

## **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 (formerly known as MASB Standards), FRS 134 Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of the 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 2004.

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 2004.

#### **2. Audit Report**

There was no audit qualification by the auditors on the annual financial statements of the Octagon Group for the financial year ended 31 October 2004.

#### **3. Seasonality or cyclical nature of operations**

The principal business of the Group is not subjected to seasonal or cyclical factors. However, the Group's turnover depends on orders placed by the Group's direct and indirect customers.

#### **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.

#### **5. Nature and amount of changes in estimates of amount reported in prior interim periods of the current financial year, 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**

During the current financial period under review, 48,000 new ordinary shares of RM1.00 each were issued pursuant to the exercise of options under the Employees' Share Option Scheme (“ESOS”) of the Company.

Other than disclosed above, 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 dividend paid during the quarter under review.

## 8. Segmental Report

The geographical segments for the operations of the Group for the financial period ended 30 April 2005 are as follows: -

|                                     | Malaysia<br>RM'000 | Indonesia<br>RM'000 | Hong Kong<br>RM'000 | Eliminations<br>RM'000 | Consolidated<br>RM'000 |
|-------------------------------------|--------------------|---------------------|---------------------|------------------------|------------------------|
| <b>REVENUES</b>                     |                    |                     |                     |                        |                        |
| External sales                      | 18,151             | 7,940               | 1,999               | -                      | 28,090                 |
| Inter-segment sales                 | 7,805              | -                   | -                   | (7,805)                | -                      |
| Total revenue                       | <u>25,956</u>      | <u>7,940</u>        | <u>1,999</u>        | <u>(7,805)</u>         | <u>28,090</u>          |
| <b>RESULT</b>                       |                    |                     |                     |                        |                        |
| Segment result                      | 7,501              | 202                 | (553)               | (168)                  | 6,982                  |
| Dividend revenue                    |                    |                     |                     |                        | -                      |
| Interest expense                    |                    |                     |                     |                        | (18)                   |
| Interest revenue                    |                    |                     |                     |                        | 247                    |
| Taxation                            |                    |                     |                     |                        | (2,363)                |
| Profit after taxation               |                    |                     |                     |                        | <u>4,848</u>           |
| Minority Interest                   |                    |                     |                     |                        | <u>274</u>             |
| Profit attributable to shareholders |                    |                     |                     |                        | <u>5,122</u>           |
| <b>OTHER INFORMATION</b>            |                    |                     |                     |                        |                        |
| Segment assets                      | 157,044            | 13,746              | 5,428               | (91,911)               | 84,307                 |
| Unallocated assets                  |                    |                     |                     |                        | 31,469                 |
| Deferred tax asset                  |                    |                     |                     |                        | <u>1</u>               |
| Consolidated total assets           |                    |                     |                     |                        | <u>115,777</u>         |
| Segment liabilities                 | 38,364             | 8,609               | 4,045               | (44,669)               | 6,349                  |
| Unallocated liabilities             |                    |                     |                     |                        | 242                    |
| Taxation                            |                    |                     |                     |                        | 206                    |
| Deferred taxation                   |                    |                     |                     |                        | 217                    |
| Minority interest                   |                    |                     |                     |                        | <u>4,877</u>           |
| Consolidated total liabilities      |                    |                     |                     |                        | <u>11,891</u>          |
| Capital expenditure                 | 3,398              | -                   | -                   | -                      | 3,398                  |
| Depreciation of fixed assets        | 581                | 139                 | 93                  | -                      | 813                    |
| Provision for expenses              | 100                | -                   | -                   | -                      | 100                    |

Inter-segment sales comprises sales revenue which are priced at cost plus a percentage mark-up.

## 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 event

Save as disclosed below, there were no material events which have occurred subsequent to the end of the financial period ended 30 April 2005 up to 3 June 2005 which have not been reflected in the financial statement for the said period:-

- (i) On 24 May 2005, the Company announced that its wholly-owned subsidiary, Durachem Sdn Bhd, ("Durachem") has subscribed for 500,000 new ordinary shares of USD1.00 each in Durachem International (Hong Kong) Co Limited ("DIHK") for a total cash consideration of USD500,000, equivalent to approximately RM1.9 million. The subscription of new shares has resulted in the shareholdings of Durachem in DIHK increased from 70% to 80%.

