

# 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 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, 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 30 April 2013 are as follows:-

	<b>Manufacturing and Trading RM'000</b>	<b>CleanTech RM'000</b>	<b>Elimination RM'000</b>	<b>Consolidated RM'000</b>
<b>REVENUES</b>				
External sales	17,860	-	-	17,860
Inter-segment sales	-	-	-	-
Total revenue	<u>17,860</u>	<u>-</u>	<u>-</u>	<u>17,860</u>
<b>RESULTS</b>				
Segment results	1,644	(674)	-	970
Interest expenses				(14,498)
Interest revenue				12
Depreciation and amortisation				(1,329)
Taxation				(258)
Loss after taxation				<u>(15,103)</u>
Loss attributable to:				
Owners of the parent				(9,089)
Non-controlling interest				<u>(6,014)</u>
				<u>(15,103)</u>
<b>OTHER INFORMATION</b>				
Segment assets	49,824	186,155	-	235,979
Unallocated assets				153
Investment in associated company				-
Other investments				81
Goodwill on consolidation				-
Deferred tax assets				284
Tax assets				5,864
Consolidated total assets				<u>242,361</u>
Segment liabilities	83,624	162,047	-	245,671
Unallocated liabilities				9,976
Taxation				291
Deferred taxation				788
Consolidated total liabilities				<u>256,726</u>
Other information				
Capital expenditure	673	432	-	1,105

b) Secondary Reporting Format – Geographical Segments

The geographical segments for the operations of the Group for the financial period ended 30 April 2013 are as follows:-

	<b>Revenue RM'000</b>	<b>Non-current Asset* RM'000</b>
Malaysia	10,457	151,538
Indonesia	6,472	2,187
Hong Kong & The People's Republic of China	310	-
South East Asia	621	-
South Asia	-	50,153
	<u>17,860</u>	<u>203,878</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 2013 up to 27 June 2013 which have not been reflected in the financial statement for the said period:-

- (i) On 2 May 2013 and 3 June 2013, the Company made monthly announcements in relation to progress of the Proposed Rationalisation Scheme ("PRS").
- (ii) On 14 May 2013, the Company has entered the agreement with OGPC Holdings Sdn. Bhd. and the shareholders of OGPC Sdn. Bhd. and OGPC O & G Sdn. Bhd. The agreement is executed to facilitate Octagon's group restructuring exercise, which is part of the proposed rationalisation scheme ("PRS") to uplift Octagon from being an affected listed issuer under PN17 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad with the inclusion of these profitable new businesses.
- (iii) On 27 May 2013, Affin Investment Bank Berhad, our Main Adviser for the regularisation plan, has submitted the application of extension of time to submit the Company's regularisation plan pursuant to PN17 rules.

On 18 June 2013, Bursa Malaysia Securities Berhad has vide its letter dated 18 June 2013 ("Letter"), granted the Company an extension of time of 4 months up to 18 October 2013 to submit a regularisation plan to the regulatory authorities, subject to the Requisite Announcement being made within 2 months from the date of the said Letter.

- (iv) On 18 June 2013, the Company and Ecobound Sdn Bhd ("ECB") have entered into a Share Sale Agreement for Octagon to dispose its entire shareholding in APT comprising 33,000,000 ordinary shares of RM1.00 each in APT to ECB for a cash consideration of RM30million and the issuance of 5,000,000 Redeemable Convertible Cumulative Preference Shares at an issue price of RM5million each by APT to Kuwait Finance House (Malaysia) Berhad ("ARC") and Amanah Raya Capital Sdn Bhd ("ARC") respectively. This proposed disposal of APT is executed in accordance with the proposed terms of settlement of the Debt Settlement Agreement ("DSA"), which is part of the proposed regularization plan to uplift Octagon from being an affected listed issuer under PN17. The Company has made further clarification on 21 and 26 June 2013 respectively in reply to queries from Bursa Malaysia.

**11. Changes in the composition of the group**

Apart from Durachem International (Hong Kong) Co Ltd which has been deregistered on 5 April 2013,,there are 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 June 2013.

**13. Capital commitments**

Capital commitments of the Group contracted for in the interim financial statements as at 30 April 2013 is approximately RM68million.

**14. Related party transactions**

Significant related party transactions which were entered into by the Group for the 3 months ended 30 April 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	90
- PT Multi Pratama Interbuana Indonesia	5
- Exzone Plastics Manufacturers Sdn Bhd	12
- Luster Precision Engineering Sdn Bhd	3

**(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 for its commercial operations.

During the current quarter under review, the Group's turnover decreased by 19.38% to RM8.974 million as compared to RM11.131 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 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 profit of RM0.637 million for the second quarter of 2013 as compared to an operating profit of RM1.113 million registered in the corresponding quarter in 2012. The Coatings division recorded an operating profit of RM0.606 million in the quarter under review as compared to RM1.465 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 profit of RM0.268 million for the quarter under review as compared to a profit of RM0.008 million recorded in the corresponding period, resulted from the impact of favourable foreign exchange fluctuations during the period under review.

