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 2006.

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 2006, except for the adoption of the new/revised FRSs effective for financial period beginning on or after 1 January 2006:-

FRS 2	Share-based payment
FRS 3	Business Combinations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 117	Lease
FRS 121	Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets

The adoption of the new/revised FRSs does not have significant financial impact on the Octagon Group except for the following:-

FRS 2 – Share-based Payment

FRS 2 requires an entity to recognise payment transactions in its financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity.

Octagon has implemented share-based payment via an employee share option scheme ("ESOS") which is governed by the by-laws approved by the shareholders at an Extraordinary General Meeting held on 18 April 2002. The ESOS was implemented on 28 August 2002 and were in force for 5 years till 27 August 2007.

The Group has applied FRS 2 in accordance with its transitional provisions which exempted the recognising of employee cost relating to ESOS in income statements for ESOS options granted before 1 January 2005.

FRS 3 – Business Combination, FRS 136 – Impairment of Assets and FRS 138 – Intangible Assets

The adoption of the FRS 3 and the consequential changes of FRS 136 and FRS 138 have resulted in a change in the accounting policy relating to goodwill on consolidation, resulting in the Octagon Group ceasing annual goodwill amortisation. Prior to 1 November 2006, goodwill was amortised over a period of 18 years. Goodwill is now tested for impairment annually.

Goodwill is now stated at cost less accumulated impairment losses. Any impairment loss is recognised in the income statement and subsequent reversal is not allowed. The carrying amount of goodwill as at 1 November 2006 of RM14.582 million has ceased to be amortised. The effect of this has reduced the amortisation charges by RM159,142 in the current quarter ended 31 October 2007.

Under FRS 3, any excess of the Group's interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over cost of acquisition (previously referred to as "negative goodwill"), after reassessment, is now recognised immediately in the income statement. Prior to 1 November 2006, negative goodwill was capitalised as reserves on consolidation. The carrying amount of reserve on consolidation as at 1 November 2006 of RM1,370,777 was derecognised with a corresponding adjustment made to the opening balance of retained earnings.

FRS 101 – Presentation of Financial Statements and FRS 127 – Consolidated and Separate Financial Statements

The adoption of the revised FRS 101 and FRS 127 have affected the presentation of minority interest, share of net after-tax results of associates and other disclosures. In the consolidated balance sheet, minority interests are now presented within total equity. In the consolidated income statements, minority interests are presented as an allocation of the total profit/loss for the period. A similar requirement is also applicable to the statement of changes in equity. The current period's presentation of the Octagon Group's financial statements is based on the revised requirements of FRS 101 and FRS 127, with the comparatives restated to conform with the current period's presentation.

FRS 117 – Leases

The adoption of the revised FRS 117 has resulted in a retrospective change in accounting policy relating to the classification of leasehold land. Leasehold land was previously classified as property, plant and equipment and was stated at cost less accumulated depreciated and accumulated impairment losses. The prepaid lease payments are amortised on a straight line basis over the remaining lease term of the land.

The reclassification of leasehold land as prepaid lease payments has been accounted for retrospectively. Comparatives which have been restated due to this change in accounting policy are disclosed in Note 2.

2. Comparative

The following comparative amounts have been restated due to the adoption of new and revised FRSs:

	Previously Stated RM'000	Adjustment FRS 117 RM'000	Restated RM'000
As at 31 October 2006			
Property, plant and equipment	27,567	(2,488)	25,079
Prepaid lease payments	-	2,488	2,488

3. 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 2006.

4. Seasonality or cyclicality 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.

5. 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.

6. 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.

7. 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.

8. Dividends paid

There was no dividend paid during the quarter under review.

9. 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 October 2007 are as follows:-

	Manufacturing RM'000	Renewable Energy RM'000	Eliminations RM'000	Consolidated RM'000
REVENUES				
External sales	85,469	10,020	-	95,489
Inter-segment sales	-	-	-	-
Total revenue	85,469	10,020	-	95,489
RESULT				
Segment result	13,516	6,661	-	20,177
Interest expense				(2,392)
Interest revenue				523
Dividend received				4
Taxation				(5,479)
Share of results of associated companies				(927)
Profit after taxation				11,906
Minority Interest				934
Profit attributable to shareholders				12,840
OTHER INFORMATION				
Segment assets	131,583	29,860		161,443
Unallocated assets				23,901
Consolidated total assets				185,344
Segment liabilities	13,808	3,016		16,824
Unallocated liabilities				40,184
Taxation				1,896
Deferred taxation				267
Minority interest				-
Consolidated total liabilities				59,171
Capital expenditure	1,722	3,243	-	4,965
Depreciation of fixed assets	1,992	100	-	2,092

