

# 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.

### 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 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	28,866	-	-	28,866
Inter-segment sales	-	-	-	-
Total revenue	<u>28,866</u>	<u>-</u>	<u>-</u>	<u>28,866</u>
<b>RESULTS</b>				
Segment results	689	(511)	-	178
Interest expenses				(17,060)
Interest revenue				15
Depreciation and amortisation				(1,995)
Taxation				(413)
Loss after taxation				<u>(19,275)</u>
Loss attributable to:				
Owners of the parent				(10,998)
Non-controlling interest				(8,277)
				<u>(19,275)</u>
<b>OTHER INFORMATION</b>				
Segment assets	48,611	188,521	-	237,132
Unallocated assets				1,653
Investment in associated company				-
Other investments				81
Goodwill on consolidation				-
Deferred tax assets				284
Tax assets				6,227
Consolidated total assets				<u>245,377</u>
Segment liabilities	134,570	116,337	-	250,907
Unallocated liabilities				10,781
Taxation				419
Deferred taxation				788
Consolidated total liabilities				<u>262,895</u>
Other information				
Capital expenditure	673	714	-	1,387

b) Secondary Reporting Format – Geographical Segments

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

	<b>Revenue RM'000</b>	<b>Non-current Asset* RM'000</b>
Malaysia	15,702	143,880
Indonesia	11,818	2,176
Hong Kong & The People's Republic of China	389	-
South East Asia	957	-
South Asia	-	59,934
	<u>28,866</u>	<u>205,990</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 2013 up to 27 September 2013 which have not been reflected in the financial statement for the said period:-

- (i) On 1 July 2013, 1 August 2013 and 2 September 2013, the Company made monthly announcements in relation to progress of the Proposed Rationalisation Scheme ("PRS")/regularization plan.
- (ii) On 2 July 2013, the Company has made further clarification in reply to queries from Bursa Malaysia Securities Berhad ("Bursa Malaysia") in relation to the execution of the Share Sale Agreement between the Company and Ecobound Sdn Bhd ("ECB"), 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.
- (iii) On 12 August 2013, the Company and Affin Investment Bank Berhad ("AIBB") has mutually agreed to terminate the appointment of AIBB as the Main Adviser for the PRS/regularisation plan. The Company has appointed M&A Securities Sdn Bhd ("M&A Securities") as the Main Adviser for our PRS/regularisation plan on even date.
- (iv) On 14 August 2013, M&A Securities has submitted an application to Bursa Malaysia for an extension of time up to 18 October 2013 to make the Requisite Announcement and up to 18 December 2013 to submit the Company's regularisation plan to the regulatory authorities ("Application").
- (v) On 19 August 2013, Bursa Malaysia has, vide its letter dated 19 August 2013, informed that Bursa Malaysia will defer the suspension on the trading of the securities of the Company and the de-listing of the Company in accordance with Paragraph 8.04(5) of the Main Market Listing Requirements of Bursa Malaysia, pursuant to the pending decision on the said Application above.
- (vi) On 22 August 2013, the Company, OGPC Holdings and the OGPC Shareholders have mutually agreed to extend the expiry date of the agreement dated 14 May 2013, for a period of sixty (60) days from the date thereof.

- (vii) On 29 August 2013, Bursa Malaysia has vide its letter dated 29 August 2013 (“Letter”), granted the Company an extension of time of 2 months up to 18 October 2013 to make the Requisite Announcement and 18 December 2013 to submit a regularisation plan to the regulatory authorities.
- (viii) On 9 September 2013, the Company and ECB, have entered into a mutual termination agreement to terminate the Share Sale Agreement dated 18 June 2013 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
- (ix) On 26 September 2013, Kuwait Finance House (Malaysia) Berhad (“KFH”) appointed a Receiver and Manager (“R&M”) on the assets and property of Advanced Pyrotech Sdn Bhd (“APT”) pursuant to the powers contained in the debenture dated 9 March 2007 created by APT in the favour of KFH for facilities granted to APT by KFH.

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

There were no 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 September 2013.

**13. *Capital commitments***

Capital commitments of the Group contracted for in the interim financial statements as at 31 July 2013 is approximately RM71.5 million.

**14. *Related party transactions***

Significant related party transactions which were entered into by the Group for the 3 months ended 31 July 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	58
- PT Multi Pratama Interbuana Indonesia	9
- Exzone Plastics Manufacturers Sdn Bhd	10
- Luster Precision Engineering Sdn Bhd	57

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

**1. *Review of performance***

The Group comprise 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 2.12% to RM11.006 million as compared to RM10.778 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. Strategies and efforts such as penetrating new markets, are being carried out to improve the declining margin of the Company.

