

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 (“Bursa Malaysia”). 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 cyclicity 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 30 April 2014 are as follows:-

	Manufacturing and Trading RM'000	CleanTech RM'000	Elimination RM'000	Consolidated RM'000
REVENUES				
External sales	18,348	-	-	18,348
Inter-segment sales				
Total revenue	<u>18,348</u>	<u>-</u>	<u>-</u>	<u>18,348</u>
RESULTS				
Segment results	29	(169)	-	(140)
Interest expenses				(13,027)
Interest revenue				6
Depreciation and amortisation				(438)
Taxation				(205)
Loss after taxation				<u>(13,804)</u>
Loss attributable to:				
Owners of the parent				(11,986)
Non-controlling interest				(1,818)
				<u>(13,804)</u>
OTHER INFORMATION				
Segment assets	45,570	79	-	45,649
Unallocated assets				140
Investment in associated company				-
Other investments				73
Goodwill on consolidation				-
Deferred tax assets				284
Tax assets				3,822
Consolidated total assets				<u>49,968</u>
Segment liabilities				
Unallocated liabilities	200,499	70,673	-	271,172
Taxation				-
Deferred taxation				780
Consolidated total liabilities				<u>271,952</u>
Other information				
Capital expenditure	497	-	-	497

b) Secondary Reporting Format – Geographical Segments

The geographical segments for the operations of the Group for the financial period ended 30 April 2014 are as follows:-

	Revenue RM'000	Non-current Asset* RM'000
Malaysia	10,631	17,137
Indonesia	6,661	2,789
Hong Kong & The People's Republic of China	261	-
South East Asia	795	-
South Asia	-	47
	<u>18,348</u>	<u>19,973</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 2014 up to 27 June 2014 which have not been reflected in the financial statement for the said period:-

- i. On 1 April 2014, 5 May 2014 and 2 June 2014, the Company made monthly announcements in relation to progress of the Proposed Regularisation Plan.
- ii. On 29 May 2014, the Company had announced that notice has been given for an Extraordinary General Meeting (“EGM”) of the Company to be held in Kota Permai Golf and Country Club, Kota Kemuning, Shah Alam, Selangor at 10.00 a.m. on 17 June 2014 for the purpose of considering and passing the Ordinary Resolution with or without modification in relation to the proposed disposal of the freehold land identified as Lot Nos. 2938, 2939, 3017 & 3018, Mukim 6, Seberang Perai Tengah, Pulau Pinang together with industrial factory erected thereon by Durachem (Pg) Sdn Bhd to AM Forklift Sdn Bhd (“Proposed Disposal”).
- iii. Further to announcement made on 3 April 2014, the Company announced on 9 June 2014 that its subsidiary, Durachem Vietnam Co. Ltd. (“Durachem Vietnam”) has on 6 June 2014 received a notification vide electronic mail from KinhBac City Development Holding Corporation (“KBC”) that AONE Company Limited (“AONE”) has decided to terminate the Tripartite Agreement dated 3 April 2014 entered into between Durachem Vietnam, KBC and AONE (“Termination”) and to abort Proposed Transfer involving the assignment by Durachem Vietnam of the right to sublease a piece of land, measuring 10,000 square meters, identified as Lot G12-2 at Que Vo Industrial Zone, Van Duong ward, Bac Ninh city, Bac Ninh Province (“Land”) to AONE for a cash consideration of USD500,000.00.
- iv. Further to the Requisite Announcement dated 25 November 2013 and the execution of the Restated JDA and Restated OA as announced by the Company on 3 March 2014, the Company, Malaco Mining Sdn Bhd (“Malaco Mining”) and Malaco Leichhardt Pty Ltd (Malaco Leichhardt”) had on 10 June 2014 entered into the Supplemental Restated JDA to vary certain terms and conditions of the Restated JDA and on even date the Company had also entered into the Supplemental Restated OA with Malaco Leichhardt to vary certain terms and conditions of the Restated OA.