- (ii) The Company also announced that DIHK has increased its investment in Durachem Guangzhou Co Ltd, a wholly-owned subsidiary of DIHK, by HK\$1.5 million on 25 May 2005.
- (iii) On 27 May 2005, Commerce International Merchant Bankers Berhad announced, on behalf of Octagon, that the following proposals have been completed:-
  - (a) an acquisition by Profound Peak Sdn Bhd, a wholly-owned subsidiary of Octagon, of the entire issued and fully paid-up share capital of Premierpath Sdn Bhd comprising 1,000,000 ordinary shares of RM1.00 each in Premierpath Sdn Bhd for a total cash consideration of RM19 million; and
  - (b) a subscription by Octagon Industrial Coatings Technology Sdn Bhd, a wholly-owned subsidiary of Octagon, of 75,000 ordinary shares of RM1.00 each in Advanced Coatings and Surface Technologies Sdn Bhd ("ACST"), representing 30% of the enlarged issued and paid-up share capital of ACST, for a total cash consideration of RM75,000.

Pursuant to the above, Premierpath Sdn Bhd is a wholly-owned subsidiary of Profound Peak Sdn Bhd and ACST is a 30%-owned associated company of Octagon Industrial Coatings Technology Sdn Bhd.

## **11. Changes in the Composition of the Group**

Other than as disclosed below, there were no changes in the composition of the Group for the current quarter under review:-

On 20 April 2005, Octagon has subscribed for 49 ordinary shares of RM1.00 each in Advanced Pyrotech Sdn Bhd ("APT") at par, which has resulted in APT becoming a 49%-owned associated company of Octagon.

## **12. Contingent liabilities or contingent assets**

On 3 September 2000, a fire had occurred at part of the open store yard of Durachem Sdn Bhd ("Durachem"), a wholly-owned subsidiary of the Company, which is used to store certain raw materials. The fire had resulted in damage to the refuse chamber, the back portion of the production building for powder blending and back-up generator set. The fire had also indirectly resulted in some damage to an adjacent third party's warehouse.

On 14 March 2001, Durachem received a notice of claim amounting to RM62,065 for damage caused to the adjacent third party's warehouse. Durachem has denied the claim and has forwarded the said claim to its insurer, Mitsui Sumitomo Insurance (Malaysia) Bhd. for their further action.

On 13 March 2003, Durachem was served a Writ of Summons together with Statement of Claim dated 2 January 2003 by Kellogg's Malaysia Manufacturing Sdn Bhd and Zurich Insurance (Malaysia) Bhd ("Plaintiffs"). The Plaintiffs are claiming for an amount of RM1.5 million as compensation for damage to goods, the interest at the rate of 8% per annum on the aforesaid sum of RM1.5 million from the date of filing of the Summons to the date of judgment, the costs and other relief deemed fit and proper by the Court. Further details are set out in Section (B)11 of this note.

Save as disclosed above, as at 3 June 2005, the Directors of Octagon are not aware of any contingent liabilities, which upon becoming enforceable, may have a material impact on the profit or net assets value of the Group.

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

**1. Review of Performance**

During the current quarter under review, the Group registered a higher turnover of RM15.035 million as compared to RM13.602 million recorded in the 2<sup>nd</sup> Quarter of the last financial year. This is due to the increase in demand by existing customers.

The gross profit margin of the Group fluctuates on a monthly basis. The gross profit margin for the 2<sup>nd</sup> Quarter of the financial year ended 31 October 2005 is 41.25% as compared to 44.27% for the corresponding period in the previous financial year. The drop in the gross profit margin is due to the increased cost of raw materials and higher overhead cost. The Group is continuing its effort to reduce overheads cost and stringent control measures in resource planning in order to maximise profit and minimise overheads cost.

The profit before taxation margin for the 2<sup>nd</sup> Quarter of the current financial year has recorded a drop from 29.03% registered for the corresponding period in the previous financial year to 25.67%. Other than as mentioned above, this is also due to higher administration and other expenses as a result of the Group's expansion program.

**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 RM15.035 million as compared to RM13.055 million in the preceding quarter ended 31 January 2005. The Group's turnover has increased by approximately 15.17%, mainly due to the increase in demand by existing customers in the quarter under review. As a result of the above, the profit before taxation has improved approximately 15.13%, from RM3.352 million to RM3.859 million.

**3. Prospects**

The Malaysian economy remains resilient despite a moderation in global economic activity amidst high oil prices. Real gross domestic product growth remained favourable and was within expectations, expanding by 5.7% in the first quarter of 2005.

Value added in the manufacturing sector expanded by 5.6% in the first quarter of 2005 as compared to 5.5% registered in the fourth quarter. In the export-oriented industries, output growth moderated slightly to 5.3% in the first quarter of 2005 from 7.8% in the fourth quarter of 2004. The gross export of consumer electrical products has turnaround to register a growth of 8% compared to a negative growth of 0.6% in the fourth quarter of 2004.

