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 2012.

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 2012 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 a disclaimer opinion by the auditors on the audited financial statements of the Octagon Group for the financial year ended 31 October 2012.

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, save as disclosed in Note 7 (b).

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 2013 are as follows:-

	Manufacturing and Trading RM'000	CleanTech RM'000	Elimination RM'000	Consolidated RM'000
REVENUES				
External sales	8,886	-	-	8,886
Inter-segment sales	-	-	-	-
Total revenue	8,886	-	-	8,886
RESULTS				
Segment results	639	(944)	-	(305)
Interest expenses				(12,418)
Interest revenue				6
Depreciation and amortisation				(666)
Taxation				(135)
Loss after taxation				(13,518)
Loss attributable to:				
Owners of the parent				(7,522)
Non-controlling interest				(5,996)
				(13,518)
OTHER INFORMATION				
Segment assets	60,733	186,840	-	247,573
Unallocated assets				153
Investment in associated company				-
Other investments				81
Goodwill on consolidation				-
Deferred tax assets				284
Tax assets				4,864
Consolidated total assets				252,955
Segment liabilities	93,207	159,813	-	253,020
Unallocated liabilities				10,419
Taxation				-
Deferred taxation				788
Consolidated total liabilities				264,227
Other information				
Capital expenditure	589	495	-	1,084

b) Secondary Reporting Format – Geographical Segments

The geographical segments for the operations of the Group for the financial period ended 31 January 2013 are as follows:-

	Revenue RM'000	Non-current Asset* RM'000
Malaysia	5,302	151,942
Indonesia	3,136	2,211
Hong Kong & The People's Republic of China	155	-
South East Asia	293	-
South Asia	-	50,627
	8,886	204,780

* *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 January 2013 up to 27 March 2013 which have not been reflected in the financial statement for the said period:-

(i) On 2 January 2012, 4 February 2013 and 1 March 2013, the Company made monthly announcements in relation to progress the Proposed Rationalisation Scheme ("PRS").

(ii) On 8 January 2013, YEM has agreed to the request from OCL, for the extension of the maturity date of the Murabaha facility which expires on 7 January 2013, on a monthly basis based on similar terms and conditions, and on the progress of the Sri Lanka WTE project.

(iii) On 9 January 2013, the Company announced that the financial lenders have approved the Company's Proposed Rationalisation Scheme ("PRS"), as informed by CDRC vide its letter dated 9 January 2013.

(iv) On 15 February 2013, YEM has agreed to the request from OCL, for the extension of the maturity date of the New Murabaha facility which expires on 27 January 2013, a monthly basis based on similar terms and conditions, and on the progress of the Sri Lanka WTE project.

(v) Further to the announcement on 9 January 2013, Octagon and APT, have entered into a Debt Settlement Agreement ("DSA") with the financial institution lenders, namely Amanah Raya Capital Sdn Bhd ("ARC"), Kuwait Finance House (Malaysia) Berhad ("KFH"), and Malaysian Trustees Berhad, representing the creditors under the collateralized loan obligation ("CLO Creditor") on 18 March 2013. The DSA is to formalise the terms and conditions of the settlement of the debts owing by Octagon and APT to the financial lenders ("Proposed Debt Settlement Scheme"). The execution of the DSA would resolve the debts owing by Octagon and APT to these financial lenders and reduced the Group's debt by RM182.57 million, which would include a waiver of principal debt and associated interests therefrom amounting to approximately RM109.84 million, which would substantially improve the balance sheet position of the Group. There will be an additional waiver of interest for the year 2012 amounting to approximately RM12.69 million arising from the implementation of the DSA.

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.

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 March 2013.

13. Capital commitments

Capital commitments of the Group contracted for in the interim financial statements as at 31 January 2013 is approximately RM68million.

14. Related party transactions

Significant related party transactions which were entered into by the Group for the 3 months ended 31 January 2013 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	51
- PT Multi Pratama Interbuana Indonesia	13
- Exzone Plastics Manufacturers Sdn Bhd	13
- Luster Precision Engineering Sdn Bhd	4

(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 decreased by 23.06% to RM8.886 million as compared to RM11.550 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 decrease in turnover of Coatings division in current quarter under review was mainly due to decrease in demand by existing customers.

The Group recorded an operating loss of RM0.955 million for the first quarter of 2013 as compared to an operating loss of RM3.403 million registered in the corresponding quarter in 2012. The Coatings division recorded an operating profit of RM0.220 million in the quarter under review as compared to RM1.168 million registered in the corresponding quarter. Lower operating profit of Coatings division was due to the lower turnover and higher cost of production. On the other hand, the CleanTech division recorded operating loss of RM0.942 million for the quarter under review as compared to a loss of RM4.269 million recorded in the corresponding period.

