

## **OCTAGON CONSOLIDATED BERHAD (“OCTAGON” OR “THE COMPANY”)**

### **(A) Notes to the Interim Financial Report**

#### **1. Accounting policies**

The quarterly financial statements have been prepared in accordance with the Financial Reporting Standards (“FRS”) 134 Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad. The interim financial report should be read in conjunction with the audited financial statements of Octagon and its subsidiaries (“Octagon Group” or “the Group”) for the financial year ended 31 October 2009.

The accounting policies and methods of computation adopted in the interim financial statements are consistent with those adopted in the annual audited financial statements of the Group for the financial year ended 31 October 2009.

#### **2. Audit report**

There was no audit qualification by the auditors on the audited financial statements of the Octagon Group for the financial year ended 31 October 2009.

#### **3. Seasonality or cyclicity of operations**

The principal business of the Group is not subjected to seasonal or cyclical factors.

#### **4. Nature and amount of items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence**

There were no unusual items affecting assets, liabilities, equity, net income or cash flows for the financial period under review.

#### **5. Nature and amount of changes in estimates of amount reported in prior interim periods which give a material effect in the current interim period**

There were no changes in the estimates of amount reported in prior quarters, which have a material effect in the financial period under review.

#### **6. Issuance, cancellations, repurchase, resale and repayments of debts and equity securities**

There were no issuance, cancellations, repurchase, resale and repayments of debts and equities securities during the financial period under review.

#### **7. Dividends paid**

There was no payment of dividend during the quarter under review.

## 8. Segmental report

### a) Primary Reporting Format – Major Business Segments

The major business segments for the operations of the Group for the financial period ended 31 July 2010 are as follows:-

	<b>Manufacturing and Trading RM'000</b>	<b>CleanTech RM'000</b>	<b>Eliminations RM'000</b>	<b>Consolidated RM'000</b>
<b>REVENUES</b>				
External sales	30,689	-	-	30,689
Inter-segment sales	-	-	-	-
Total revenue	<u>30,689</u>	<u>-</u>	<u>-</u>	<u>30,689</u>
<b>RESULTS</b>				
Segment results	2,165	(4,868)	-	(2,703)
Interest expenses				(7,009)
Interest revenue				124
Dividend received				2
Taxation				(1,364)
Share of results of associated companies				<u>(136)</u>
Loss after taxation				(11,086)
Minority interest				<u>32</u>
Loss attributable to equity holders of the Company				<u>(11,054)</u>
<b>OTHER INFORMATION</b>				
Segment assets	64,425	237,530		301,955
Unallocated assets				5,340
Investment in associated company				7
Other investments				7,862
Goodwill on consolidation				33,080
Deferred tax assets				603
Tax assets				<u>6,785</u>
Consolidated total assets				<u>355,632</u>
Segment liabilities	9,486	76,592		86,078
Unallocated liabilities				160,194
Taxation				1,364
Deferred taxation				<u>730</u>
Consolidated total liabilities				<u>248,366</u>
Capital expenditure	532	7,243	-	7,775
Depreciation of property, plant and equipment	959	820	-	1,779

b) Secondary Reporting Format – Geographical Segments

The geographical segments for the operations of the Group for the financial period ended 31 July 2010 are as follows:-

	<b>Malaysia RM'000</b>	<b>Indonesia RM'000</b>	<b>Hong Kong &amp; The People's Republic of China RM'000</b>	<b>Vietnam RM'000</b>	<b>Consolidated RM'000</b>
<b>REVENUES</b>					
Malaysia					20,588
Indonesia					8,919
Hong Kong & The People's Republic of China					248
South East Asia					934
South Asia					-
					<u>30,689</u>
<b>RESULTS</b>					
Segment results	(2,300)	(244)	(159)	-	(2,703)
Interest expenses					(7,009)
Interest revenue					124
Dividend received					2
Taxation					(1,364)
Share of results of associated companies					(136)
Loss after taxation					(11,086)
Minority interest					32
Loss attributable to equity holders of the Company					<u>(11,054)</u>
<b>OTHER INFORMATION</b>					
Segment assets	289,452	9,826	1,595	1,082	301,955
Unallocated assets					5,340
Investment in an associated company					7
Other investments					7,862
Goodwill on consolidation					33,080
Deferred tax assets					603
Tax assets					6,785
Consolidated total assets					<u>355,632</u>
Capital expenditure	7,691	84	-	-	7,775
Depreciation of property, plant and equipment	1,714	65	-	-	1,779

**9. Valuation of property, plant and equipment**

The Group did not carry out any valuation on its property, plant and equipment during the financial period under review.

