

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 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 2012 are as follows:-

	Manufacturing and Trading RM'000	CleanTech RM'000	Eliminations RM'000	Consolidated RM'000
REVENUES				
External sales	33,459	-	-	33,459
Inter-segment sales	-	-	-	-
Total revenue	<u>33,459</u>	<u>-</u>	<u>-</u>	<u>33,459</u>
RESULTS				
Segment results	3,275	(4,160)	-	(885)
Interest expenses				(7,603)
Interest revenue				5
Depreciation and amortisation				(2,376)
Taxation				(973)
Share of results of associated company				-
Loss after taxation				<u>(11,832)</u>
Loss attributable to:				
Owners of the parent				(10,958)
Non-controlling interest				(874)
				<u>(11,832)</u>
OTHER INFORMATION				
Segment assets	55,945	206,658	-	262,603
Unallocated assets				110
Investment in associated company				-
Other investments				7,888
Goodwill on consolidation				33,095
Deferred tax assets				382
Tax assets				4,031
Consolidated total assets				<u>308,109</u>
Segment liabilities	85,438	152,004	-	237,442
Unallocated liabilities				9,752
Taxation				-
Deferred taxation				756
Consolidated total liabilities				<u>247,950</u>
Other information				
Capital expenditure	128	13,345	-	13,473

b) Secondary Reporting Format – Geographical Segments

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

	Revenue RM'000	Non-current Asset* RM'000
Malaysia	22,982	201,216
Indonesia	9,580	2,341
Hong Kong & The People's Republic of China	166	-
South East Asia	731	-
South Asia	-	51,366
	<u>33,459</u>	<u>254,923</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 31 July 2012 up to 25 September 2012 which have not been reflected in the financial statement for the said period:-

- (i) On 2 August 2012, the Company announced that Green Energy and Technology Sdn Bhd ("GreenTech") has executed a conditional Share Sale Agreement with Rampai Teknologi Sdn Bhd for GreenTech to dispose its entire shareholding in Platinum Nanochem Sdn Bhd (formerly known as Platinum Energy Sdn Bhd) ("PNSB") of 9,990,000 ordinary shares of RM1.00 each representing 16.7% of equity interest in PNSB for a cash consideration of RM4,995,000, instead of transferring PNSB to Octagon as previously announced.
- (ii) On 3 September 2012, the Company announced that Octagon has submitted a Proposed Debt Restructuring Scheme ("PDRS") to the Corporate Debt Restructuring Committee ("CDRC") and CDRC has agreed to mediate between Octagon and its financial creditors. The Company will make the necessary announcement once the PDRS has been finalized. On 12 September 2012, CDRC convened the First Lenders' Meeting and the respective lenders shall present the PDRS to their Committee/Board of Directors for decision.
- (iii) Subsequent to the announcement made by the Company on 2 April 2012 and 4 April 2012 in relation to serving of writ of summon by NV Bina Sdn Bhd ("NVB"), a sub-contractor of the former contractor of Advanced Pyrotech Sdn Bhd ("APT"), a subsidiary of the Company, on APT as well as the announcement on 26 June 2012 in relation to the summary judgment by the Court, APT and NVB have come to an amicable settlement of the said suit on 10 August 2012.

11. Changes in the composition of the group

Green Energy & Technology (UK) Limited was dissolved on 3 July 2012. Save as disclosed, there were no other 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 25 September 2012.

13. Capital commitments

Capital commitments of the Group contracted for in the interim financial statements as at 31 July 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 July 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	147
- PT Multi Pratama Interbuana Indonesia	16
- Exzone Plastics Manufacturers Sdn Bhd	44
- 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 commercial operations.

During the current quarter under review, the Group's turnover increased by 9.41% to RM10.778 million as compared to RM9.851 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. 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 RM0.917 million for the third quarter of 2012 as compared to an operating loss of RM0.406 million registered in the corresponding quarter in 2011. The Coatings division recorded an operating profit of RM0.859 million in the quarter under review as compared to RM1.180 million registered in the corresponding quarter. Lower operating profit of Coatings division was due to the higher cost of production and selling expenses. On the other hand, the CleanTech division recorded operating loss of RM1.421 million for the quarter under review as compared to a loss of RM1.348 million recorded in the corresponding period.

