

Octagon Consolidated Berhad
Further commentary on financial performance
3rd quarter ended 31 July 2006

1. The Group's turnover has increased by 6.94% from RM19.358 million recorded in the 2nd quarter of 2006 to RM20.702 million registered in the 3rd quarter of 2006 due to the improved contribution from its subsidiary in China.
2. During the same period, the Group's net profit has also increased by 2.5% from RM2.752 million to RM2.821 million.
3. Despite the above, gross profit margin and net profit margin has dropped from 37.3% and 14.2% in 2nd quarter 2006 to 35.4% and 13.6% in 3rd quarter 2006, respectively. This is mainly due to the following:-
 - the weaken consumer electrical products sector, where most of the products of the Group are applied. The gross export of consumer electrical products has registered consecutive negative growth of 20.2% and 18.4% for the first two quarters of 2006 despite the electronics and electrical products registering positive growth.
 - As a result of the weaken consumer electrical products sector, the customers of the Group, namely major brand owner, are also affected by slow down in demand as well as increase in competitions.
 - Further, they are not in the position to increase product pricing as a result of intense competitions from other smaller players, e.g. those players from China. Hence, the pricing as well as margin for the coating products as a whole, including those of the Group's products, has been lower than previous years.
 - Higher raw material costs as a result of the impact of increase in oil prices has also contributed to lower margin. Due to the above-mentioned situation, the increased in raw material costs cannot be completely pass on to the customers.
 - In addition, higher overheads and other expenses pursuant to the Group's expansion program also contributed to the lower net profit margin.
4. The Group's turnover for the 9 months ended 31 July 2006 of RM55.654 million represents and increase of 10.8% from that recorded for the corresponding period ended 31 July 2005 of RM50.231 million.
5. However, the Group's net profit for the same period has decreased from RM8.78 million to RM7.936 million or by 9.6% as a result of the reduction in product margin as explained above.
6. The Group's strategy for its Coatings business is to expand the market base to increase turnover in view of the reducing margin and also to focus more on the higher margin product both locally and overseas.
7. In addition, to further improve turnover and profitability, the Group is also planning to set-up additional manufacturing plant in this region where ready market is available, i.e., where the customers of the Group has established operations and required support from the Group.
8. Meanwhile, the Group's investment in the new ventures, namely the renewable energy business under Green Energy and Technology Sdn Bhd and Melaka Waste to Energy Sdn Bhd, the rubber chips pyrolysis project under Advanced Pyrotech Sdn Bhd and the special purpose coatings business under Advanced Coatings and Surface Technologies Sdn Bhd, are under development and has yet to contribute to the Group's earnings but are expected to contribute positively to the Group's earnings once fully operational.