RM
Repayable within twelve months		
Secured		
Bank overdrafts	7,418,922	8,762,990
Bills payable	3,322,128	2,683,487
Term loans	602,092	578,069
	11,343,142	12,024,546
Unsecured		
Bank overdrafts	6,390,349	4,489,386
Bills payable	697,000	4,504,950
	7,087,349	8,994,336
	18,430,491	21,018,882
Repayable after twelve months		
Secured		
Term loans	4,670,279	5,307,343
	23,100,770	26,326,225

The above credit facilities obtained from licensed banks are secured by the following:

(a) The secured bills payable and bank overdrafts are secured on the following:

(i) charge over the leasehold land and buildings of the Group as disclosed in Note 3 and Note 4; and

(ii) corporate guaranteed by the Company.

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

The term loans are repayable by monthly instalment over 7 to10 years.

Maturity of borrowings is as follows:

	Group	
	2009	2008
	RM	RM
Within one year	18,430,491	21,018,882
Between one and two years	572,034	559,885
Between two and five years	1,994,586	1,866,233
More than five years	2,103,659	2,881,225
	23,100,770	26,326,225

The weighted average effective interest rate is as follows:

	Group	
	2009	2008
	%	%
Bank overdrafts	7.05	8.00
Banker acceptance	3.47	3.47
Term loans	5.52	5.15

19. Share Capital

	Number of ordinary shares of RM1 each		Amount	
	2009	2008	2009	2008
			RM	RM
Authorised share capital				
At 1 January/31 December	100,000,000	100,000,000	100,000,000	100,000,000
Issued and fully paid				
At 1 January/31 December	70,000,000	70,000,000	70,000,000	70,000,000

Of the total 70,000,000 issued and fully paid ordinary shares, 5,301,700 (2008: 5,274,600) ordinary shares are held as treasury shares by the Company. At 31 December 2009, the number of ordinary shares in issue after deducting treasury shares held is 64,698,300 (2008: 64,725,400) ordinary shares of RM1.00 each.

20. Reserves

	Group	
	2009	2008
	RM	RM
Non-distributable:		
Asset valuation reserve	5,361,978	5,444,905
Merger reserve	(4,618,481)	(4,618,481)
	743,497	826,424

The movements in the reserves are reflected in the statements of changes in equity.

21. Treasury Shares

	Group/Company	
	2009	2008
	RM	RM
At 1 January	4,209,498	3,858,033
Shares purchased during the financial year	11,210	351,465
At 31 December	4,220,708	4,209,498

During the financial year, the Company purchased a total of 27,100 (2008: 730,200) ordinary shares of its issued share capital from the open market at a total cost of RM11,210 (2008: RM351,465). The average price paid for the shares purchased was RM0.420 (2008: RM0.480) per share. The repurchase transactions were financed by internally generated funds. The repurchased shares were being held as treasury shares and carried at cost in accordance with the requirements of section 67A of the Companies Act, 1965. Treasury shares had no rights to voting, dividends and participation in other distribution.

22. Revenue

	Group		Company	
	2009	2008	2009	2008
	RM	RM	RM	RM
Sales of carpets	52,582,436	61,430,468	-	-
Property development revenue from sales of development units	-	27,534,409	-	-
Dividend income received/receivable from subsidiary company	-	-	800,000	800,000
	52,582,436	88,964,877	800,000	800,000

23. **Exceptional Item**

As stated in Note 11, the Company is currently in the legal proceedings to recover the deposit amounting to RM16,540,000 which was paid for the acquisition of the entire equity interest comprising 9,985,735 ordinary shares of RM1.00 each in an unquoted company, namely KINMA Holdings Sdn. Bhd ("KINMA"). However, based on the credit search conducted on the various parties to whom the deposit was paid to, the Directors of the Company are of the view that the recoverability of the aforesaid amount is remote. Accordingly, the Company decided to make allowance for doubtful debt on the aforesaid amount in full on a prudence basis.