**10. Subsequent material events**

Save as disclosed below, there were no material events which have occurred subsequent to the financial period ended 31 July 2010 up to 23 September 2010 which have not been reflected in the financial statement for the said period:-

On 27 August 2010, AmInvestment Bank Berhad, on behalf of the Company, announced that due to expressions of interest received from certain parties, which require more time to arrange for subscription commitments for the Irredeemable Convertible Unsecured Loan Stocks (“ICULS”), the application(s) to the relevant authorities are expected to be submitted to the relevant authorities within (3) months from 27 August 2010.

**11. Changes in the composition of the group**

Save as disclosed below, there were no changes in the composition of the Group for the current quarter under review:-

On 14 May 2010, the Company announced that Orizon Consolidated Limited (“OCL”), which has a wholly-owned subsidiary, Orizon Renewable Energy (Private) Limited, became a 51%-owned subsidiary of Green Energy and Technology Sdn Bhd (“GET”), which in turn is a wholly-owned subsidiary of the Company pursuant to the completion of proposed acquisition by GET of 46 ordinary shares of US\$1.00 each in OCL, representing 46% of the issued and paid-up share capital of OCL, from Tadhamon Capital B.S.C. (c) (“Tadhamon”).

**12. Contingent liabilities or contingent assets**

Save as disclosed below, the Directors of Octagon are not aware of any contingent liabilities which upon becoming enforceable, may have a material impact on the profit or net assets value of the Group as at 23 September 2010.

Octagon has entered into a Supplemental Shareholders’ Agreement dated 28 January 2010 between the Company, GET, Tadhamon and OCL and the Deed of Guarantee dated 28 January 2010 entered into by GET favouring Tadhamon as disclosed in the Circular dated 6 April 2010 whereby the Company has the possibility of assuming the liabilities and obligations of GET towards Tadhamon for the Supplemental Shareholders’ Agreements and the Deed of Guarantee in which GET is a party, for up to an amount of USD9 million.

**(B) Additional Disclosures in Compliance with the Listing Requirements of Bursa Malaysia Securities Berhad**

**1. Review of performance**

During the current quarter under review, the Group's turnover decreased by 23.29% to RM10.352 million as compared to RM13.495 million recorded in the third quarter of the last financial year. The Group's turnover for the period under review and the corresponding quarter in the last financial year were solely contributed by Coatings division. Decrease in turnover of Coatings division was mainly due to decrease in demand by existing customers. No revenue was generated by the CleanTech division in this current quarter and the corresponding quarter of last financial year. The new project undertaken by Orizon Renewable Energy (Private) Limited ("ORE") in which GET has increased its shareholding to 51% as at 14 May 2010, is currently in the midst of obtaining all relevant Government approvals.

The Group also recorded operating loss of RM2.099 million for the third quarter of 2010 as compared to an operating loss of RM1.330 million registered in the corresponding quarter in 2009. The Coatings division recorded a decrease in operating profit of RM1.943 million in the quarter under review as compared to an operating profit of RM2.648 million registered in the corresponding quarter. This was mainly attributable to the lower turnover, and a higher provision for diminution in value of Subordinated Bond, which was RM2.418 million in this quarter under review compared to RM1.582 million in the corresponding quarter of last financial year. The CleanTech division recorded operating loss of RM1.393 million for the quarter under review as compared to a loss of RM2.086 million recorded in the corresponding period, mainly due to the lower operating expenses incurred.

Due to the reasons stated above, the Group incurred loss before taxation of RM4.209 million in the current quarter under review as compared to loss before taxation of RM3.807 million in the corresponding period in prior year while the Group's loss after taxation and minority interest is RM4.720 million as compared to loss after taxation and minority interest of RM4.514 million for the corresponding period. As a result, the Group has recorded a loss per share of 2.83 sen for the quarter under review.

