

Announcement

Subject	:	PARAGON UNION BERHAD (“PUB” or the “Company”) - Proposed Acquisition of the entire issued and paid-up share capital of Gapurna Property Development Sdn Bhd (“GPD”) (“Proposed Acquisition”)
Date Announced	:	14/03/2003
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Type	:	Announcement
Company Name	:	Paragon Union Berhad
Stock Name	:	Paragon

Content:

1. INTRODUCTION

The Board of Directors of PUB announces that Paragon Expression Sdn Bhd (“PESB”), a wholly owned subsidiary of PUB, has on 14 March 2003, entered into the following:

(i) a conditional sale and purchase agreement with Gapurna Sdn Bhd (“GSB”) and Dato’ Mohamad Salim bin Fateh Din (“Dato’ Mohamad Salim”) (collectively, the “Vendors”) to acquire 200,000 ordinary shares of RM1.00 each representing the entire issued and paid-up share capital of GPD for a cash consideration of RM13,959,458.30 (“SPA”); and

(ii) a supplemental agreement with GPD, GSB and Dato’ Mohamad Salim to settle on behalf of GPD a sum of RM11,540,541.70 (“Supplemental SPA”) for previous advances given by the Vendors after which the Vendors shall agree to give a full discharge to the GPD upon the receipt of the settlement from PESB (“Settlement of Debt”).

2. DETAILS OF THE PROPOSED ACQUISITION

2.1 Information on GPD

GPD was incorporated in Malaysia on 7 January 2000. It has an authorised share capital of RM10,000,000 comprising 10,000,000 ordinary shares of RM1.00 each of which 200,000 ordinary shares of RM1.00 each have been issued and fully paid-up. GPD is principally involved in dealing and trading in land, properties and other development related activities. GPD is the registered and beneficial owner of a leasehold vacant land held under PN 30936, Lot 38821 (formerly known as H.S.(D) 100630, No. P.T. 7601), Mukim Petaling, Kuala Lumpur measuring in area of approximately 137,600 square metres (“Property”).

To-date, GPD has submitted a proposal to the relevant authority in order to undertake a mixed development project on the Property (“Project”). The Project is expected to comprise mainly residential development.

The Property is located off Jalan Pintasan Puchong - Sungai Besi, bordering north of Kinrara Golf Course, approximately 20 kilometres due south-east of Kuala Lumpur City Centre. Developments within close proximity of the Property are primarily residential in nature whilst commercial development of terrace shophouses complements the residential areas. The Kinrara Golf Course due south, Bandar Kinrara due west, Bandar Bukit Jalil, Bukit Jalil National Stadium, Bukit Jalil Golf & Country Club and Bandar Baru Sri Petaling due north-east of the Property are amongst the prominent landmarks in the vicinity of the Property.

2.2 Basis for Purchase Consideration

The purchase consideration of RM13,959,458.30 in respect of the Proposed Acquisition was arrived at on a willing-buyer willing-seller basis and after taking into consideration the unaudited net tangible assets ('NTA') of GPD as at 28 February 2003 after adjusting for the open market value of the Property of RM27.5 million, as appraised by Henry Butcher, Lim & Long Sdn Bhd, an independent firm of professional valuers, on 28 January 2003 using the comparison method of valuation.

2.3 Rights Attached to GPD shares

The entire issued and paid-up share capital of GPD will be acquired by PESB free from all claims, charges, liens, encumbrances and equities whatsoever together with all rights attached thereto and all dividends and distributions declared paid or made on and after the date of the SPA.

2.4 Satisfaction of the Purchase Consideration

Pursuant to the SPA, the purchase consideration of GPD shall be fully satisfied by PESB in cash in the following manner:

(a) a deposit of RM1,395,945.83 representing 10% of the purchase consideration ("Deposit") shall be paid to the Vendors upon the execution of the SPA; and

(b) the balance of the purchase price amounting to RM12,563,512.47 ("Balance Purchase Price") shall be paid to the Vendors on or before the Completion Date (defined in the SPA as the date that falls 6 months from the date of the SPA or the date that falls on the expiry of the 14 days from the Unconditional Date, whichever is the later). The Unconditional Date is defined as the date which falls 5 months from the date of the SPA or such later date as may be mutually agreed upon in writing between the parties and that all of the conditions precedent in the SPA shall be obtained or fulfilled by the relevant parties on or before the said date.

