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.

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 2011.

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 January 2012 are as follows:-

	Manufacturing and Trading RM'000	CleanTech RM'000	Eliminations RM'000	Consolidated RM'000
REVENUES				
External sales	11,550	-	-	11,550
Inter-segment sales	-	-	-	-
Total revenue	11,550	-	-	11,550
RESULTS				
Segment results	1,130	(3,758)	-	(2,628)
Interest expenses				(2,454)
Interest revenue				1
Depreciation and amortisation				(795)
Taxation				(394)
Share of results of associated company				-
Loss after taxation				(6,270)
Loss attributable to:				
Owners of the parent				(5,133)
Non-controlling interest				(1,137)
				(6,270)
OTHER INFORMATION				
Segment assets	55,712	200,580	-	256,292
Unallocated assets				109
Investment in associated company				-
Other investments				7,888
Goodwill on consolidation				33,091
Deferred tax assets				382
Tax assets				5,506
Consolidated total assets				303,268
Segment liabilities	83,116	74,307	-	157,423
Unallocated liabilities				73,755
Taxation				398
Deferred taxation				756
Consolidated total liabilities				232,332
Other information				
Capital expenditure	17	1,531	-	1,548

b) Secondary Reporting Format – Geographical Segments

The geographical segments for the operations of the Group for the financial period ended 31 January 2012 are as follows:-

	Revenue RM'000	Non-current Asset* RM'000
Malaysia	8,742	185,975
Indonesia	2,614	2,294
Hong Kong & The People's Republic of China	29	-
South East Asia	165	-
South Asia	-	61,224
	11,550	249,493

* *excluding financial instruments and deferred tax assets.*

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 January 2012 up to 26 March 2012 which have not been reflected in the financial statement for the said period:-

(i) On 2 February 2012, the Company announced that Advanced Pyrotech Sdn Bhd ("APT"), a subsidiary of the Company has defaulted in its lease and profit payments aggregating to RM1,195,000 for the financing facility under Ijarah Masufah Fi Zimmah principle of up to RM79 million ("KFH Facility") from Kuwait Finance House (Malaysia) Berhad ("KFH") and had received legal letter from KFH's solicitors on 2 February 2012 rejecting APT's proposed installment payment of the said lease payment. APT is not a major subsidiary of Octagon. The default was mainly arising from prolonged delay in the implementation of the waste to fuel project of APT. The default has no immediate effect on the business and operations of the Group which are solely contributed by its Coatings division.

In March 2012, the Company announced updates on the default by APT of its installment payment. Crowe Horwath Advisory Sdn Bhd, its independent consultant, has submitted a proposed debt restructuring scheme to KFH in end February 2012. Discussions with KFH are now on-going with regards to the said scheme.

(ii) On 9 March 2012, Ceylon Electricity Board ("CEB") granted Orizon Renewable Energy (Private) Limited ("ORE"), a subsidiary of the Company an extension of the validity period of the Letter of Intent ("LOI") to purchase the electrical energy generated from ORE's proposed waste to energy Plant in Colombo, Sri Lanka for another 6 months from the date of the letter.

(iii) On 12 March 2012, the Company announced its intention to seek shareholders' approval for the proposed new shareholders' mandate for recurrent related party transactions of a revenue or trading nature at the forthcoming Annual General Meeting of the Company.

11. Changes in the composition of the group

There were no other changes in the composition of the Group for the current quarter under review. Green Energy & Technology (UK) Limited is still in the process of application for 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 26 March 2012.

13. Capital commitments

Capital commitments of the Group contracted for in the interim financial statements as at 31 January 2012 is approximately RM71 million.

14. Related party transactions

Significant related party transactions which were entered into by the Group for the 3 months ended 31 January 2012 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 major shareholders being connected to a Director of Octagon	
- PT Wang Sarimulti Utama	28
- PT Multi Pratama Interbuana Indonesia	15
- Exzone Plastics Manufacturers Sdn Bhd	14
- Luster Precision Engineering Sdn Bhd	1

(B) Additional Disclosures in Compliance with the Listing Requirements of Bursa Malaysia Securities Berhad

1. Review of performance

The Group contains 2 main business segments, which are Coatings division and CleanTech division. The Coatings division is contributing to the performance of the Group whereas the CleanTech division is still in various stages of project implementation and commencement of its commercial operations.