The Group is continuing its effort in streamlining its business and operations in the Coatings division and CleanTech division. The Coatings division continues to diversify its product range, focusing on higher end products whilst closely managing its cost, which includes consolidation of its operations to minimise cost. The Group is also practising tighter control over development expenditure and to be more vigilant on the development and execution of its business in CleanTech division.

**2. Material changes in the quarterly results compared to the results of the preceding quarter**

During the period under review, the Group registered a turnover of RM10.352 million as compared to RM9.961 million in the preceding quarter ended 30 April 2010. The marginal increase in turnover was due to slightly improved demand by existing customers. There were no revenue generated by the CleanTech division in this quarter under review as well as in the previous quarter.

The Group recorded a loss before taxation of RM4.209 million in the current quarter under review as compared to loss before taxation of RM2.547 million recorded in the previous quarter. Higher loss was due to the provision for diminution in value of Subordinated Bond of RM2.418 million in the current quarter under review.

### 3. Prospects

The recovery in the global economy continued to be uneven in the second quarter of 2010 as the sovereign debt crisis in the euro zone area escalated. Major advanced economies achieved a moderate recovery whilst most regional economies continued to sustain strong growth in the second quarter. The strength of the global recovery will hinge critically on the credibility of fiscal austerity measure being implemented in many advanced economies and market confidence on a swift resolution to the sovereign debt problems in the euro zone area.

The Malaysian economy registered a strong growth of 8.9% in the second quarter of 2010, driven by sustained expansion in domestic demand and continued robust growth in external demand. However, according to the mid-year review carried out by RAM Holdings Berhad, Malaysian gross domestic product growth is expected to grow at slower pace of 5.6% in second half of 2010 on account of moderating external demand, fading low-base effects and easing restocking activities.

Moving forward, the Group aims to have higher income contribution from the CleanTech division by expanding geographically and making solid inroads for its advanced and innovative technologies in renewable energy industry and have concentrated its efforts to obtain all governmental approvals for its Colombo project by within the next few months.

Strategies and efforts are being carried out by the Group to remedy the effect of the declining margin in the Coatings division by streamlining the business and production as well as increasing its focus on higher end products. The Board will continue monitor the progress of both divisions vigilantly and formulate various strategies to address whatever market conditions exist as the Group moves forward.

### 4. Variance of actual profit from forecast profit

Not applicable.

### 5. Taxation

	Current Quarter RM'000	Cumulative year to date RM'000
Current	521	1,364
Under/(Over)provision in prior year	-	-
Deferred taxation	-	-
	<hr/>	<hr/>
	521	1,364

The effective rate of taxation of the Group is higher than the statutory rate of taxation mainly due to certain expenses disallowed for deduction for tax computation purposes and also losses of certain subsidiaries.

### 6. Profits on sale of investments and/or properties

There were no sale of investments and/or properties for the current period ended 31 July 2010.

**7. Quoted securities**

There were no purchases or disposals of quoted securities during the current financial quarter under review.

Investment in quoted shares as at 31 July 2010 were as follows:

At cost	RM47,500
At carrying value/book value	RM47,500
At market value	RM65,331

**8. Other investments**

In January 2007, Octagon subscribed for RM4 million in unquoted subordinated bonds with tenure of 5 years. The subscription of the subordinated bonds is part of the terms of the unsecured fixed term loan facility under Primary Collateralised Loan Obligation Programme with RHB Investment Bank Berhad. An amount of RM1,582,000 has been provided as the diminution in value in its investment in the said unquoted subordinated bonds in prior year. Full provision is now made for the diminution in value in the said unquoted subordinated bonds in this period under review.

**9. Status of corporate proposals**

Save as disclosed below, there are no other corporate proposals announced but not completed as at 23 September 2010.

On 27 August 2010, AmInvestment Bank Berhad, on behalf of the Company, announced that due to expressions of interest received from certain parties, which require more time to arrange for subscription commitments for the Irredeemable Convertible Unsecured Loan Stocks ("ICULS"), the application(s) to the relevant authorities are expected to be submitted to the relevant authorities within (3) months from 27 August 2010.

There has been no further development for the corporate proposal disclosed above.