- v. The Proposed Disposal as disclosed under Note 10 (ii) above has been approved by the shareholders of the Company in the EGM on 17 June 2014 by way of a poll at the EGM and the results were scrutinised by the Company's Independent Auditors, Baker Tilly Monteiro Heng Governance Sdn Bhd.
- vi. On 19 June 2014, the Company has announced that the Board of Directors of the Company had resolved to amend certain terms of the Proposed Regularisation Plan resulting from the execution of the Supplemental Restated JDA and Supplemental Restated OA on 10 June 2014 and had also revised the Proposed Regularisation Plan. The application to Bursa Malaysia for the Proposed Regularisation Plan has also been submitted on 19 June 2014.

11. *Changes in the composition of the group*

The disposal of Orizon Industrial Sdn Bhd and Orizon CleanTech Sdn Bhd was completed on 25 June 2014. Other than this, 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 June 2014.

13. *Capital commitments*

Capital commitments of the Group contracted for in the interim financial statements as at 30 April 2014 is approximately RM68.06 million.

14. *Related party transactions*

Significant related party transactions which were entered into by the Group for the 3 months ended 30 April 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	58
- PT Multi Pratama Interbuana Indonesia	2
- Exzone Plastics Manufacturers Sdn Bhd	7
- Luster Precision Engineering Sdn Bhd	122

(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 1.33% to RM9.093 million as compared to RM8.974 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 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 RM0.106 million for the second quarter of 2014 as compared to an operating profit of RM0.637 million registered in the corresponding quarter in 2013. The Coatings division recorded an operating profit of RM0.620 million in the quarter under review as compared to operating profit of RM0.606 million registered in the corresponding quarter in the last financial year. The operating profit is mainly due to the increased turnover and continuous stringent cost control measures being carried out by the Coatings division to lower the cost of production.

On the other hand, the CleanTech division recorded an operating loss of RM0.169 million for the quarter under review as compared to an operating profit of RM0.268 million recorded in the corresponding period of the last financial year. The operating loss incurred by Cleantech division in the second quarter of 2014 was a result of unrealised loss in foreign exchange amounting to RM0.128 million. On the contrary, there was unrealised gain in foreign exchange of RM1.172 million for the corresponding quarter in last financial year.

The Group incurred the loss before taxation of RM7.946 million in the current quarter under review as compared to loss before taxation of RM1.462 million in the corresponding period in prior financial year.

The Group's loss after taxation attributable to owners of the parent is RM7.120 million as compared to loss after taxation attributable to owners of the parent of RM1.567 million for the corresponding period in the last financial year. As a result, the Group has recorded a loss per share of 4.27 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 RM9.093 million as compared to RM9.255 million in the preceding quarter ended 31 January 2014. There was no revenue generated by the CleanTech division in both quarters.

The Group recorded a loss before taxation of RM7.946 million in the current quarter under review as compared to loss before taxation of RM5.653 million recorded in the preceding quarter. The loss in the current quarter was higher as compared to preceding quarter mainly due to the higher finance cost of RM7.840 million for the current quarter under review as compared to RM5.220 million in the preceding quarter.

3. *Prospects*

The Group will continue its effort to reduce any potential adverse effect of lower business turnover and profit margin faced by the Coatings division which may arise due to weak demand for its main market, i.e., the consumer electronics and electrical sector, which is dependent on the economic and financial recovery in the Eurozone, the United States and Japan.

The Board will continue its current effort to implement various measures to turnaround the Group's profitability under the Proposed Regularisation Plan, which comprises the Proposed Debt Settlement Scheme ("PDSS") and Proposed Corporate Restructuring Scheme ("PCRS").

As announced on 18 February 2014, 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 on 17 February 2014 to formalize the agreed terms. As disclosed in Section (A) Note 10 (iv), the Company, Malaco Mining and Malaco Leichhardt had on 10 June 2014 entered into the Supplemental Restated JDA and on even date, the Company and Malaco Leichhardt had entered into the Supplemental Restated OA to respectively vary certain terms and conditions of the Restated JDA and Restated OA executed on 3 March 2014.

