

## 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. 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 2007.

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 2007.

#### 2. Audit Report

There was no audit qualification by the auditors on the audited financial statements of the Octagon Group for the financial year ended 31 October 2007.

#### 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 could be lower during the period from November to March, depending 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 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 dividend paid 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 2008 are as follows:-

	<b>Manufacturing</b> RM'000	<b>Renewable</b> <b>Energy</b> RM'000	<b>Eliminations</b> RM'000	<b>Consolidated</b> RM'000
<b>REVENUES</b>				
External sales	18,494	3,888	-	22,382
Inter-segment sales	-	-	-	-
Total revenue	<u>18,494</u>	<u>3,888</u>	-	<u>22,382</u>
<b>RESULT</b>				
Segment result	2,435	3,221	-	5,656
Interest expense				(746)
Interest revenue				62
Dividend received				5
Taxation				(1,605)
Share of results of associated companies				<u>(195)</u>
Profit after taxation				3,177
Minority Interest				<u>114</u>
Profit attributable to shareholders				<u>3,291</u>
<b>OTHER INFORMATION</b>				
Segment assets	98,636	35,359		133,995
Unallocated assets				17,533
Investment in associated companies				13,303
Other investment				4,048
Goodwill				18,590
Deferred tax assets				247
Tax assets				<u>3,851</u>
Consolidated total assets				<u>191,567</u>
Segment liabilities	7,826	8,994		16,820
Unallocated liabilities				39,557
Taxation				2,236
Deferred taxation				267
Minority interest				-
Consolidated total liabilities				<u>58,880</u>
Capital expenditure	542	152	-	694
Depreciation of fixed assets	507	22	-	529

b) Secondary Reporting Format – Geographical Segments

The geographical segments for the operations of the Group for the financial period ended 31 January 2008 are as follows:-

	Malaysia RM'000	Indonesia RM'000	Hong Kong & The People's Republic of China RM'000	Eliminations RM'000	Consolidated RM'000
<b>REVENUES</b>					
Malaysia					11,577
Indonesia					4,474
Hong Kong & The People's Republic of China					2,192
South East Asia					251
South Asia					3,888
					<u>22,382</u>
<b>RESULT</b>					
Segment result	5,999	47	(390)	-	5,656
Interest expense					(746)
Interest revenue					62
Dividend received					5
Taxation					(1,605)
Share of results of associated companies					(195)
Profit after taxation					<u>3,177</u>
Minority Interest					114
Profit attributable to shareholders					<u>3,291</u>
<b>OTHER INFORMATION</b>					
Segment assets	110,895	10,794	12,306		133,995
Unallocated assets					17,533
Investment in associated companies					13,303
Other investment					4,048
Goodwill					18,590
Deferred tax assets					247
Tax assets					3,851
Consolidated total assets					<u>191,567</u>
Capital expenditure	694	-	-	-	694
Depreciation of fixed assets	410	61	58	-	529

**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 2008 up to 18 March 2008 which have not been reflected in the financial statement for the said period:-

On 17 March 2008, the Company announced its intention to seek the approval of its shareholders for a renewal of shareholders' mandate for recurrent related party transactions of a revenue or trading nature which are necessary for the day to day operations of the Group and the authority for share buy-back of up to 10% of the issued and paid-up share capital of the Company at the forthcoming Annual General Meeting.

**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**

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)12 of this note. The case management has been fixed on 14 April 2008.

Save as disclosed above, as at 18 March 2008, 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's turnover increased by 27.49% to RM22.382 million as compared to RM17.556 million recorded in the first quarter of the last financial year. The higher turnover is mainly due to the revenue amounting to RM3.888 million contributed by the Renewable and Alternative Energy Division, which started to contribute to the Group in the previous quarter ended 31 October 2007, and the increase in the revenue of the Coatings Division resulted from higher demand by existing customers. Green Energy and Technology Sdn Bhd, a wholly-owned subsidiary of the Company, has entered into a Services Agreement to design, engineer, construct, commission and operate a waste to energy plant for a Sri Lankan company in October 2007.

The Group has recorded a higher operating profit of RM5.75 million for the first quarter of 2008 compared to RM3.38 million registered in the corresponding quarter in 2007. The higher operating profit is due to the contribution from the Renewable and Alternative Energy Division despite the lower operating profit for the first quarter of 2008 for the Coatings Division which has reduced by 32.5% due to increased cost of production, selling and distribution expenses. The Coatings Division of the Group is unable to sell at a higher selling price to its customers to retain the margin as their indirect customers, being major brand owners, are not able to increase their product pricing as a result of competitions from other players. Due to this reason, the margin for most of the products in the industry, including those of the Group's, has been lower than previous years.

The Group's profit before taxation has increased by 54.86% to RM4.782 million from the corresponding period of RM3.088 million while the Group's profit after taxation and minority interest has increased from RM2.106 million to RM3.291 million.

The Coatings Division is continuing its effort to diversify its product range in addition to improving its planning on raw materials purchases and to reduce overhead costs through stringent cost control measures. In addition, the Group also plans to expand its Renewable and Alternative Energy business both locally and abroad.

