

# 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 October 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	37,830	-	-	37,830
Inter-segment sales	-	-	-	-
Total revenue	<u>37,830</u>	<u>-</u>	<u>-</u>	<u>37,830</u>
<b>RESULTS</b>				
Segment results	(73,955)	(92,923)	-	(166,878)
Interest expenses				(32,044)
Interest revenue				27
Depreciation and amortisation				(2,461)
Taxation				(715)
Loss after taxation				<u>(202,071)</u>
Loss attributable to:				
Owners of the parent				(164,629)
Non-controlling interest				(37,442)
				<u>(202,071)</u>
<b>OTHER INFORMATION</b>				
Segment assets	48,533	1,847	-	50,380
Unallocated assets				2,095
Investment in associated company				-
Other investments				73
Goodwill on consolidation				-
Deferred tax assets				45
Tax assets				3,731
Consolidated total assets				<u>56,324</u>
Segment liabilities	188,055	54,955	-	243,010
Unallocated liabilities				10,345
Taxation				-
Deferred taxation				780
Consolidated total liabilities				<u>254,135</u>
Other information				
Capital expenditure	117	630	-	747

b) Secondary Reporting Format – Geographical Segments

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

	<b>Revenue RM'000</b>	<b>Non-current Asset* RM'000</b>
Malaysia	21,504	18,880
Indonesia	14,532	1,917
Hong Kong & The People's Republic of China	508	-
South East Asia	1,286	-
South Asia	-	6
	<u>37,830</u>	<u>20,803</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 October 2013 up to 27 December 2013 which have not been reflected in the financial statement for the said period:-

- i. On 1 October 2013, 4 November 2013 and 2 December 2013, the Company made monthly announcements in relation to progress of the Proposed Rationalisation Scheme ("PRS")/regularization plan.
- ii. On 16 October 2013, the Company, OGPC Holdings and the OGPC Shareholders have mutually entered into a mutual termination agreement to terminate the agreement dated 14 May 2013 to facilitate Octagon's group restructuring exercise, which is part of the PRS to uplift Octagon from being an affected listed issuer under PN17 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Malaysia").
- iii. On 16 October 2013, the Company, Malaco Mining Sdn Bhd ("Malaco Mining") and Malaco Leichhardt Pty Ltd ("Malaco Leichhardt") have entered into a framework agreement ("Framework Agreement") for the proposed joint development of the Leichhardt Copper Project in Queensland, Australia and joint operation of specific areas of the Leichhardt Copper Project (as set out in the agreement). The Proposed Joint Development and Operations is part of the Company's initiative to restore Octagon onto stronger financial footing via, amongst others, a balance sheet reconstruction, injection of new funds entering into a new business venture and settlement with the group's creditors. This is to facilitate Octagon's group restructuring exercise, which is part of the PRS to uplift Octagon from being an affected listed issuer under PN17 of the Main Market Listing Requirements of Bursa Malaysia.
- iv. On 17 October 2013, M&A Securities has submitted an application to Bursa Malaysia for an extension of time up to 18 December 2013 to make the Requisite Announcement and up to 18 February 2014 to submit the Company's regularisation plan to the regulatory authorities ("Application").
- v. Subsequent to the announcements on 2 April 2012, 4 April 2012 and 26 June 2012, in relation to the litigation matters between Advanced Pyrotech Sdn Bhd ("APT") and NV Bina Sdn Bhd ("NVB"), a former sub-contractor of APT, where both APT and NVB have come to an amicable settlement of the said suit on 10 August 2012. Due to the delay in completing the Debt Settlement Agreement by 30 June 2012, Kuwait Finance House

(Malaysia) Berhad (“KFH”) has on 26 September 2013, appointed a Receiver and Manager (“R&M”) over the APT assets. Due to the appointment of the R&M, APT has stopped repaying NVB based on the agreed settlement schedule. On 1 November 2013, APT received a letter of demand from NVB dated 25 October 2013 served by the solicitors of NVB, demanding for payment amounting to a sum of RM717,500.00, comprising the defaulted installment of RM540,000.00 and recoverable discounted amount of RM177,500.00. Subsequent to the LOD, NVB served a winding-up petition dated 3 December 2013 to APT and received by R&M of APT on 17 December 2013.

