

# 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 2013.

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 2013 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 2013.

### 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 Note 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 January 2014 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	9,255	-	-	9,255
Inter-segment sales				
Total revenue	<u>9,255</u>	<u>-</u>	<u>-</u>	<u>9,255</u>
<b>RESULTS</b>				
Segment results	(119)	(157)	-	(276)
Interest expenses				(5,200)
Interest revenue				4
Depreciation and amortisation				(181)
Taxation				(90)
Loss after taxation				<u>(5,743)</u>
Loss attributable to:				
Owners of the parent				(4,866)
Non-controlling interest				(877)
				<u>(5,743)</u>
<b>OTHER INFORMATION</b>				
Segment assets	44,949	48	-	44,997
Unallocated assets				140
Investment in associated company				-
Other investments				73
Goodwill on consolidation				-
Deferred tax assets				284
Tax assets				3,308
Consolidated total assets				<u>48,802</u>
Segment liabilities				
Unallocated liabilities	193,701	69,485	-	263,186
Taxation				-
Deferred taxation				780
Consolidated total liabilities				<u>263,966</u>
Other information				
Capital expenditure	127	-	-	127

b) Secondary Reporting Format – Geographical Segments

The geographical segments for the operations of the Group for the financial period ended 31 January 2014 are as follows:-

	<b>Revenue</b>	<b>Non-current</b>
	<b>RM'000</b>	<b>Asset*</b>
		<b>RM'000</b>
Malaysia	5,487	17,171
Indonesia	3,286	2,568
Hong Kong & The People's Republic of China	68	-
South East Asia	414	-
South Asia	-	5
	<u>9,255</u>	<u>19,744</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 January 2014 up to 26 March 2014 which have not been reflected in the financial statement for the said period:-

- i. On 11 December 2013, the Company and ATR Maintenance and Repair Sdn Bhd have entered into the agreement, for the Company to dispose its entire equity shareholding in its dormant subsidiaries, Orizon Cleantech Sdn Bhd (“OCSB”) and Orizon Industrial Sdn Bhd (“OISB”) for a total consideration of RM100.00, upon terms and conditions stipulated in the said agreement.
- ii. On 31 December 2013, the Company announced that Durachem (Pj) Sdn. Bhd. (“DPG”), a wholly-owned subsidiary of Durachem Sdn. Bhd., which in turn is a wholly-owned subsidiary of the Company, and AM Forklift Sdn. Bhd. (“AMF”), have on 30 December 2013 entered into a Sale and Purchase Agreement (“SPA”) for DPG to dispose the land identified as HSM 787, 788, HSD 37818 and HSD 37819 respectively, Mukim 6, Seberang Perai Tengah, Pulau Pinang, together with the industrial factory thereon for a cash consideration of RM3,100,000.
- iii. On 2 January 2014, 4 February 2014 and 3 March 2014, the Company made monthly announcements in relation to progress of the Proposed Rationalisation Scheme (“PRS”)/regularization plan.
- iv. On 13 February 2014, M&A Securities has submitted an application to Bursa Malaysia for an extension of time up to 28 March 2014 to submit the Company’s regularisation plan to the regulatory authorities. M&A Securities has on 11 March 2014 submitted the application for further extension of time up to 28 April 2014 to submit the Company’s regularization plan to the regulatory authorities (“Application”).
- v. Further to the Requisite Announcement dated 25 November 2013, Malaco Leichhardt Pty Ltd (“Malaco Leichhardt”), Malaco Mining Sdn Bhd (“Malaco Mining”) and Octagon have on 13 February 2014 mutually agreed on even date for an extension of up to seven (7) months from the date of the Joint Development Agreement (“JDA”) (“Cut-Off Date”) (“Extension of Time”), for Octagon:

(i) to complete the due diligence exercise on Malaco Leichhardt and the Mount Watson tenement;

(ii) to complete the technical due diligence review by an industry expert on Mount Watson tenement;

(iii) to thereafter issue the confirmation letters to Malaco Mining on the satisfactory outcome of the due diligence reviews carried out by Octagon; and

(iv) to execute the supplemental agreement for the Proposed Debt Settlement between Octagon, its wholly-owned subsidiary, Advanced Pyrotech Sdn Bhd (“APT”) and the Creditors.