### **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 RM22.382 million as compared to RM35.185 million in the preceding 4th quarter ended 31 October 2007. The lower turnover is due to lower progress billing by the Renewable and Alternative Energy Division amounting to RM3.888 million compared to RM10.020 million in the previous quarter as well as lower turnover from the Coatings Division, which has decreased by 26.9% from RM24.986 million. The Renewable and Alternative Energy Division's revenue is based on progress of the work completed as provided in the Services Agreement dated 23 October 2007. The lower profit from the Coatings Division is due to the lower demand by existing customers within the Coatings Division, such as from the operation in Indonesia and the Republic of China. This has also resulted in lower operating profit and profit before taxation of the Group.

### **3. Prospects**

The Malaysian economy registered a strong growth in the fourth quarter of 2007. Robust domestic demand, driven by strong private consumption spending and investment activities, raised real gross domestic product (GDP) growth to 7.3%. For the whole year, real GDP expanded by 6.3% compared to 5.9% recorded in 2006.

Value added growth in the manufacturing sector increased by 5.6% in the fourth quarter of 2007 and 3.1% for the year 2007 compared to 7.1% recorded in 2006. Growth in the electronics and electrical sectors and also the chemicals and chemical products sector has moderated in 2007. Gross export for electronics and electrical products has registered a reduction of 4.2% as compared to growth of 6.4% in 2006. The gross export of consumer electrical products is still registering a negative growth, albeit at a lower rate of 13.9%, as compared to the negative growth of 15.6% in 2006. The decline in the gross export of consumer electrical products further improve to 7.7% in the fourth quarter of 2007.

The Group has taken and will continue taking measures to counter the effects of the declining margins by widening its customer base and increasing its focus on higher end products for its coatings business. Further, the Company also plans to expand its Renewable and Alternative Energy Division locally and abroad. Barring 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 RM'000</b>	<b>Cumulative year to date RM'000</b>
Current	1,605	1,605
Under/(Overprovision) in prior year	-	-
Deferred taxation	-	-
	<u>1,605</u>	<u>1,605</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 period ended 31 January 2008.

**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 31 January 2008 were as follows:

At cost	RM47,500
At carrying value/book value	RM47,500
At market value	RM132,720

**8. Other Investments**

In January 2007, Octagon subscribed for RM4,000,000 in unquoted subordinated bonds with a tenure of five (5) years. The subscription of the subordinated bonds is part of the terms of the unsecured fixed term loan facility under Primary Collateralised Loan Obligation Programme with RHB Investment Bank Berhad.

Investment in unquoted instruments as at 31 January 2008 was as follows:

Subordinated bonds	RM4,000,000
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## 9. Status of Corporate Proposals

Save as disclosed below, there are no other corporate proposals announced but not completed as at 18 March 2008: -

On 17 March 2008, the Company announced its intention to seek the approval of its shareholders for a renewal of shareholders' mandate for recurrent related party transactions of a revenue or trading nature which are necessary for the day to day operations of the Octagon Group and the authority for share buy-back of up to 10% of the issued and paid-up share capital of the Company at the forthcoming Annual General Meeting.

## 10. 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 the Company are secured by way of corporate guarantee from the Company of up to RM18.3 million.

Total Group borrowings as at 31 January 2008 are as follows: -

	<b>RM'000</b>
<b>Short term borrowings</b>	
Hire purchase creditors	77
<b>Long term borrowings</b>	
Hire purchase creditors	72
Collateralised loan obligations	40,000
Less: unamortized loan processing fee	(592)
Total	<u>39,557</u>

All of the Group borrowings are denominated in Ringgit Malaysia.

## 11. Off Balance Sheet Financial Instruments

The Group does not have any financial instruments with off balance sheet risk as at 18 March 2008, being the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report

## 12. 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 next case management has been fixed on 14 April 2008.

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 Group.

Save as disclosed above, as at 18 March 2008, 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.

### 13. Dividends

No dividend has been proposed for the current period under review.

### 14. Provision of Financial Assistance

Pursuant to paragraph 8.23 of the Bursa Malaysia Securities Berhad's Listing Requirements and Practice Note 11/2001, details of the financial assistance provided by the Octagon Group as at 31 January 2008 are as below:-

Type(s) of financial assistance	For the period from 01.11.2007 to 31.01.2008 RM	Cumulative Balance as at 31.01.2008 RM
Non-interest bearing cash advances to non-wholly owned subsidiaries	244,567	19,594,794
Non-interest bearing cash advances to associated companies	1,500,000	5,000,000

The financial assistance provided during the quarter does not have any material effect on the earnings, net assets and liquidity of the Octagon Group.

### 15. Earnings Per Share

	Quarter ended		Current year to date	Preceding year corresponding period
	31 January 2008	31 January 2007	31 January 2008	31 January 2007
Profit after taxation and minority interest (RM'000)	3,291	2,106	3,291	2,106
Weighted average number of ordinary shares in issue ('000)	166,920	157,194	166,920	157,194
Adjustment in relation to the Warrants issued on 24 October 2005 ('000)	-	-	-	-
Adjusted weighted average number of ordinary shares in issue ('000)	166,920	157,194	166,920	157,194
Basic earnings per share (sen)	1.97	1.34	1.97	1.34
Diluted earnings per share (sen)	*	*	*	*

Note:

\* Diluted earnings per share is not computed as the potential ordinary shares to be issued are anti-dilutive.