24. **Finance Costs**

	Group	
	2009	2008
	RM	RM
Interest expense on:		
Bank overdrafts	817,425	203,869
Banker acceptance	158,205	174,858
Bridging loan	-	1,204
Hire purchase	332,562	42,463
Letter of credit	18,307	40,027
Term loans	224,242	70,312
Others	1,006	-
	1,551,747	532,733
Finance costs recognised in qualifying assets property development costs	-	(1,204)
	1,551,747	531,529

25. **(Loss)/Profit Before Taxation**

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

	Group		Company	
	2009	2008	2009	2008
	RM	RM	RM	RM
Auditors' remuneration				
- current year	45,000	70,000	11,000	11,000
- under provision in prior year	(25,000)	7,000	-	4,000
Allowance for doubtful debts	16,684,000	146,393	16,540,000	-
Amortisation of prepaid lease payments	120,283	120,283	-	-
Bad debts written off	299,544	240,000	-	-
Depreciation of property, plant and equipment	2,426,497	1,884,746	-	-

Directors remuneration				
- fees	85,000	98,000	85,000	98,000
- salaries and other emoluments	317,523	680,625	-	-
- EPF	38,916	81,684	-	-
Impairment loss on goodwill on consolidation	-	980,621	-	-
Rental of warehouse	345,600	172,800	-	-
Allowance for doubtful debts written back	(37,839)	(76,399)	-	-
Gain on disposal of property, plant and equipment	(5,500)	(72,000)	-	-
Loss on disposal of property, plant and equipment	-	25,022	-	-
Gain on foreign exchange				
- realised	(252,733)	(34,055)	-	-
Dividend income	-	-	(800,000)	(800,000)
Interest income from investment quoted in Malaysia	(204)	(69,180)	(204)	(69,180)
Interest income	-	(103,992)	-	-

The estimated monetary value of benefits-in-kind received by the Directors otherwise than in cash from the Group amounted to RM31,333 (2008: RM56,896).

26. **Taxation**

	Group		Company	
	2009	2008	2009	2008
	RM	RM	RM	RM
Current income tax				
- Current year	-	1,555,000	172,500	195,000
- (Over)/Under provision in prior year	(206,594)	(123,189)	279	(1,445)
	(206,594)	1,431,811	172,779	193,555
Deferred tax				
- Relating to origination and reversal of temporary differences	145,871	(818,683)	-	-
- (Over)/Under provision in prior year	(16,183)	129,189	-	-
	129,688	(689,494)	-	-
Tax (saving)/expense for the financial year	(76,906)	742,317	172,779	193,555

Income tax is calculated at the Malaysia statutory tax rate of 25% (2008: 26%) of the estimated assessable profit for the financial year.

A reconciliation of income tax expense applicable to (loss)/profit 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 2009 RM	Group 2008 RM	Company 2009 RM	Company 2008 RM
(Loss)/Profit before taxation	(17,405,032)	877,288	(16,309,149)	557,254
Taxation at Malaysian statutory tax rate of 25% (2008: 26%)	(4,351,258)	228,095	(4,077,287)	144,886
Tax incentive for small and medium scale companies at 20% tax rate	-	(90,000)	-	-
Expenses not deductible for tax purposes	4,524,771	641,984	4,249,787	50,114
Income not subject to tax	-	(16,120)	-	-
Crystalisation of deferred tax liabilities on amortisation on revalued properties	(27,642)	(27,642)	-	-
(Over)/Under provision of current taxation in prior year	(206,594)	(123,189)	279	(1,445)
Under provision of deferred tax in prior year	(16,183)	129,189	-	-
Tax (saving)/expense for the financial year	(76,906)	742,317	172,779	193,555

27. **(Loss)/Earnings Per Share**

(a) Basic (loss)/earnings per share

The basic (loss)/earnings per share has been calculated based on the consolidated (loss)/profit after taxation for the financial year attributable to equity holders of the Company of RM17,328,126 (2008: RM134,971) for the Group and the weighted average number of ordinary shares in issue during the financial year of 64,704,103 (2008: 65,055,483) are as follows:

