

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 2011.

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 2011 except for the adoption of new FRSs, amendments and IC Interpretations that are mandatory for the Group for the financial year beginning 1 November 2011.

The adoption of the new 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 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 2012 are as follows:-

	Manufacturing and Trading RM'000	CleanTech RM'000	Eliminations RM'000	Consolidated RM'000
REVENUES				
External sales	22,681	-	-	22,681
Inter-segment sales	-	-	-	-
Total revenue	<u>22,681</u>	<u>-</u>	<u>-</u>	<u>22,681</u>
RESULTS				
Segment results	3,987	(3,243)	-	(744)
Interest expenses				(5,027)
Interest revenue				4
Depreciation and amortisation				(1,585)
Taxation				(827)
Share of results of associated company				-
Loss after taxation				<u>(8,179)</u>
Loss attributable to:				
Owners of the parent				(7,381)
Non-controlling interest				(798)
				<u>(8,179)</u>
OTHER INFORMATION				
Segment assets	55,854	193,183	-	249,037
Unallocated assets				110
Investment in associated company				-
Other investments				7,888
Goodwill on consolidation				33,090
Deferred tax assets				382
Tax assets				4,003
Consolidated total assets				<u>294,510</u>
Segment liabilities	141,542	82,956	-	224,498
Unallocated liabilities				9,607
Taxation				-
Deferred taxation				755
Consolidated total liabilities				<u>234,860</u>
Other information				
Capital expenditure	17	2,871	-	2,888

b) Secondary Reporting Format – Geographical Segments

The geographical segments for the operations of the Group for the financial period ended 30 April 2012 are as follows:-

	Revenue RM'000	Non-current Asset* RM'000
Malaysia	16,334	185,876
Indonesia	5,812	2,265
Hong Kong & The People's Republic of China	49	-
South East Asia	486	-
South Asia	-	54,693
	<u>22,681</u>	<u>242,834</u>

* *Other than 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 30 April 2012 up to 26 June 2012 which have not been reflected in the financial statement for the said period:-

- (i) On 2 May 2012, the Company announced that Orizon Consolidated Limited (“OCL”), a subsidiary of the Company, has entered into a New Murabaha Agreement with YEM Holding Company W.L.L (“YEM”), a shareholder of OCL, for YEM to provide a murabaha facility of USD1 million for a period of up to 9 months from the date of acceptance of YEM’s offer to purchase commodities pursuant to the New Murabaha Agreement (“Tenure”), with profit of internal rate of return (“IRR”) of 12% per annum.
- (ii) On 2 May and 1 June 2012, the Company made monthly announcement that discussions are still ongoing with Kuwait Finance House (Malaysia) Berhad pursuant to its announcement dated 3 February 2012.
- (iii) On 16 May 2012, the Company announced that it has applied for and the High Court of Malaya, Kuala Lumpur has, on 16 May 2012, granted the order pursuant to Section 176(1) and (10) of the Companies Act 1965. The period to convene the court convened creditors and shareholders meetings and the duration of the restraining order under section 176(10), is for a period of 90 days from 16 May 2012 to 13 August 2012 (“Restraining Order”).
- (iv) On 6 June 2012, the Company received application from Amanah Raya Capital Sdn Bhd (“ARC”), a lender of the Company in relation to ARC’s intervention to set aside the order dated 16 May 2012 under Section 176 (1) and (10) of the Companies Act 1965 granted to the Company.
- (v) On 8 June 2012, the Company announced that it is considered to have defaulted in the credit facility extended by ARC pursuant to Practice Note 1 of the Listing Requirements of Bursa Malaysia Securities Berhad. The aforesaid application to the Court by ARC implies that ARC has rejected the Company’s proposed restructuring scheme. The Company has also triggered one of the prescribed criteria pursuant to Paragraph 8.04 and Paragraph 2.1(f) of Practice Note 17 of the Listing Requirements of Bursa Malaysia Securities Berhad (“PN17”) and hence the Company is considered as a PN17 Company. On 11 June 2012, it was announced that the Company was admitted into PN17.

(vi) Subsequent to the announcement made by the Company on 2 April 2012 and 4 April 2012 in relation to serving of writ of summons by NV Bina Sdn Bhd, a sub-contractor of former contractor of Advanced Pyrotech Sdn Bhd (“APT”), a subsidiary of the Company, on APT, demanding amongst others the alleged sum of RM1,349,500. The solicitors of APT, on 26 June 2012, informed APT that the Court has granted summary judgement as follows:-

- a. amount of RM1,349,500.00 to be paid to NV Bina Sdn Bhd;
- b. cost in the cause of RM5,000.00 to be borne by APT; and
- c. cost of application of RM5,000.00 to be borne by APT.

APT has also instructed the solicitors to file appeal against the decision above

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 June 2012.