The Group incurred loss before taxation of RM13.383 million in the current quarter under review as compared to loss before taxation of RM5.876 million in the corresponding period in prior year while the Group's loss after taxation attributable to owners of the parent is RM7.522 million as compared to loss after taxation attributable to owners of the parent of RM5.133 million for the corresponding period. The higher loss is mainly due to the provision of the profit element for Murabaha facility which matured in January 2013. As a result, the Group has recorded a loss per share of 4.51 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 RM8.886 million as compared to RM9.879 million in the preceding quarter ended 31 October 2012. 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 RM13.383 million in the current quarter under review as compared to loss before taxation of RM55.612 million recorded in the preceding quarter. The loss in the current quarter was lower as compared to preceding quarter was mainly due to full impairment of goodwill on consolidation as well as certain project related cost now written off due to prolonged delays in the waste to energy projects of the Group in the preceding quarter.

3. Prospects

The Group will continue to soften the effect of lower business turnover and profit margin faced by the Coatings division due to the lower demand for its main market, the consumer electronics sector, which is dependent on the economic and financial recovery in Japan, Europe and the United States.

The Board will continue to monitor the progress of the Coatings and Clean Tech divisions vigilantly and implement various measures to turnaround the Group’s profitability under the proposed rationalization scheme (“PRS”), which comprise of the Proposed Debt Settlement Scheme and Proposed Corporate Restructuring Scheme (“PCRS”). The Company has successfully obtained the approval of the financial lenders on the Proposed Debt Settlement Scheme, thus has executed the debt settlement agreement to formalize the agreed terms, as disclosed in Note 10 (iii) and (v).

Pursuant to the PRS, the Board has taken measures to write down certain assets of the Group to reflect its realizable value and make full impairment of its goodwill on consolidation in the books.

The Board will also work closely with the consultants to formulate and implement the PRS as stated above as per the timeline imposed by Bursa Malaysia Securities Berhad pursuant to PN17 of the Listing Requirements.

Therefore, the crystallization of the Group’s PRS exercise is heavily dependent on the successful outcome of the implementation of the waste to energy and waste to fuel projects and the potential value attributable to the Group from these investments and successful implementation of the PCRS.

The Board will make the required announcement as and when the above is finalized.

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4. Variance of actual profit from forecast profit

Not applicable.

5. ***Taxation***

	Current Quarter RM'000	Cumulative year to date RM'000
Current	135	135
Under/(Over)provision in prior year	-	-
Deferred taxation	-	-
	135	135

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 2013

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 2013 were as follows:

At cost	RM47,500
At market value	RM74,435

b. Unquoted securities

Investment in unquoted instruments as at 31 January 20123are 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
Disposal of unquoted shares	(7,814,174)
Balance as at 31 January 2013	-

* 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 as these bonds is unlikely to have any realisable value.

8. Status of corporate proposals

Save for the proposed group restructuring plan or regularisation plan which is still on-going as disclosed in Note 10 (iii) and (v), there are no other corporate proposals announced but not completed as at 27 March 2013.

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 2013, 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 2013 are as follows: -

	RM'000
Short term borrowings	
Loans obligations	187,305
Long term borrowings	
Loan obligations	10,419
Total	197,724

All of the Group borrowings are denominated in Ringgit Malaysia and US Dollars.

10. Off balance sheet financial instruments

The Group does not have any financial instruments with off balance sheet risk as at 27 March 2013, 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 March 2013, 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 2013 are as below:-

Type(s) of financial assistance	**For the period from 01.11.2012 to 31.01.2013 RM'000**	**Balance as at 31.01.2013 RM'000**
Non-interest bearing cash advances to non wholly-owned subsidiaries	361	7,812

14. *Loss per share*

	Quarter ended		**Current year-to-date**	**Preceding year corresponding period**
	31 January 2013	**31 January 2012**	**31 January 2013**	**31 January 2012**
Loss attributable to equity holders of the Company (RM'000)	(7,522)	(5,133)	(7,522)	(5,133)
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)	(4.51)	(3.08)	(4.51)	(3.08)
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	(6)	(6)
Dividend income	-	-
Other income excluding interest and dividend income	(156)	(156)
Interest expense	12,418	12,418
Depreciation and amortisation	666	666
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 goodwill on consolidation	-	-
Foreign exchange (gain)/loss – realised	(140)	(140)
Foreign exchange (gain)/loss – unrealised	(390)	(390)
(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:-

Total (accumulated losses)/retained profits of the Group:-	As at 31 January 2013 RM'000	As at 31 October 2012 RM'000
Realised	(85,631)	(78,164)
Unrealised	390	445
	(85,241)	(77,719)

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.