

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 2014.

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 2014.

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 an emphasis of matter comment by the auditors on the audited financial statements of the Octagon Group for the financial year ended 31 October 2014.

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 31 January 2015 are as follows:-

	Manufacturing and Trading RM'000	Discontinued Operation RM'000	Elimination RM'000	Consolidated RM'000
REVENUES				
External sales	5,871	2,688	(2,688)	5,871
Inter-segment sales				
Total revenue	<u>5,871</u>	<u>2,688</u>	<u>(2,688)</u>	<u>5,871</u>
RESULTS				
Segment results	(1,341)	96	-	(1,245)
Interest expenses				(6,355)
Interest revenue				7
Depreciation and amortisation				(129)
Taxation				(103)
Loss after taxation				<u>(7,825)</u>
Loss attributable to:				
Owners of the parent				(7,825)
Non-controlling interest				-
				<u>(7,825)</u>
OTHER INFORMATION				
Segment assets	34,665	10,053	-	44,718
Unallocated assets				2,198
Investment in associated company				-
Other investments				133
Goodwill on consolidation				-
Deferred tax assets				-
Tax assets				2,703
Consolidated total assets				<u>49,752</u>
Segment liabilities	232,083	3,258	-	235,341
Unallocated liabilities				310
Taxation				-
Deferred taxation				601
Consolidated total liabilities				<u>236,252</u>
Other information				
Capital expenditure	390	215	-	605

b) Secondary Reporting Format – Geographical Segments

The geographical segments for the operations of the Group for the financial period ended 31 January 2015 are as follows:-

	Revenue RM'000	Non-current Asset* RM'000
Continuing operations		
Malaysia	5,392	7,003
Indonesia	42	-
Hong Kong & The People's Republic of China	102	-
South East Asia	335	-
South Asia	-	-
	5,871	17,003
Discontinued operation		
Malaysia	-	-
Indonesia	2,688	2,963
Hong Kong & The People's Republic of China	-	-
South East Asia	-	-
South Asia	-	-
	2,688	2,963

* 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 2015 up to 25 March 2015 which have not been reflected in the financial statement for the period:-

- (i) On 10 February 2015, the Company received a letter of demand dated 4 February 2015 from Kuwait Finance House (Malaysia) Berhad (“KFH”) (“Letter of Demand”) for the payment by Octagon, within fourteen (14) days from the date of the Letter of Demand, the outstanding due and payable amounting to RM61,520,400.27 (Ringgit Malaysia Sixty One Million Five Hundred Twenty Thousand Four Hundred and Sen Twenty Seven) as at 31 December 2014 together with any applicable compensation calculated until the date of full settlement pursuant to the Corporate Guarantee Agreement dated 24 March 2009 between the Company and KFH for the Facility undertaken by Advanced Pyrotech Sdn Bhd, the Company's former subsidiary which has been wound up on 5 March 2014.

The Corporate Debt Restructuring Committee (“CDRC”) had on 24 February 2015 written to KFH highlighting that the Proposed Regularisation Plan is being evaluated by Bursa Malaysia and that as part of Octagon's admission into CDRC, the FI Creditors were informed to withhold or keep in abeyance any litigation proceedings against Octagon. In that regards, CDRC has requested KFH to refrain from further legal proceedings against Octagon until a decision is made by Bursa Securities, whether to approve or reject the Proposed Regularisation Plan.

With regards to the above, the Group has made the necessary provisions for the said claim in its accounts for the past two financial year end. The Company has not received any response from KFH further to the letter dated 24 February 2015 from CDRC.

11. *Changes in the composition of the group*

Save as disclosed under Item B(8)(iii) below, 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 26 March 2015.

13. *Capital commitments*

There is no capital commitments of the Group contracted for in the interim financial statements as at 31 January 2015.

14. *Related party transactions*

Significant related party transactions which were entered into by the Group for the 3 months ended 31 January 2015 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	83
- PT Multi Pratama Interbuana	30
- Exzone Plastics Manufacturers Sdn Bhd	7
- Luster Precision Engineering Sdn Bhd	209

(B) Additional Disclosures in Compliance with the Listing Requirements of Bursa Malaysia Securities Berhad

1. *Review of performance*

The Group's current main business segment is from the Coatings division.

During the current quarter under review, the Group's turnover decreased by 7.52% to RM8.559 million (out of which RM5.871 million was from continued operations and RM2.688 million from discontinued operation) as compared to RM9.255 million recorded in the corresponding quarter of the last financial year. The Group's turnover for the current under review and the corresponding quarter in the last financial year were solely contributed by Coatings division. The decrease 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 decrease in demand by existing customers.

The Group recorded an operating loss of RM1.337 million for the current quarter under review as compared to an operating loss of RM0.433 million registered in the corresponding quarter in financial year 2014. The Coatings division recorded an operating profit of RM0.332 million in the quarter under review (out of which, RM0.266 million was from continuing operations and RM0.66 million was from discontinued operation). The operating profit from the Coatings division registered in the corresponding quarter in the last financial year was RM0.479 million. The lower operating profit in the current quarter under review is mainly due to lower turnover achieved and higher operating cost.

