

## 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.

#### 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, cancellation, repurchase, resale and repayment of debts and equities securities during the financial period under review.

#### 7. Dividends paid

A final dividend of 4.0 sen per ordinary share of RM0.50 each less 26% tax amounting to RM4,936,889.28 for the financial year ended 31 October 2007 was paid on 23 May 2008.

## 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 July 2008 are as follows:-

	<b>Manufacturing RM'000</b>	<b>Waste To Energy RM'000</b>	<b>Eliminations RM'000</b>	<b>Consolidated RM'000</b>
<b>REVENUES</b>				
External sales	58,629	27,028	-	85,657
Inter-segment sales	-	-	-	-
Total revenue	<u>58,629</u>	<u>27,028</u>	<u>-</u>	<u>85,657</u>
<b>RESULT</b>				
Segment result	9,460	3,609	-	13,069
Interest expense				(4,022)
Interest revenue				188
Dividend received				7
Taxation				(3,777)
Share of results of associated companies				<u>(906)</u>
Profit after taxation				4,559
Minority Interest				<u>284</u>
Profit attributable to shareholders				<u>4,843</u>
<b>OTHER INFORMATION</b>				
Segment assets	191,065	71,607		262,672
Unallocated assets				22,914
Investment in associated companies				9,727
Other investment				4,048
Goodwill				33,056
Deferred tax assets				247
Tax assets				<u>3,851</u>
Consolidated total assets				<u>336,515</u>
Segment liabilities	13,909	11,070		24,979
Unallocated liabilities				182,559
Taxation				-
Deferred taxation				267
Minority interest				<u>-</u>
Consolidated total liabilities				<u>207,805</u>
Capital expenditure	960	889	-	1,849
Depreciation of fixed assets	1,510	71	-	1,581

b) Secondary Reporting Format – Geographical Segments

The geographical segments for the operations of the Group for the financial period ended 31 July 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					36,617
Indonesia					12,888
Hong Kong & The People's Republic of China					7,046
South East Asia					2,078
South Asia					27,028
					<u>85,657</u>
<b>RESULT</b>					
Segment result	14,352	(345)	(938)	-	13,069
Interest expense					(4,022)
Interest revenue					188
Dividend received					7
Taxation					(3,777)
Share of results of associated companies					(906)
Profit after taxation					4,559
Minority Interest					284
Profit attributable to shareholders					<u>4,843</u>
<b>OTHER INFORMATION</b>					
Segment assets	243,078	9,702	9,892		262,672
Unallocated assets					22,914
Investment in associated companies					9,727
Other investment					4,048
Goodwill					33,056
Deferred tax assets					247
Tax assets					3,851
Consolidated total assets					<u>336,515</u>
Capital expenditure	1,849	-	-	-	1,849
Depreciation of fixed assets	1,223	184	174	-	1,581

**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 July 2008 up to 22 September 2008 which have not been reflected in the financial statement for the said period:-

On 22 September 2008, the Company announced that its wholly-owned subsidiary, Durachem Sdn Bhd, has reached an out of court settlement with Kellogg's Malaysia Manufacturing Sdn Bhd and Zurich Insurance (Malaysia) Bhd ("Plaintiffs"), wherein Durachem has agreed to pay the Plaintiffs the sum of RM1.3 million as full and final settlement without admission of liability, out of which RM1 million is covered by its public liability insurance. In accordance with the settlement agreed upon, the Plaintiff shall withdraw and discontinue the claim against Durachem.

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

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

- a) Green Energy and Technology Sdn Bhd, a wholly-owned subsidiary of the Company has on 20 May 2008 completed the subscription of 9,990,000 ordinary shares of RM1.00 each at par, representing approximately 27.37% in Platinum Energy Sdn Bhd; and
- b) Advanced Pyrotech Sdn Bhd ("APT") has become a wholly-owned subsidiary of the Company on 30 July 2008 with the completion of the acquisition of 49% equity interest, comprising 14,700,000 ordinary shares of RM1.00 each in APT for a purchase consideration of RM27,500,000 and the transfer of 2% equity interest in APT by KKIECM to the Company pursuant to the Joint Venture Agreement dated 7 April 2005, as varied by various supplemental agreements..