During the current quarter under review, the Group's turnover increased by 29.14% to RM11.550 million as compared to RM8.944 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. 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 RM3.403 million for the first quarter of 2012 as compared to an operating loss of RM1.449 million registered in the corresponding quarter in 2011. The Coatings division recorded an operating profit of RM1.168 million in the quarter under review as compared to RM0.847 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 RM4.269 million for the quarter under review as compared to a loss of RM1.859 million recorded in the corresponding period. Higher operating loss of the Group is mainly due to the unrealized foreign exchange loss of RM2.328 million as a result of the fluctuation of US dollar against Sri Lankan rupees for the Colombo project as well as higher project related cost for the CleanTech division.

Due to the reasons stated above, the Group incurred loss before taxation of RM5.876 million in the current quarter under review as compared to loss before taxation of RM3.682 million in the corresponding period in prior year while the Group's loss after taxation attributable to owners of the parent is RM5.133 million as compared to loss after taxation attributable to owners of the parent of RM3.916 million for the corresponding period. As a result, the Group has recorded a loss per share of 3.08 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 RM11.550 million as compared to RM12.244 million in the preceding quarter ended 31 October 2011. The decrease in turnover was contributed by a decrease 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 RM5.876 million in the current quarter under review as compared to loss before taxation of RM4.627 million recorded in the preceding quarter. The loss in the current quarter was higher as compare to preceding quarter due to higher unrealized foreign exchange loss suffered by the CleanTech division for its Colombo project as a result of the fluctuation in the foreign exchange.

3. Prospects

Having secured most of the approvals for the waste to energy project in Sri Lanka, 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 end of 2012. The Group is also progressively commissioning its waste to fuel plant in Port Klang by next quarter and positioning itself for sublicensing of its technology and sales of its reactors. These are 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 penetration into new market, for instance automotive coatings industry and high-end coatings for the electrical and electronics industry. The strategy to be less dependence on existing large market in consumer electronics sector is to mitigate the risk of over-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.

The Group will continue working with its adviser, to discuss and negotiate with its bankers, on the global restructuring scheme of the Group.

The crystallisation of the Group prospects is heavily dependent on the successful outcome of discussions with the bankers on the proposed debt restructuring scheme, implementation of the waste to energy and waste to fuel projects and the potential value attributable to the Group from these investments.

4. Variance of actual profit from forecast profit

Not applicable.

5. Taxation

	Current Quarter RM'000	Cumulative year to date RM'000
Current	394	394
Under/(Over)provision in prior year	-	-
Deferred taxation	-	-
	394	394

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 2012.

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 January 2012 were as follows:

At cost	RM47,500
At market value	RM85,145

b. Unquoted securities

Investment in unquoted instruments as at 31 January 2012 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 January 2012	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. The bonds have yet to be redeemed in January 2012.

8. Status of corporate proposals

Save for the proposed group restructuring plan which is underway, there are no other corporate proposals announced but not completed as at 26 March 2012.

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 2012, 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 certain directors of the subsidiary.

Total Group borrowings as at 31 January 2012 are as follows: -

	RM'000
Short term borrowings	
Loans obligations	116,768
Long term borrowings	
Loan obligations	72,974
Total	189,742

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 26 March 2012, 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 26 March 2012, 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 2012 are as below:-

Type(s) of financial assistance	**For the period from 01.11.2011 to 31.01.2012 RM'000**	**Balance as at 31.01.2012 RM'000**
Non-interest bearing cash advances to non wholly-owned subsidiaries	857	5,852

13. Loss per share

	Quarter ended		Current year-to-date	Preceding year corresponding period
	31 January 2012	**31 January 2011**	**31 January 2012**	**31 January 2011**
Loss attributable to equity holders of the Company (RM'000)	(5,133)	(3,916)	(5,133)	(3,916)
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)	(3.08)	(2.35)	(3.08)	(2.35)
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*

Loss before taxation is stated after charging/(crediting):-

Type(s) of financial assistance	**Current quarter RM'000**	**Financial period-to-date RM'000**
Interest income	(1)	(1)
Dividend income	(2)	(2)
Other income excluding interest and dividend income	(12)	(12)
Depreciation and amortisation	795	795
Provision for and write off of receivables	-	-
Provision for and write off of inventories	-	-
Gain or loss on disposal of quoted or unquoted investment	-	-
Impairment of assets	-	-
Foreign exchange loss – realised	50	50
Foreign exchange loss – unrealised	2,334	2,334
(Gain)/loss on derivatives	-	-
Exceptional items	-	-

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 January 2012 RM'000**	**As at 31 October 2011 RM'000**
Realised	(19,099)	(15,818)
Unrealised	(2,334)	(567)
	(21,433)	(16,385)

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.