**10. Group borrowings and debt securities**

All of the Group banking facilities which include bank overdraft, revolving loan and term loan facilities granted by financial institutions to the subsidiaries of the Company are secured by way of corporate guarantee from the Company of up to RM97.3 million. As at 31 July 2010, the term loan to a subsidiary is also secured mainly by charge of its fixed and floating assets, assignment of insurance, charge over monies in escrow and sinking fund accounts and personal guarantee of a director of the subsidiary besides the corporate guarantee by the Company.

Total Group borrowings as at 31 July 2010 are as follows: -

	<b>RM'000</b>
<b>Short term borrowings</b>	
Loans obligations	18,632
<b>Long term borrowings</b>	
Collateralised loan obligations	40,000
Less: unamortised loan processing fee	(296)
Loan obligations	120,490
Total	<u>178,826</u>

All of the Group borrowings are denominated in Ringgit Malaysia.

**11. Off balance sheet financial instruments**

The Group does not have any financial instruments with off balance sheet risk as at 23 September 2010, being the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report.

**12. Material litigation**

Save as disclosed below, as at 23 September 2010, neither the Company nor any of its subsidiaries is engaged in any material litigation, claims or arbitration, either as plaintiff or defendant and the Directors of the Company do not have any knowledge of any proceedings pending or threatened against the Company and/or any of its subsidiaries or of any facts likely to give rise to any proceedings which might materially and adversely affect the position or business of the Company and its subsidiaries

On 23 July 2008, Durachem, via its solicitors, served a Writ of Summons (“Summons”) together with Statement of Claims dated 9 July 2008 on the solicitors of Gan Eng San and Gan Eng Chuan (“the Defendants”). On 9 October 2008, the solicitors of Durachem filed an application for summary judgment and the application for summary judgment has been allowed by the court on 14 September 2009. On 29 January 2010, Durachem’s solicitors served an Order and Judgement dated 14 September 2009 to the solicitors of the Defendants. On 30 April and 5 May 2010, the Judgement were served personally to the respective Defendants. Durachem is exploring the possibility of out-of-court settlement before commencing the bankruptcy proceeding against the Defendants.

Durachem is claiming for the payment of a debt amounting to RM1,697,680.99, interest, the costs of the proceedings and any other relief deemed fit and proper by the Court. The Defendants were former directors of C.S. Metal Industries (M) Sdn Bhd (“CS Metal”), a customer of Durachem. By a joint and several guarantee, the Defendants has agreed to guarantee the payment of all monies due and owing to Durachem in respect of the goods provided to CS Metal, in consideration for Durachem selling and supplying goods on credit to CS Metal.

On 31 January 2005, a winding up order was entered against CS Metal and the amount owing by CS Metal to Durachem was RM1,697,680.99 (“Debt”). Durachem has via its solicitor demanded against the Defendants for the Debt. However, no payment has been made by the Defendants up to the date of the filing of the Summons.

The entire amount of Debt has already been provided for in the financial statement of the Group in prior financial year. Hence, no further financial or operational impact is expected to arise from the litigation.

**13. Dividends**

No dividend has been proposed for the current period under review.

**14. Provision of financial assistance**

Pursuant to paragraph 8.23 of the Bursa Malaysia Securities Berhad's Listing Requirements and Practice Note 11, details of the financial assistance provided by the Octagon Group as at 31 July 2010 are as below:-

Type(s) of financial assistance	For the period from 01.05.2010 to 31.07.2010 RM'000	Balance as at 31.07.2010 RM'000
Non-interest bearing cash advances to non wholly-owned subsidiaries	649	4,353



15. Loss per share

	Quarter ended		Current	Preceding year
	31 July	31 July	year-to-date	corresponding
	2010	2009	31 July	period
			2010	31 July
				2009
Loss after taxation and minority interest (RM'000)	(4,720)	(4,514)	(11,054)	(11,474)
Weighted average number of ordinary shares in issue ('000)	166,787	166,787	166,787	166,787
Adjustment in relation to the Warrants issued on 24 October 2005 ('000)	-	-	-	-
Adjusted weighted average number of ordinary shares in issue ('000)	166,787	166,787	166,787	166,787
Basic loss per share (sen)	(2.83)	(2.71)	(6.63)	(6.88)
Diluted loss per share (sen)	*	*	*	*

Note:

\* *Diluted (loss)/earnings per share is not computed as the potential ordinary shares to be issued are anti-dilutive*