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 cyclicality 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 October 2008 are as follows:-

	Manufacturing RM'000	Renewal And Alternative Energy RM'000	Eliminations RM'000	Consolidated RM'000
REVENUES				
External sales	77,817	29,302	-	107,119
Inter-segment sales	-	-	-	-
Total revenue	77,817	29,302	-	107,119
RESULTS				
Segment results	9,434	11,469	-	20,903
Interest expenses				(6,571)
Interest revenue				331
Dividend received				8
Taxation				(4,370)
Share of results of associated companies				(1,371)
Profit after taxation				8,930
Minority interest				406
Profit attributable to shareholders				9,336
OTHER INFORMATION				
Segment assets	59,666	203,778		263,444
Unallocated assets				22,161
Investment in an associated company				9,261
Other investment				4,048
Goodwill				33,138
Deferred tax assets				556
Tax assets				6,779
Consolidated total assets				339,387
Segment liabilities	7,442	23,309		30,751
Unallocated liabilities				173,585
Taxation				13
Deferred taxation				1,403
Minority interest				-
Consolidated total liabilities				205,752
Capital expenditure	1,315	775	-	2,090
Depreciation of property, plant and equipment	1,816	248	-	2,064

b) Secondary Reporting Format – Geographical Segments

The geographical segments for the operations of the Group for the financial period ended 31 October 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
REVENUES					
Malaysia					49,810
Indonesia					15,636
Hong Kong & The People's Republic of China					9,625
South East Asia					2,746
South Asia					29,302
					107,119
RESULTS					
Segment results	23,486	(695)	(1,888)	-	20,903
Interest expenses					(6,571)
Interest revenue					331
Dividend received					8
Taxation					(4,370)
Share of results of associated companies					(1,371)
Profit after taxation					8,930
Minority interest					406
Profit attributable to shareholders					9,336
OTHER INFORMATION					
Segment assets	245,949	10,435	7,060		263,444
Unallocated assets					22,161
Investment in an associated company					9,261
Other investment					4,048
Goodwill					33,138
Deferred tax assets					556
Tax assets					6,779
Consolidated total assets					339,387
Capital expenditure	2,022	-	68	-	2,090
Depreciation of property, plant and equipment	1,738	86	240	-	2,064

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 October 2008 up to 22 December 2008 which have not been reflected in the financial statement for the said period:-

On 11 December 2008, Advanced Pyrotech Sdn Bhd ("APT"), a wholly-owned subsidiary of the Company, entered into a Supply Agreement for Shredded Tyres with Purearth Sdn Bhd for Purearth Sdn Bhd to supply shredded tyres to APT. APT owns a 120 tonnes per day waste tyre pyrolysis plant in Pulau Indah, Port Klang, which is undergoing testing.

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 22 December 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 decreased by 39.03% to RM21.453 million as compared to RM35.185 million recorded in the fourth quarter of the last financial year. The lower turnover is mainly due to the lower revenue from Green Energy and Technology Sdn Bhd ("GreenTech"), a wholly-owned subsidiary of the Company by an amount of RM7.746 million. The revenue registered by GreenTech for last financial year was in respect of intellectual property fees while the revenue for this financial year is recognised based on progress of project undertaken pursuant to the Services Agreement dated 23 October 2007 wherein GreenTech will design, engineer, construct, commission and operate a waste to energy plant for a Sri Lankan company. The turnover from Coatings Division has also reduced by RM5.875 million from RM24.986 million to RM19.111 million resulted from decrease in demand from the existing customers in view of the global economy slowdown.

The Group recorded a lower operating profit of RM8.154 million for the fourth quarter of 2008 compared to RM9.745 million registered in the corresponding quarter in 2007. The Renewable and Alternative Energy Division incurred an operating loss of RM0.613 million due to the higher operating expenditure, including expenditure for projects that have not reach commercial operations, during the period. The contribution from the Coatings Division is lower by 23.69% due to lower turnover and increased cost of production, selling and distribution expenses as well as provision for doubtful debts of around RM2 million. The Coatings Division of the Group 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. As a result, the margin for most of the products in the coating industry, including the Group's margin, has been lower than previous years.

The Group's profit before taxation decreased by 45.77% to RM4.964 million from the corresponding period in prior year of RM9.153 million while the Group's profit after taxation and minority interest is RM4.494 million as compared to RM7.834 million for the corresponding period. This is mainly due to the factors mentioned above as well as a higher interest expense incurred by the Group.

