

## **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 2010.

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 2010.

The adoption of the other FRSs, Amendments to FRSs, IC Interpretations and TRs is not expected to have any significant impact on the results and financial position of the Group upon their initial application except as indicated below:-

- (i) FRS 101 Presentation of Financial Statements;
- (ii) Amendments to FRS 117 Leases; and
- (iii) Revised FRS 3 Business Combinations and Amendments to FRS 127 Consolidated and Separate Financial Statements

#### **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 2010.

#### **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 January 2011 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	8,944	-	-	8,944
Inter-segment sales	-	-	-	-
Total revenue	<u>8,944</u>	<u>-</u>	<u>-</u>	<u>8,944</u>
<b>RESULTS</b>				
Segment results	668	(1,341)	-	(673)
Interest expenses				(2,218)
Interest revenue				18
Depreciation and amortisation				(809)
Taxation				(261)
Share of results of associated companies				-
Loss after taxation				<u>(3,943)</u>
Minority interest				<u>27</u>
Loss attributable to equity holders of the Company				<u>(3,916)</u>
<b>OTHER INFORMATION</b>				
Segment assets	54,276	196,780		251,056
Unallocated assets				1,505
Investment in associated company				7
Other investments				7,862
Goodwill on consolidation				33,087
Deferred tax assets				443
Tax assets				<u>7,413</u>
Consolidated total assets				<u>301,373</u>
Segment liabilities	10,085	33,513		43,598
Unallocated liabilities				170,474
Taxation				317
Deferred taxation				<u>618</u>
Consolidated total liabilities				<u>215,007</u>
Capital expenditure	342	688		1,030
Development expenditure	-	1,402		1,402

### b) Secondary Reporting Format – Geographical Segments

The geographical segments for the operations of the Group for the financial period ended 31 January 2011 are as follows:-

	<b>Revenue RM'000</b>	<b>Non-current Asset RM'000</b>
Malaysia	5,819	209,846
Indonesia	2,515	2,303
Hong Kong & The People's Republic of China	112	-
South East Asia	498	-
South Asia	-	-
	8,944	212,149

**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 25 March 2011 which have not been reflected in the financial statement for the said period:-

- (i) On 17 December 2010, the Company announced that Kuwait Finance House (Malaysia) Berhad ("KFH") has just 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 , a wholly-owned subsidiary of Octagon on 9 March 2007.
- (ii) On 30 December 2010, the Company announced that Tadhamon Capital B.S.C (c) agreed to the request from Orizon Consolidated Limited ("OCL"), a 51%-owned subsidiary of Green Energy and Technology Sdn Bhd ("GET"), which in turn is a wholly-owned subsidiary of the Company, for the deferment of Financial Close from end December 2010 to 30 June 2011;
- (iii) On 18 February 2011, the Company announced that Advanced Pyrotech Sdn Bhd ("APT"), a wholly-owned subsidiary of the Company had mutually terminated the Supply Agreement between APT and Purearth Sdn Bhd ("Purearth") for shredded tyres upon Purearth's request in view of the prolonged delays in its Vendors Development Programme; and
- (iv) On 25 February 2011, AmInvestment Bank Berhad, on behalf of the Company announced that after considering alternative funding options available to the Company under its current operating conditions, the Company decided that it does not intend to pursue the Proposed Rights Issue at this juncture, and therefore wishes to abort the Proposed Rights Issue.

**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 25 March 2011.

**(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 13.8% to RM8.944 million as compared to RM10.376 million recorded in the first quarter of the last financial year. The Group's turnover for the period under review and corresponding quarter were solely contributed by Coatings division. Decrease in turnover of Coatings division was mainly due to decrease in demand by existing customers.

The Group also recorded operating loss of RM1.449 million for the first quarter of 2011 as compared to an operating loss of RM0.338 million registered in the corresponding quarter in 2010. The Coatings division recorded a lower operating profit of RM0.847 million in the quarter under review as compared to an operating profit of RM1.498 million registered in the corresponding quarter. The Coatings division is facing the constraint to increase the existing selling price to its customers due to unfavourable economic conditions and high operating cost. The CleanTech division recorded operating loss of RM1.859 million for the quarter under review as compared to a loss of RM1.503 million recorded in the corresponding period. The loss of the group in the current quarter under review was mainly due to interest expense of RM2.218 million, unrealised foreign exchange losses of RM0.623 million and overhead cost. The Group is continuing its effort to maintain costs to remain competitive by undertaking stringent cost control measures.

