

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 30 April 2011 are as follows:-

	Manufacturing and Trading RM'000	CleanTech RM'000	Eliminations RM'000	Consolidated RM'000
REVENUES				
External sales	17,398	-	-	17,398
Inter-segment sales	-	-	-	-
Total revenue	<u>17,398</u>	<u>-</u>	<u>-</u>	<u>17,398</u>
RESULTS				
Segment results	1,079	(3,246)	-	(2,167)
Interest expenses				(4,537)
Interest revenue				27
Depreciation and amortisation				(1,656)
Taxation				(416)
Share of results of associated companies				-
Loss after taxation				<u>(8,749)</u>
Minority interest				<u>(160)</u>
Loss attributable to equity holders of the Company				<u>(8,909)</u>
OTHER INFORMATION				
Segment assets	56,321	197,245		253,566
Unallocated assets				1,312
Investment in associated company				7
Other investments				7,862
Goodwill on consolidation				33,083
Deferred tax assets				443
Tax assets				<u>5,102</u>
Consolidated total assets				<u>301,375</u>
Segment liabilities	14,420	34,728		49,148
Unallocated liabilities				169,474
Taxation				472
Deferred taxation				<u>618</u>
Consolidated total liabilities				<u>219,712</u>
Capital expenditure	487	1,728		2,215
Development expenditure	-	1,177		1,177

b) Secondary Reporting Format – Geographical Segments

The geographical segments for the operations of the Group for the financial period ended 30 April 2011 are as follows:-

	Revenue RM'000	Non-current Asset RM'000
Malaysia	13,392	209,965
Indonesia	2,914	2,316
Hong Kong & The People's Republic of China	190	-
South East Asia	902	-
South Asia	-	-
	<u>17,398</u>	<u>212,281</u>

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 30 April 2011 up to the date of this announcement which have not been reflected in the financial statement for the said period:-

On 6 June 2011, the Company announced that its subsidiary, Green Energy and Technology Sdn Bhd increased its shareholdings in Melaka Waste to Energy Sdn Bhd ('MWtE') from 70% to 94% by way of capitalizing amount owing from MWtE of RM4,000,000 into 4,000,000 ordinary shares of RM1.00 each.

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 22 June 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 15.1% to RM8.454 million as compared to RM9.961 million recorded in the second 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 Coating Division is still working on entering new markets.

The Group also recorded operating loss of RM2.319 million for the second quarter of 2011 as compared to an operating loss of RM0.094 million registered in the corresponding quarter in 2010. The Coatings division recorded a lower operating profit of RM0.342 million in the quarter under review as compared to an operating profit of RM1.810 million registered in the corresponding quarter. As a result of the recent natural disasters in Japan and unrest in the Middle East, the prices of raw materials have been increasing tremendously due to shortages of raw materials. The Coatings division is also facing the constraint to increase the existing selling price to its customers due to the competitiveness from other paint suppliers. The CleanTech division recorded operating loss of RM2.425 million for the quarter under review as compared to a loss of RM1.602 million recorded in the corresponding period. The loss of the group in the current quarter under review was mainly due to the interest expense of RM2.319 million, unrealised foreign exchange losses of RM1.058 million and higher 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 RM4.651 million in the current quarter under review as compared to loss before taxation of RM2.547 million in the corresponding period in prior year while the Group's loss after taxation and minority interest is RM4.993 million as compared to loss after taxation and minority interest of RM3.000 million for the corresponding period. As a result, the Group has recorded a loss per share of 2.99 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 RM8.454 million as compared to RM8.944 million in the preceding quarter ended 31 January 2011. 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 RM4.651 million in the current quarter under review as compared to loss before taxation of RM3.682 million recorded in the preceding quarter. Higher loss in the current quarter under review was mainly due to the higher raw material prices as a result of the recent natural disasters and loss due to foreign exchange of RM1.058 million.

3. Prospects

Moving forward, the Group is working towards the achievement of financial close for its waste to energy project in Sri Lanka, follow by the commencement of construction of its plant in Colombo, and also the progressive commissioning of its waste tyre pyrolysis plant in Port Klang by end of the 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 geographical diversification and less dependent on the consumer electronic sectors, which is the main core business of the Coatings division. However, the Group expects some supply disruptions of consumer electronic products from Japan due to the earthquake disaster on 11 March 2011.

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	155	416
Under/(Over)provision in prior year	-	-
Deferred taxation	-	-
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	155	416
	<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 30 April 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 30 April 2011 were as follows:

At cost	RM47,500
At carrying value/book value	RM47,500
At market value	RM101,745

b. Unquoted securities

Investment in unquoted instruments as at 30 April 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>
	<hr/>
	7,814,174
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Balance as at 30 April 2011	7,814,174

* 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 22 June 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 30 April 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 30 April 2011 are as follows: -

	RM'000
Short term borrowings	
Loans obligations	5,750
Long term borrowings	
Collateralised loan obligations	40,000
Less: unamortised loan processing fee	(148)
Loan obligations	129,622
Total	<u>175,224</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 22 June 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

As at 22 June 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.

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	397	6,6236

14. Loss per share

	Quarter ended		Current year-to-date	Preceding year corresponding period
	30 April 2011	30 April 2010	30 April 2011	30 April 2010
Loss after taxation and minority interest (RM'000)	(4,993)	(3,000)	(8,909)	(6,334)
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)	(2.99)	(1.80)	(5.34)	(3.80)
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:-

	As at 30 April 2011 RM'000	As at 31 October 2010 RM'000
Total retained (losses)/profits of the Group:-		
Realised	(7,253)	3,115
Unrealised	(1,009)	(2,468)
	(8,262)	647

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.