**12. Contingent liabilities or contingent assets**

As at 22 September 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 28.6% to RM28.766 million as compared to RM22.369 million recorded in the third quarter of the last financial year. The higher turnover is mainly due to the revenue amounting to RM8.290 million contributed by Green Energy and Technology Sdn Bhd ("GreenTech"), a wholly-owned subsidiary of the Company which has entered into a Services Agreement to design, engineer, construct, commission and operates a waste to energy plant for a Sri Lankan company in October 2007. GreenTech is part of the Group's Renewable and Alternative Energy Division whilst the other two entities comprise Advanced Pyrotech Sdn Bhd ("APT") and Platinum Energy Sdn Bhd ("PE"). APT is involved in the processing of waste tyres into fuel oil and commodities whilst PE is involved in multi-feedstock Biodiesel project. Both APT and PE have not commenced operations during the period. Meanwhile, the turnover from Coatings Division has reduced by RM1.873 million from RM22.258 million to RM20.385 million resulted from decrease in demand by existing customers.

The Group has recorded a lower operating profit of RM2.685 million for the third quarter of 2008 compared to RM3.873 million registered in the corresponding quarter in 2007. This is due to higher operating cost incurred by the Group. The lower operating profit of the Renewable and Alternative Energy Division is primarily due to the lower revenue recognised under its Sri Lanka waste to energy project during the period whilst continuously incurring expenditure for its other projects that have yet to reach commercial operations. Meanwhile, operating profit for the third quarter of 2008 for the Coatings Division has reduced by 16.38% 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 due to the overall depressed market conditions. 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 achieved a loss before taxation of RM0.393 million as compared with a profit before taxation of RM2.920 million for the corresponding period. Meanwhile, the Group's loss after taxation and minority interest stood at RM0.957 million, whereas the Group's profit after taxation and minority interest for the corresponding period was RM1.833 million. Other than the conditions stated above, the Group's loss is also due to a higher interest cost amounting to RM1.749 million and legal fees and stamp duty of RM0.560 million incurred for a loan facility from Amanah Raya Capital Sdn Bhd in May 2008. The said loan is mainly for the purpose of the acquisition of 49% equity interest in APT, investment in PE and the development of other waste to energy projects.

### **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 RM28.766 million as compared to RM34.509 million in the preceding 2nd quarter ended 30 April 2008. The Coatings Division's turnover has increased by 4.05% to RM20.385 million from RM19.592 million, mainly due to the increase in demand by existing local customers within the Coatings Division. Meanwhile, the Renewable and Alternative Energy Division has recorded a lower turnover of RM8.290 million compared to RM14.850 million in the previous quarter.

A lower operating profit and loss before taxation of the Group was resulted from the loss recorded by the Renewable and Alternative Energy Division as explained in Section 1 above. 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 RM3.450 million in the current quarter under review as compared to RM3.329 million in the previous quarter ended 30 April 2008.

### **3. Prospects**

The Malaysian economy registered a slower growth of 6.3% in the second quarter of 2008 as compared to 7.1% recorded in the first quarter of 2008. The slower growth in the economy is further exacerbated by the removal of fuel subsidy that immediately increase the cost of conducting business and cost of living coupled by the already weakened capital and financial market, adverse business sentiments as well as continuous uncertainty in the local political scenarios.

Production of export-oriented industries also moderated to grow by 2.1% in the second quarter of 2008 as compared to 4.6% in the first quarter of 2008 with gross export for electronics and electrical products registered a growth of 9.2% in the second quarter of 2008 as compared to a reduction of 9.4% in the first quarter of 2008.

