

## 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 2008.

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 2008.

#### 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 2008.

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

#### 7. Dividends paid

There was no payment of dividend 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 2009 are as follows:-

	<b>Manufacturing and Trading RM'000</b>	<b>Clean Technology RM'000</b>	<b>Eliminations RM'000</b>	<b>Consolidated RM'000</b>
<b>REVENUES</b>				
External sales	12,135	6,989	-	19,124
Inter-segment sales	-	-	-	-
Total revenue	<u>12,135</u>	<u>6,989</u>	-	<u>19,124</u>
<b>RESULTS</b>				
Segment results	1,622	(1,439)	-	183
Interest expenses				(2,504)
Interest revenue				119
Dividend received				3
Taxation				(344)
Share of results of associated companies	(1)	(558)		<u>(559)</u>
Loss after taxation				<u>(3,102)</u>
Minority interest				<u>28</u>
Loss attributable to equity holders of the Company				<u>(3,074)</u>
<b>OTHER INFORMATION</b>				
Segment assets	84,438	180,960	-	265,398
Unallocated assets				19,273
Investment in associated companies	40	8,662		8,702
Other investments				4,048
Goodwill on consolidation				32,913
Deferred tax assets				556
Tax assets				<u>6,779</u>
Consolidated total assets				<u>337,669</u>
Segment liabilities	3,468	15,151	-	18,619
Unallocated liabilities				187,124
Taxation				357
Deferred taxation				<u>1,279</u>
Consolidated total liabilities				<u>207,379</u>
Capital expenditure	79	1,629	-	1,708
Depreciation of property, plant and equipment	376	144	-	520

b) Secondary Reporting Format – Geographical Segments

The geographical segments for the operations of the Group for the financial period ended 31 January 2009 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					7,617
Indonesia					3,777
Hong Kong & The People's Republic of China					260
South East Asia					429
South Asia					7,041
					<u>19,124</u>
<b>RESULTS</b>					
Segment results	281	44	(142)	-	183
Interest expenses					(2,504)
Interest revenue					119
Dividend received					3
Taxation					(344)
Share of results of associated companies	(559)				(559)
Loss after taxation					(3,102)
Minority interest					28
Loss attributable to equity holders of the Company					<u>(3,074)</u>
<b>OTHER INFORMATION</b>					
Segment assets	249,555	9,047	6,796	-	265,398
Unallocated assets					19,273
Investment in associated companies					8,702
Other investments					4,048
Goodwill on consolidation					32,913
Deferred tax assets					556
Tax assets					6,779
Consolidated total assets					<u>337,669</u>
Capital expenditure	1,708	-	-	-	1,708
Depreciation of property, plant and equipment	496	20	4	-	520

**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 2009 up to 23 March 2009 which have not been reflected in the financial statement for the said period:-

On 18 March 2009, the Company announced its intention to seek the approval of its shareholders for the renewal of 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**

As at 23 March 2009, 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 decreased by 14.6% to RM19.124 million as compared to RM22.382 million recorded in the first quarter of the last financial year. The lower turnover is mainly due to the lower revenue generated from the Coatings division, a reduction of RM6.167 million from RM18.257 million to RM12.090 million, offset with an increase in the revenue of RM3.101 million from RM3.888 million to RM6.989 million in the Clean Technology division. The decline in the revenue generated from Coatings division is in line with the broad-based contraction in Malaysian export-oriented industries, especially in electronic and electrical goods, which has recorded a reduction of 17.2% in the 4th quarter of 2008 and a further drop of 34.5% in January 2009. This is as a result of steep decrease in demand in view of the global economy and financial slowdown and recession settling in some of the advanced countries. The revenue in Clean Technology division is recognised based on the progress of the waste to energy project undertaken under the Service Agreement dated 23 October 2007 for a Sri Lankan company.

The Group also recorded a lower operating profit, at RM0.329 million for the first quarter of 2009 compared to RM5.750 million registered in the corresponding quarter in 2008. This is due to lower operating profit recorded in the Coatings division as well as an operating loss recorded in the Clean Technology division. The Coatings division has recorded an operating profit of RM1.086 million in the quarter under review compared to RM2.492 million registered in the corresponding quarter. Lower operating profit in Coatings division is mainly due to lower turnover and higher expenses arisen from nation-wide inflation. As the Coatings division is unable to increase its existing selling price and transfer the increased cost to its customers as its indirect customers, being major brand owners, are controlling their product costing in order to maintain their competitiveness in the market in view of the overall depressed market conditions and intense competition faced by these customers, the margin for most of the products in the coating industry, including the Group's margin, has been lower than previous years. The Clean Technology division has recorded an operating loss of RM0.469 million for the quarter under review, compared to a operating profit of RM3.222 million, recorded in the corresponding period, mainly due to the pre-operating expenses incurred by the waste tyre pyrolysis plant which is targeted to commence commercial operations in May 2009.

The Group incurred a loss before taxation of RM2.758 million as compared to a profit before taxation of RM4.782 million from the corresponding period in prior year while the Group's loss after taxation and minority interest is RM3.074 million as compared to profit after taxation and minority interest of RM3.291 million for the corresponding period. This is mainly due to the reasons stated above coupled with higher interest expense borne by the Group, which increased from RM0.746 million in the corresponding quarter to RM2.504 million in this quarter, as a result of an additional bank borrowing to finance, amongst others, projects of Clean Technology division, which was drawdown in May 2008. For the quarter under review, the Group has recorded a loss per share of 1.84 sen.

The Group is currently streamlining its business and operations in the Coatings division, which includes consolidation of its operations, increasing its focus on higher end products and closely managing its cost. The Group is also streamlining its Clean Technology division towards tighter control over pre-development expenditure and to be more vigilant on the development and execution of its business or expansion plans.

