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 except for the adoption of new FRSs, amendments and IC Interpretations that are mandatory for the Group for the financial year beginning 1 November 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 (Revised)

The revised FRS 101 introduces changes in the presentation and disclosures of financial statements. The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line labeled as total comprehensive income.

The Standard also introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognized income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group and the Company have opted for the single statement for statement of comprehensive income. In addition, a statement of financial position is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the classification of items in the financial statements. The revised Standard also requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objective, policies and processes for managing capital. The revised Standard was adopted retrospectively by the Group and the Company.

(ii) Amendments to FRSs: Improvement to FRSs (2009) – FRS 117: Leases

Prior to 1 November 2010, for all leases of land and buildings, if title is not expected to pass to the lessee by the end of the lease term, the lessee normally does not receive substantially all of the risks and rewards incidental to ownership. The amendments to FRS 117 require an entity with existing leases of land and buildings to reassess the classification of land as a finance or operating lease. The Group has reassessed and determined that the long term leasehold land of the Group is in substance a finance lease and has reclassified the leasehold land to property, plant and equipment. The Group has adopted the amendments to FRS 117 retrospectively.

(iii) FRS 3 Business Combinations (revised) and FRS 127 Consolidated and Separate Financial Statements (revised)

The revised FRS 3 introduces a number of significant changes to the accounting for business combinations with greater use of fair value. These changes include recognising all acquisition-related costs as expense, measuring any pre-existing interest at fair value and allowing measurement of non-controlling interest (previously known as minority interest) at either fair value or at its proportionate share of the acquiree's net identifiable assets. The revised FRS 127 requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The revised standard also requires all losses attributable to the non-controlling interests to be absorbed by minority shareholders instead of by the parent even if the losses exceed the non-controlling interests in the subsidiary's equity. The Group has applied the changes of revised FRS 3 and FRS 127 prospectively.

(iv) FRS 139 Financial Instruments: Recognition and Measurement.

FRS 139 establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. The Group and the Company has adopted FRS 139 prospectively on 1 January 2010 in accordance with the transitional provisions. The effects arising from the adoption of this Standard has been accounted for by adjusting the opening balance of retained earnings as at 1 January 2010. Comparatives are not restated.

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 cyclicality 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 2011 are as follows:-

	Manufacturing and Trading RM'000	CleanTech RM'000	Eliminations RM'000	Consolidated RM'000
REVENUES				
External sales	39,493	-	-	39,493
Inter-segment sales	-	-	-	-
Total revenue	39,493	-	-	39,493
RESULTS				
Segment results	6,071	(8,958)	-	(2,887)
Interest expenses				(9,535)
Interest revenue				41
Depreciation and amortisation				(3,364)
Taxation				(1,141)
Share of results of associated companies				(1)
Loss after taxation				(16,887)
Loss attributable to:				
equity holders of the Company				(16,761)
Non-controlling interest				(126)
				(16,887)
OTHER INFORMATION				
Segment assets	55,042	202,172		257,214
Unallocated assets				127
Investment in associated company				-
Other investments				7,888
Goodwill on consolidation				33,091
Deferred tax assets				382
Tax assets				5,505
Consolidated total assets				304,207
Segment liabilities	17,357	82,486		99,843
Unallocated liabilities				126,922
Taxation				4
Deferred taxation				571
Consolidated total liabilities				227,340
Capital expenditure	164	3,840		4,004
Development expenditure	-	6,069		6,069

b) Secondary Reporting Format – Geographical Segments

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

	Revenue RM'000	Non-current Asset RM'000
Malaysia	25,960	157,620
Indonesia	11,632	2,336
Hong Kong & The People's Republic of China	402	-
South East Asia	1,499	-
South Asia	-	58,364
	39,493	218,320

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 2011 up to 27 December 2011 which have not been reflected in the financial statement for the said period:-

(i) On 2 November 2011, Orizon Renewable Energy (Private) Limited ("ORE"), a subsidiary of Octagon, entered into a Public Private Partnership Agreement ("PPPA") with Waste Management Authority of the Western Province, Sri Lanka ("WMA") for WMA to provide a block of land at Karadiyana, Thumbowila, Kesbewa, Sri Lanka measuring about 18 acres to ORE on lease basis and to supply 1,000 metric tonnes per day of municipal solid waste required for ORE's waste to energy plant, which will generate up to 45 megawatts of electrical energy, from the destruction of waste, for supply to the national grid in Sri Lanka . In consideration of the aforesaid, ORE shall allocate and allot 5% of its ordinary shares to WMA, subject to the terms and conditions of the PPPA.

(ii) On 6 December 2011, Green Energy and Technology Sdn Bhd ("GreenTech"), a subsidiary of Octagon and KNM Renewable Energy Sdn Bhd ("KNMRE"), a subsidiary of KNM Group Berhad entered into a Share Subscription Agreement ("SSA") for GreenTech to issue 10 million 8% redeemable convertible preference shares of RM0.01 each ("RCPS") to KNMRE for a total cash consideration of RM10 million. On 13 December 2011, both parties fulfilled all conditions precedent set out in the SSA.

(iii) On 9 December 2011, Tadhamon Capital B.S.C(c) agreed to the request from Orizon Consolidated Limited, a subsidiary of Octagon, for the deferment of Financial Close from 31 December 2011 to 30 June 2012 due to delay arising from the change of site to Karadiyana.

