

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 save as disclosed in section (B)1.

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 October 2010 are as follows:-

	Manufacturing and Trading RM'000	CleanTech RM'000	Eliminations RM'000	Consolidated RM'000
REVENUES				
External sales	40,280	-	-	40,280
Inter-segment sales	-	-	-	-
Total revenue	<u>40,280</u>	<u>-</u>	<u>-</u>	<u>40,280</u>
RESULTS				
Segment results	1,552	(18,376)	-	(16,824)
Interest expenses				(9,266)
Interest revenue				177
Taxation				(1,705)
Share of results of associated companies				(136)
Loss after taxation				<u>(27,754)</u>
Minority interest				(292)
Loss attributable to equity holders of the Company				<u>(28,046)</u>
OTHER INFORMATION				
Segment assets	48,576	201,971		250,547
Unallocated assets				5,870
Investment in associated company				7
Other investments				7,862
Goodwill on consolidation				33,099
Deferred tax assets				443
Tax assets				7,859
Consolidated total assets				<u>305,687</u>
Segment liabilities	13,903	44,321		58,224
Unallocated liabilities				156,342
Taxation				56
Deferred taxation				557
Consolidated total liabilities				<u>215,179</u>
Capital expenditure	285	5,721		6,006
Development expenditure	-	10,601		10,601
Depreciation of property, plant and equipment	1,236	1,124		2,360

b) Secondary Reporting Format – Geographical Segments

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

	Malaysia RM'000	Indonesia RM'000	Hong Kong & The People's Republic of China RM'000	Vietnam RM'000	Consolidated RM'000
REVENUES					
Malaysia					27,336
Indonesia					11,313
Hong Kong & The People's Republic of China					329
South East Asia					1,302
South Asia					
					40,280
RESULTS					
Segment results	(15,884)	(701)	(239)		(16,824)
Interest expenses					(9,266)
Interest revenue					177
Taxation					(1,705)
Share of results of associated companies					(136)
Loss after taxation					(27,754)
Minority interest					(292)
Loss attributable to equity holders of the Company					(28,046)
OTHER INFORMATION					
Segment assets	239,788	8,167	1,500	1,092	250,547
Unallocated assets					5,870
Investment in an associated company					7
Other investments					7,862
Goodwill on consolidation					33,099
Deferred tax assets					443
Tax assets					7,859
Consolidated total assets					305,687
Capital expenditure	5,833	173			6,006
Development expenditure	10,601				10,601
Depreciation of property, plant and equipment	2,305	55			2,360

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 October 2010 up to 24 December 2010 which have not been reflected in the financial statement for the said period:-

- (i) On 26 November 2010, AmInvestment Bank Berhad, on behalf of the Company, announced that the Company is currently in negotiation with parties who have expressed their interest in subscribing for the Irredeemable Convertible Unsecured Loan Stocks (“ICULS”) and the application(s) to the relevant authorities are expected to be submitted to the relevant authorities within 3 months from 26 November 2010.
- (ii) On 17 December 2010, the Company announced that Kuwait Finance House (Malaysia) Berhad (“KFH”) has granted approval to the proposed change of certain terms to the financing facility of RM79,000,000 under Ijarah Masufah Fi Zimmah principle (“Facility”) extended to Advanced Pyrotech Sdn Bhd (“APT”), a wholly-owned subsidiary of Octagon on 9 March 2007.

According to the revised salient terms, the Facility will be extended from December 2013 to March 2017 with revised quarterly lease payment amount and another Director of APT is to give personal guarantee as additional security. APT is to enter into a supplemental agreement with KFH for the above changes in due course.

11. Changes in the composition of the group

There were no changes in the composition of the Group for the current quarter under review.

12. Contingent liabilities or contingent assets

The Directors of Octagon are not aware of any contingent liabilities which upon becoming enforceable, may have a material impact on the results or net assets value of the Group as at 24 December 2010.

(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 81.55% to RM9.591 million as compared to RM51.976 million recorded in the fourth quarter of the last financial year. The Group's turnover for the period under review was solely contributed by Coatings division, whereas in the corresponding quarter in the last financial year was a combination from Coatings division and CleanTech division, which has recorded a one-off turnover of RM40.167 million from the sale of technical documents. Decrease in turnover of Coatings division was mainly due to decrease in demand by existing customers.