As disclosed in Section A Note 10 (vi), the Company has on 19 June 2014 submitted its Proposed Regularisation Plan to Bursa Malaysia for approval. The Proposed Regularisation Plan shall be implemented subject further to, amongst others, the approval of Bursa Malaysia as well as the approval of the shareholders of the Company in order for the Company to be alleviate from its status as an affected issuer under the PN17 of Main Market Listing Requirement of Bursa Malaysia.

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

Not applicable.

5. ***Taxation***

	Current Quarter RM'000	Cumulative year to date RM'000
Current	115	205
Under/(Over)provision in prior year	-	-
Deferred taxation	-	-
	<hr/>	<hr/>
	115	205

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***

Except as disclosed in Item 8 below, there were no sale of investments and/or properties for the current period ended 30 April 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 30 April 2014 is as follows:

At cost	RM47,500
At market value	RM86,751

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

Save for following which are still on-going, there are no other corporate proposals announced but not completed as at 27 June 2014:

- i. the Proposed Regularisation Plan which include the PDSS and PCRS proposals,
- ii. the Proposed Disposal of the freehold land identified as Lot Nos. 2938, 2939, 3017 & 3018, Mukim 6, Seberang Perai Tengah, Pulau Pinang together with industrial factory erected thereon by Durachem (Pg) Sdn Bhd to AM Forklift Sdn Bhd as disclosed under Note 10(ii) and Note 10(v) in Section A above.

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 30 April 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 30 April 2014 are as follows: -

	RM'000
Short term borrowings	
Loans obligations	128,300
Long term borrowings	
Loan obligations	364
Total	<u>128,664</u>

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

On 18 March 2013, the Company and its former subsidiary Advanced Pyrotech Sdn Bhd (“APT”) (which has been wound up on 5 March 2014), have entered into a Debt Settlement Agreement (“DSA”) with the financial institution lenders, namely Amanah Raya Capital Sdn Bhd, Kuwait Finance House (Malaysia) Berhad, and Malaysian Trustees Berhad, representing the creditors under the collateralised loan obligation. 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 Proposed Regularisation Plan, 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 APT have executed the Supplemental DSA with the financial institutional lenders to vary certain terms and conditions of the DSA, further details of which can be found in the announcement made by the Company on 18 February 2014 in relation to the execution of the Supplemental DSA.

10. Off balance sheet financial instruments

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

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 June 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 30 April 2014 are as below:-

Type(s) of financial assistance	For the period from 01.02.2014 to 30.04.2014 RM'000	Balance as at 30.04.2014 RM'000
Non-interest bearing cash advances to non wholly-owned subsidiaries	43	60

14. *Loss per share*

	Quarter ended		Current	Preceding year
	30 April	30 April	year-to-date	corresponding
	2014	2013	31 April	period
			2014	30 April
				2013
Loss attributable to equity holders of the Company (RM'000)	(7,120)	(1,567)	(11,986)	(9,89)
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)	(4.27)	(0.94)	(7.19)	(5.45)
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	Financial period-to-date
	RM'000	RM'000
Interest income	(2)	(6)
Dividend income	(1)	(3)
Other income excluding interest and dividend income	(7)	(49)
Interest expense	7,827	13,027
Depreciation and amortisation	257	438
Foreign exchange (gain)/loss – realised	(67)	(28)
Foreign exchange (gain)/loss – unrealised	114	(34)
(Gain)/loss on derivatives	-	-
Exceptional items	-	-

15. *Realised and Unrealised Profits*

On 25 March 2010, 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:-

	As at 30 April	As at 31 October
	2014	2013
Total (accumulated losses)/retained profits of the Group:-	RM'000	RM'000
Realised	(256,606)	(244,158)
Unrealised	34	(428)
	<u>(256,572)</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.