The Group incurred loss before taxation of RM3.507 million in the current quarter under review as compared to loss before taxation of RM2.786 million in the corresponding period in prior year while the Group's loss after taxation attributable to owners of the parent is RM3.654 million as compared to loss after taxation attributable to owners of the parent of RM3.244 million for the corresponding period. As a result, the Group has recorded a loss per share of 2.15 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 RM10.778 million as compared to RM11.131 million in the preceding quarter ended 30 April 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 RM3.507 million in the current quarter under review as compared to loss before taxation of RM1.476 million recorded in the preceding quarter. The loss in the current quarter was higher as compare to preceding quarter due to higher cost of production and the unrealized gain of RM0.206 million is lower as compared to the unrealized gain of RM1.494 million in the preceding 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 towards third quarter 2013 and commence construction of its plant in Colombo thereafter. 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.

Efforts are being carried out continuously by the Group to remedy the effect of declining business and profit margin for the Coatings division which is 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 Group is looking into diversification and penetration into new potential markets in other industrial sectors such as automotive industry and high-end coatings for the electrical and electronics sector.

The Board will continue to monitor the progress of both divisions vigilantly and implement various measures to turnaround the Group's profitability. 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 Group prospects is heavily dependent on the successful outcome of discussions with the lenders on the proposed debt restructuring scheme and successful implementation of the waste to energy and waste to fuel projects.

4. *Variance of actual profit from forecast profit*

Not applicable.

5. **Taxation**

	Current Quarter RM'000	Cumulative year to date RM'000
Current	147	973
Under/(Over)provision in prior year	-	-
Deferred taxation	-	-
	<hr/> 147	<hr/> 973
	<hr/> <hr/>	<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 31 July 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 July 2012 were as follows:

At cost	RM47,500
At market value	RM85,145

b. **Unquoted securities**

Investment in unquoted instruments as at 31 July 2012 are as follows:

	RM
Subordinated bonds*	4,000,000
Provision for diminution in value	(4,000,000)
	<hr/> -
	<hr/> <hr/>
Unquoted shares	9,990,000
Provision for diminution in value	(2,175,826)
	<hr/> 7,814,174
	<hr/> <hr/>
Balance as at 31 July 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 July 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 25 September 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 July 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 July 2012 are made up of the following: -

	RM'000	USD'000
Short term borrowings		
Loans obligations	179,770	1,750
Long term borrowings		
Loan obligations	9,752	-
Total	<u>189,522</u>	<u>1,750</u>

10. Off balance sheet financial instruments

The Group does not have any financial instruments with off balance sheet risk as at 25 September 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 in Section A note 10 (iii) above, neither the Company nor any of its subsidiaries as at 25 September 2012 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 July 2012 are as below:-

Type(s) of financial assistance	For the period from 01.05.2012 to 31.07.2012 RM'000	Balance as at 31.07.2012 RM'000
Non-interest bearing cash advances to non wholly-owned subsidiaries	150	11,987

14. Loss per share

	Quarter ended		Current	Preceding year
	31 July 2012	31 July 2011	year-to-date 31 July 2012	corresponding period 31 July 2011
Loss attributable to equity holders of the Company (RM'000)	(3,578)	(3,244)	(10,958)	(12,153)
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)	(2.15)	(1.94)	(6.57)	(7.29)
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	Financial period-to-date
	RM'000	RM'000
Interest income	(1)	(4)
Dividend income	(1)	(5)
Other income excluding interest and dividend income	(41)	(65)
Interest expense	2,576	7,603
Depreciation and amortisation	790	2,376
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	178	63
Foreign exchange (gain)/loss – unrealised	(206)	651
(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 31 July	As at 31 October
	2012	2011
	RM'000	RM'000
Total (accumulated losses)/retained profits of the Group:-		
Realised	(26,644)	(15,818)
Unrealised	(651)	(567)
	<u>(27,295)</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.