	Group 2009 RM	Group 2008 RM
Net (loss)/profit for the financial year attributable to the equity holders of the parent	(17,328,126)	134,971
Weighted average number of ordinary shares in issue	70,000,000	70,000,000
Adjusted for treasury shares	(5,295,897)	(4,944,517)
	64,704,103	65,055,483

(b) Fully diluted (loss)/earnings per share

The fully diluted (loss)/earnings per share has been calculated based on the consolidated (loss)/profit after taxation for the financial year attributable to equity holders of the Company of RM17,328,126 (2008: RM134,971) for the Group and the weighted average number of ordinary shares in issue during the financial year of 64,704,103 (2008: 65,055,483) are as follows:

	Group	
	2009	2008
	RM	RM
Net (loss)/profit for the financial year attributable to the equity holders of the parent	(17,328,126)	134,971
Weighted average number of ordinary shares in issue	70,000,000	70,000,000
Adjusted for treasury shares	(5,295,897)	(4,944,517)
	64,704,103	65,055,483
Assumed exercise of ESOS at no consideration	*	*
	64,704,103	65,055,483

* The number of shares exercised under ESOS was not taken into account in the computation of diluted (loss)/earnings per share because the effect on the basic (loss)/earnings per share is anti-dilutive.

28. **Dividend**

	Group/Company	
	2009	2008
	RM	RM
First and final dividend of 1% (2008: 1%) less income tax at 25% (2008: 26%) on 64,698,300 (2008: 65,050,000) ordinary shares of RM1.00 each in respect of financial year ended 31 December 2008 (2008: 31 December 2007)	485,239	481,370
Net dividend per ordinary shares (sen)	0.75	0.74

29. **Employees' Share Option Scheme**

During the financial year 2005, the Company implemented a Paragon Union Berhad Employee's Share Option Scheme ("ESOS" or "the Scheme") for eligible employees as well as both executive and non-executive Directors of the Group. The Scheme is governed by the Bye-Laws of the ESOS and was approved by the shareholders of the Company and the relevant authorities.

The salient features of the new Scheme are as follows:

(a) The maximum number of new ordinary shares that may be made available under the Scheme, shall not exceed in aggregate fifteen percent (15%), or any such amount or percentage as may be permitted by the relevant authorities, of the total issued and paid-up share capital of the Company at any one time during the existence of the Scheme.

(b) The ESOS shall be administered by a committee ("Option Committee") in such manner as it shall at its discretion deem fit and with such powers and duties as conferred upon it by the board of Directors of the Company.

(c) The ESOS shall be opened for participation to the eligible employees of the Group. Subject to certain provisions set by the Bye-Laws, an eligible employee must be a confirmed employee with at least 12 months of continuous service as at the date of offer. Eligible executive who have accepted the offer shall not be eligible to participate in another employees' share option scheme implemented or to be implemented by any other company within the Group. The Option Committee at its discretion at any time and from time to time within the duration of the ESOS, makes one or more offer to any eligible employee whom the Option Committee may at its discretion select in accordance with the terms of the ESOS, provided always that an offer shall not be less than one hundred (100) ordinary shares or the minimum board lot for shares as may be prescribed by Bursa Securities from time to time.

(d) No option shall be granted to any eligible Director of the Group unless specific grant of options to that eligible Director shall have previously been approved by the shareholders of the Company in a general meeting. In determining the criteria for allocation, the seniority, length of service and such other factors that may deem relevant, subject always to the following:

    (i) the aggregate allocation to the eligible Directors and senior management of the Group, save for the companies which are dormant, shall not exceed fifty percent (50%) of the new ordinary shares under the Scheme; and

    (ii) the allocation to any eligible employee who, either singly or collectively, through persons connected to him, hold twenty percent (20%) or more of the issued and paid-up capital of the Company, shall not exceed ten percent (10%) of the new ordinary shares under the Scheme.

(e) The option price shall be determined by the Option Committee based on the five (5) day weighted average market price of the Company's shares immediately preceding the date of offer of the option, with a discount of not more than ten percent (10%), or at the par value of the Company's shares, whichever is higher.

