

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 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*

Save for the proposed disposal of the entire equity shareholdings in a subsidiary, Green Energy and Technology Sdn Bhd, as set out under Section A Note 11 herein, 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 2014 are as follows:-

	Manufacturing and Trading RM'000	CleanTech RM'000	Elimination RM'000	Consolidated RM'000
REVENUES				
External sales	36,548	-	-	36,548
Inter-segment sales				
Total revenue	<u>36,548</u>	<u>-</u>	<u>-</u>	<u>36,548</u>
RESULTS				
Segment results	(11,764)	12,461	-	697
Interest expenses				(22,690)
Interest revenue				22
Depreciation and amortisation				(753)
Taxation				(385)
Loss after taxation				<u>(23,109)</u>
Loss attributable to:				
Owners of the parent				(19,725)
Non-controlling interest				(3,384)
				<u>(23,109)</u>
OTHER INFORMATION				
Segment assets	42,408	-	-	42,408
Unallocated assets				2,198
Investment in associated company				-
Other investments				133
Goodwill on consolidation				-
Deferred tax assets				271
Tax assets				3,139
Consolidated total assets				<u>48,149</u>
Segment liabilities	226,047	-	-	226,047
Unallocated liabilities	118	-	-	118
Taxation				-
Deferred taxation				674
Consolidated total liabilities				<u>226,839</u>
Other information				
Capital expenditure	1,557	-	-	1,557

b) Secondary Reporting Format – Geographical Segments

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

	Revenue RM'000	Non-current Asset* RM'000
Malaysia	21,313	17,008
Indonesia	12,748	2,916
Hong Kong & The People's Republic of China	577	-
South East Asia	1,910	-
South Asia	-	-
	<u>36,548</u>	<u>19,924</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 2014 up to 29 December 2014 which have not been reflected in the financial statement for the period:-

- i. The Company's subsidiaries, Durachem Sdn Bhd ("Durachem") and Hexagon Portfolio Sdn Bhd ("Hexagon") had on 17 December 2014 entered into the following agreements to dispose off the entire shareholdings comprising 1,500,000 ordinary shares of Rp2,402 (based on USD1.00 to Rp2,402 translated at time of inception) each in PT Durachem Indonesia ("PTD") to the following parties ("Proposed Disposal"):
 - (a) Durachem, entered into a share sale agreement on 17 December 2014 with Origin Electric Co., Ltd ("Origin SSA") to dispose off 765,000 ordinary shares of Rp2,402 (USD1.00 to Rp2,402 translated at time of PTD's inception) each in PTD ("Ordinary Shares") equivalent to 51% of the entire issued and paid up capital in PTD, a 99.93%-owned subsidiary of Durachem for a cash consideration of USD1,338,750 (or equivalent of RM4,685,625 based on the exchange rate of USD1.00 to RM3.50) upon the terms and conditions stipulated in the Origin SSA;
 - (b) Durachem also entered into a share sale agreement on 17 December 2014 with Miki & Co., Ltd ("Miki SSA") to dispose off 285,000 Ordinary Shares equivalent to 19% of the issued and paid up capital of PTD for a cash consideration of USD498,750 (or equivalent of RM1,745,625 based on the exchange rate of USD1.00 to RM3.50) upon the terms and conditions stipulated in the Miki SSA; and
 - (c) Durachem and Hexagon, the latter also a wholly owned subsidiary of Octagon, entered into a share sale agreement on 17 December 2014 with Giantvale (M) Sdn Bhd ("Giantvale") ("GVM SSA") for Durachem and Hexagon to dispose off their equity interest in total equivalent to 30% of the issued and paid up capital of PTD comprising collectively 450,000 Ordinary Shares in PTD to Giantvale for a total cash consideration of RM2,756,250 (equivalent of USD787,500 based on the exchange rate of USD1.00 to RM3.50) upon the terms and conditions stipulated in the GVM SSA.

Origin Electric Co., Ltd, Miki & Co., Ltd and Giantvale (M) Sdn Bhd shall be herein collectively referred to as the “Buyers”. Durachem and Hexagon shall be herein collectively referred to as the “Sellers”.

The total consideration price receivable by the Sellers for the proposed disposal of PTD will be equivalent to RM9,187,500 (or USD2,625,000 based on the exchange rate of USD1.00 to RM3.50).

11. *Changes in the composition of the group*

Save for the proposed disposal of the entire equity shareholdings in its subsidiary, Green Energy and Technology Sdn Bhd as announced on 8 May 2014 for which the Company had subsequently on 21 October 2014 announced its completion, there were no changes in the composition of the Group for the current quarter under review.

12. *Contingent liabilities or contingent assets*

Save as disclosed in this announcement, 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 29 December 2014.

13. *Capital commitments*

There is no capital commitments of the Group contracted for in the interim financial statements as at 31 October 2014.