- vi. On 19 November 2013, Bursa Malaysia has, vide its letter dated 19 November 2013, informed that Bursa Malaysia has rejected the Company’s Application for extension of time as stated per item (iv) above and issued the Notice of Suspension and/or De-listing the securities of the Company.
- vii. On 22 November 2013, the Company, vide M&A Securities, submitted the appeal against the decision of the Suspension and/or Delisting the securities of the Company (“Appeal”).
- viii. On 25 November 2013, pursuant to the Framework Agreement, the Company, Malaco Mining and Malaco Leichhardt have on 25 November 2013 entered into the Joint Development Agreement (“JDA”). The JDA is to formalise and regulate the relationships between Malaco Mining, Malaco Leichhardt and Octagon and/or its subsidiary company and to set out their respective rights, interests, benefits, duties and obligations in relation to the grant by Malaco Mining to Octagon of the development rights to jointly develop the Leichhardt Copper Project in Australia.

Malaco Leichhardt and the Company have also entered into Operating Agreement on 25 November 2013 for, inter-alia, the appointment of Octagon (upon the enforcement of JDA in effect) as the operator for the Identified Project (as set out in agreement) where Octagon shall be responsible for mining and processing of copper ore as well as production and sales of copper cathodes. These agreements are to facilitate Octagon’s group restructuring exercise, which is part of the PRS of Octagon.

Thus, Octagon has made the Requisite Announcement of its PRS on this date.

- ix. On 26 November 2013, the Company received the letter from Bursa Malaysia on the Suspension of the securities of the Company, but will defer the de-listing of the securities of the Company, pursuant to the pending decision of Appeal Committee of Bursa Malaysia on the Company’s appeal against delisting of its shares.
- x. On 11 December 2013, the Company has entered the sale share agreement with ATR Maintenance and Repair Sdn Bhd to dispose its entire equity shareholding of Orizon Industrial Sdn Bhd and Orizon Cleantech Sdn Bhd, both of which are dormant companies of the Company.
- xi. On 23 December 2013, the Company was informed by Bursa Malaysia vide its letter dated 23 December 2013 that Bursa Malaysia has decided to allow Octagon’s appeal and granted an extension of time until 18 February 2014 as requested by the Company to submit the regularisation plan to the relevant authorities for approval.

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

Save as disclosed at Section (A) Note 10(x) above, 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 December 2013.

**13. Capital commitments**

Capital commitments of the Group contracted for in the interim financial statements as at 31 October 2013 is approximately RM69.4 million.

**14. Related party transactions**

Significant related party transactions which were entered into by the Group for the 3 months ended 31 October 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	125
- PT Multi Pratama Interbuana Indonesia	11
- Exzone Plastics Manufacturers Sdn Bhd	11
- Luster Precision Engineering Sdn Bhd	70

**(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 has not commenced its operations during the period.

During the current quarter under review, the Group's turnover decreased by 9.26% to RM8.964 million as compared to RM9.879 million recorded in the fourth 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 RM167.551 million for the fourth quarter of 2013 as compared to an operating loss of RM49.549 million registered in the corresponding quarter in 2012. The Coatings division recorded an operating loss of RM0.816 million in the quarter under review as compared to operating profit of RM0.872 million registered in the corresponding quarter. The operating loss is mainly due to the low turnover and loss in foreign exchange of RM1.2 million due to the impact of fluctuation in foreign currency in this quarter. On the other hand, the CleanTech division recorded an operating loss of RM80.152 million for the quarter under review as compared to an operating loss of RM5.112 million recorded in the corresponding period, a higher loss as resulted from the impairment of development cost of RM71.761 million during the period under review.

The Group incurred the above losses before taxation of RM182.49 million in the current quarter under review due to an impairment of development cost of RM71.761 million relating to its CleanTech Division, provision of financial guarantee of RM56.042 and impairment loss of investment (deemed disposal) of RM32.730 million for a subsidiary company which the company is no longer in control, as well as higher provision of interest expenses for the borrowings and Murabaha facility (which were denominated in US dollar) incurred in the current quarter.