b) Secondary Reporting Format – Geographical Segments

The geographical segments for the operations of the Group for the financial period ended 31 October 2007 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
REVENUES					
External sales	65,870	16,979	12,640	-	95,489
Inter-segment sales	16,611	-	-	(16,611)	-
Total revenue	82,481	16,979	12,640	(16,611)	95,489
Malaysia					48,852
Indonesia					19,904
Hong Kong & The People's Republic of China					13,347
Vietnam					182
Thailand					681
Bangladesh					619
Sri Lanka					10,020
Singapore					1,884
					95,489
RESULT					
Segment result	20,775	(399)	(199)	-	20,177
Interest expense					(2,392)
Interest revenue					523
Dividend received					4
Taxation					(5,479)
Share of results of associated companies					(927)
Profit after taxation					11,906
Minority Interest					934
Profit attributable to shareholders					12,840
OTHER INFORMATION					
Segment assets	138,868	11,415	11,160		161,443
Unallocated assets					23,901
Consolidated total assets					185,344
Segment liabilities	14,767	1,162	895		16,824
Unallocated liabilities					40,184
Taxation					1,896
Deferred taxation					267
Minority interest					-
Consolidated total liabilities					59,171
Capital expenditure	4,898	-	67	-	4,965
Depreciation of fixed assets	1,797	158	137	-	2,092

Inter-segment sales comprises sales revenue which are priced at cost plus a percentage mark-up.

10. 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.

11. Subsequent material events

Save as disclosed below, there were no material events which have occurred subsequent to the financial period ended 31 October 2007 up to 13 December 2007 which have not been reflected in the financial statement for the said period:-

a) On 2 November 2007, the Company announced that it has entered into a Heads of Agreement with K.K. Incinerator Engineering & Construction Co. Ltd, Canadian Carbon Converters LP and Advanced Pyrotech Sdn Bhd to set out the parties' intention to jointly develop the continuous process pyrolysis technology in the United States of America, Canada and Mexico; and

b) On 10 December 2007, CIMB Investment Bank Berhad announced on behalf of the Company that the Board of Directors of the Company has decided not to proceed with the proposed issuance of up to RM130 million nominal value commercial papers and/or medium term notes programme under the Islamic financing principles of Murabahah and Ijarah due to continuing unfavourable market conditions which would not augur optimal financing to the Company.

12. 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:-

On 24 October 2007, Premierpath Sdn Bhd, a wholly-owned subsidiary of Profound Peak Sdn Bhd, which in turn is a wholly-owned subsidiary of the Company, has acquired the remaining 20% equity interest in Premierpath (KL) Sdn Bhd for a cash consideration of RM196,304, which results in Premierpath (KL) Sdn Bhd becoming a wholly-owned subsidiary of Premierpath Sdn Bhd.

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 13 December 2007, 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 80.87% to RM35.185 million as compared to RM19.453 million recorded in the fourth quarter of the last financial year. The higher turnover is mainly due to the revenue contributed by the Renewable Energy Division and the increase in demand by existing customers within the Coatings Division.

Operating profit for the fourth quarter of 2007 for the Group however increased by 219.09% from RM3.054 million, recorded in the corresponding period in the previous financial year, to RM9.745 million. The higher operating profit is mainly contributed by the Renewable Energy Division. The contribution from Coatings Division is lower by 15.98% due to increased cost of production, selling and distribution expenses as well as write off of bad debts. The Group is unable to sell at a higher selling price to its customers to retain the margin as the Group’s 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 223.77% to RM9.153 million from the corresponding period of RM2.827 million while the Group’s profit after taxation and minority interest has increased from RM2.326 million to RM7.834 million. This is mainly due to the contribution from the Renewable Energy Division, which has just started contributing to the Group.

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 and the Group also plans to expand its Renewable Energy Division to other region.

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 RM35.185 million as compared to RM22.369 million in the preceding third quarter ended 31 July 2007. The Group's turnover has increased by 57.3%, mainly due to the revenue contributed by the Renewable Energy Division and the increase in demand by existing customers within the Coatings Division. The profit before taxation of RM9.153 million is higher by 213.46% as compared to RM2.920 million recorded in third quarter of 2007 due to the profit contribution from the Renewable Energy Division.