In the quarter under review, Octagon incurred operating expenses of RM1.648 million as compared to operating expenses of RM0.721 million in the corresponding quarter of the last financial year.

The Group incurred a loss before taxation of RM7.722 million in the current quarter under review as compared to loss before taxation of RM5.653 million in the corresponding quarter in the previous financial year. The Group's loss after taxation attributable to owners of the parent is RM7.825 million for the current quarter under review as compared to loss after taxation attributable to owners of the parent of RM4.866 million for the corresponding period in the last financial year. As a result, the Group has recorded a loss per share of 4.69 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 RM8.559 million (comprising RM5.871 million from continuing operations and RM2.688 million from discontinued operation) as compared to RM9.236 million in the preceding quarter ended 31 October 2014.

The Group recorded a loss before taxation of RM7.722 million in the current quarter under review as compared to loss before taxation of RM2.050 million recorded in the preceding quarter ended 31 October 2014. The higher loss before taxation for the current quarter under review was due to provision of interest expense of RM6.355 million and provision of financial guarantee liability to a FI Creditor of RM1.275 million, whereas the lower loss before taxation in the preceding quarter was a result of 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 2 January 2015, 4 February 2015 and 3 March 2015, 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	103	103
Under/(Over)provision in prior year	-	-
Deferred taxation	-	-
	<hr style="border-top: 1px solid black;"/> 103	<hr style="border-top: 1px solid black;"/> 103
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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 January 2015.

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 2015 is as follows:

At cost	RM47,500
At market value	RM192,780

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 26 March 2015:

- 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 (“Malaco Mining”) and Malaco Leichhardt Pty Ltd (“Malaco Leichhardt”) which was varied vide the Supplemental Restated JDA on 10 June 2014 and the 2nd Supplemental Restated JDA on 23 October 2014. The Company, Malaco Mining and Malaco Leichhardt had on 13 March 2015 mutually extended the cut-off date for completion of all the conditions precedent under the Restated JDA to 17 April 2015, and
- iii. The Proposed Disposal on 17 December 2014 pursuant to the following agreements entered into to dispose of the entire shareholdings comprising 1,500,000 ordinary shares of USD1 each in PT Durachem Indonesia (“PTD”) (“Proposed Disposal”):
 - (a) Durachem, entered into a share sale agreement with Origin Electric Co., Ltd to dispose of 765,000 ordinary shares of USD1 each in PTD equivalent to 51% of the entire issued and paid up capital in PTD for a cash consideration of USD1,338,750;
 - (b) Durachem also entered into a share sale agreement with Miki & Co., Ltd to dispose of 285,000 ordinary shares in PTD equivalent to 19% of the issued and paid up capital of PTD for a cash consideration of USD498,750; and
 - (c) Durachem and Hexagon entered into share sale agreement with Giantvale (M) Sdn. Bhd. (“Giantvale”) for Durachem and Hexagon to dispose of their equity interest collectively comprising 450,000 ordinary shares in PTD which is equivalent to 30% of the issued and paid up capital of PTD to Giantvale for a total cash consideration of RM2,756,250.

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 2015, 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 2015 are as follows: -

Continuing operations	RM'000
Short term borrowings	
Loans obligations	113,519
Long term borrowings	
Loan obligations	260
Total	<u>113,779</u>
Discontinued operation	RM'000
Short term borrowings	
Loans obligations	1,463
Long term borrowings	
Loan obligations	27
Total	<u>1,490</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 26 March 2015, 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 26 March 2015.

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 2015 are as below:-

Type(s) of financial assistance	For the period from 01.11.2014 to 31.1.2015 RM'000	Balance as at 31.1.2015 RM'000
Non-interest bearing cash advances to non wholly-owned subsidiaries	-	-

14. **Loss per share**

	Quarter ended		Current	Preceding year
	31 January	31 January	year-to-date	corresponding
	2015	2014	31 January	period
			2015	31 January
				2014
Loss attributable to equity holders of the Company (RM'000) – continuing operations	(7,921)	(4,866)	(7,921)	(4,866)
Profit attributable to equity holders of the Company (RM'000) – discontinued operation	96	-	96	-
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)				
For continuing operations	(4.75)	(2.92)	(4.75)	(2.92)
For discontinued operation	0.06	-	0.06	-
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
Continuing operations		
Interest income	(7)	(7)
Dividend income	(4)	(4)
Other income excluding interest and dividend income	(12)	(12)
Interest expense	6,355	6,355
Depreciation and amortisation	129	129
Foreign exchange (gain)/loss – realised	(65)	(65)
Foreign exchange (gain)/loss – unrealised	(20)	(20)
Financial guarantee liability	1,275	1,275
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 January	As at 31 October
	2015	2014
	RM'000	RM'000
Total (accumulated losses)/retained profits of the Group:-		
Realised	(272,235)	(264,538)
Unrealised	20	148
	<u>(272,215)</u>	<u>(264,390)</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.