In the event PESB shall fail to pay the Balance Purchase Price on or before the Completion Date, the Vendors shall grant to PESB a further period of 1 month from the Completion Date ("Extended Period") to pay the Balance Purchase Price provided that PESB shall pay to the Vendors interest on the Balance Purchase Price at the rate of 8% per annum calculated on a day to day basis commencing from the date immediately after the Completion Date until the full payment of the Balance Purchase Price.

It is one of the conditions precedent in the SPA that PESB shall agree to settle on behalf of GPD a sum of RM11,540,541.70 for previous advances given by the Vendors after which the Vendors shall agree to give a full discharge to GPD upon the receipt of the settlement from PESB. Further details on the Settlement of Debt are set out in Section 2.5 below.

The Deposit has been paid using the Company's internally generated funds. The Company intends to finance the Balance Purchase Price through bank borrowings.

2.5 Settlement of Debt

Pursuant to the Settlement of Debt, PESB undertakes to lend to GPD a sum of RM11,540,541.70, which is to be released in the following manner:

- (i) RM1,154,054.17 upon the execution of the Supplemental SPA ("First Payment"); and
- (ii) RM10,386,487.53 on or before the Completion Date referred to in the SPA ("Second Payment").

Each of the Vendors will receive the following amount as settlement of previous advances given by them to GPD:

Vendor	Amount owing to Vendor by GPD RM
GSB	9,814,720.70
Dato' Mohamad Salim	1,725,821.00
Total	11,540,541.70

The First Payment has been paid using the Company's internally generated funds. The Company intends to finance the Second Payment through bank borrowings.

2.6 Details of the Vendors

2.6.1 GSB

GSB was incorporated in Malaysia on 12 March 1991 as a private limited company under the Companies Act, 1965. The present authorised share capital of the company is RM5,000,000 comprising 5,000,000 ordinary shares of RM1.00 each of which 2,300,000 ordinary shares have been issued and fully paid-up.

GSB and its subsidiaries are principally involved in the dealing of land, properties and other development related activities. GSB does not have any associated company.

The directors of GSB and their shareholdings in GSB as at 28 February 2003 are as follows:

Director	<-----No. of ordinary shares of RM1.00 each held----->			
	<-----Direct----->		<-----Indirect----->	
	No. of shares	%	No. of shares	%
Dato' Mohamad Salim	1,225,000	53.26	1,075,000*	46.74
Datin Yasmin binti Mohamed Ashraff	1,075,000	46.74	1,225,000*	53.26

Note:

* Deemed interest by virtue of the shareholding of his/her spouse

The substantial shareholders of GSB and their shareholdings in GSB as at 28 February 2003 are as follows:

Director	<-----No. of ordinary shares of RM1.00 each held----->			
	<-----Direct----->		<-----Indirect----->	
	No. of shares	%	No. of shares	%
Dato' Mohamad Salim	1,225,000	53.26	1,075,000*	46.74
Datin Yasmin binti Mohamed Ashraff	1,075,000	46.74	1,225,000*	53.26

Note:

* Deemed interest by virtue of the shareholding of his/her spouse

2.6.2 Dato' Mohamad Salim

Dato' Mohamad Salim, aged 45, sits on the board of all the companies in GSB's group of companies ("GSB Group") and several charitable organisations and clubs.

Dato' commenced his career with the national air carrier, Malaysian Airlines Berhad and served the industry for five years. Dato' subsequently ventured into his own establishment in the trading of petroleum related activities. Currently, Dato' is actively involved in the businesses of the GSB Group.

2.7 Track Record of GPD

A summary of the financial record of GPD for the financial period from 7 January 2000 to 31 December 2000, financial years ended 31 December 2001 and 31 December 2002 and the 2-month financial period ended 28 February 2003 is as set out in Table 1 below.

2.8 Original Cost of Investment to the Vendors

The original cost of investment of the Vendors in GPD and the date of such investment are as follows:

Vendor	Date of Investment	Original Cost of Investment RM	Cumulative Cost of Investment RM
GSB	11 January 2000	51	51
	3 February 2000	50,949	51,000
	31 July 2001	51,000	102,000
Dato' Mohamad Salim	11 January 2000	49	49
	3 February 2000	48,951	49,000
	31 July 2001	49,000	98,000

2.9 Liabilities to be assumed

There is no liabilities to be assumed by PESB pursuant to the Proposed Acquisition.