(f) An offer shall be valid for a period of 30 days from the date of offer and shall be accepted within the prescribed period by the eligible employee to whom the offer is made by written notice of such acceptance accompanied by the payment of RM1.00 as non-refundable consideration for the option to the Company. If the offer is not accepted in the manner aforesaid, such offer shall upon the expiry of the prescribed period automatically lapse and shall be null and void and be of no further force and effect.

(g) The option may be exercised by the Grantee by notice in writing to the Company in the prescribed form during the option period, provided that where an option is exercised in respect of a part of the new ordinary shares comprised therein, the number of new ordinary shares of which such option may be exercised shall be in multiples of and not less than one hundred (100) new shares or such board lot as may be prescribed by Bursa Securities from time to time.

(h) The ESOS shall continue to be in force for a duration of five (5) year (or such further extension as approved by authorities) commencing from the date of receipt of the last of the requisite approvals.

(i) The new ordinary shares to be issued and allotted to a Grantee pursuant to the exercise of any options will not be subject to any retention period, unless the Grantee is a non-executive Director, in which case, he must not sell, transfer or assign the new ordinary shares obtained through the exercise of the options offered to him pursuant to the Scheme within one (1) year from the offer date.

(j) The number of shares under option or the exercise price both, so far as the option remains unexercised, may be adjusted following any variation in the issued share capital of the Company by way of capitalisation of profits or reserves, rights issues, consolidation of shares and sub-division or reduction of the Company's share capital.

(k) The new ordinary shares to be allotted and issued upon any exercise of the option under the ESOS shall, upon allotment and issue, rank pari passu in all respects with the then existing ordinary shares. However, the ordinary shares so issued shall not be entitled to any dividends or other distributions declared, made or paid prior to the date of allotment of such shares.

(l) These options may be exercised at any date during the option period not later than 20 July 2010 in accordance with the following table:

----- Number of shares exercisable -----				
Year 1	Year 2	Year 3	Year 4	Year 5
20%	20%	20%	20%	20%

Options which are exercisable in a particular year but not exercised may be carried forward to subsequent years but not later than 20 July 2010. All unexercised options shall be exercisable in the last year of the option period. Any options which remain unexercised at the expiry of the option period shall be automatically terminated.

The movements in the number of share options outstanding and their related Weighted Average Exercise Prices ("WAEP") are as follows:

	Number of share options					
	< ---------- Movement during the financial year ---------- >					
	Outstanding at 1 January	Granted	Expired/ Forfeited	Exercised	Outstanding at 31 December	Exercisable at 31 December
2009						
First Grant	3,680,000	-	500,000	-	3,180,000	3,180,000
Second Grant	250,000	-	-	-	250,000	250,000
	3,930,000	-	500,000	-	3,430,000	3,430,000
WAEP	1.00	-	1.00	-	1.00	1.00
2008						
First Grant	5,360,000	-	1,680,000	-	3,680,000	3,680,000
Second Grant	1,000,000	-	750,000	-	250,000	250,000
	6,360,000	-	2,430,000	-	3,930,000	3,930,000
WAEP	1.00	-	1.00	-	1.00	1.00

Details of share options outstanding at end of the financial year are as follows:

Share Options	**Exercise price RM**	**Exercise Period**
2009		
First Grant	1.00	01.09.2005 to 20.07.2010
Second Grant	1.00	22.09.2005 to 20.07.2010
2008		
First Grant	1.00	01.09.2005 to 20.07.2010
Second Grant	1.00	22.09.2005 to 20.07.2010

As allowed by the transitional provisions in FRS 2 “Share-based payment”, the recognition and measurement principles have not been applied to these grants.

There were no share options exercised during the financial year under review.

Executive Directors of the Group and of the Company and other members of key management have been granted the following number of options under the ESOS:

	Group/Company	
	2009	2008
At 1 January	1,630,000	3,130,000
Expired/Forfeited	-	(1,500,000)
At 31 December	1,630,000	1,630,000

The share options were granted on the same terms and conditions as those offered to other employees of the Group.

