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 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 30 April 2009 are as follows:-

	Manufacturing and Trading RM'000	Clean Technology RM'000	Eliminations RM'000	Consolidated RM'000
REVENUES				
External sales	25,725	7,579	-	33,304
Inter-segment sales	-	-	-	-
Total revenue	25,725	7,579	-	33,304
RESULTS				
Segment results	850	(656)	-	194
Interest expenses				(5,431)
Interest revenue				222
Dividend received				3
Taxation				(852)
Share of results of associated companies				(1,215)
Loss after taxation				(7,079)
Minority interest				119
Loss attributable to equity holders of the Company				(6,960)
OTHER INFORMATION				
Segment assets	84,856	185,525		270,381
Unallocated assets				13,655
Investment in an associated company				8,046
Other investment				4,048
Goodwill on consolidation				32,913
Deferred tax assets				556
Tax assets				6,355
Consolidated total assets				335,954
Segment liabilities	5,312	14,003		19,315
Unallocated liabilities				188,060
Taxation				865
Deferred taxation				1,279
Consolidated total liabilities				209,519
Capital expenditure	178	3,025	-	3,203
Depreciation of property, plant and equipment	726	290	-	1,016

b) Secondary Reporting Format – Geographical Segments

The geographical segments for the operations of the Group for the financial period ended 30 April 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
REVENUES					
Malaysia					16,135
Indonesia					8,190
Hong Kong & The People's Republic of China					477
South East Asia					923
South Asia					7,579
					33,304
RESULTS					
Segment results	683	109	(598)	-	194
Interest expenses					(5,431)
Interest revenue					222
Dividend received					3
Taxation					(852)
Share of results of associated companies					(1,215)
Loss after taxation					(7,079)
Minority interest					119
Loss attributable to equity holders of the Company					(6,960)
OTHER INFORMATION					
Segment assets	256,389	10,480	3,512		270,381
Unallocated assets					13,655
Investment in an associated company					8,046
Other investment					4,048
Goodwill on consolidation					32,913
Deferred tax assets					556
Tax assets					6,355
Consolidated total assets					335,954
Capital expenditure	3,203	-	-	-	3,203
Depreciation of property, plant and equipment	970	42	4	-	1,016

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 30 April 2009 up to 24 June 2009 which have not been reflected in the financial statement for the said period:-

On 2 June 2009, the Company announced that Green Energy and Technology Sdn. Bhd. ("GET"), a wholly-owned subsidiary of the Company, had incorporated a 70%-owned subsidiary known as Green Energy & Technology (UK) Limited ("GreenTech UK") in the United Kingdom on 28 May 2009. The remaining 30% of the issued and paid up share capital of GreenTech UK is held by Stopford Projects Limited.

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 24 June 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 58.91% to RM14.180 million as compared to RM34.509 million recorded in the second quarter of the last financial year. The lower turnover is mainly due to the lower revenue generated from the Coatings division, a reduction of RM6.008 million from RM19.592 million to RM13.584 million and a decrease in the revenue of RM14.260 million from RM14.850 million to RM0.590 million in the Clean Technology division. The decline in the revenue generated from Coatings division is due to the decrease in demand for consumer electronics and electrical products in view of the further deterioration of the global economic situation. The Malaysian economy contracted by 6.2% in the first quarter of 2009 coupled with sharp decline in gross exports by 20% following a sharp contraction in manufactured exports of 18% has affected the performance of the Coatings division. 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 decline in the revenue from the Clean Technology division is due to the slower progress of the project during the quarter under review resulted from the global financial meltdown.

The Group also recorded a lower operating profit, at RM0.135 million for the second quarter of 2009 compared to RM4.912 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 RM1.501 million in the quarter under review compared to RM3.309 million registered in the corresponding quarter. Lower operating profit in Coatings division is mainly due to lower turnover and its inability to increase its existing selling price to 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 RM1.085 million for the quarter under review, compared to operating profit of RM1.685 million, recorded in the corresponding period, mainly due to the consolidation of pre-operating expenses incurred by the waste tyre pyrolysis plant, Plant improvement has been scheduled to be done in the third quarter of 2009 and it is anticipated that the plant would be able to commence commercial operations by end of 2009.

The Group incurred a loss before taxation of RM3.469 million as compared to a profit before taxation of RM3.947 million from the corresponding period in prior year while the Group's loss after taxation and minority interest is RM3.886 million as compared to profit after taxation and minority interest of RM2.509 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 RM0.747 million in the corresponding quarter to RM2.927 million in this quarter, as a result of an additional bank borrowing to finance, amongst others, project of Clean Technology division, which was drawndown in May 2008. For the quarter under review, the Group has recorded a loss per share of 2.33 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 RM14.180 million as compared to RM19.124 million in the preceding first quarter ended 31 January 2009. The Coatings division's turnover increased by 12.36% to RM13.584 million from RM12.090 million, mainly due to the increase in demand from the existing local customers of the Coatings division. Meanwhile, the Clean Technology division recorded a lower turnover of RM0.590 million compared to RM6.989 million in the previous quarter due to the slower progress of work as stated in Section (B)1 above. The Group recorded a loss before taxation of RM3.469 million in the current quarter under review as compared to a loss before taxation of RM2.758 million recorded in the previous first quarter of 2009. This is due to lower turnover recorded in the current quarter under review and higher overheads incurred by the Clean Technology division, in particular, the waste tyre pyrolysis project which incurred higher expenses due to the equipment and machinery testing conducted during the quarter under review.

