

## 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 cyclicity of operations

The principal business of the Group is not subjected to seasonal or cyclical factors. However, the Group's manufacturing 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

Save as disclosed below, there were no issuance, cancellations, repurchase, resale and repayments of debts and equities securities during the financial period under review:-

The Company has bought back 133,000 ordinary shares of RM0.50 each with internal funds from open market, details of which are as follows:-

Month	No. of shares	Price per share		*Average cost RM	Total cost RM
		Highest RM	Lowest RM		
February 2008	133,000	1.03	1.00	1.04	137,672

\* Average cost is inclusive of brokerage, stamp duties and clearing fees.

#### 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 30 April 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	38,153	18,738	-	56,891
Inter-segment sales	-	-	-	-
Total revenue	<u>38,153</u>	<u>18,738</u>	-	<u>56,891</u>
<b>RESULT</b>				
Segment result	5,579	4,907	-	10,486
Interest expense				(1,493)
Interest revenue				118
Dividend received				5
Taxation				(3,155)
Share of results of associated companies				(387)
Profit after taxation				<u>5,574</u>
Minority Interest				<u>226</u>
Profit attributable to shareholders				<u>5,800</u>
<b>OTHER INFORMATION</b>				
Segment assets	101,225	50,560		151,785
Unallocated assets				10,974
Investment in associated companies				13,111
Other investment				4,048
Goodwill				18,590
Deferred tax assets				247
Tax assets				3,851
Consolidated total assets				<u>202,606</u>
Segment liabilities	6,410	20,122		26,532
Unallocated liabilities				39,524
Taxation				1,904
Deferred taxation				267
Minority interest				-
Consolidated total liabilities				<u>68,227</u>
Capital expenditure	749	319	-	1,068
Depreciation of fixed assets	1,009	45	-	1,054

b) Secondary Reporting Format – Geographical Segments

The geographical segments for the operations of the Group for the financial period ended 30 April 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					23,966
Indonesia					8,619
Hong Kong & The People's Republic of China					4,171
South East Asia					1,397
South Asia					18,738
					<u>56,891</u>
<b>RESULT</b>					
Segment result	11,411	(131)	(794)	-	10,486
Interest expense					(1,493)
Interest revenue					118
Dividend received					5
Taxation					(3,155)
Share of results of associated companies					(387)
Profit after taxation					5,574
Minority Interest					226
Profit attributable to shareholders					<u>5,800</u>
<b>OTHER INFORMATION</b>					
Segment assets	131,355	9,937	10,493		151,785
Unallocated assets					10,974
Investment in associated companies					13,111
Other investment					4,048
Goodwill					18,590
Deferred tax assets					247
Tax assets					3,851
Consolidated total assets					<u>202,606</u>
Capital expenditure	1,068	-	-	-	1,068
Depreciation of fixed assets	819	119	116	-	1,054

**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 30 April 2008 up to 23 June 2008 which have not been reflected in the financial statement for the said period:-

- (i) On 12 May 2008, the Company announced that it has secured a credit facility amounting to RM70,000,000 from Amanah Raya Capital Sdn Bhd on 10 May 2008. The Facility, which is for a period of 18 months from the first drawdown, is subject to an interest rate of 10% per annum; and
- (ii) On 13 May 2008, the Company announced that its wholly-owned subsidiary, Green Energy and Technology Sdn Bhd, entered into a Share Subscription Agreement with Platinum Energy Sdn Bhd ("PE") to subscribe for 9,990,000 ordinary shares of RM1.00 each in PE, representing approximately 27.4% equity interest in PE for a total cash consideration of RM9,990,000. The subscription was completed on 20 May 2008.

## **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 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 27 June 2008.