30. Staff Costs

	Group	
	2009 RM	2008 RM
Staff costs (excluding Directors)	8,236,371	8,924,580

Included in the staff costs above are contributions made to the Employees Provident Fund under a defined contribution plan for the Group amounting to RM695,585 (2008: RM697,605).

31. Holding Company

The holding company is Asia Avenue Sdn Bhd, a company incorporated in Malaysia.

32. Significant Related Party Transaction

	Company 2009 RM	Company 2008 RM
Dividend received from subsidiary company	800,000	800,000

The Directors are of the opinion that the above transaction has been entered into in the normal course of business and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

33. Key Management Personnel Compensation

	Group		Company	
	2009 RM	2008 RM	2009 RM	2008 RM
Short-term employee benefits				
- fees	85,000	98,000	85,000	98,000
- Salaries and other emoluments	1,437,401	2,030,853	-	-
- Estimated monetary value of benefits-in-kinds	42,533	63,896	-	-
	1,564,934	2,192,749	85,000	98,000
Post employment benefits				
- Defined contribution plan	172,488	243,702	-	-
	1,737,422	2,436,451	85,000	98,000

Key management personnel comprise Directors and Executives of the Company, who have authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly.

34. Contingent Liabilities

	Company 2009 RM	Company 2008 RM
Unsecured corporate guarantees in respect of banking facilities granted to subsidiary companies	23,100,770	26,326,225

35. **Capital Commitments**

	Group 2009 RM	Group 2008 RM
Authorised and contracted for:		
Acquisition of property, plant and equipment	-	3,610,136

36. **Segment Information - Group**

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.

Segment revenue, results, assets and liabilities include items directly attributable to a segment and those where a reasonable basis of allocation exists. Unallocated items mainly comprise interest-earning assets and revenue, interest-bearing borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period.

The accounting policies of the segments are consistent with the accounting policies of the Group.

Segment Information – Group (Cont'd)

2009	**Carpets** RM	**Property Development** RM	**Investment Holdings** RM	**Total** RM
Revenue				
Total Revenue	52,582,436	-	800,000	53,382,436
Inter-segment Revenue	-	-	(800,000)	(800,000)
Total segment revenue	52,582,436	-	-	52,582,436
Results				
Segment results	650,407	(194,543)	(16,309,149)	(15,853,285)
Finance costs				(1,551,747)
Loss before taxation				(17,405,032)
Taxation				76,906
Net loss for the financial year				(17,328,126)
Assets				
Segment assets	73,551,846	2,917,179	18,184,745	94,653,770
Unallocated assets				736,432
Consolidated total assets				95,390,202
Liabilities				
Segment liabilities	6,679,712	573,250	1,397,803	8,650,765
Unallocated liabilities				31,036,421
Consolidated total liabilities				39,687,186
Other information				
Allowance for doubtful debts	144,000	-	16,540,000	16,684,400
Amortisation of prepaid lease payments	120,283	-	-	120,283
Capital expenditure	7,680,840	-	-	7,680,840
Depreciation of property, plant and equipment	2,425,813	684	-	2,426,497
Gain on disposal of property, plant and equipment	(5,500)	-	-	(5,500)

Segment Information – Group

2008	Carpets RM	Property Development RM	Investment Holdings RM	Total RM
Revenue				
Total Revenue	61,430,468	27,534,409	800,000	89,764,877
Inter-segment Revenue	-	-	(800,000)	(800,000)
Total segment revenue	61,430,468	27,534,409	-	88,964,877
Results				
Segment results	1,344,361	(492,798)	557,254	1,408,817
Finance costs				(531,529)
Profit before taxation				877,288
Taxation				(742,317)
Net profit for the financial year				134,971
Assets				
Segment assets	73,807,750	5,500,469	35,463,298	114,771,517
Unallocated assets				483,905
Consolidated total assets				115,255,422
Liabilities				
Segment liabilities	7,353,481	951,384	1,536,883	9,841,748
Unallocated liabilities				31,886,083
Consolidated total liabilities				41,727,831
Other information				
Allowance for doubtful debts	146,393	-	-	146,393
Amortisation of prepaid lease payments	120,283	-	-	120,283
Capital expenditure	2,950,699	-	-	2,950,699
Depreciation of property, plant and equipment	1,883,823	923	-	1,884,746
(Gain)/loss on disposal of property, plant and equipment	(59,250)	12,272	-	(46,978)
Impairment loss on goodwill on consolidation	-	980,621	-	980,621

All the inter-segment transactions were carried out on normal commercial basis and in the ordinary course of business.

