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 31 July 2009 are as follows:-

	Manufacturing and Trading RM'000	Clean Technology RM'000	Eliminations RM'000	Consolidated RM'000
REVENUES				
External sales	39,220	7,579	-	46,799
Inter-segment sales	-	-	-	-
Total revenue	39,220	7,579	-	46,799
RESULTS				
Segment results	1,519	(2,757)	-	(1,238)
Interest expenses				(7,499)
Interest revenue				303
Dividend received				3
Taxation				(1,576)
Share of results of associated companies				(1,603)
Loss after taxation				(11,610)
Minority interest				136
Loss attributable to equity holders of the Company				(11,474)
OTHER INFORMATION				
Segment assets	80,861	187,188		268,049
Unallocated assets				10,389
Investment in associated companies				7,657
Other investment				2,466
Goodwill on consolidation				32,913
Deferred tax assets				556
Tax assets				6,355
Consolidated total assets				328,385
Segment liabilities	91,818	14,382		106,200
Unallocated liabilities				97,265
Taxation				1,589
Deferred taxation				1,279
Consolidated total liabilities				206,333
Capital expenditure	314	2,609	-	2,923
Depreciation of property, plant and equipment	1,096	486	-	1,582

b) Secondary Reporting Format – Geographical Segments

The geographical segments for the operations of the Group for the financial period ended 31 July 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					25,591
Indonesia					11,886
Hong Kong & The People's Republic of China					717
South East Asia					974
South Asia					7,631
					46,799
RESULTS					
Segment results	(335)	(220)	(683)	-	(1,238)
Interest expenses					(7,499)
Interest revenue					303
Dividend received					3
Taxation					(1,576)
Share of results of associated companies					(1,603)
Loss after taxation					(11,610)
Minority interest					136
Loss attributable to equity holders of the Company					(11,474)
OTHER INFORMATION					
Segment assets	255,259	10,108	2,682		268,049
Unallocated assets					10,389
Investment in an associated company					7,657
Other investment					2,466
Goodwill on consolidation					32,913
Deferred tax assets					556
Tax assets					6,355
Consolidated total assets					328,385
Capital expenditure	2,923	-	-	-	2,923
Depreciation of property, plant and equipment	1,514	64	4	-	1,582

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 July 2009 up to 24 September 2009 which have not been reflected in the financial statement for the said period:-

(i) On 28 August 2009, the Company announced that Melaka Waste to Energy Sdn. Bhd. ("MWtE") has entered into a Mutual Termination Deed with Japan Carbon Finance, Ltd ("JCF") on even date to mutually terminate the Emission Reductios Purchase Agreement ("ERPA") dated 18 January 2009. MWtE and JCF have mutually agreed to the termination of the ERPA as the waste to energy project to be developed by MWtE in Melaka is not expected to generate a satisfactory number of certified emission reductions prior to the end of the first commitment period of the Kyoto Protocol which ends in 2012; and

(ii) On 14 September 2009, the Company announced that the Joint Venture Agreement between Octagon, Dongsung Holdings Co, Ltd and Kim Ki Kyeong ("JVA") has been terminated in view of the fact that the parties are unable to agree on the terms governing the JVA and the joint venture company to be set up.

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 September 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 53.09% to RM13.495 million as compared to RM28.766 million recorded in the third quarter of the last financial year. The lower turnover is mainly due to the lower revenue generated from the Coatings division, a reduction of RM6.890 million from RM20.385 million to RM13.495 million, and a decrease in the revenue of RM8.290 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 deterioration of the global economic situation. 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. No revenue was generated from the Clean Technology division in the quarter under review due to the slowdown in the project during the quarter under review resulted from the sluggish global economy.

The Group also recorded operating loss, at RM1.330 million for the third quarter of 2009 compared to an operating profit of RM2.685 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 RM2.648 million in the quarter under review compared to RM3.450 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 RM2.086 million for the quarter under review, compared to operating loss of RM0.326 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 fourth quarter of 2009 and it is anticipated that the plant would be able to commence commercial operations in end 2009.

The Group incurred loss before taxation of RM3.807 million in the current quarter under review as compared to loss before taxation of RM0.393 million in the corresponding period in prior year while the Group's loss after taxation and minority interest is RM4.514 million as compared to loss after taxation and minority interest of RM0.957 million for the corresponding period. This is mainly due to the reasons stated above coupled with the provision of diminution in value of the subordinated bonds investments of RM1.582 million by the Group. For the quarter under review, the Group has recorded a loss per share of 2.71 sen.

The Group is continuing its effort in 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 practising tighter control over pre-development expenditure and to be more vigilant on the development and execution of its business or expansion plans in Clean Technology division.