The Group recorded an operating loss of RM1.443 million for the third quarter of 2013 as compared to an operating loss of RM0.917 million registered in the corresponding quarter in 2012. The Coatings division recorded an operating loss of RM0.197 million in the quarter under review as compared to operating profit of RM0.859 million registered in the corresponding quarter. The operating loss is mainly due to the provision of bad debt of RM1.166 million being written off in this quarter. On the other hand, the CleanTech division recorded an operating loss of RM0.982 million for the quarter under review as compared to an operating loss of RM1.421 million recorded in the corresponding period, a lower loss as resulted from the impact of favourable foreign exchange fluctuation during the period under review.

The Group incurred loss before taxation of RM4.017 million in the current quarter under review as compared to loss before taxation of RM3.413 million in the corresponding period in prior year while the Group's loss after taxation attributable to owners of the parent is RM1.909 million as compared to loss after taxation attributable to owners of the parent of RM3.530 million for the corresponding period. As a result, the Group has recorded a loss per share of 1.14 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 RM11.006 million as compared to RM8.974 million in the preceding quarter ended 30 April 2013. There was no revenue generated by the CleanTech division in both quarters.

The Group recorded a loss before taxation of RM4.017 million in the current quarter under review as compared to loss before taxation of RM1.462 million recorded in the preceding quarter. The loss in the current quarter was higher as compared to preceding quarter. This was mainly due to a provision of bad debt of RM1.166 million and higher interest expenses for the Murabaha facility (which were denominated in US dollar) incurred in the current 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, Eurozone and the United States. The Company continues its efforts to penetrate into new markets for higher business volume for the Coatings division.

The Board will continue its current effort to implement various measures to turnaround the Group's profitability under the proposed rationalization scheme ("PRS"), which comprise of the Proposed Debt Settlement Scheme ("PDSS") and Proposed Corporate Restructuring Scheme ("PCRS").

As disclosed in Section (A) Note 10 (vi), the Company, OGPC Holdings Sdn Bhd and the shareholders of OGPC Sdn. Bhd. and OGPC O & G Sdn. Bhd have mutually agreed to extend the expiry date of the agreement dated 14 May 2013 to facilitate the implementation of the PCRS which would uplift the Company from its PN17 status.

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 vide its letter dated 29 August 2013, which has been disclosed in Section (A) Note 10 (vii).

Therefore, the crystallization of the Group's PRS exercise is heavily dependent on the successful outcome of the implementation of the PCRS and completion of group debt settlement exercise.

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	155	413
Under/(Over)provision in prior year	-	-
Deferred taxation	-	-
	<hr/>	<hr/>
	155	413
	<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 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 July 2013 is as follows:

At cost	RM47,500
At market value	RM66,938

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 27 September 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 July 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 July 2013 are as follows: -

	<b>RM'000</b>
<b>Short term borrowings</b>	
Loans obligations	184,821
<b>Long term borrowings</b>	
Loan obligations	10,781
Total	195,602

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 institution lenders. Due to the delay in the implementation of Octagon's PRS, Octagon, through its restructuring advisers, Crowe Horwath Advisory Sdn Bhd has submitted a revised PDSS to the financial lenders for approval. As at 27 September 2013, the financial lenders have yet to revert with their decision on the revised PDSS. KFH has on 26 September 2013 exercised its legal rights on APT's assets vide the appointment of R&M. The appointment of the R&M for APT has no immediate effect on the business and operations of Octagon Group where the income is solely contributed by its Coatings division.

**10. Off balance sheet financial instruments**

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

<b>Type(s) of financial assistance</b>	<b>For the period from 01.05.2013 to 31.07.2013 RM'000</b>	<b>Balance as at 31.07.2013 RM'000</b>
Non-interest bearing cash advances to non wholly-owned subsidiaries	52	7,646

14. *Loss per share*

	Quarter ended		Current	Preceding year
	31 July 2013	31 July 2012	year-to-date 31 July 2013	corresponding period 31 July 2012
Loss attributable to equity holders of the Company (RM'000)	(1,909)	(3,530)	(10,998)	(10,910)
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)	(1.14)	(2.12)	(6.59)	(6.54)
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	(2)	(15)
Dividend income	-	(1)
Other income excluding interest and dividend income	(366)	(543)
Interest expense	2,562	17,060
Depreciation and amortisation	666	1,995
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	(1)	(114)
Foreign exchange (gain)/loss – unrealised	(635)	(2,192)
(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 31 July 2013</b>	<b>As at 31 October 2012</b>
	<b>RM’000</b>	<b>RM’000</b>
Total (accumulated losses)/retained profits of the Group:-		
Realised	(90,909)	(78,164)
Unrealised	2,192	445
	<u>(88,717)</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.