14. *Related party transactions*

Significant related party transactions which were entered into by the Group for the 3 months ended 31 October 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	159
- PT Multi Pratama Interbuana	2
- Exzone Plastics Manufacturers Sdn Bhd	13
- Luster Precision Engineering Sdn Bhd	312

(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 3.03% to RM9.236 million as compared to RM8.964 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 increase in turnover of Coatings division in current quarter under review as compared to the corresponding quarter in the last financial year was mainly due to increase in demand by existing customers.

The Group recorded an operating profit of RM4.632 million for the fourth quarter of 2014 as compared to an operating loss of RM178.409 million registered in the corresponding quarter in 2013. The Coatings division recorded an operating profit of RM2.838 million in the quarter under review as compared to operating loss of RM1.175 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 and net gain on disposal of landed property in one of the subsidiary of RM1.75 million.

On the other hand, the CleanTech division recorded an operating profit of RM0.244 million for the quarter under review as compared to an operating loss of RM80.152 million recorded in the corresponding period of the last financial year. The operating profit from the Cleantech division in the fourth quarter of 2014 was a result of unrealised gain in foreign exchange amounting to RM0.318 million. In the quarter under review, Octagon incurred operating expenses of RM10.494 million for the current under review as compared to operating expenses of RM63.662 million in the corresponding period of the last financial year.

The Group incurred the loss before taxation of RM2.299 million in the current quarter under review as compared to loss before taxation of RM190.407 million in the corresponding period in prior financial year.

The Group's loss after taxation attributable to owners of the parent is RM1.679 million as compared to loss after taxation attributable to owners of the parent of RM155.869 million for the corresponding period in the last financial year. As a result, the Group has recorded a loss per share of 1.01 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 RM9.236 million as compared to RM8.964 million in the preceding quarter ended 31 July 2014. There was no revenue generated by the CleanTech division in both quarters.

The Group recorded a loss before taxation of RM2.299 million in the current quarter under review as compared to loss before taxation of RM6.826 million recorded in the preceding quarter. The lower loss before taxation for the current quarter under review was due to a combination of reasons that included a deemed gain from disposal of a subsidiary in the CleanTech division.

3. *Prospects*

The Group will continue its effort to mitigate any potential adverse effect of lower business turnover and profit margin faced by the Coatings division.

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 on 1 October 2014, 3 November 2014 and 3 December 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 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**

	Current Quarter RM'000	Cumulative year to date RM'000
Current	87	385
Under/(Over)provision in prior year	-	-
Deferred taxation	-	-
	<hr/> <hr/>	<hr/> <hr/>
	87	385

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 October 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 October 2014 is as follows:

At cost	RM47,500
At market value	RM132,804

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 29 December 2014:

- i. the Proposed Regularisation Plan which include the PDSS and PCRS proposals,
- ii. the Restated JDA dated 3 March 2014 with Malaco Mining Sdn Bhd and Malaco Leichhardt Pty Ltd which was varied vide the Supplemental Restated JDA on 10 June 2014 and the 2nd Supplemental Restated JDA, and
- iii. as disclosed under Section A Note 10 above, the Proposed Disposal on 17 December 2014 collectively by Durachem and Hexagon of the the entire equity shareholding in Durachem's subsidiary, PTD, comprising 1,500,000 ordinary shares of Rp2,402 (based on USD1.00 to Rp2,402 translated at time of inception) each to the Buyers for a total cash consideration of equivalent to RM9,187,500 (or USD2,625,000 based on the exchange rate of USD1.00 to RM3.50).

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 October 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 October 2014 are as follows: -

	RM'000
Short term borrowings	
Loans obligations	113,638
Long term borrowings	
Loan obligations	104
Total	<u>113,742</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 29 December 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 29 December 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 October 2014 are as below:-

Type(s) of financial assistance	For the period from 01.08.2014 to 31.10.2014 RM'000	Balance as at 31.10.2014 RM'000
Non-interest bearing cash advances to non wholly-owned subsidiaries	-	-

14. Loss per share

	Quarter ended		Current	Preceding year
	31 October	31 October	year-to-date	corresponding
	2014	2013	31 October	period
			2014	31 October
				2013
Loss attributable to equity holders of the Company (RM'000)	(1,679)	(155,869)	(19,725)	(166,867)
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)	(1.01)	(93.45)	(11.83)	(100.00)
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	(13)	(22)
Dividend income	(1)	(4)
Other income excluding interest and dividend income	-	(57)
Interest expense	6,931	22,690
Depreciation and amortisation	84	753
Foreign exchange (gain)/loss – realised	(243)	(90)
Foreign exchange (gain)/loss – unrealised	73	188
(Gain) on discontinued operation of subsidiaries	(3,332)	(3,332)
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 31 October 2014	As at 31 October 2013
Total (accumulated losses)/retained profits of the Group:-	RM'000	RM'000
Realised	(264,499)	(244,158)
Unrealised	188	(428)
	<u>(264,311)</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.