Geographical segments

No geographical segments information such as segment revenue, segment assets and segment capital expenditure is presented as the Group business is entirely carried out in Malaysia.

37. Material Litigation

(a) 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.

(b) On 1 April 2009, the Company's lawyer served a Notice pursuant to Section 218 of the Companies Act, 1965 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 in Note 37(a) above.

The details of which 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

(c) 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 in Note 37(a) and RM450,000 as the liquidated and ascertained damages payable to the Company by Datuk 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.

(d) 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.

(e) 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 were 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.

(f) 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. The Company has since filed an application for leave to appeal to the Federal Court against the decision of the Court of Appeal and the hearing on the said application has been fixed on 1 June 2010.

As the ultimate outcome of these claims cannot presently be determined, no allowance for doubtful debt on the aforesaid amounts has been made in the current financial year.

38. **Financial Instruments**

(a) Financial risk management objectives and policies

The Group and the Company's financial risk management policy is to ensure that adequate financial resources are available for the development of the Group and of the Company's operations whilst managing its financial risks, including foreign currency exchange risk, interest rate risk, credit risk, liquidity risk and cash flow risk. The Group and the Company operate within clearly defined guidelines that are approved by the Board and the Group's policy is not to engage in speculative transactions.

(b) Foreign currency exchange risk

The Group and the Company is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than Ringgit Malaysia. The currency giving rise to this risk is primarily United States Dollar and Sterling Pound. The Group and the Company maintains a natural hedge that minimises the foreign exchange exposure by matching foreign currency income with foreign currency costs.

(c) Interest rate risk

The Group and the Company finance its operations through operating cash flows and borrowings. Interest rate exposure arises from the Group's and the Company's borrowings and deposits. The Group and the Company seek to achieve the desired interest rate profile by maintaining a prudent mix of fixed and floating rate borrowings.

(d) Credit risk

The Group and the Company's exposure to credit risk arises mainly from receivables. Receivables are monitored on an ongoing basis via Group's and Company's management reporting procedure and action will be taken for long outstanding debts.

At balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk associated with recognised financial assets is the carrying amount shown in the balance sheet.

(e) Liquidity and cash flow risk

The Group and the Company actively manage their debt maturity profile, operating cash flows and maintain a flexible and cost effective borrowing structure to ensure that all refinancing, repayment and funding needs are met. The Group and the Company also maintain a certain level of cash and cash convertible investments to meet their working capital requirements.

(f) Fair values

The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables, short term borrowings and short term intercompany balances approximate their respective fair values at the balance sheet date due to the relatively short term nature of these financial instruments.

The aggregate fair values of the other financial assets and liabilities carried on the balance sheet are as follows:

	2009		**2008**	
	Carrying amount RM	**Fair value RM**	**Carrying amount RM**	**Fair value RM**
Group				
Financial liabilities				
Hire purchase payables	3,099,789	2,607,516	645,375	580,402
Bank borrowings	4,670,279	3,667,553	5,307,343	5,199,690

The fair value of the long term borrowings are estimated using the discounted cash flow analysis. Based on the prevailing borrowing rates of similar borrowings with the same maturity profile obtainable by the Group and the Company, the carrying values of the long term borrowings approximate their fair values.

39. **Comparative Figures**

The financial statements of the previous financial year which are presented for comparative purposes were examined and reported on by another firm of auditors.

40. **Date of Authorisation for Issue**

The financial statements of the Group and of the Company for the financial year ended 31 December 2009 were authorised for issue in accordance with a resolution of the Board of Directors on 27 April 2010.