3. Prospects

The global economy deteriorated further in the first quarter of 2009, while conditions in the international financial system began to stabilise towards the latter part of the quarter. Major advanced economies are still facing a deepening economic contraction following compression in private sector demand. Regional economies experienced a sharp economic slowdown in the first quarter following further deterioration in both exports and production.

The Malaysian economy contracted by 6.2% in the first quarter of 2009, as compared to a growth of 0.1% in the fourth quarter of 2008, amidst a significant deterioration in external demand, following the deepening recession in advanced economies. Gross exports declined sharply by 20% following a sharp contraction in manufactured exports of 18%, as well as lower commodity exports. Performance of manufacturing exports was affected by lower demand for both electronics and electrical ("E&E") and non-E&E products from major markets. In addition, commodity exports turned negative to -23.8% from a positive 6.1% recorded in the previous quarter, reflecting the impact of lower prices and weaker demand.

The manufacturing sector declined significantly by 17.6% compared to contraction of 8.8% in the previous quarter, led by the 23.1% contraction in the export-oriented industries. In particular, the E&E industry contracted steeply by 41.4%, compared to contraction of 22.5% in previous quarter. Manufacturers reduced production as well as drew down inventories in response to the sharp contraction in demand led to a further reduction in output across all segments in the E&E industry.

The above effects, which has impacted the Malaysian economy in the first quarter of 2009, are expected to continue into second quarter. The domestic economy is expected to improve in the second half of the year, supported by stabilisation in global economic conditions, and reinforced by the accelerated implementation of fiscal measures, the further moderation in inflation, continued access to financing, as well as from the cumulative effects of the accommodative monetary environment. As exports are expected to continue to decline, growth will be supported by domestic demand, particularly by the implementation of fiscal stimulus.

In the World Economic Outlook April 2009 report issued by International Monetary Fund Board, Malaysia's gross domestic products ("GDP") is projected to contract by 3.5% for 2009. Developing Asia GDP growth is projected to decline to 4.8% in 2009, compared to 7.7% in 2008. Sri Lanka is expected to register a slower GDP growth of 2.2% in 2009, compared to 6.0% in 2008. A regional recovery will have to wait until 2010 when the world economy bounces back. This outlook, however, continues to be overshadowed by serious downside risks.

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. According to International Energy Outlook 2009 published in May 2009, renewable energy is the fastest-growing source of world energy, with consumption increasing by 3.0 percent per year.

In view of the worsening economic conditions and the collapse of the global financial system, the Coatings division continue to face challenges in its operations despite various measures taken to streamline the operation. The renewable energy sector has a good prospect given that it is gaining popularity worldwide. However, the nature and development of such projects, especially waste to energy projects, required long gestation period as it is a highly regulated industry. This coupled with delay in operations of the waste tyre pyrolysis plant will have an adverse impact on the overall performance of the group due to the overheads and interest cost accumulated under the Clean Technology division. The Group is anticipating the above impact to be cushion slightly once the waste tyre pyrolysis plant commenced operations in 2009. In minimising the adverse impact of the above, the Board is monitoring the progress in both the division vigilantly and formulating various strategies/plans to weather the impact of the global economic and financial meltdown and the escalating interest costs.

4. Variance of actual profit from forecast profit

Not applicable.

5. Taxation

	Current Quarter RM'000	Cumulative year to date RM'000
Current	508	852
Under/(Over)provision in prior year	-	-
Deferred taxation	-	-
	508	852

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 30 April 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 30 April 2009 were as follows:

At cost	RM47,500
At carrying value/book value	RM47,500
At market value	RM58,370

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 30 April 2009 was as follows:

Subordinated bonds	RM4,000,000

9. Status of corporate proposals

There are no corporate proposals announced but not completed as at 24 June 2009.

10. Group borrowings and debt securities

All of the Group banking facilities which include bank overdraft, revolving loan and term 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 RM97.3 million. As at 30 April 2009, the term loan to a subsidiary is also secured mainly by charge of its fixed and floating assets, assignment of insurance, charge over monies in escrow and sinking fund accounts and personal guarantee of certain director of the subsidiary besides the corporate guarantee by the Company.

Total Group borrowings as at 30 April 2009 are as follows: -

	RM'000
Short term borrowings	
Hire purchase payables	21
Loans obligations	7,182
Long term borrowings	
Hire purchase payables	45
Collateralised loan obligations	40,000
Less: unamortised loan processing fee	(444)
Loan obligations	141,256
Total	188,060

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 24 June 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 24 June 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 hearing on 27 August 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 30 April 2009 are as below:-

Type(s) of financial assistance	For the period from 01.02.2009 to 30.4.2009 RM'000	Balance as at 30.04.2009 RM'000
Non-interest bearing cash advances to non wholly-owned subsidiaries	138	20, 438

The financial assistance provided during the quarter does not have any material effect on the earnings, net assets and liquidity of the Octagon Group.

14. (Loss)/Earnings per share

	Quarter ended		Current year-to-date	Preceding year corresponding period
	30 April 2009	30 April 2008	30 April 2009	30 April 2008
(Loss)/Profit after taxation and minority interest (RM'000)	(3,886)	2,509	(6,960)	5,800
Weighted average number of ordinary shares in issue ('000)	166,787	166,826	166,787	166,874
Adjustment in relation to the Warrants issued on 24 October 2005 ('000)	-	-	-	-
Adjusted weighted average number of ordinary shares in issue ('000)	166,787	166,826	166,787	166,874
Basic (loss)/earnings per share (sen)	(2.33)	1.50	(4.17)	3.48
Diluted (loss)/earnings per share (sen)	*	*	*	*

Note:

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