The Group also recorded operating loss of RM14.058 million for the fourth quarter of 2010 as compared to an operating profit of RM0.175 million registered in the corresponding quarter in 2009. The Coatings division recorded an operating loss of RM0.01 million in the quarter under review as compared to an operating loss of RM0.140 million registered in the corresponding quarter. The CleanTech division recorded operating loss of RM13.850 million for the quarter under review as compared to a profit of RM0.595 million recorded in the corresponding period. The loss of the Group in the current quarter under review was mainly due to the provision of doubtful debts of RM10.911 million, arising mainly from the provision made for ascertained liquidated damages on the delay in the delivery of the waste tyre pyrolysis plant by the turnkey contractor, and higher foreign exchange losses of RM2.684 million whereas the profit in the corresponding quarter in previous year was mainly arising from revenue of RM40.167 million generated from the sale of technical documents, which was offset by a charge of RM37.764 million arising from the effect of mutual termination agreement.

Due to the reasons stated above, the Group incurred loss before taxation of RM16.327 million in the current quarter under review as compared to loss before taxation of RM3.077 million in the corresponding period in prior year while the Group's loss after taxation and minority interest is RM16.992 million as compared to loss after taxation and minority interest of RM3.738 million for the corresponding period. As a result, the Group has recorded a loss per share of 10.19 sen for the quarter under review.

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 RM9.591 million as compared to RM10.352 million in the preceding quarter ended 31 July 2010. The decrease in turnover was due to decrease in demand by existing customers. There was 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 RM16.328 million in the current quarter under review as compared to loss before taxation of RM4.209 million recorded in the previous quarter. Higher loss was due to the above provision for doubtful debts of RM10.911 million and loss due to foreign exchange of RM2.684 million in the current quarter under review.

3. Prospects

Moving forward, the Group aims to achieve positive contribution from the CleanTech division in the next financial year through commencement of construction for its waste to energy project in Colombo and the progressive commissioning of its waste tyre plant in Port Klang.

Meanwhile, efforts are also being carried out by the Group to remedy the effect of declining business and profit margin for the Coatings division through geographical diversification and less dependent on the consumer electronic sectors, which is the main core business of the Coatings division.

The Board will continue to monitor the progress of both divisions vigilantly and implement various measures to address the undercapitalization of the Group and strategies for the turnaround of the Group's profitability.

4. Variance of actual profit from forecast profit

Not applicable.

5. Taxation

	Current Quarter RM'000	Cumulative year to date RM'000
Current	396	1,831
Under/(Over)provision in prior year	-	-
Deferred taxation	(55)	(126)
	<hr/> 341	<hr/> 1,705 <hr/>

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 October 2010.

7. Other investments

a. Quoted securities

Other investments consist of quoted securities and unquoted securities as set out below:-

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

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

At cost	RM47,500
At carrying value/book value	RM47,500
At market value	RM86,751

b. Unquoted securities

Investment in unquoted instruments as at 31 October 2010 are as follows:

	RM
Subordinated bonds*	4,000,000
Provision for diminution in value	<u>(4,000,000)</u>
	-
Unquoted shares	9,990,000
Provision for diminution in value	<u>(2,175,826)</u>
	<u>7,814,174</u>
Balance as at 31 October 2010	<u>7,814,174</u>

* 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. A provision of RM2.418 million for diminution in value of investment has been made for the said unquoted subordinated bonds in the current year.

8. Status of corporate proposals

Save as disclosed below, there are no other corporate proposals announced but not completed as at 24 December 2010.

On 26 November 2010, AmInvestment Bank Berhad, on behalf of the Company, announced that the Company is currently in negotiation with parties who have expressed their interest in subscribing for the ICULS and the application(s) to the relevant authorities are expected to be submitted to the relevant authorities within 3 months from 26 November 2010.

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

9. 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 October 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 October 2010 are as follows: -

	RM'000
Short term borrowings	
Loans obligations	75,122
Long term borrowings	
Collateralised loan obligations	40,000
Less: unamortised loan processing fee	(148)
Loan obligations	64,000
Total	<u>178,974</u>

All of the Group borrowings are denominated in Ringgit Malaysia.

10. Off balance sheet financial instruments

The Group does not have any financial instruments with off balance sheet risk as at 24 December 2010, being the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report.

11. Material litigation

Save as disclosed below, as at 24 December 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 judgement 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.

12. Dividends

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

13. 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 October 2010 are as below:-

Type(s) of financial assistance	For the period from 01.08.2010 to 31.10.2010 RM'000	Balance as at 31.10.2010 RM'000
Non-interest bearing cash advances to non wholly-owned subsidiaries	1,256	5,609

14. Loss per share

	Quarter ended		Current	Preceding year
	31 October 2010	31 October 2009	year-to-date 31 October 2010	corresponding period 31 October 2009
Loss after taxation and minority interest (RM'000)	(16,992)	(3,738)	(28,046)	(15,212)
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)	(10.19)	(2.24)	(16.82)	(9.12)
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