

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 cyclical nature 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 July 2011 are as follows:-

	Manufacturing and Trading RM'000	CleanTech RM'000	Eliminations RM'000	Consolidated RM'000
REVENUES				
External sales	27,249	-	-	27,249
Inter-segment sales	-	-	-	-
Total revenue	<u>27,249</u>	<u>-</u>	<u>-</u>	<u>27,249</u>
RESULTS				
Segment results	2,883	(4,652)	-	(1,769)
Interest expenses				(6,905)
Interest revenue				41
Depreciation and amortisation				(2,485)
Taxation				(720)
Share of results of associated companies				(1)
Loss after taxation				<u>(11,839)</u>
Minority interest				<u>(314)</u>
Loss attributable to equity holders of the Company				<u>(12,153)</u>
OTHER INFORMATION				
Segment assets	56,940	199,064		256,004
Unallocated assets				90
Investment in associated company				6
Other investments				7,862
Goodwill on consolidation				33,083
Deferred tax assets				443
Tax assets				<u>4,752</u>
Consolidated total assets				<u>302,240</u>
Segment liabilities	14,112	39,188		53,300
Unallocated liabilities				169,092
Taxation				720
Deferred taxation				<u>618</u>
Consolidated total liabilities				<u>223,730</u>
Capital expenditure	578	2,064		2,642
Development expenditure	-	2,491		2,491

b) Secondary Reporting Format – Geographical Segments

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

	Revenue RM'000	Non-current Asset RM'000
Malaysia	17,518	210,873
Indonesia	8,295	2,319
Hong Kong & The People's Republic of China	229	-
South East Asia	1,207	-
South Asia	-	-
	<u>27,249</u>	<u>213,192</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 31 May 2011 up to 28 September 2011 which have not been reflected in the financial statement for the said period:-

- (i) On 6 July 2011, the Company announced the acquisition of shares in Orizon Cleantech Sdn Bhd comprising of the entire issued and paid up capital of RM2.00, making it a wholly owned subsidiary of Octagon;
- (ii) On 2 August 2011, the Company announced the signing of the supplementary Master Agreement between Kuwait Finance House and Advanced Pyrotech Sdn Bhd which extends the tenure of the facility granted from December 2013 to March 2017 as per the Company's earlier announcement on 17 December 2010; and
- (iii) On 12 September 2011, the Company announced the receipt of Letter of Intent from Ceylon Electricity Board to purchase electricity generated from the waste to energy plant in Colombo, Sri Lanka.

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 28 September 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 4.84% to RM9.851 million as compared to RM10.352 million recorded in the third 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 RM0.406 million for the third quarter of 2011 as compared to an operating loss of RM2.099 million registered in the corresponding quarter in 2010. The Coatings division recorded a lower operating profit of RM1.180 million in the quarter under review as compared to an operating profit of RM1.943 million registered in the corresponding quarter. The prices of raw material have increased as a result of the recent natural disaster which leads to shortage of raw materials. The Coatings division is facing the constraint to increase the existing selling price to its customers due to competition from other paint suppliers. Meanwhile, the CleanTech division recorded operating loss of RM1.348 million for the quarter under review as compared to a loss of RM1.393 million recorded in the corresponding period. The loss of the Group in the current quarter under review was mainly due to interest expense of RM2.368 million, unrealised foreign exchange losses of RM0.151 million and higher overhead cost.

Due to the reasons stated above, the Group incurred loss before taxation of RM2.786 million in the current quarter under review as compared to loss before taxation of RM4.209 million in the corresponding period in prior year while the Group's loss after taxation and minority interest is RM3.244 million as compared to loss after taxation and minority interest of RM4.720 million for the corresponding period. As a result, the Group has recorded a loss per share of 1.95 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 RM9.851 million as compared to RM8.454 million in the preceding quarter ended 30 April 2011. The increase in turnover was due to increase 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 RM2.786 million in the current quarter under review as compared to loss before taxation of RM4.651 million recorded in the preceding quarter. Lower loss in the current quarter was due to the increased in turnover and unrealized loss due to foreign exchange of RM0.151 as compared to an unrealized loss due of RM1.058 million in the previous quarter.

3. Prospects

Moving forward, the Group has received the Letter of Intent from the Ceylon Electricity Board on 6 September 2011 for its Waste to Energy project in Colombo, Sri Lanka (Project) and is now working towards finalizing all Project Agreements and Engineering Procurement Construction and Commissioning (EPCC) contract to achieve Financial Close by 2nd quarter 2012. The Project which is undertaken by the Group under a Public-Private Partnership (PPP) with the Waste Management Authority Western Province, an agency under the Government of Sri Lanka, and the progressive commissioning of the Group's Waste Tyre plant in Port Klang are expected to contribute positively to the CleanTech division and the Group in the near future.

Meanwhile, the Group will continue to soften the effect of lower business turnover faced by the Coating's division due to lower demand for its Consumer Electronics sector, amidst economic uncertainty in the United States and Europe as well as political unrest in the Middle East.

The Board will continue to monitor the progress of both divisions vigilantly and implement various measures to address the Group's borrowings 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	304	720
Under/(Over)provision in prior year	-	-
Deferred taxation	-	-
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	304	720
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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 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 July 2011 were as follows:

At cost	RM47,500
At carrying value/book value	RM47,500
At market value	RM82.467

b. Unquoted securities

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

	RM
Subordinated bonds*	4,000,000
Provision for diminution in value	(4,000,000)
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	-
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Unquoted shares	9,990,000
Provision for diminution in value	(2,175,826)
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	7,814,174
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Balance as at 31 July 2011	7,814,174
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* 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 28 September 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 July 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 July 2011 are as follows: -

	RM'000
Short term borrowings	
Loans obligations	10,363
 Long term borrowings	
Collateralised loan obligations	40,000
Less: unamortised loan processing fee	(148)
Loan obligations	128,622
Total	<u>178,837</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 28 September 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 28 September 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 fact 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 July 2011 are as below:-

Type(s) of financial assistance	For the period from 01.05.2011 to 31.07.2011 RM'000	Balance as at 31.07.2011 RM'000
Non-interest bearing cash advances to non wholly-owned subsidiaries	162	3,242

13. Loss per share

	Quarter ended		Current year-to-date	Preceding year corresponding period
	31 July 2011	31 July 2010	31 July 2011	31 July 2010
Loss after taxation and minority interest (RM'000)	(3,244)	(4,720)	(12,153)	(11,054)
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)	(1.95)	(2.83)	(7.29)	(6.63)
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*

14. 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 31 July 2011 RM'000	As at 31 October 2010 RM'000
Total retained (losses)/profits of the Group:-		
Realised	(10,780)	3,115
Unrealised	(726)	(2,468)
	(11,506)	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.