The Group incurred loss before taxation of RM1.462 million in the current quarter under review as compared to loss before taxation of RM1.476 million in the corresponding period in 2012 while the Group's loss after taxation attributable to owners of the parent is RM1.567 million as compared to loss after taxation attributable to owners of the parent of RM2.248 million for the corresponding period. As a result, the Group has recorded a loss per share of 0.94 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 RM8.974 million as compared to RM8.886 million in the preceding quarter ended 31 January 2013. There was no revenue generated by the CleanTech division in both quarters.

The Group recorded a loss before taxation of RM1.462 million in the current quarter under review as compared to loss before taxation of RM13.383 million recorded in the preceding quarter. The loss in the current quarter was lower as compared to preceding quarter was mainly due to provision made on the profit element amounting to RM11.935 million for the Murabaha facility (which matured on 7 January 2013) 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 its current monitoring of progress of the Coatings and Clean Tech divisions and to implement various measures to turnaround the Group's profitability under the PRS, which comprise of the Proposed Debt Settlement Scheme and Proposed Corporate Restructuring Scheme ("PCRS").

Save as disclosed in Section (A) Note 10 (ii), the Company has executed the agreement with OGPC Holdings Sdn Bhd and the shareholders of OGPC Sdn. Bhd. and OGPC O & G Sdn. Bhd to facilitate the implementation of the PCRS which would uplift itself from its PN17 status. The Company has executed the share sale agreement with ECB on the proposed disposal of APT, as disclosed in Section (A) Note 10 (iv) as part of the steps to settle the D-S-A signed with its financial lenders to facilitate the group debt settlement exercise.

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 vide its letter dated 18 June 2013, as disclosed in Section (A) Note 10 (iii).

Therefore, the crystallization of the Group's PRS exercise is heavily dependent on the successful implementation of the PCRS.

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

**4. *Variance of actual profit from forecast profit***

Not applicable.

5. **Taxation**

	<b>Current Quarter RM'000</b>	<b>Cumulative year to date RM'000</b>
Current	123	258
Under/(Over)provision in prior year	-	-
Deferred taxation	-	-
	<hr/> 123	<hr/> 258
	<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 30 April 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 30 April 2013 is as follows:

At cost	RM47,500
At market value	RM68,008

**b. Unquoted securities**

Investment in unquoted instruments as at 30 April 2013 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
Disposal of unquoted shares	<u>(7,814,174)</u>
	<hr/> -
Balance as at 30 April 2013	<hr/> <hr/>

\* 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 on-going proposed group restructuring plan or regularisation plan which includes the execution of agreement with OGPC Holdings Sdn Bhd and the shareholders of OGPC Sdn. Bhd. and OGPC O & G Sdn. Bhd. as disclosed in Section (A) Note 10 (ii), the execution of share sale agreement with ECB of proposed disposal of APT as disclosed in Section (A) Note 10 (iv) and the DSA as per Note 9 below, there are no other corporate proposals announced but not completed as at 27 June 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 30 April 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 30 April 2013 are as follows: -

	<b>RM'000</b>
<b>Short term borrowings</b>	
Loans obligations	184,615
<b>Long term borrowings</b>	
Loan obligations	10,575
Total	<u>195,190</u>

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

On 18 March 2013, the Company and APT have entered into a DSA with the financial institution lenders, namely ARC, KFH, and Malaysian Trustees Berhad, representing the creditors under the collateralized loan obligation ("CLO Creditor"). The DSA is to formalise the terms and conditions of the settlement of the debts owing by Octagon and APT to the financial lenders as announced on 19 March 2013.

**10. Off balance sheet financial instruments**

The Group does not have any financial instruments with off balance sheet risk as at 27 June 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 June 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 30 April 2013 are as below:-

<b>Type(s) of financial assistance</b>	<b>For the period from 01.02.2013 to 30.04.2013 RM'000</b>	<b>Balance as at 30.04.2013 RM'000</b>
Non-interest bearing cash advances to non wholly-owned subsidiaries	264	8,076

**14. Loss per share**

	<b>Quarter ended</b>		<b>Current year-to-date</b>	<b>Preceding year corresponding period</b>
	<b>30 April 2013</b>	<b>30 April 2012</b>	<b>30 April 2013</b>	<b>30 April 2012</b>
Loss attributable to equity holders of the Company (RM'000)	(1,567)	(2,248)	(9,089)	(7,381)
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)	(0.94)	(1.35)	(5.45)	(4.43)
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):-

	<b>Current quarter</b>	<b>Financial period-to-date</b>
	<b>RM'000</b>	<b>RM'000</b>
Interest income	(7)	(13)
Dividend income	(1)	(1)
Other income excluding interest and dividend income	(21)	(177)
Interest expense	2,080	14,498
Depreciation and amortisation	663	1,329
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	22	(113)
Foreign exchange (gain)/loss – unrealised	(1,167)	(1,557)
(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:-

	<b>As at 30 April</b>	<b>As at 31 October</b>
	<b>2013</b>	<b>2012</b>
	<b>RM'000</b>	<b>RM'000</b>
Total (accumulated losses)/retained profits of the Group:-		
Realised	(88,365)	(78,164)
Unrealised	1,557	445
	<u>(86,808)</u>	<u>(77,719)</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.