

# 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.

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 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 July 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	27,312	-	-	27,312
Inter-segment sales				
Total revenue	<u>27,312</u>	<u>-</u>	<u>-</u>	<u>27,312</u>
<b>RESULTS</b>				
Segment results	(254)	(25)	-	(279)
Interest expenses				(19,486)
Interest revenue				9
Depreciation and amortisation				(669)
Taxation				(298)
Loss after taxation				<u>(20,723)</u>
Loss attributable to:				
Owners of the parent				(18,046)
Non-controlling interest				(2,677)
				<u>(20,723)</u>
<b>OTHER INFORMATION</b>				
Segment assets	46,439	82	-	46,521
Unallocated assets				605
Investment in associated company				-
Other investments				73
Goodwill on consolidation				-
Deferred tax assets				284
Tax assets				2,822
Consolidated total assets				<u>50,305</u>
Segment liabilities	214,798	62,348	-	277,146
Unallocated liabilities	540	-	-	540
Taxation				-
Deferred taxation				780
Consolidated total liabilities				<u>278,466</u>
Other information				
Capital expenditure	711	-	-	711

b) Secondary Reporting Format – Geographical Segments

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

	<b>Revenue RM'000</b>	<b>Non-current Asset* RM'000</b>
Malaysia	16,270	17,078
Indonesia	9,516	2,933
Hong Kong & The People's Republic of China	401	-
South East Asia	1,125	-
South Asia	-	4
	<u>27,312</u>	<u>20,015</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 2014 up to 25 September 2014 which have not been reflected in the financial statement for the said period:-

- i. On 1 July 2014 and 2 September 2014, the Company made monthly announcements in relation to progress of the Proposed Regularisation Plan.
- ii. Further to the application to Bursa Malaysia on 19 June 2014 for the Proposed Regularisation Plan, the Company had on 10 July 2014 announced that it had on even date been informed via a letter from Bursa Malaysia that in view that the Company had submitted its regularisation plan to Bursa Malaysia for approval on 19 June 2014, Bursa Malaysia has decided to await the outcome of the submission and to de-list the securities of the Company from the Official List of Bursa Malaysia pursuant to paragraph 8.04 of the Main Market Listing Requirements in the event that:
  - (i) the Company fails to obtain the approval for the implementation of its regularisation plan and does not appeal with the timeframe (or extended timeframe, as the case may be) prescribed to lodge an appeal;
  - (ii) the Company does not succeed in its appeal;
  - (iii) the Company fails to implement its regularisation plan within the timeframe or extended timeframe stipulated by the relevant authorities.

Upon occurrence of any of the events set out in (i) to (iii) above, the securities of the Company shall be removed from the Official List of Bursa Malaysia upon the expiry of two (2) market days from the date the Company is notified by Bursa Malaysia or such other date as may be specified by Bursa Malaysia.

- iii. The disposal of the freehold land identified as HSM 787, 788, HSD 37818 and HSD 37819 respectively, Mukim 6, Seberang Perai Tengah, Pulau Pinang, together with industrial factory thereon by Durachem (Pg) Sdn Bhd to AM Forklift Sdn Bhd ("Disposal") was completed on 20 August 2014.

**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 25 September 2014.

**13. *Capital commitments***

Capital commitments of the Group contracted for in the interim financial statements as at 31 July 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 31 July 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	51
- Exzone Plastics Manufacturers Sdn Bhd	22
- Luster Precision Engineering Sdn Bhd	390

***(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 18.55% to RM8.964 million as compared to RM11.006 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 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 RM0.351 million for the third quarter of 2014 as compared to an operating loss of RM1.443 million registered in the corresponding quarter in 2013. The Coatings division recorded an operating profit of RM0.424 million in the quarter under review as compared to operating loss of RM0.197 million registered in the corresponding quarter in the last financial year. The operating profit is mainly due to lower operating cost resulted from cost control measures carried out by the Coatings division.