The near-term outlook for Malaysia remains favourable despite some signs of moderating growth in the global economy and rising prices. Global growth is nevertheless still expected to be strong, supported by continued growth in consumer and investment demand.

Baring unforeseen circumstances, the Board of Directors of Octagon is optimistic that the Group will be able to remain profitable in the current financial year.

**4. Variance of Actual Profit From Forecast Profit**

Not applicable.

## 5. Taxation

|                                     | <b>Current Quarter</b> | <b>Cumulative year to date</b> |
|-------------------------------------|------------------------|--------------------------------|
|                                     | <b>RM'000</b>          | <b>RM'000</b>                  |
| Current                             | 1,241                  | 2,363                          |
| Under/(Overprovision) in prior year | -                      | -                              |
| Deferred taxation                   | -                      | -                              |
|                                     | <hr/> <u>1,241</u>     | <hr/> <u>2,363</u>             |

The effective rate of taxation of the Group is higher than the statutory rate of taxation mainly due to certain expenses being disallowed for taxation purposes.

## 6. Profits on Sale of Investments and/or Properties

There were no sale of investments and/or properties for the current financial period ended 30 April 2005.

## 7. Quoted Securities

There were no purchases or disposals of quoted securities during the current financial quarter under review.

Investment in quoted shares as at 30 April 2005 were as follows:

|                              |          |
|------------------------------|----------|
| At cost                      | RM47,500 |
| At carrying value/book value | RM47,500 |
| At market value              | RM46,400 |

## 8. Status of Corporate Proposals

### 8.1 Corporate Proposals

Save as disclosed below, there are no other corporate proposals announced but not completed as at 3 June 2005: -

On 2 February 2005, Commerce International Merchant Bankers Berhad ("CIMB") announced, on behalf of Octagon, that Octagon proposed to implement, inter alia, the following:

- (i) a share split of every 1 existing ordinary shares of RM1.00 each in Octagon ("Octagon Shares") on an entitlement date to be determined, into 2 new ordinary shares of RM0.50 each in Octagon ("Subdivided Octagon Shares") ("Proposed Share Split");
- (ii) a bonus issue of up to 33,980,000 new Subdivided Octagon Shares to be credited as fully paid-up on the basis of 1 new Subdivided Octagon Share for every 4 Subdivided Octagon Shares held after the Proposed Share Split ("Proposed Bonus Issue");
- (iii) a renounceable rights issue of up to 67,960,000 warrants at an issue price of RM0.05 per warrant on the basis of 2 warrants for every 5 Subdivided Octagon Shares held after the Proposed Bonus Issue ("Proposed Rights Issue of Warrants");

Bursa Malaysia Securities Berhad has via its letter dated 21 March 2005 granted approval-in-principle for the Proposed Share Split and the listing of up to 33,980,000 new Subdivided Octagon Shares or up to 16,990,000 new Octagon Shares to be issued pursuant to the Proposed Bonus Issue. Bank Negara Malaysia has, via its letter dated 17 March 2005, granted its approval for the Proposed Rights Issue of Warrants.

The approval of the Securities Commission for the Proposed Share Split and Proposed Rights Issue of Warrants was obtained on 5 April 2005 and the shareholders approved the Proposed Share Split, Proposed Bonus Issue and Proposed Rights Issue of Warrants on 29 April 2005. The Proposed Share Split and Proposed Bonus Issue are pending implementation as at the date hereof. Application for the listing of and quotations for up to 67,960,000 warrants to be issued pursuant to the Proposed Rights Issue of Warrants will be made to the Bursa Malaysia Securities Berhad and Securities Commission in due course.

## 8.2 Utilisation of proceeds

The status of utilisation of the proceeds raised from the rights issue and public issue pursuant to the listing of Octagon on the Second Board of the Bursa Malaysia Securities Berhad on 8 November 2000 amounting to RM24.490 million is as follows: -