Due to the reasons stated above, the Group incurred loss before taxation of RM3.682 million in the current quarter under review as compared to loss before taxation of RM2.966 million in the corresponding period in prior year while the Group's loss after taxation and minority interest is RM3.916 million as compared to loss after taxation and minority interest of RM3.334 million for the corresponding period. As a result, the Group has recorded a loss per share of 2.35 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 RM8.944 million as compared to RM9.591 million in the preceding quarter ended 31 October 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 RM3.682 million in the current quarter under review as compared to loss before taxation of RM16.328 million recorded in the preceding quarter. Higher loss in the previous quarter was due to the provision for doubtful debts of RM10.911 million and loss due to foreign exchange of RM2.684 million.

**3. Prospects**

Moving forward, the Group aims to achieve its financial close for the Project in Sri Lanka, with the commencement of construction of its plant in Colombo, and also the progressive commissioning of its waste tyre plant in Port Klang by end of year. This is expected to contribute positively to the CleanTech division and the Group.

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 product and market diversification and less dependent on the consumer electronic sectors, which is the main core business of the Coatings division. However, the Group expects further challenges in its Coating division as a result of higher material and operating costs from the Middle East and North Africa political crisis and the disruption of supply chain network due to the tsunami and nuclear disaster in Japan as most of our end customers for consumer electronic are based in Japan. This results in increased cost of operation and lower turnover.

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**

	<b>Current Quarter RM'000</b>	<b>Cumulative year to date RM'000</b>
Current	261	261
Under/(Over)provision in prior year	-	-
Deferred taxation	-	-
	<hr/>	<hr/>
	261	261
	<hr/>	<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 January 2011.

**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 January 2011 were as follows:

At cost	RM47,500
At carrying value/book value	<u>RM47,500</u>
At market value	<u>RM102,280</u>

**b. Unquoted securities**

Investment in unquoted instruments as at 31 January 2011 are as follows:

	RM
Subordinated bonds*	4,000,000
Provision for diminution in value	<u>(4,000,000)</u>
	<hr/>
	-
	<hr/>
Unquoted shares	9,990,000
Provision for diminution in value	<u>(2,175,826)</u>
	<u>7,814,174</u>
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Balance as at 31 January 2011	<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 full provision of RM4.0 million for diminution in value of investment has been made for the said unquoted subordinated bonds.

**8. Status of corporate proposals**

There are no other corporate proposals announced but not completed as at 25 March 2011.

**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 January 2011, 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 January 2011 are as follows: -

	<b>RM'000</b>
<b>Short term borrowings</b>	
Loans obligations	5,000
<b>Long term borrowings</b>	
Collateralised loan obligations	40,000
Less: unamortised loan processing fee	(148)
Loan obligations	130,622
Total	<u>175,474</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 25 March 2011, 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 25 March 2011, 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. On 28 February 2011, Durachem, was informed by its solicitors that the Defendants have been declared bankrupt.

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.

As the Defendants are bankrupt, the Company will proceed to submit the Proof of Debt to the Official Assignee. 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 January 2011 are as below:-

Type(s) of financial assistance	For the period from 01.11.2010 to 31.01.2011 RM'000	Balance as at 31.01.2011 RM'000
Non-interest bearing cash advances to non wholly-owned subsidiaries	617	6,226

**14. Loss per share**

	Quarter ended 31 January 2011	31 January 2010	Current year-to-date 31 January 2011	Preceding year corresponding period 31 January 2010
Loss after taxation and minority interest (RM'000)	(3,916)	(3,334)	(3,916)	(3,334)
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)	(2.35)	(2.00)	(2.35)	(2.00)
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*

## 15. Realised and Unrealised Profits

On 25 March 2010, Bursa Malaysia Securities Berhad (“Bursa Malaysia”) issued a directive to all listed issuers pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements. The directive requires all listed issuers to disclose the breakdown of the unappropriated profits or accumulated losses as at end of the reporting period, into realised and unrealised profits or losses.

On 20 December 2010, Bursa Malaysia further issued guidance on the disclosure and the format required.

The breakdown of retained profits/(losses) of Group as at the reporting date, into realised and unrealised profits/(losses), pursuant to the directive, is as follows:-

	<b>As at 31 January 2011 RM'000</b>	<b>As at 31 October 2010 RM'000</b>
Total retained (losses)/profits of the Group:-		
Realised	(2,639)	3,115
Unrealised	(630)	(2,468)
	<b>(3,269)</b>	<b>647</b>

The determination of realised and unrealised profits/(losses) is based on the Guidance of Special Matter No. 1, *Determination of Realised and Unrealised Profit or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants on 20 December 2010.

The disclosure of realised and unrealised profits/(losses) above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Malaysia and should not be applied for other purposes.