The Group is currently streamlining its business in the Coatings Division, diversifying its product range, improving its procurement planning and implementing stringent cost control measures. The Group will also be more cautious when expanding its Renewal and Alternative Energy Division to other regions.

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 RM21.453 million as compared to RM28.766 million in the preceding third quarter ended 31 July 2008. The Coatings Division's turnover decreased by 6.25% to RM19.111 million from RM20.385 million, mainly due to the decrease in demand from the existing local customers of the Coatings Division. Meanwhile, the Renewable and Alternative Energy Division recorded a lower turnover of RM2.274 million compared to RM8.290 million in the previous quarter. The Company recorded a profit before taxation of RM4.964 million in the current quarter under review as compared to a loss before taxation of RM0.394 million recorded in the previous third quarter of 2008 as result of lower expenditure incurred in this quarter as compared to the previous quarter, which has some non-recurring expenditure such as legal fees and stamp duty for loan facility.

3. Prospects

In the third quarter of 2008, the Malaysian economy growth moderated and registered a growth of 4.7% amidst the significantly weaker global economic growth and volatile international financial environment. While net external demand declined by 14.8% in the third quarter of 2008, the growth was supported by relatively strong domestic demand. Production of export-oriented industries declined by 0.7% in the third quarter of 2008, compared to 2.1% growth recorded in the second quarter of 2008, weighed down mainly by the weaker performance of the electronics and electrical industry. The gross export of electronics and electrical products has registered a lower growth of 2.6% in the third quarter of 2008 as compared to a growth of 9.2% recorded in second quarter of 2008.

During the second half of this year, the developed economies impacted by the financial crisis, are bordering on recession, while emerging and developing countries are heading for slower growth. The growth in the world economy is expected to moderate further next year, unless financial institutions, resolve their capital and solvency problems, commodity and housing markets stabilise and domestic demand in emerging and developing countries continue to strengthen.

In view of the above, the Group will continue taking measures to counter the effect of the declining margin in the coating business by streamlining the business and increasing its focus on higher end products. The Group is anticipating its Renewable and Alternative Energy Division to have higher contribution to the Group upon the commencement of operations of its waste tyre pyrolysis plant and biofuel plant in next financial year. In minimising the impact of global economy slowdown towards the Group, the Board will be vigilant on the development of its business plan and strategy. Barring the unforeseen circumstances and with the successful implementation of the above measures, the Board of Directors is cautiously 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	181	3,958
Under/(Over)provision in prior year	-	-
Deferred taxation	412	412
	593	4,370

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 October 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 October 2008 were as follows:

At cost	RM47,500
At carrying value/book value	RM47,500
At market value	RM65,331

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 2008 was as follows:

Subordinated bonds	RM4,000,000

9. Status of corporate proposals

There are no corporate proposals announced but not completed as at 22 December 2008.

10. Group borrowings and debt securities

All of the banking facilities of the subsidiaries which include bank overdraft and revolving loan facilities granted by financial institutions to the subsidiaries of the Company, except for the term loan granted to one of its wholly-owned subsidiary, are secured by way of corporate guarantee from the Company of up to RM18.3 million. 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 October 2008 are as follows: -

	RM'000
Short term borrowings	
Hire purchase payables	21
Loans obligations	7,182
Long term borrowings	
Hire purchase payables	56
Collateralised loan obligations	40,000
Less: unamortised loan processing fee	(444)
Loan obligations	133,973
Total	180,788

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 December 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 December 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:-

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 hearing on 11 February 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

In view of the uncertain economic situation, 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 October 2008 are as below:-

Type(s) of financial assistance	**For the period from 01.08.2008 to 31.10.2008 RM**	**Balance as at 31.10.2008 RM**
Non-interest bearing cash advances to non wholly-owned subsidiaries	169,565	20,160,622

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 31 October 2008	Quarter ended 31 October 2007	Current year-to-date 31 October 2008	Preceding year corresponding year-to-date 31 October 2007
Profit after taxation and minority interest (RM'000)	4,494	7,834	9,336	12,730
Weighted average number of ordinary shares in issue ('000)	166,787	165,974	166,830	159,690
Adjustment in relation to the Warrants issued on 24 October 2005 ('000)	-	-	-	-
Adjusted weighted average number of ordinary shares in issue ('000)	166,787	165,974	166,830	159,690
Basic earnings per share (sen)	2.69	4.72	5.60	7.97
Diluted earnings per share (sen)	*	*	*	*

Note:

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