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 October 2009 are as follows:-

	Manufacturing and Trading RM'000	Clean Technology RM'000	Eliminations RM'000	Consolidated RM'000
REVENUES				
External sales	51,028	47,747	-	98,775
Inter-segment sales	-	-	-	-
Total revenue	51,028	47,747	-	98,775
RESULTS				
Segment results	3,515	(4,849)	-	(1,334)
Interest expenses				(10,883)
Interest revenue				428
Dividend received				3
Taxation				(2,258)
Share of results of associated companies				(1,304)
Loss after taxation				(15,348)
Minority interest				152
Loss attributable to equity holders of the Company				(15,196)
OTHER INFORMATION				
Segment assets	66,718	182,433		249,151
Unallocated assets				10,995
Investment in associated companies				7,957
Other investment				2,466
Goodwill on consolidation				32,913
Deferred tax assets				603
Tax assets				6,826
Consolidated total assets				310,911
Segment liabilities	75,514	22,888		98,402
Unallocated liabilities				93,194
Taxation				230
Deferred taxation				754
Consolidated total liabilities				192,580
Capital expenditure	21	3,466	-	3,487
Development cost	-	1,022	-	1,022
Depreciation of property, plant and equipment	1,432	1,051	-	2,483

b) Secondary Reporting Format – Geographical Segments

The geographical segments for the operations of the Group for the financial period ended 31 October 2009 are as follows:-

	Malaysia RM'000	Indonesia RM'000	Hong Kong & The People's Republic of China RM'000	Vietnam RM'000	Consolidated RM'000
REVENUES					
Malaysia					31,923
Indonesia					14,770
Hong Kong & The People's Republic of China					969
South East Asia					2,748
South Asia					48,365
					98,775
RESULTS					
Segment results	(288)	(283)	(763)	-	(1,334)
Interest expenses					(10,883)
Interest revenue					428
Dividend received					3
Taxation					(2,258)
Share of results of associated companies					(1,304)
Loss after taxation					(15,348)
Minority interest					152
Loss attributable to equity holders of the Company					(15,196)
OTHER INFORMATION					
Segment assets	236,352	9,040	2,682	1,077	249,151
Unallocated assets					10,995
Investment in an associated company					7,957
Other investment					2,466
Goodwill on consolidation					32,913
Deferred tax assets					603
Tax assets					6,826
Consolidated total assets					310,911
Capital expenditure	3,487	-	-	-	3,487
Development cost	1,022	-	-	-	1,022
Depreciation of property, plant and equipment	2,401	78	4	-	2,483

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 year ended 31 October 2009 up to 28 December 2009 which have not been reflected in the financial statement for the said period:-

On 28 December 2009, the Company announced that Green Energy and Technology Sdn Bhd ("GET"), a wholly-owned subsidiary of Octagon, entered into a shareholders' agreement ("Shareholders' Agreement") with Tadhamon Capital B.S.C (c) ("Tadhamon"), a company incorporated under the laws of Bahrain and Orizon Consolidated Limited ("OCL"), a company incorporated under the laws of the Federal Territory of Labuan, Malaysia, for the purpose of, amongst others, recording the terms and conditions of Tadhamon and GET's relationship as shareholders on a 95% and 5% shareholding respectively in OCL and also the manner in which the business and affairs of OCL and Orizon Renewable Energy (Private) Limited, the project company that will be undertaking the construction and operation of a 40 megawatt waste to energy plant using advanced thermal gasification technology in Colombo, Sri Lanka, shall be conducted. OCL shall serve as the special purpose vehicle for the investment in ORE.

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 28 December 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 increased by 142.28% to RM51.976 million as compared to RM21.453 million recorded in the fourth quarter of the last financial year. The higher turnover is mainly due to the revenue generated by the Clean Technology division from the sale of technical and engineering documents to a Sri Lankan company at a consideration of USD11.8 million on 26 October 2009. The sale was done after the termination of the Services Agreement dated 23 October 2007 between Green Energy and Technology Sdn Bhd and Colombo Renewable Energy (Private) Limited also in the current quarter. The Clean Technology division recorded an increase in turnover of RM37.893 million from RM2.274 million in the fourth quarter of the last financial year to RM40.167 million in the current quarter under review. In line with the prolonged contraction in the export of consumer electronics and electrical products, the turnover in the Coatings division decreased from RM19.111 million in the fourth quarter of the last financial year to RM11.809 million in the current quarter under review

The Group also recorded operating profit of RM0.191 million for the fourth quarter of 2009 as compared to RM8.052 million registered in the corresponding quarter in 2008. The Coatings division has recorded operating loss of RM0.140 million in the quarter under review compared to an operating profit of RM1.577 million registered in the corresponding quarter. The operating loss 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 continuous 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 recorded operating profit of RM0.595 million for the quarter under review, after writing off bad debts of RM37.764 million, being the remaining uncollectible amount subsequent to the above termination of Services Agreement, compared to operating profit of RM6.889 million recorded in the corresponding period.