11. Changes in the composition of the group

Save for the dilution of Octagon's interest in GreenTech from 100% to 93.25% due to issuance of ordinary shares of RM1.00 each in GreenTech to Global Energy Investment Limited as announced on 21 October 2011, there were no other changes in the composition of the Group for the current quarter under review. Green Energy & Technologies (UK) Limited is still in the process of striking off.

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 27 December 2011.

13. Capital commitments

Capital commitments of the subsidiaries contracted for but not provided for in the interim financial statements as at 31 October 2011 is approximately RM700 million.

14. Related party transactions

Significant related party transactions which were entered into by the Group for the 12 months ended 31 October 2011 are set out below.

	RM'000
Sales to the following companies which are deemed related to the Group by virtue of their directors and/or substantial shareholders being connected to a substantial shareholder of Premium Vector Sdn Bhd, who is also a Director of Octagon	
- PT Wang Sarimulti Utama	200
- PT Multi Pratama Interbuana Indonesia	14
- Exzone Plastics Manufacturers Sdn Bhd	43
- Luster Precision Engineering Sdn Bhd	4
Consultancy fee for waste to energy project in Sri Lanka paid to a company in which a Sri Lankan director has an interest	1,226

(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 increased by 27.66% to RM12.244 million as compared to RM9.591 million recorded in the fourth quarter of the last financial year. The Group's turnover for the period under review and corresponding quarter were solely contributed by Coatings division. The increase in turnover of Coatings division in current quarter under review was mainly due to increase in demand by existing customers.

The Group recorded an operating loss of RM2.036 million for the fourth quarter of 2011 as compared to an operating loss of RM14.067 million registered in the corresponding quarter in 2010. The Coatings division recorded an operating profit of RM1.598 million in the quarter under review as compared to RM0.015 million registered in the corresponding quarter. Higher operating profit of Coatings division was due to the higher turnover. On the other hand, the CleanTech division recorded operating loss of RM2.661 million for the quarter under review as compared to a loss of RM13.893 million recorded in the corresponding period. Higher operating loss of the Group for the fourth quarter of the last financial year was mainly due to 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 against the turnkey contractor. The operating loss of the Group in the current quarter under review was mainly due to project related cost.

Due to the reasons stated above, the Group incurred loss before taxation of RM4.627 million in the current quarter under review as compared to loss before taxation of RM16.375 million in the corresponding period in prior year while the Group's loss after taxation attributable to equity holders of the Company is RM4.608 million as compared to loss after taxation attributable to equity holders of the Company of RM17.069 million for the corresponding period. As a result, the Group has recorded a loss per share of 2.76 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 RM12.244 million as compared to RM9.851 million in the preceding quarter ended 31 July 2011. The increase in turnover was solely contributed by increase in demand by existing customers of Coatings division. There was no revenue generated by the CleanTech division in both quarters.

The Group recorded a loss before taxation of RM4.627 million in the current quarter under review as compared to loss before taxation of RM2.786 million recorded in the preceding quarter. The loss in the current quarter was higher as compare to preceding quarter due to certain project related cost now written off.

3. Prospects

Moving forward, the Group aims to achieve its financial close for its project in Sri Lanka and commence construction of its plant in Colombo by second half of 2012. The Group also is progressively commissioning its waste tyre plant in Port Klang by early next 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. The consumer electronics sector is very much dependent on the economic and financial recovery in Japan, Europe and the United States.

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	421	1,141
Under/(Over)provision in prior year	-	-
Deferred taxation	-	-
	421	1,141

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 2011.

7. Other investments

a. Quoted securities

Other investments consist of quoted 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 2011 were as follows:

At cost	RM47,500
At market value	RM73,450

b. Unquoted securities

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

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

* In January 2007, Octagon subscribed for RM4.0 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

Save for the completion of Share Subscription Agreement, there are no other corporate proposals announced but not completed as at.27 December 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 October 2011, the banking facilities granted to certain subsidiaries are also secured mainly by charge of the subsidiary's properties , 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.

Total Group borrowings as at 31 October 2011 are as follows: -

	RM'000
Short term borrowings	
Loans obligations	53,810
Long term borrowings	
Loan obligations	127,288
Total	181,098

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 27 December 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 27 December 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 October 2011 are as below:-

Type(s) of financial assistance	For the period from 01.08.2011 to 31.10.2011 RM'000	Balance as at 31.10.2011 RM'000
Non-interest bearing cash advances to non wholly-owned subsidiaries	1,753	4,995

13. Loss per share

	Quarter ended		Current year-to-date	Preceding year corresponding period
	31 October 2011	**31 October 2010**	**31 October 2011**	**31 October 2010**
Loss attributable to equity holders of the Company (RM'000)	(4,608)	(17,069)	(16,761)	(28,123)
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)	(2.76)	(10.23)	(10.05)	(16.86)
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/(accumulated losses) of Group as at the reporting date, into realised and unrealised profits/(losses), pursuant to the directive, is as follows:-

Total (accumulated losses)/retained profits of the Group:-	**As at 31 October 2011 RM'000**	**As at 31 October 2010 RM'000**
Realised	(15,272)	3,115
Unrealised	(927)	(2,468)
	(16,199)	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.