13. Capital commitments

Capital commitments of the Group contracted for in the interim financial statements as at 30 April 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 30 April 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	91
- PT Multi Pratama Interbuana Indonesia	8
- Exzone Plastics Manufacturers Sdn Bhd	34
- Luster Precision Engineering Sdn Bhd	2

(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 31.67% to RM11.131 million as compared to RM8.454 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. 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 profit of RM1.113 million for the second quarter of 2012 as compared to an operating loss of RM2.319 million registered in the corresponding quarter in 2011. The Coatings division recorded an operating profit of RM1.431 million in the quarter under review as compared to RM0.324 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 profit of RM0.008 million for the quarter under review as compared to a loss of RM3.325 million recorded in the corresponding period. The better operating performance of the Group is mainly due to reclassification of unrealised foreign exchange loss to translation reserve.

Although the Group achieved a better operating performance, due to the high interest expense of RM2.573 million, the Group incurred loss before taxation of RM1.476 million in the current quarter under review as compared to loss before taxation of RM4.651 million in the corresponding period in prior year while the Group's loss after taxation attributable to owners of the parent is RM2.248 million as compared to loss after taxation attributable to owners of the parent of RM4.993 million for the corresponding period. As a result, the Group has recorded a loss per share of 1.35 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 RM11.131 million as compared to RM11.550 million in the preceding quarter ended 31 January 2012. The slight 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 RM1.476 million in the current quarter under review as compared to loss before taxation of RM5.876 million recorded in the preceding quarter. The loss in the current quarter was lower as compare to preceding quarter due to unrealized foreign exchange loss was reclassified to translation reserve in the current quarter.

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 which will be delayed to beyond June 2012 and commence construction of its plant in Colombo by early of 2013. 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. These are expected to contribute positively to the CleanTech division and the Group.

Meanwhile, efforts are 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 markets, for instance automotive coatings and high-end coatings for the electrical and electronics sector. The strategy is to be less dependent on its existing market in consumer electronics sector which are dependent on the economic and financial recovery in Japan, Europe and the United States.

The Board will also work closely with the consultants to formulate and implement regularisation plan as per the timeline imposed by Bursa Malaysia Securities Berhad pursuant to PN17 of the Listing Requirements. 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 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	433	827
Under/(Over)provision in prior year	-	-
Deferred taxation	-	-
	<hr/>	<hr/>
	433	827
	<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 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 30 April 2012 were as follows:

At cost	RM47,500
At market value	RM85,145

b. Unquoted securities

Investment in unquoted instruments as at 30 April 2012 are as follows:

	RM
Subordinated bonds*	4,000,000
Provision for diminution in value	<u>(4,000,000)</u>
	<hr/> -
Unquoted shares	9,990,000
Provision for diminution in value	<u>(2,175,826)</u>
	<hr/> 7,814,174
Balance as at 30 April 2012	<hr/> 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 April 2012.

8. **Status of corporate proposals**

Save for the proposed group restructuring plan or regularisation plan which is still on-going, there are no other corporate proposals announced but not completed as at 26 June 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 30 April 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 30 April 2012 are as follows: -

	RM'000
Short term borrowings	
Loans obligations	181,857
Long term borrowings	
Loan obligations	9,607
Total	<u>191,464</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 26 June 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

Save as disclosed below, as at 26 June 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:-

The solicitors of APT informed APT on 2 April 2012 that NV Bina Sdn Bhd ("NVB"), a sub-contractor of APT's former contractor, namely K.K. Incinerator Eng. & Const. (Malaysia) Sdn Bhd, has served a writ of summon on APT, demanding the alleged sum of RM1,349,500, interest at the rate of 8% per annum, costs and any other further relief or remedy deems fit and proper as the High Court deems fit. On 26 June 2012, the solicitors informed APT that the Court has granted summary judgement as follows:-

- a. amount of RM1,349,500.00 to be paid to NVB;
- b. cost in the cause of RM5,000.00 to be borne by APT; and
- c. cost of application of RM5,000.00 to be borne by APT.

APT has also instructed the solicitors to file appeal against the decision above.

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 30 April 2012 are as below:-

Type(s) of financial assistance	For the period from 01.02.2012 to 30.04.2012 RM'000	Balance as at 30.04.2012 RM'000
Non-interest bearing cash advances to non wholly-owned subsidiaries	624	6,476

14. Loss per share

	Quarter ended		Current year-to-date	Preceding year corresponding period
	30 April 2012	30 April 2011	30 April 2012	30 April 2011
Loss attributable to equity holders of the Company (RM'000)	(2,248)	(4,993)	(7,381)	(8,909)
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)	(1.35)	(2.99)	(4.43)	(5.34)
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):-

	Current quarter RM'000	Financial period-to-date RM'000
Interest income	(3)	(4)
Dividend income	(3)	(5)
Other income excluding interest and dividend income	(12)	(24)
Interest expense	(2,573)	(5,027)
Depreciation and amortisation	790	1,585
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 (gain)/loss – realised	(165)	(115)
Foreign exchange (gain)/loss – unrealised	(1,477)	857
(Gain)/loss on derivatives	-	-
Exceptional items	-	-

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/(accumulated 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 2012	As at 31 October 2011
	RM'000	RM'000
Total (accumulated losses)/retained profits of the Group:-		
Realised	(22,909)	(15,818)
Unrealised	(857)	(567)
	<u>(23,766)</u>	<u>(16,385)</u>

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.