3. PROSPECTS

The overall property market activity in Kuala Lumpur was subdued in 2001 with the decline in the volume of property transactions by 8.4% and the value of transactions by 15.3% compared to previous year. This downward trend was also shared by the residential, commercial and industrial sub-sectors in Kuala Lumpur during the financial year under review. However, the mukims of Kuala Lumpur, Petaling, Batu and Setapak were still the main areas of activity but showed reductions in both the number and value of transactions. The most actively transacted property type remained the condominium, apartment and terraced house. High-rise units and terraced houses formed 54.6% and 30% of the number of residential transactions respectively. According to the Property Market Report 2001, well-located houses continued to attract demand in the residential sector, one of them being Bandar Baru Sri Petaling, which saw price increases due to rapid development from the south and easy access to Putra Jaya and Cyber Jaya. Furthermore, newly launched apartments in Bukit Jalil, Mukim Petaling with prices of between RM90,000 and RM156,000 experienced good sales. Rapid urbanisation and the growing population augurs well for the residential sector in the long term provided that demand is matched by the development of housing projects in the right locations. (Source: Property Market Report 2001)

According to the Economic Report 2002/2003, housing development activities are expected to improve in 2003 mainly due to the increasing demand for houses in line with strengthening of the domestic economy.

Notwithstanding the current overall decline in the property market activity, the Board of PUB is of the view that the Proposed Acquisition provides PUB an opportunity to venture into property development and investment in real properties at the weaker end of the property cycle with the acquisition of a prime land situated at Mukim Petaling, district of Kuala Lumpur, state of Wilayah Persekutuan.

4. RISK FACTORS IN RELATION TO THE PROPOSED ACQUISITION

4.1 Business Risks

GPD is an investment and property development company. Therefore, it is subject to risks inherent in the property development industry, but not limited to, changes to the general economic, business and political conditions such as, Government regulations, the local economic performance, demand and supply conditions in the property market, pricing of products, labour, land and building material shortages, inflation, levies, duties and taxes, movement in interest rates, fluctuation in occupancy rates and rental rates, oversupply in certain sectors of the property market and the availability of bank loans.

In addition, the development of the Property has not commenced and its commencement would be subject to the approval of various regulatory authorities.

The timely completion of contracts or development on the Property will be dependent on many factors such as obtaining regulatory approvals as scheduled, securing construction materials in adequate amounts, favourable credit terms and satisfactory performance of sub-contractors.

In addition, there is a time lag between costs being incurred for such development and the receipt of revenue from property sales. Property sales and their demand depend on various factors including the location and accessibility, the level of economic growth, general level of economic activity in the vicinity, interest rates, government policies towards home ownership and market perception of the

development. Some of such factors mentioned above will be beyond the control of PUB Group.

4.2 Competition

The development of the Property will also face competition from other property developers who are developing properties in the vicinity of the Property. GPD's competitiveness will depend on its marketing strategy.

In addition, the demand for residential properties in choice locations is dependent upon whether the projects are being managed by reputable developers with proven track records. In this regard, PUB being a new player in this sector may face stiff competition from other property developers.

4.3 Diversification in Operations Risk

The future success of the PUB Group upon completion of the Proposed Acquisition depends significantly upon the abilities and continued efforts of the Directors and senior management of PUB Group to procure and maintain experience personnel/employees and skilled labour in the property development sector.

However, PUB believes that its existing Directors namely Mr. Wong Thiam Loy and Mr. Tan Onn Poh who have previous experience in the property development sector through their many years of involvement in the construction, property development and related business, would be able to guide and share their expertise in the said industry with the PUB Group. In addition, both Mr. Wong and Mr. Tan are currently holding or had held directorships in other listed companies, which are principally involved in, amongst other, construction, property development and civil engineering services.

Hence, the Group is of the view that the continued effort of the abovementioned Directors would result in the successful implementation and completion of the Project. PUB envisages that the success of the Project would provide a foothold to the Company for future involvement in other lucrative property projects.

5. RATIONALE

PUB is an investment holding company and its subsidiaries are involved in the manufacturing and distribution of commercial and car carpet and automotive components.

In recent years and as part of PUB's long term plan, it has sought to diversify its activities into other sectors as part of PUB's effort to further enhance its earnings base. In view of the foregoing, the Board of PUB has proposed to embark into the investment and property development sector through the Company's acquisition of GPD. The Proposed Acquisition is envisaged to improve its earning position from the income stream to be generated as and when the Property is being developed.

6. FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

6.1 On share capital

The Proposed Acquisition will not have any effect on the issued and paid-up share capital of PUB.

6.2 On substantial shareholders' shareholdings

The Proposed Acquisition will not have any effect on the substantial shareholders' shareholdings in PUB as the consideration for the Proposed Acquisition will be fully satisfied in cash.