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 RM13.495 million as compared to RM14.180 million in the preceding quarter ended 30 April 2009. There are no significant changes in the Coatings division's turnover which is at RM13.495 million in the current quarter under review compared to RM13.584 million in the previous quarter. Meanwhile, the Clean Technology division did not record any turnover as compared to RM0.590 million in the previous quarter due to the slowdown in the project as stated in Section (B) 1 above. The Group recorded a loss before taxation of RM3.807 million in the current quarter under review as compared to loss before taxation of RM3.469 million recorded in the previous quarter. This is due to lower turnover recorded in the current quarter under review resulted from unfavourable economic situation, a provision for diminution in value of the subordinated bonds investments of RM1.582 million and higher overheads incurred by the Clean Technology division, in particular, the waste tyre pyrolysis project which incurred higher expenses due to the testing conducted during the quarter under review.

3. Prospects

The global economy showed increasing signs of stabilisation in the second quarter following improvements in the international financial markets. However, the recession is not over and the recovery is likely to be sluggish. Following a disappointing first quarter, during which the global economy contracted almost as fast as during the fourth quarter of 2008, high-frequency data point to a return to modest growth at the global level. However, the advanced economies as a group are still projected not to show a sustained pickup in activity until the second half of 2010. Accordingly, global activity is forecast to contract by 1.4% in 2009 and to expand by 2.5% in 2010.

The Malaysian economy contracted at a slower rate of 3.9% in the second quarter of 2009, compared to the contraction of 6.2% recorded in the first quarter of 2009, due mainly to higher public spending and positive growth in private consumption. Nonetheless, growth continued to be affected by weak external demand and private investment activity. Reflecting continued sluggish global economy, real net exports of goods and services declined by 0.7%.

The manufacturing sector declined at a slower pace of 14.5% in second quarter as compared to the decline of 17.9% in the first quarter of 2009 following improvements in the export-oriented industries, particularly the electronics & electrical industry, as a result of increasing inventory replenishment activity after the massive cut in production and large inventory drawdown undertaken during the first quarter. Gross export contracted by 26.3% in the second quarter of 2009. The contraction reflected the significant decline in demand from major trading partners and lower commodities prices. Gross export of electronics & electrical products has contracted by 22.8% in the second quarter of 2009 as compared to a contraction of 19.1% recorded in the first quarter of 2009.

Going forward, the expectation remains that the domestic economy will improve in the second half of the year, to be supported by a recovery in domestic demand following improvements in labour market conditions, as well as business and consumer sentiments. The accelerated implementation of fiscal measures and the stabilisation of the global economy are also expected to contribute to the improvement in the domestic economy in the second half of the year.

Developing Asia's economic growth in 2009 will slow to its most sluggish pace since the 1997–98 Asian financial crisis.. The global downturn is having a pronounced impact on the region's exports and subdued domestic demand will further crimp growth. Sri Lanka is expected to register a slower GDP growth of 3.5% in 2009, compared to 6.0% in 2008.

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 prolonged sluggish 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 end 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	724	1,576
Under/(Over)provision in prior year	-	-
Deferred taxation	-	-
	724	1,576

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 July 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 July 2009 were as follows:

At cost	RM47,500
At carrying value/book value	RM47,500
At market value	RM73,899

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 July 2009 are as follows:

	RM
Subordinated bonds	4,000,000
Provision for diminution in value	(1,582,000)
Balance as at 31 July 2009	2,418,000

9. Status of corporate proposals

There are no corporate proposals announced but not completed as at 24 September 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 31 July 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 a director of the subsidiary besides the corporate guarantee by the Company.

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

	RM'000
Short term borrowings	
Hire purchase payables	21
Loans obligations	86,632
Long term borrowings	
Hire purchase payables	40
Collateralised loan obligations	40,000
Less: unamortised loan processing fee	(444)
Loan obligations	57,648
Total	183,897

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 September 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 September 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 application for summary judgment has been allowed by the court on 14 September 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, details of the financial assistance provided by the Octagon Group as at 31 July 2009 are as below:-

Type(s) of financial assistance	For the period from 01.05.2009 to 31.07.2009 RM'000	Balance as at 31.07.2009 RM'000
Non-interest bearing cash advances to non wholly-owned subsidiaries	136	20, 574

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
	31 July 2009	31 July 2008	31 July 2009	31 July 2008
(Loss)/Profit after taxation and minority interest (RM'000)	(4,514)	(957)	(11,474)	4,843
Weighted average number of ordinary shares in issue ('000)	166,787	166,787	166,787	166,844
Adjustment in relation to the Warrants issued on 24 October 2005 ('000)	-	-	-	-
Adjusted weighted average number of ordinary shares in issue ('000)	166,787	166,787	166,787	166,844
Basic (loss)/earnings per share (sen)	(2.707)	(0.574)	(6.879)	2.902
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.*