The Group's loss after taxation attributable to owners of the parent is RM153.631 million as compared to loss after taxation attributable to owners of the parent of RM53.675 million for the corresponding period. As a result, the Group has recorded a loss per share of 92.11 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 RM8.964 million as compared to RM11.006 million in the preceding quarter ended 31 July 2013. There was no revenue generated by the CleanTech division in both quarters.

The Group recorded a loss before taxation of RM182.49 million in the current quarter under review as compared to loss before taxation of RM4.017 million recorded in the preceding quarter. The loss in the current quarter was higher as compared to preceding quarter. This is due to the reason as stated as item (1) above.

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

As disclosed in Section (A) Note 10 (iii) and 10 (viii), the Company, Malaco Mining and Malaco Leichhardt have entered into the Framework Agreement and Joint Development Agreement ("JDA"). Malaco Leichhardt and the Company have also entered Operating Agreement for, inter-alia, the appointment of Octagon (upon the enforcement of JDA in effect) as the operator for the Identified Project (as set out in agreement) where Octagon shall be responsible for mining and processing of copper ore as well as production and sales of copper cathodes. These agreements are to facilitate the implementation of the PCRS, which would uplift the Company from its PN17 status.

The Board will also work closely with its advisers to implement the PRS as stated above as per the timeline imposed by Bursa Malaysia vide its letter dated 23 December 2013, which has been disclosed in Section (A) Note 10 (xi).

Therefore, the crystallization of the Group's PRS is heavily dependent on the successful outcome of the implementation of the PDSS and 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	302	715
Under/(Over)provision in prior year	-	-
Deferred taxation	-	-
	302	715
	302	715

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 October 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 October 2013 is as follows:

At cost	RM47,500
At market value	RM73,010

8. ***Status of corporate proposals***

Save for the proposed group restructuring plan or regularisation plan which include the PDSS and PCRS proposals, which is still on-going, there are no other corporate proposals announced but not completed as at 27 December 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 October 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 October 2013 are as follows: -

	<b>RM'000</b>
<b>Short term borrowings</b>	
Loans obligations	118,084
<b>Long term borrowings</b>	
Loan obligations	10,145
Total	<u>128,229</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 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 December 2013, the financial lenders have approved in principle the revised distribution and in the midst of formalising the revised PDSS.

10. ***Off balance sheet financial instruments***

The Group does not have any financial instruments with off balance sheet risk as at 27 December 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**

Save as disclosed at Section (A) Note 10(v), 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 as at 27 December 2013.

**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 October 2013 are as below:-

Type(s) of financial assistance	For the period from 01.08.2013 to 31.10.2013 RM'000	Balance as at 31.10.2013 RM'000
Non-interest bearing cash advances to non wholly-owned subsidiaries	35	8,136

**14. Loss per share**

	Quarter ended		Current year-to-date	Preceding year corresponding period
	31 October 2013	31 October 2012	31 October 2013	31 October 2012
Loss attributable to equity holders of the Company (RM'000)	(153,631)	(53,723)	(164,629)	(64,633)
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)	(92.11)	(32.21)	(98.71)	(38.75)
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 RM'000</b>	<b>Financial period-to-date RM'000</b>
Interest income	(12)	(27)
Dividend income	-	(1)
Other income excluding interest and dividend income	(7)	(550)
Interest expense	14,943	32,044
Depreciation and amortisation	466	2,461
Impairment of development costs	71,761	71,761
Impairment of other receivables	1,668	1,668
Gain on deconsolidation of subsidiary	(341)	(341)
Provision for financial guarantee	56,042	56,042
Deemed disposal of subsidiary company	32,731	32,731
Foreign exchange (gain)/loss – realised	(50)	(164)
Foreign exchange (gain)/loss – unrealised	1,909	(283)
(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 October 2013 RM'000</b>	<b>As at 31 October 2012 RM'000</b>
Total (accumulated losses)/retained profits of the Group:-		
Realised	(240,635)	(78,165)
Unrealised	283	445
	<u>(240,352)</u>	<u>(77,720)</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.