3. Prospects

The Malaysian economy strengthened further in the third quarter of 2007, with real gross domestic products growth rising to 6.7% compared to 5.8% recorded in the second quarter of 2007. This is led mainly by services sector and reinforced by sustained construction activities and an improvement in the agriculture and manufacturing sectors.

Value-added growth in the manufacturing sector expanded by 3.4% in the third quarter of 2007 as compared to 1.5% in the second quarter of 2007. However, manufacturing exports declined further by recording a negative growth of 2.1%, compared to a negative growth of 1.1% in 2nd quarter of 2007, due mainly to a decline in exports of electronics and electrical products and selected resourced-based industries such as wood products and petroleum products. While there was an improvement in demand for electronics and electrical products, the continued decline in prices affected the value of exports of the electronics and electrical products during the quarter. Gross exports of consumer electrical products recorded another decline of 13.4% compared to a negative growth of 16.8% registered in the second quarter of 2007.

Growth prospect for the global economy remain favourable in 2008 and the Malaysian economy is anticipated to strengthen further to 6.0%-6.5% in 2008 with positive contribution from all sectors of the economy. Value added in manufacturing sector is projected to grow by 3.8% in line with expansion in global trade.

The Group has also taken 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 expects its new businesses in renewable and alternative energy to contribute more significantly to the performance of the Group in the next financial year. Barring unforeseen circumstances, the Board of Directors of Octagon is optimistic that the Group will be able to remain profitable in the next 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	2,724	6110
Under/(Overprovision) in prior year	-	-
Deferred taxation	(631)	(631)
	2,093	5,479

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 October 2007.

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 October 2007 was as follows:

At cost	RM47,500
At carrying value/book value	RM47,500
At market value	RM168,840

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 October 2007 was as follows:

Subordinated bonds	RM4,000,000

9. Status of Corporate Proposals

Save as disclosed below, there are no other corporate proposals announced but not completed as at 13 December 2007: -

On 8 July 2005, CIMB Investment Bank Berhad ("CIMB") announced, on behalf of the Company, that the Company proposes to issue up to RM130 million nominal value commercial papers ("CPs") and/or medium-term notes ("MTNs") programme under the Islamic financing principles of Murabahah and Ijarah ("CP/MTN Programme") with a sub-limit of up to RM50 million in nominal value for the CPs.

On 24 October 2005, CIMB announced, on behalf of the Company, that the SC has approved the CP/MTN Programme on 20 October 2005. On 10 December 2007, CIMB announced on behalf of the Company that the Board of Directors of the Company has decided not to proceed with the CP/MTN Programme due to continuing unfavourable market conditions which would not augur optimal financing to the Company.

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 October 2007 are as follows: -

	RM'000
Short term borrowings	
Hire purchase creditors	106
Long term borrowings	
Hire purchase creditors	77
Collateralised loan obligations	40,000
Total	40,183

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 13 December 2007, 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 Duracham 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 13 December 2007, 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

The Board of Directors has recommended a final dividend of 8% (4 sen per ordinary share of RM0.50 each) less 26% tax for the financial year ended 31 October 2007, subject to the approval of the shareholders at an Annual General Meeting to be held on a date to be announced later.

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 October 2007 are as below:-

Type(s) of financial assistance	**For the period from 01.08.2007 to 31.10.2007 RM**	**Cumulative Balance as at 31.10.2007 RM**
Non-interest bearing cash advances to non-wholly owned subsidiaries	1,702,148	19,827,758
Non-interest bearing cash advances to associated companies	3,500,000	3,500,000

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 October 2007	**31 October 2006**	**31 October 2007**	**31 October 2006**
Profit after taxation and minority interest (RM'000)	7,834	2,326	12,840	10,262
Weighted average number of ordinary shares in issue ('000)	165,974	157,433	159,690	158,265
Adjustment in relation to the ESOS ('000)	-	-	-	-
Adjustment in relation to the Warrants issued on 24 October 2005 ('000)	-	-	-	-
Adjusted weighted average number of ordinary shares in issue ('000)	165,974	157,433	159,690	158,265
Basic earnings per share (sen)	4.72	1.48	8.04	6.48
Diluted earnings per share (sen)	*	*	*	*

Note:

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