The Group incurred loss before taxation of RM3.061 million in the current quarter under review as compared to profit before taxation of RM4.862 million in the corresponding period in prior year while the Group's loss after taxation and minority interest is RM3.722 million as compared to profit after taxation and minority interest of RM4.392 million for the corresponding period. This is mainly due to the reasons stated above. For the quarter under review, the Group has recorded a loss per share of 2.23 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 RM51.976 million as compared to RM13.495 million in the preceding quarter ended 31 July 2009. The Coatings division's turnover decreased to RM11.809 million in the current quarter under review compared to RM13.495 million in the previous quarter which is in line with the continuous contraction in the export of consumer electronics and electrical products. Meanwhile, the Clean Technology division recorded a turnover of RM40.167 million in this quarter under review. There was no turnover in the previous quarter for the Clean Technology division due to slowdown of the project pursuant to the Services Agreement The Group recorded a loss before taxation of RM3.061 million in the current quarter under review as compared to loss before taxation of RM3.807 million recorded in the previous quarter. The reason for the higher loss in previous quarter compared to the current quarter was due to the provision for diminution in value of the subordinated bonds investments of RM1.582 million offset with higher contribution from Coatings division in previous quarter. The loss before taxation for the current quarter is mainly due to lower turnover of the Coatings division, writing off of bad debts, higher overheads and finance cost incurred by the Clean Technology division, in particular, the waste tyre pyrolysis project which was under testing in the quarter under review.

3. Prospects

Signs of improvements in the global economy became more pronounced in the third quarter of 2009. Global production, trade and retail sales revived, while conditions in the international financial markets continued to stabilise. In some of the major advanced economies, economic activity gained momentum as evidenced by the positive growth on a quarterly basis. The rebound in economic activity was stronger in the emerging economies, particularly in Asia Going forward, global economic conditions are expected to improve further. While the risks to growth have receded in recent months, the pace of recovery in the global economy is likely to be gradual and uneven as the outlook remains dependent on policy support. Therefore, after contracting by 1.1% in 2009, global activity is forecast to expand by about 3.1% in 2010.

The Malaysian economy registered an improvement in third quarter with a reduced contraction of 1.2%, compared to the contraction of 3.9% in second quarter of 2009, amidst positive growth in domestic demand and stabilisation of external demand. It is projected that the Malaysian economy will contract by 2.5% for the year 2009.

Value added in the manufacturing sector declined at a slower rate of 8.6% during the third quarter of 2009 compared to a decline of 14.5% recorded in the previous quarter Performance of export-oriented industries stabilised, with contraction in production of both electronics and electrical products ("E&E") and primary-related clusters moderating.

The pace of contraction of gross export of manufactured products eased from 26.3% recorded in the second quarter of 2009 to 22.3% in the third quarter of 2009. Gross export of electronics & electrical products has contracted by 16.1% in the third quarter of 2009 as compared to a contraction of 22.8% recorded in the second quarter of 2009. The smaller contraction in E&E exports was due to the recovery in demand from major markets, particularly Peoples Republic of China, which recorded a positive growth. Improved demand for end-products such as personal computers and mobile phones supported export of electronics to East Asia Nevertheless, lower demand for consumer electronics and telecommunication products resulted in a larger contraction in electrical exports. Gross export of consumer electrical products has contracted by 22.9% in September 2009 as compared to a contraction of 7.9% recorded in August 2009.

Going forward, the pace of economic recovery of Malaysia is expected to gain momentum, as business and consumer sentiment improve further in an environment of continued implementation of fiscal measures, accommodative monetary policy and continued access to financing. The gradual improvement in the global economy will also continue to contribute positively to the recovery of the domestic economy. The Malaysian economy is projected to grow by 4.5% in 2010.

International trends and worldwide attention towards global warming issues like the Copenhagen Summit shows the urgent need for renewable energy resources to pay a bigger role in combating the rise in global warming especially in the advanced countries like Japan, 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 The Annual Energy Outlook 2010 Early Release summary presentation published in December 2009, forecast that renewable energy will gain electricity market share over the period from 2010 to 2035.

In view of the prolonged sluggish economic conditions and the collapse of the global financial system, which has led to continued contractions of the gross export of consumer electrical products, 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 and serious consideration 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 commences operations in 2010. 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	878	2,459
Under/(Over)provision in prior year	373	373
Deferred taxation	(574)	(574)
	677	2,258

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 and also losses of certain subsidiaries.

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 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 October 2009 were as follows:

At cost	RM47,500
At carrying value/book value	RM47,500
At market value	RM65,866

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 2009 are as follows:

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

9. **Status of corporate proposals**

There are no corporate proposals announced but not completed as at 28 December 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 October 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 October 2009 are as follows: -

	RM'000
Short term borrowings	
Loans obligations	86,632
Long term borrowings	
Collateralised loan obligations	40,000
Less: unamortised loan processing fee	(296)
Loan obligations	53,490
Total	179,826

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 28 December 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 28 December 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 October 2009 are as below:-

Type(s) of financial assistance	**For the period from 01.08.2009 to 31.10.2009 RM'000**	**Balance as at 31.10.2009 RM'000**
Non-interest bearing cash advances to non wholly-owned subsidiaries	54	3,701*

* *The balance as at 31 October 2009 is lower than that recorded as at 31 July 2009 due to repayment of advances in the current quarter.*

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. (Loss)/Earnings per share

	Quarter ended		Current year-to-date	Preceding year corresponding period
	31 October 2009	31 October 2008	31 October 2009	31 October 2008
(Loss)/Profit after taxation and minority interest (RM'000)	(3,722)	4,392	(15,196)	9,234
Weighted average number of ordinary shares in issue ('000)	166,787	166,787	166,787	166,830
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	166,830
Basic (loss)/earnings per share (sen)	(2.232)	2.633	(9.111)	5.535
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.*