

OCTAGON

Poised For Greater Achievement In The Global Market

Octagon Consolidated Berhad was incorporated under the Malaysian Companies Act, 1965 on 30 October 1999 as a private limited company under the name of Octagon Consolidated Sdn Bhd. It was converted into a public limited company and assumed its present name on 27 November 1999. Octagon was listed on the Second Board of the Bursa Malaysia Securities Berhad on 8 November 2000 and was subsequently transferred to the Main Board of Bursa Malaysia Securities Berhad on 18 June 2002.

Octagon is an investment holding company and its subsidiaries are principally involved in the business of manufacturing and trading of customised industrial paints, inks and chemical products (coatings business), waste management as well as destruction of waste for the generation of renewable energy and the sale of renewable energy.

According to Octagon Managing Director and Chief Executive Officer, En Mazlan Ali, the company is the market leader in the original equipment manufacturer (OEM) coatings. "We are optimistic of our position as we have built strong and lasting relationships with many multi-national companies (MNC) in the electrical and electronic industry. We also put great emphasis on the research and development of the coatings to ensure our products are of utmost quality and meet the stringent requirements of our customers whose products are exported worldwide. In this respect, all our plants have been awarded Green Partner by electrical giant Sony for not using hazardous materials (materials that may harm the environment such as lead, cadmium, mercury, etc) in the production of our products," he said.

"Furthermore, we are in a competitive environment for coatings business and R&D is one major factor in the success of this business. Skills and expertise have to be built and workers need to be trained. We hope that with the greater emphasis by the government on R&D for this industry (with more incentives and human capital), we would be able to achieve better and faster results."

Since its inception, the group's turnover has grown steadily and is expected to grow from strength to strength in the coming years. The group's mission is to grow into a valued company dedicated to meet the industry's quest for coatings solutions. The group aims to achieve its mission by delivering products of the highest quality, continuous product innovation, maintaining the highest ethical standards and ensuring customer satisfaction.

For the financial year ended 31 October 2005, the group recorded pretax profit of RM18.819 million on turnover of RM75.037 million against pretax profit of RM17.053 million on revenue of RM58.374 million in 2004. The company's turnover represents a 28.5% growth over 2004, while profit before tax rose by 10.4% over the same period.

Coatings Business

More than 70% of the group's products in the coatings business are for the electronics and electrical industry especially for the consumer electrical products sector such as television, VCR players, CD players, DVD players, cameras, Midi Hi-Fi, Mini Hi-Fi, electronic organisers, digital camcorders, mobile phones, walkman, Hi-Fi equipment, whilst other products that used the group's coatings include automotive components, sporting equipment, toys, computers, etc.

"For coatings business, our in-house R&D team is based

in the plant in Shah Alam. The R&D for coatings is mainly to develop new products (e.g. ultra-violet paints, water-based paints, etc) and for improvement of products to suit customers' requirements," En Mazlan said, adding that the main products for the OEM coatings could be divided into six main groups, namely, ultra-violet paints, paints for plastic products, polyurethane (PU) paints, paints for metal products, auto-refinish paints and inks. Paint for plastic products is the main contributor to the earnings and ultra-violet paints is a new product that was introduced in 2005.

"Our market share for OEM coatings business, which is mainly related to the consumer electrical sector, is more than 30%. Octagon's direct customers for the OEM coatings business are mainly the OEMs or component suppliers for the assembler/MNCs of consumer electrical products. These OEMs or component suppliers, which include companies such as Luster Industries Berhad, PT Kepsonic Indonesia, Formosa Prosonic Manufacturing Sdn Bhd, etc, perform the coatings application on the various plastic and metal parts or fully assembled components and supply it to the export orientated MNCs who are the end product brand owners (who are in turn the indirect customers of Octagon)."

The group normally deals with the brand owners such as Sony, JVC, Sharp-Roxy, Panasonic, etc to formulate and develop the type of paint and coatings required for a particular model. "We have a niche market both locally and abroad through our focus on customised specific applications of paints and coatings. The formulation development not only requires expertise and knowledge on paints and coatings components but also entails close working relationship and customised requirements to the needs of the MNCs," he elaborated. Approximately 65% of the group's products are for plastic paints, 12% is PU paints, 9% of auto-refinished paints, 4% each of metal paints and UV paints whilst the balance is silk screen inks and others.

"With more than 20 years experience in the OEM coatings, the group is now considered as the leading provider of customised paints and inks for the OEM coatings market. The group's expansion plan for its OEM coatings business includes expanding the group's production capacity, R&D capabilities to cater for its drive towards overseas expansion. We have completed the expansion of the production facilities in Shah Alam and the construction work of a new warehouse adjacent to its present factory," En Mazlan explained.

For its wholly owned subsidiary in Johor, Durachem (Johor) Sdn Bhd, after years of operating from a rented premise, it has shifted to a new factory. This has improved the production and research facilities for Johor in order to meet customers' demand from the southern region. Likewise, PT Durachem Indonesia, also a wholly-owned subsidiary of Octagon, has moved into a new factory, which can accommodate higher production capacity and better research facilities, to cater to the market in Indonesia.

The group has also established an operation in the southern part of the People's Republic of China. "With the economy



*En Mazlan Ali, Managing Director/
Chief Executive Officer*

transformation and the growth experienced by the Republic, expanding our operation there is inevitable especially with the setting-up of production facilities by the MNCs in the country. Durachem Guangzhou Co Ltd was established at the end of 2002 and commenced operations in the second half of 2003."