Save as disclosed above, as at 23 June 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 69.34% to RM34.509 million as compared to RM20.379 million recorded in the second quarter of the last financial year. The higher turnover is mainly due to the revenue amounting to RM14.850 million contributed by the Renewable and Alternative Energy Division, which started to contribute to the Group in the last quarter of financial year ended 31 October 2007. The turnover from Coatings Division has reduced by RM0.694 million from RM20.286 million to RM19.592 million resulted from decrease in 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 RM4.912 million for the second quarter of 2008 compared to RM3.964 million registered in the corresponding quarter in 2007. This is due to the contribution from the Renewable and Alternative Energy Division. Operating profit for the second quarter of 2008 for the Coatings Division has reduced by 20.96% 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 77.47% to RM3.947 million from the corresponding period of RM2.224 million while the Group's profit after taxation and minority interest has increased from RM1.067 million to RM2.509 million. Similarly, this is due to the contribution from the Renewable and Alternative Energy Division.

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 RM34.509 million as compared to RM22.382 million in the preceding 1st quarter ended 31 January 2008. The Coatings Division's turnover has increased by 7.31% to RM19.592 million from RM18.257 million, mainly due to the higher demand by existing local customers within the Coatings Division. The Renewable and Alternative Energy Division, which revenue is based on progress of the work completed as provided in the Services Agreement dated 23 October 2007, has recorded a turnover of RM14.850 million compared to RM3.888 million in the previous quarter. A lower operating profit and profit before taxation of the Group has resulted due to the lower profit registered by the Renewable and Alternative Energy Division. The profit contribution from the Renewable and Alternative Energy Division may differ from quarter to quarter as its income and expenditure are based on progress of the project undertaken by the Division. The Coatings Division has recorded a slightly higher operating profit of RM3.329 million in the current quarter under review as compared to RM2.497 million in the previous quarter ended 31 January 2008.

### **3. Prospects**

The Malaysian economy registered a strong growth of 7.1% in the first quarter of 2008. The growth momentum was led by double digit expansion in private and public consumption spending, while investment activities remained resilient. Growth was further supported by strong contribution from external demand, following stronger growth in exports, while imports moderated further during the quarter.

Gross export for electronics and electrical products has registered a reduction of 9.4% in the first quarter of 2008 as compared to 2.1% in the fourth quarter of 2007. The gross export of consumer electrical products has however recorded growth of 16.2% in the first quarter of 2008 compared to a negative growth of 7.1% in the previous quarter.

Uncertainties in the global economic environment remain, with the global growth outlook expected to continue to be mixed, with moderation in industrial economies while growth in the Asian region is expected to be sustained. Overall, global growth is expected to moderate further going forward. In this environment, the Malaysian economy is expected to continue to remain resilient, supported by sustained growth in domestic demand reinforced by expanding intra-region trade.

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 cautiously 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

	Current Quarter RM'000	Cumulative year to date RM'000
Current	1,550	3,155
Under/(Overprovision) in prior year	-	-
Deferred taxation	-	-
	1,550	3,155

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 30 April 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 30 April 2008 were as follows:

At cost	RM47,500
At carrying value/book value	RM47,500
At market value	RM136,080

#### 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 30 April 2008 was as follows:

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

There are no other corporate proposals announced but not completed as at 23 June 2008.

## 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 30 April 2008 are as follows: -

	<b>RM'000</b>
<b>Short term borrowings</b>	
Hire purchase creditors	49
<b>Long term borrowings</b>	
Hire purchase creditors	67
Collateralised loan obligations	40,000
Less: unamortized loan processing fee	(592)
Total	<u>39,524</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 23 June 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 27 June 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 23 June 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 30 April 2008 are as below:-

Type(s) of financial assistance	For the period from 01.04.2008 to 30.04.2008 RM	Cumulative Balance as at 30.04.2008 RM
Non-interest bearing cash advances to non-wholly owned subsidiaries	235,489	19,816,322
Non-interest bearing cash advances to associated companies	-	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
	30 April 2008	30 April 2007	30 April 2008	30 April 2007
Profit after taxation and minority interest (RM'000)	2,509	1,067	5,800	3,173
Weighted average number of ordinary shares in issue ('000)	166,826	157,194	166,874	157,194
Adjustment in relation to the Warrants issued on 24 October 2005 ('000)	-	-	-	-
Adjusted weighted average number of ordinary shares in issue ('000)	166,826	157,194	166,874	157,194
Basic earnings per share (sen)	1.50	0.68	3.48	2.02
Diluted earnings per share (sen)	*	*	*	*

Note:

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