The Extension of Time shall be effective and applicable retrospectively from 9 January 2014 for item (i), (ii) and (iii) above and from 23 January 2014 for item (iv) above.

On 3 March 2014, the Company, Malaco Mining and Malaco Leichhardt have mutually agreed to restate the JDA and OA.

- vi. On 17 February 2014, the Company and APT have executed the Supplemental Debt Settlement Agreement (“Supplemental DSA”) with their financial institutional lenders, namely Amanah Raya Capital Sdn. Bhd., KFH, and Malaysian Trustees Berhad, representing the creditors under the collateralised loan obligation (“CLO Creditors”) to formalise the revised debt settlement scheme by way of settlement in cash, issuance of the Company’s new ordinary shares, disposal of APT’s assets and waiver of principal debt and associated interests. Upon completion of the Supplemental DSA, the Group’s debt (including financial guarantee liability) would reduce by RM209.91 million based on the financial statements of the Group for the financial year ended 31 October 2013.
- vii. On 18 February 2014, the Company announced that the Receiver & Manager (“R&M”) dated 7 February 2014, which was only received by APT on 17 February 2014, informed the Board of APT that, R&M has sold via a tender exercise the Charged Assets under the debenture dated 9 March 2007 created by APT in favour of Kuwait Finance House (Malaysia) Berhad (“KFH”), identified as the factory and machinery known as “single storey factory and a double storey office building located on four (4) parcels of 99 years leasehold land and 120-tonne per day continuous process pyrolysis plant”, for a total consideration of RM20.0 million.  
  
Pursuant to the Letter, the proceeds from the Sale of Factory and Machinery will be utilised by the R&M to settle the outstanding amount owing to KFH in respect of the Facility.
- viii. On 20 March 2014, the Company has announced its intention to seek to seek shareholders’ approval for the Proposed New Mandate at the forthcoming Annual General Meeting of the Company.
- ix. On 21 March 2014, the Company was informed by Bursa Malaysia vide its letter dated 23 December 2013 that Bursa Malaysia has granted an extension of time until 28 April 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***

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 26 March 2014.

#### **13. *Capital commitments***

Capital commitments of the Group contracted for in the interim financial statements as at 31 January 2014 is approximately RM73.6 million.

#### 14. *Related party transactions*

Significant related party transactions which were entered into by the Group for the 3 months ended 31 January 2014 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	70
- PT Multi Pratama Interbuana Indonesia	10
- Exzone Plastics Manufacturers Sdn Bhd	13
- Luster Precision Engineering Sdn Bhd	97

#### **(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 increased by 4.15% to RM9.255 million as compared to RM8.886 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 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 RM0.433 million for the first quarter of 2014 as compared to an operating loss of RM0.955 million registered in the corresponding quarter in 2013. The Coatings division recorded an operating profit of RM0.479 million in the quarter under review as compared to operating profit of RM0.220 million registered in the corresponding quarter. The operating profit is mainly due to the increased turnover and lower cost of production due to the continuous stringent cost control measures carried out by the Coatings division. On the other hand, the CleanTech division recorded an operating loss of RM0.157 million for the quarter under review as compared to an operating loss of RM0.064 million recorded in the corresponding period. The lower operating loss incurred by Cleantech division in the first quarter of 2013 was a result of unrealised gain in foreign exchange amounting to RM0.385 million as compared to RM0.128 million in the current quarter.

The Group incurred the above loss before taxation of RM5.653 million in the current quarter under review as compared to loss before taxation of RM13.383 million in the corresponding period in prior year.

The Group's loss after taxation attributable to owners of the parent is RM4.866 million as compared to loss after taxation attributable to owners of the parent of RM7.522 million for the corresponding period. As a result, the Group has recorded a loss per share of 2.92 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 RM9.255 million as compared to RM8.964 million in the preceding quarter ended 31 October 2013. There was no revenue generated by the CleanTech division in both quarters.