Octagon's move to expand its business locally and abroad is inevitable as the MNCs are streamlining their operations worldwide. Most MNCs are also increasing their productions from their operation in China and other countries due to cost advantages as well as vast potential for the China, NAFTA and EU market.

Currently, Octagon has five manufacturing plants in the country - Shah Alam, Puchong, Senai, Bukit Minyak and Butterworth and two overseas - Indonesia and China. The total production capacity, based on a single shift of eight hours a day is nine million litres.

Even though currently, the group's main concentration is in the OEM coatings, in line with its expansion programme and in an effort to strengthen product development capabilities and to reduce reliance on the electronics and electrical products, it has decided to diversify its product line to include paints and coatings for other industries such as oil and gas, aviation, marine, infrastructure and other heavy industries, which fall under special purpose coatings. Its wholly-owned subsidiary, Octagon Industrial Coatings Technology Sdn Bhd, has subscribed for 30% equity interest in Advanced Coatings and Surface Technology Sdn Bhd ("ACST") in 2004. ACST is principally a supplier, dealer and contractor for high performance coatings. It has successfully registered as an authorised dealer of paint and industrial chemicals to Petroliaam Nasional Berhad and all its subsidiaries in the upstream sector and also registered with Ministry of Finance as a supplier of, inter alia, paint and industrial chemicals. ACST has also been appointed as the Master Business Incubator for MARA-Airod Aviation Vendor Development Programme. Thus, the group will continue to leverage on its strength to capture a portion of the special purpose coatings market share in the country, which is currently dominant by foreign players.

"In order for us to expedite the pace of venturing into this area, we will not discount the possibility of joint ventures or direct acquisitions," En Mazlan emphasised.

Business Expansion

In addition to strengthening the group's OEM coatings business and special purpose coatings market in the country, the group is also embarking on a new business - mini power plant (MPP) or distributed generation (DG). MPP is power plants with less than 100MW. It is also known as DG where generation of power is located to the source of fuel or distributed directly to the users within the vicinity. MPP allows faster project implementation and therefore faster response to changing market conditions.

Investment in MPP is smaller as compared to large power plants therefore representing lower project risks. The MPP is a niche market in the power sector which is outside the 'big boys' playing field. MPP allows Octagon to enter the Renewable Energy (RE) market which is small power plants. RE means energy from sources other than fossil fuel such as wind, mini hydro, solar, biomass and waste.

"Our strategy for Malaysia in the power sector is to capture the RE market using plasma gasification technology. Our focus will be on solving the country's waste problem and inadequate RE output simultaneously. We are committed in developing a permanent and sustainable solution to the problem of waste disposal and RE for the country," he said.

Given the prevalent circumstances of escalating fuel prices including natural gas prices in the international markets, the RE brings

two-fold benefits - it reduces the reliance on expensive fossil fuel in power generation and allows more revenue to be generated from the sales of fossil fuel the country generates while also eliminates the waste disposal issues that also resulted in contamination of groundwater and water sources in the country. In environmental context, lesser dependence on fossil fuel in power generation means lesser emissions of greenhouse gases which contribute to the global warming phenomenon.

As for waste management, the group is actively pursuing the waste to energy project and the continuous process pyrolysis project by employing state-of-the-art technology to address critical problem of the nation, i.e. waste. "Both the plasma gasification technology used for the waste to energy project and the continuous process pyrolysis technology used for processing of rubber chips into recovered oil, carbon black and steel wire are environmentally friendly and provide total solutions," En Mazlan said, adding that government support and encouragement in terms of speedy approvals and incentives would help to promote and expedite the projects. "Further, if bankers can be more receptive to 'green field' projects of national interest, the interest of our nation and future generations would be better secured."

The waste to energy project to be undertaken by Octagon's indirect subsidiary, Melaka Waste to Energy Sdn Bhd, involves the destruction of municipal solid waste for the generation of renewable energy and sale of renewable energy. MWtE has been mandated by the State Government of Melaka to operate a Waste to Energy plant in Sungai Udang, Melaka. The plant is capable of disposing up to 1,200 tonnes of municipal solid waste a day using plasma gasification technology and thereafter supply 35 MW of renewable energy to the grid of Tenaga Nasional Berhad in the State of Melaka. The waste to energy plant is expected to be commissioned by end of 2008.

The continuous process pyrolysis project undertaken by its associated company, Advance Pyrotech Sdn Bhd is an efficient continuous flow system involving the application of high heat in anaerobic conditions through which rubber chips are fed at one end and the end products, namely, recovered oil, carbon black and steel wire, which are all commodity products, discharged at the other. The construction work for the continuous process pyrolysis project in Malaysia which will have a capacity of 120 tonnes per day, is expected to commence in the fourth quarter of 2006 and commissioning is anticipated to be in the last quarter of 2007.

Considering the adverse implications of the current inefficient and improper practices of waste disposal and increasing governmental and public concerns over environmental issues, the waste to energy project and the continuous process pyrolysis project undertaken by Octagon will have potential for further developments both in Malaysia and abroad.

Moving Forward

"Moving forward, we are committed to continually improving our ability to be at the forefront of the industry, as envisaged by the technical excellence of our team of professionals. Building on our tradition of dynamism and drive, this achievement will surely inspire Octagon to greater heights on the road of national and social progress, as dictated by our vision and mission."

"At Octagon, we want to play a role in helping the nation achieve the Vision 2020 by the introduction of state-of-the-art technology to address waste and energy issues, which would even be greater once we became a developed nation. In addition, we would like to export these technologies overseas and be in a position to work with local companies in overseas projects of ours to develop 'Glocal' entrepreneurs," he concluded.