|  | (a)<br>As approved<br>by the<br>Securities<br>Commission<br>RM'000 | (b)<br>®Revision<br>made by<br>Octagon<br>RM'000 | (b)<br>Amount<br>utilized as at<br>3 June<br>2005<br>RM'000 | (c) = (a) – (b)<br>Amount<br>unutilized as at<br>3 June<br>2005<br>RM'000 |
|--|--|--|---|---|
| Part finance the purchase of Industrial land   | 3,310  | 3,310  | 3,310   | -   |
| Construction of office, warehouse and factory buildings  | 8,000  | 6,500  | 5,458   | 1,042   |
| Purchase of plant and machinery and testing equipment and apparatus and upgrading of the research and development facilities | 2,000  | 4,000  | 2,218   | 1,782   |
| Research and development expenditure   | 2,000  | -  | -   | -   |
| Acquisition of Profound Peak Sdn Bhd   | 599  | 599  | 599   | -   |
| Repayment of bank borrowings   | 2,384  | 2,384  | 2,384   | -   |
| Working capital  | 4,197  | 5,789  | 5,789   | -   |
| Estimated listing expenses   | 2,000  | 1,908  | 1,908   | -   |
|  | <u>24,490</u>  | <u>24,490</u>                                    | <u>21,666</u>   | <u>2,824</u>  |

*Note: -*

® The revision to the utilization of proceeds and the revision to the manner of utilization of proceeds were announced to the Bursa Malaysia Securities Berhad on 21 May 2001, 28 September 2001, 13 August 2002 and 31 December 2004 respectively.

## 9. Group Borrowings and Debt Securities

All of the Group banking facilities which include bank overdraft and revolving loan facilities granted by financial institutions to the subsidiaries of Octagon are secured by way of corporate guarantee from Octagon of up to RM18.3 million.

Total Group borrowings as at 30 April 2005 are as follows: -

|                              | RM'000     |
|------------------------------|------------|
| <b>Short term borrowings</b> |            |
| Hire purchase creditors      | 139        |
| <b>Long term borrowings</b>  |            |
| Hire purchase creditors      | 388        |
| Total                        | <u>527</u> |

All of the Group borrowings are denominated in Ringgit Malaysia.

## 10. Off Balance Sheet Financial Instruments

The Group does not have any financial instruments with off balance sheet risk as at 3 June 2005 being the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report.

## 11. Material Litigation

On 13 March 2003, Durachem was served with Writ of Summons together with Statement of Claims dated 2 January 2003 by Kellogg's Malaysia Manufacturing Sdn Bhd ("Kellogg's") and Zurich Insurance (Malaysia) Bhd ("Plaintiffs"). The solicitors of Durachem Sdn Bhd have filed a Statement of Defence with the High Court of Malaysia in Shah Alam on 23 April 2004. The case has been fixed for mention on 16 June 2005.

The Plaintiffs are claiming for a total sum of RM1.5 million as compensation for damage to goods, the interest at the rate of 8% per annum on the aforesaid sum of RM1.5 million from the date of filing of the Summons to the date of judgement, the costs and any other relief deemed fit and proper by the Court. The solicitors of Durachem are of the view that even if Durachem is held liable for the fire, the quantum claimed by the Plaintiff may be reduced. Durachem has a public liability insurance amounting to RM1 million at the time of the fire. Hence, in the event that the claim is successful, the expected losses arising from the suit will be the sum claimed (net of the public liability insurance), interest, legal fees and other relief, the amount of which can only be determined upon award of judgement. Based on the above, the Directors of Octagon are of the opinion that the aforesaid litigation will not have any material effects on the financial position and operation of the Octagon Group.

Save as disclosed above, as at 3 June 2005, neither Octagon nor any of its subsidiaries is engaged in any material litigation, claims or arbitration, either as plaintiff or defendant and the Directors of Octagon do not have any knowledge of any proceedings pending or threatened against Octagon 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.

## 12. Dividends

The Board of Directors has recommended an interim dividend of 10% less 28% tax for the financial year ending 31 October 2005. The interim dividend will be payable on 28 July 2005 to Depositors whose names appear in the Record of Depositors on 8 July 2005.

## 13. Earnings Per Share

|   | Quarter ended |        | Current year  | Preceding year |
|---|---------------|--------|---------------|----------------|
|   | 30 April      |        | to date       | corresponding  |
|   | 2005          | 2004   | 30 April 2005 | 30 April 2004  |
| Profit after taxation and minority interest (RM'000)                | 2,743         | 2,661  | 5,122         | 4,917          |
| Weighted average number of ordinary shares in issue ('000)          | 65,920        | 60,111 | 65,904        | 60,282         |
| Adjustment in relation to the ESOS ('000)                           | 629           | 1,923  | 641           | 1,802          |
| Adjusted weighted average number of ordinary shares in issue ('000) | 66,549        | 62,034 | 66,545        | 62,084         |
| Basic earnings per share (sen)                                      | 4.16          | 4.43   | 7.77          | 8.16           |
| Diluted earnings per share (sen)                                    | 4.12          | 4.29   | 7.70          | 7.92           |