## **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 RM19.124 million as compared to RM21.453 million in the preceding fourth quarter ended 31 October 2008. The Coatings division's turnover decreased by 36.7% to RM12.090 million from RM19.111 million, mainly due to the decrease in demand from the existing local customers of the Coatings division following the further intensification of global financial and economic slowdown. Meanwhile, the Clean Technology division recorded a higher turnover of RM6.989 million compared to RM2.274 million in the previous quarter due to the recognition of revenue for the design and engineering work in relation to a project undertaken for a Sri Lankan company as stated above. The Group recorded a loss before taxation of RM2.758 million in the current quarter under review as compared to a profit before taxation of RM4.964 million recorded in the previous fourth quarter of 2008. This is due to lower turnover recorded in the current quarter under review and the recognition of other income from liquidated damages by Advanced Pyrotech Sdn. Bhd., a wholly-owned subsidiary of Octagon, for the delay in plant completion by its turnkey contractor in the previous quarter.

## **3. Prospects**

The impact of the current global economic crisis has reported to be widened and deepened with more than half of the major world economies in recession whereas emerging economies continue to face a hostile external environment. World growth is projected to fall to 0.5% in the year of 2009.

Malaysian economy recorded a slower growth of 0.1% in the fourth quarter of 2008 as global economic conditions worsened significantly. For the year as a whole, the Malaysian economy expanded by 4.6% as compared to 6.3% recorded in 2007. The Malaysian manufacturing sector deteriorated by 8.8% in the fourth quarter of 2008 while the production in export-oriented industries declined considerably as the electronics and electrical industry registered a sharp double digit decline of 18.3% in the fourth quarter of 2008.

Taking into account the first and second stimulus measures, the Malaysian GDP growth is expected to be in the range of -1% to 1% for 2009 while the Malaysia's export growth is forecast to decline by 5% in 2009. The manufacturing sector is expected to decline sharply in 2009 by 8% to be led by steep contractions in export-oriented industries and weaker support from domestic-oriented industries.

International trends show that renewable energy resources are gaining a larger share of energy programmes, especially in Europe and the United States of America ("USA"). Various renewable energy efforts also stimulate new economic activities and the possible spin-off potential may well generate new exports and employment. For example, the Congress of USA passed the stimulus package which, amongst others, offers a bevy of benefits to power companies making green energy. In the recent mini budget announced in March 2009, the Malaysian government has taken steps in promoting greater use of green technology. The Energy Policy and Strategies of Sri Lanka (2008) also clearly identified the interventions required in the energy sector during the next 15 years, amongst others, increased attention to supplement energy supply with renewable energy forms.

In view of the above and the expected prolong adverse economic and financial situation, the Group will continue to streamline the business and production as well as increasing its focus on higher end products for the Coatings division. The Group is anticipating its Clean Technology division to have higher contribution to the Group upon the commencement of the commercial operations of its waste tyre pyrolysis plant and biofuel plant within the next few months. The Board will be vigilant on the development of its business plan and strategy in view of the current unfavourable economy and financial situation.

## **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	344	344
Under/(Over)provision in prior year	-	-
Deferred taxation	-	-
	<hr/>	<hr/>
	344	344
	<hr/>	<hr/>

The effective rate of taxation of the Group is higher than the statutory rate of taxation mainly due to certain expenses disallowed for deduction for tax computation 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 2009.

## 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 2009 were as follows:

At cost	RM47,500
At carrying value/book value	RM47,500
At market value	RM68,008

## 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 2009 was as follows:

Subordinated bonds	RM4,000,000
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## 9. Status of corporate proposals

Save as disclosed below, there are no corporate proposals announced but not completed as at 23 March 2009.

On 18 March 2009, the Company announced its intention to seek the approval of its shareholders for the renewal of 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. As at 31 January 2009, the term loan to the subsidiary is secured mainly by charge of its fixed and floating assets, assignment of insurance, charge over monies in escrow and sinking fund accounts and also joint and several guarantee of certain directors of the subsidiary.

Total Group borrowings as at 31 January 2009 are as follows: -

	<b>RM'000</b>
<b>Short term borrowings</b>	
Hire purchase payables	21
Loans obligations	7,182
<b>Long term borrowings</b>	
Hire purchase payables	51
Collateralised loan obligations	40,000
Less: unamortised loan processing fee	(444)
Loan obligations	140,314
Total	<u>187,124</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 March 2009, 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 23 March 2009, 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:-

On 23 July 2008, Durachem, 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”). On 9 October 2008, the solicitors of Durachem filed an application for summary judgement and the case is now fixed for mention on 16 April 2009.

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 January 2009 are as below:-

Type(s) of financial assistance	For the period from 01.11.2008 to 31.01.2009 RM'000	Balance as at 31.01.2009 RM'000
Non-interest bearing cash advances to non wholly-owned subsidiaries	139	20,300

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. (Loss)/Earnings per share

	Quarter ended		Current	Preceding year
	31 January 2009	31 January 2008	year-to-date 31 January 2009	corresponding period 31 January 2008
(Loss)/Profit after taxation and minority interest (RM'000)	(3,074)	3,291	(3,074)	3,291
Weighted average number of ordinary shares in issue ('000)	166,787	166,920	166,787	166,920
Adjustment in relation to the Warrants issued on 24 October 2005 ('000)	-	-	-	-
Adjusted weighted average number of ordinary shares in issue ('000)	166,787	166,920	166,787	166,920
Basic (loss)/earnings per share (sen)	(1.84)	1.97	(1.84)	1.97
Diluted (loss)/earnings per share (sen)	*	*	*	*

Note:

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