On the other hand, the CleanTech division recorded an operating profit of RM0.144 million for the quarter under review as compared to an operating loss of RM0.540 million recorded in the corresponding period of the last financial year. The operating profit from the Cleantech division in the third quarter of 2014 was a result of unrealised gain in foreign exchange amounting to RM0.175 million. In the quarter under review, Octagon incurred operating expenses of RM0.885 million as compared to RM0.23 million in the corresponding period of the last financial year.

The Group incurred the loss before taxation of RM6.826 million in the current quarter under review as compared to loss before taxation of RM4.017 million in the corresponding period in prior financial year. The majority of loss before taxation was due to provisions for interest

expenses for the outstanding loans. This interest accrued will be waived once the Supplemental Debt Settlement Agreement entered into on 17 February 2014 with the financial institutional lenders (“Supplemental DSA”) has been successfully completed.

The Group’s loss after taxation attributable to owners of the parent is RM6.060 million as compared to loss after taxation attributable to owners of the parent of RM1.909 million for the corresponding period in the last financial year. As a result, the Group has recorded a loss per share of 3.63 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 RM9.093 million in the preceding quarter ended 30 April 2014. There was no revenue generated by the CleanTech division in both quarters.

The Group recorded a loss before taxation of RM6.826 million in the current quarter under review as compared to loss before taxation of RM7.946 million recorded in the preceding quarter. The loss in the current quarter was lower as compared to preceding quarter mainly due to the lower finance cost of RM6.475 million for the current quarter under review as compared to RM7.840 million in the preceding quarter.

**3. *Prospects***

The Group will continue and remain committed in 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 by the Company respectively on 1 July 2014 and 2 September 2014, the Proposed Regularisation Plan which has been submitted to Bursa Malaysia on 19 June 2014 is pending decision from the regulatory authorities. 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 alleviated 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***

	<b>Current Quarter RM'000</b>	<b>Cumulative year to date RM'000</b>
Current	93	298
Under/(Over)provision in prior year	-	-
Deferred taxation	-	-
	<hr style="border-top: 1px solid black;"/> 93	<hr style="border-top: 1px solid black;"/> 298

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 31 July 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 July 2014 is as follows:

At cost	RM47,500
At market value	RM106,565

**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 25 September 2014:

- i. the Proposed Regularisation Plan which include the PDSS and PCRS proposals,
- ii. the Proposed Disposal of the the entire 93.25% equity shareholding in the Company's subsidiary, Green Energy and Technology Sdn Bhd, comprising 55,000,000 ordinary shares of RM1.00 each to Growing Heights Sdn Bhd for a total cash consideration of RM1.00, upon terms and conditions stipulated in the agreement entered into for the Proposed Disposal.

**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 July 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 July 2014 are as follows: -

	<b>RM'000</b>
<b>Short term borrowings</b>	
Loans obligations	128,446
<b>Long term borrowings</b>	
Loan obligations	305
Total	<u>128,751</u>

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

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 25 September 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 25 September 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 July 2014 are as below:-

Type(s) of financial assistance	For the period from 01.05.2014 to 31.07.2014 RM'000	Balance as at 31.07.2014 RM'000
Non-interest bearing cash advances to non wholly-owned subsidiaries	78	138

**14. Loss per share**

	Quarter ended		Current	Preceding year
	31 July 2014	31 July 2013	year-to-date 31 July 2014	corresponding period 31 July 2013
Loss attributable to equity holders of the Company (RM'000)	(6,060)	(1,909)	(18,046)	(10,998)
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)	(3.63)	(1.14)	(10.82)	(6.59)
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	(3)	(9)
Dividend income	-	(3)
Other income excluding interest and dividend income	(8)	(57)
Interest expense	6,459	19,486
Depreciation and amortisation	231	669
Foreign exchange (gain)/loss – realised	181	153
Foreign exchange (gain)/loss – unrealised	(149)	115
(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:-

	<b>As at 31 July 2014 RM'000</b>	<b>As at 31 October 2013 RM'000</b>
Total (accumulated losses)/retained profits of the Group:-		
Realised	(262,517)	(244,158)
Unrealised	(115)	(428)
	<u>(262,632)</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.