6.3 On NTA

For illustrative purposes only, the proforma effect of the Proposed Acquisition on the consolidated NTA of PUB based on PUB's unaudited consolidated balance sheet as at 31 December 2002 and GPD's unaudited balance sheet as at 28 February 2003, assuming the Proposed Acquisition has been effected as at 31 December 2002, is set out in Table 2 below.

6.4 On earnings

The Proposed Acquisition is expected to be completed by end of third quarter of 2003 and therefore will not have any material effect on the consolidated earnings of PUB for the immediate financial year ending 31 December 2003.

Barring unforeseen circumstances, the Proposed Acquisition is expected to contribute positively to PUB's future long-term earnings.

7. CONDITIONS OF THE PROPOSED ACQUISITION

The Proposed Acquisition is subject to the following:

- (i) PESB obtaining the approval from the Foreign Investment Committee;
- (ii) PUB obtaining the approval from its shareholders at an extraordinary general meeting to be convened; and
- (iii) any other relevant authorities/parties, if required.

8. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS

Insofar as the Directors of PUB are able to ascertain, none of the Directors or substantial shareholders of PUB or persons connected to them have any interest, whether direct or indirect, in the Proposed Acquisition.

9. DIRECTORS' STATEMENT

Having considered the rationale and all relevant aspects of the Proposed Acquisition, the Directors of PUB are of the opinion that the Proposed Acquisition is in the best and future interests of PUB.

10. EXPECTED TIME FRAME FOR COMPLETION

The Proposed Acquisition is expected to be completed by the third quarter of 2003.

11. OTHER MATTERS

The SPA, Supplemental SPA and Valuation Report on the Property prepared by Henry Butcher, Lim & Long Sdn Bhd are available for inspection at the registered office of PUB at 10th Floor, Tower Block, Kompleks Antarabangsa, Jalan Sultan Ismail, 50250 Kuala Lumpur during normal business hours from Mondays to Fridays (except public holidays) for a period of 3 months from the date of this announcement. Insofar as the Directors of PUB can ascertain, the Proposed Acquisition does not depart from the Securities Commission's Policies and Guidelines on Issue/Offer of Securities.

This announcement is dated 14 March 2003.

Copy to:
Securities Commission
Attn: Mr Wong Wing Seong

Table 1:

Audited Financial Record of GPD

A summary of the financial record of GPD for the financial period from 7 January 2000 to 31 December 2000, financial years ended 31 December 2001 and 31 December 2002 and 2-month financial period ended 28 February 2003 is as set out below:

Financial period / year ended	<----- Audited ----->		<----- Unaudited ----->	
	7 January 2000 to 31 December 2000	31 December 2001	31 December 2002	2-month financial period ended 28 February 2003
Turnover (RM)	-	-	-	-
Exceptional items	-	-	-	-
Profit / (Loss) before tax (RM)	(14,051)	(3,588)	(4,133)	(10,360)
Taxation (RM)	-	-	-	-
Profit / (Loss) after tax	(14,051)	(3,588)	(4,133)	(10,360)
Extraordinary items (RM)	-	-	-	-
No. of ordinary shares in issue	100,000	200,000	200,000	200,000
NTA (RM)	85,949	182,361	178,228	167,868

NTA per share (sen)	85.95	91.18	89.11	83.93
Net earnings / (loss) per share (sen)	(14.05)	(1.79)	(2.07)	(5.18)
Gearing (Interest bearing debts / Shareholders' Funds) (times)	-	-	-	-
Current Ratio (times)	9.64	1.02	1.02	1.01
Dividend	-	-	-	-
Tax exempt dividend (%)	-	-	-	-
Gross dividend (%)	-	-	-	-

Note:

GPD was dormant prior to 7 January 2000.

Table 2:

Proforma effect of the Proposed Acquisition on the unaudited consolidated NTA of PUB as at 31 December 2002 is as follows:

	Unaudited as at 31 December 2002	After Proposed Acquisition
	RM'000	RM'000
Share Capital	70,000	70,000
Non Distributable Reserve	4,274	4,274
Accumulated profits	3,191	3,091#
Treasury shares	(2,795)	(2,795)
Shareholders' fund	74,670	74,570
Less : Goodwill on consolidation*	-	(2,422)
NTA	74,670	72,148
NTA per share (RM)	1.11	1.07

* The goodwill on consolidation arises as a result of the difference between the purchase consideration for the GPD of approximately RM13.96 million and the fair value of the net asset of GPD as at 28 February 2003 of approximately RM15.96 million and the deferred tax liability on net surplus of approximately RM4.42 million

Net of estimated expenses to be incurred pursuant to the Proposed Acquisition amounting to RM100,000