The Group recorded a loss before taxation of RM5.653 million in the current quarter under review as compared to loss before taxation of RM182.49 million recorded in the preceding quarter. The loss in the current quarter was lower as compared to preceding quarter. The loss in the current quarter is due to the reasons stated above in B(1). The Group has incurred a higher loss in the preceding quarter, mainly due to full impairment of development cost of RM71.761 million, provision of financial guarantee of RM56.042 million and impairment loss of investment (deemed

disposal) of RM32.730 million for a subsidiary company as well as a higher provision of interest expenses for the borrowings and Murabaha facility (which were denominated in US dollar).

### 3. *Prospects*

The Group will continue to soften the effect of lower business turnover and profit margin faced by the Coatings division due to weak 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"). The Company has successfully obtained the approval of the financial lenders on the revision to the Proposed Debt Settlement Scheme, which has culminated in the execution of the supplemental debt settlement agreement to formalize the agreed terms, as disclosed in Section A Note 10 (v).

As disclosed in Section (A) Note 10 (iv), the Company, Malaco Mining and Malaco Leichhardt have mutually agreed the extension of time of the Joint Development Agreement ("JDA") and also entered into Restated JDA and Restated Operating Agreement. Further details are found in the announcement dated 13 February 2014 and 3 March 2014 respectively.

The Board will also work closely with its advisers to implement the PRS as stated above.

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 Company is in the midst of preparing the Regularisation Plan for submission to the appropriate authorities for approval thus 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	90	90
Under/(Over)provision in prior year	-	-
Deferred taxation	-	-
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	90	90

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 2014.

### 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 2014 is as follows:

At cost	RM47,500
At market value	RM77,112

**8. Status of corporate proposals**

Save for the proposed group restructuring plan or regularisation plan which include the PDSS and PCRS proposals, as well as the disposal of the land and building of DPG, which are still on-going, there are no other corporate proposals announced but not completed as at 26 March 2014.

**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 RM85.5 million. As at 31 January 2014, the banking facilities granted to certain subsidiaries are also secured mainly by charge of the subsidiary's properties, fixed and floating assets.

Total Group borrowings as at 31 January 2014 are as follows: -

	<b>RM'000</b>
<b>Short term borrowings</b>	
Loans obligations	127,052
<b>Long term borrowings</b>	
Loan obligations	435
Total	<u>127,487</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. On 17 February 2014, the Company and its former subsidiary, Advanced Pyrotech Sdn. Bhd. ("APT") have executed the Supplemental DSA respectively with their financial lenders to formalise the debt settlement scheme as further disclosed in Section A Note 10(v).

**10. Off balance sheet financial instruments**

The Group does not have any financial instruments with off balance sheet risk as at 26 March 2014, 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 that APT, its former subsidiary, which is still under the management of R&M, 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 26 March 2014.

**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 2014 are as below:-

<b>Type(s) of financial assistance</b>	<b>For the period from 01.11.2013 to 31.01.2014 RM'000</b>	<b>Balance as at 31.01.2014 RM'000</b>
Non-interest bearing cash advances to non wholly-owned subsidiaries	17	17

**14. Loss per share**

	<b>Quarter ended</b>		<b>Current year-to-date</b>	<b>Preceding year corresponding period</b>
	<b>31 January 2014</b>	<b>31 January 2013</b>	<b>31 January 2014</b>	<b>31 January 2013</b>
Loss attributable to equity holders of the Company (RM'000)	(4,866)	(7,522)	(4,866)	(7,522)
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)	(2.92)	(4.51)	(2.92)	(4.51)
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	(4)	(4)
Dividend income	(2)	(2)
Other income excluding interest and dividend income	(42)	(42)



Interest expense	5,200	5,200
Depreciation and amortisation	181	181
Foreign exchange (gain)/loss – realised	39	39
Foreign exchange (gain)/loss – unrealised	(148)	(148)
(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 January 2014</b>	<b>As at 31 October 2013</b>
	<b>RM’000</b>	<b>RM’000</b>
Total (accumulated losses)/retained profits of the Group:-		
Realised	(249,600)	(244,158)
Unrealised	148	(428)
	<u>(249,452)</u>	<u>(244,586)</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.