In view of the current fragile economic situation due to the mortgage related financial problems affecting the credit market, the Group has taken and will continue taking measures to counter the effects of the declining business margins by streamlining its business and manufacturing operations whilst increasing its focus on higher end products for its coatings business. The Company is anticipating its Renewable and Alternative Energy Division to increase contribution to the Group from next financial year with the completion and commissioning of its waste tyre pyrolysis plant and Biofuel plant by end of this year. Meanwhile, the Company will be cautious in its expansion of its Renewable and Alternative Energy Division in view of the weak and uncertain worldwide economic and financial and credit conditions. 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**

	<b>Current Quarter RM'000</b>	<b>Cumulative year to date RM'000</b>
Current	622	3,777
Under/(Overprovision) in prior year	-	-
Deferred taxation	-	-
	<u>622</u>	<u>3,777</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 July 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 July 2008 was as follows:

At cost	RM47,500.00
At carrying value/book value	RM47,500.00
At market value	RM93,712.50

**8. Other Investments**

In January 2007, Octagon subscribed for RM4,000,000 in unquoted subordinated bonds with 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 July 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 22 September 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 31 July 2008 are as follows: -

	<b>RM'000</b>
<b>Short term borrowings</b>	
Hire purchase creditors	20
<b>Long term borrowings</b>	
Hire purchase creditors	62
Collateralised loan obligations	40,000
Less: unamortized loan processing fee	(592)
Loan obligations	143,089
Total	182,579

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 22 September 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**

Save as disclosed below, as at 22 September 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:-

- (a) 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. Durachem has reached an out of court settlement with the Plaintiffs, wherein Durachem has agreed to pay the Plaintiffs the sum of RM1.3 million as full and final settlement without admission of liability, out of which RM1 million is covered by its public liability insurance. In accordance with the settlement agreed upon, the Plaintiff shall withdraw and discontinue the claim against Durachem.

- (b) On 23 July 2008, Durachem has via its solicitors served a Writ of Summons ("Summons") together with Statement of Claims dated 9 July 2008 on the solicitors of Gan Eng San and Gan Eng Chuan ("the Defendants").

Durachem is claiming for the payment of a debt amounting to RM1,697,680.99, interest, the costs of the proceedings and any other relief deemed fit and proper by the Court. The Defendants were former directors of C.S. Metal Industries (M) Sdn Bhd ("CS Metal"), a customer of Durachem. By a joint and several guarantee, the Defendants has agreed to guarantee the payment of all monies due and owing to Durachem in respect of the goods provided to CS Metal, in consideration for Durachem selling and supplying goods on credit to CS Metal.



On 31 January 2005, a winding up order was entered against CS Metal and the amount owing by CS Metal to Durachem was RM1,697,680.99 (“Debt”). Durachem has via its solicitor demanded against the Defendants for the Debt. However, no payment has been made by the Defendants up to the date of the filing of the Summons.

The entire amount of Debt has already been provided for in the financial statement of the Group in prior financial year. Hence, no further financial or operational impact is expected to arise from the litigation.

### 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 July 2008 are as below:-

Type(s) of financial assistance	For the period from 01.05.2008 to 31.07.2008 RM	Cumulative Balance as at 31.07.2008 RM
Non-interest bearing cash advances to non-wholly owned subsidiaries	174,735	19,991,058

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 July 2008	31 July 2007	31 July 2008	31 July 2007
Profit after taxation and minority interest (RM'000)	(957)	1,833	4,843	5,006
Weighted average number of ordinary shares in issue ('000)	166,787	158,315	166,844	157,572
Adjustment in relation to the ESOS ('000)		320		-
Adjustment in relation to the Warrants issued on 24 October 2005 ('000)	-	-	-	-
Adjusted weighted average number of ordinary shares in issue ('000)	166,787	158,635	166,844	157,572
Basic earnings per share (sen)	(0.574)	1.158	2.902	3.18
Diluted earnings per share (sen)	*	1.155	*	*

Note:

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