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 2009.

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 2009.

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 2009.

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 January 2010 are as follows:-

	Manufacturing and Trading RM'000	CleanTech RM'000	Eliminations RM'000	Consolidated RM'000
REVENUES				
External sales	10,376	-	-	10,376
Inter-segment sales	-	-	-	-
Total revenue	10,376	-	-	10,376
RESULTS				
Segment results	1,255	(1,655)	-	(400)
Interest expenses				(2,476)
Interest revenue				44
Dividend received				1
Taxation				(380)
Share of results of associated companies				(135)
Loss after taxation				(3,346)
Minority interest				12
Loss attributable to equity holders of the Company				(3,334)
OTHER INFORMATION				
Segment assets	63,483	184,769		248,252
Unallocated assets				8,396
Investment in associated companies				7,822
Other investment				2,466
Goodwill on consolidation				32,913
Deferred tax assets				603
Tax assets				6,785
Consolidated total assets				307,237
Segment liabilities	8,141	22,065		30,206
Unallocated liabilities				160,694
Taxation				610
Deferred taxation				730
Consolidated total liabilities				192,240
Capital expenditure	316	1,264	-	1,580
Depreciation of property, plant and equipment	319	268	-	587

b) Secondary Reporting Format – Geographical Segments

The geographical segments for the operations of the Group for the financial period ended 31 January 2010 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					6,961
Indonesia					2,947
Hong Kong & The People's Republic of China					183
South East Asia					285
South Asia					-
					10,376
RESULTS					
Segment results	(167)	(173)	(60)	-	(400)
Interest expenses					(2,476)
Interest revenue					44
Dividend received					1
Taxation					(380)
Share of results of associated companies					(135)
Loss after taxation					(3,346)
Minority interest					12
Loss attributable to equity holders of the Company					(3,334)
OTHER INFORMATION					
Segment assets	237,647	7,475	2,053	1,077	248,252
Unallocated assets					8,396
Investment in an associated company					7,822
Other investment					2,466
Goodwill on consolidation					32,913
Deferred tax assets					603
Tax assets					6,785
Consolidated total assets					307,237
Capital expenditure	1,580	-	-	-	1,580
Depreciation of property, plant and equipment	565	22	-	-	587

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 January 2010 up to 25 March 2010 which have not been reflected in the financial statement for the said period:-

On 12 February 2010, Green Energy and Technology Sdn Bhd ("GET") was notified that its equity interest in Platinum Energy Sdn Bhd ("PE") was diluted from 27.4% to 19.1%, after new shares of RM1.00 each in PE were issued to satisfy part of the purchase consideration of certain machineries and pursuant to a rights issue exercise. GET has yet to subscribe to its rights entitlements pursuant to the said rights issue exercise which is opened for subscription until 30 June 2010. Accordingly, PE ceased to be an associated company of GET.

On 24 February 2010, the Company announced that Amanah Raya Capital Sdn Bhd has granted an extension of the credit facility tenure of RM70,000,000 ("Facility") for another 60 months commencing from 12 November 2009. The Facility shall be additionally secured with a cash deposit of RM1,312,500 to be placed in the Institutional Trust Account as advance for the first interest payment. The interest rate will be changed from 10% per annum calculated on flat rate basis to 7.5% per annum calculated on monthly rest basis.

On 15 March 2010, the Company announced its intention to seek the approval of its shareholders for the renewal of the authority for share buy-back of up to 10% of the issued and paid-up share capital of the Company at the forthcoming extraordinary general meeting.

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 25 March 2010, 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 45.74% to RM10.376 million as compared to RM19.124 million recorded in the first quarter of the last financial year. The turnover in the Coatings division decreased from RM12.090 million in the first quarter of the last financial year to RM10.376 million in the current quarter under review due to a decrease in demand by existing customers. There was no revenue generated by the CleanTech division this quarter as compared to the previous corresponding quarter of RM6.989 million as the contract works with the previous project owners namely Colombo Renewable Energy (Private) Limited was mutually terminated by both parties. The new project owners namely Orizon Renewable Energy (Private) Limited ("ORE") in which GET has a 5% equity interest are currently in the midst of obtaining all relevant Government approvals and also working towards its Financial Close in second half of the year before commencing construction of the waste to energy plant in Colombo.

The Group also recorded operating loss of RM0.338 million for the first quarter of 2010 as compared to RM0.335 million registered in the corresponding quarter in 2009. The Coatings division has recorded a slight increase in operating profit of RM1.498 million in the quarter under review as compared to an operating profit of RM1.111 million registered in the corresponding quarter despite the decrease in turnover. This is attributable mainly to the lower operating costs as a result of the continuous stringent cost control. The Coatings division is still facing the constraint to increase its existing selling price to its customers as its indirect customers, being major brand owners need to maintain their product competitiveness in the market. The margin for most of the products in the coating industry, including the Group's margin, has been lower than previous years. The CleanTech division recorded operating loss of RM1.655 million for the quarter under review as compared to a loss of RM0.468 million recorded in the corresponding period, mainly due to the higher operating expenses incurred by the waste tyre pyrolysis plant as a result of higher labour cost arising from the increase of employees and contract workers, higher consumable expenses and electricity consumption for testing purposes during the commissioning stage as well as higher depreciation charge due to building cost.

The Group incurred loss before taxation of RM2.966 million in the current quarter under review as compared to loss before taxation of RM2.758 million in the corresponding period in prior year while the Group's loss after taxation and minority interest is RM3.334 million as compared to loss after taxation and minority interest of RM3.074 million for the corresponding period. The loss is attributable mainly to the high interest cost of RM2.476 million in the current quarter. As a result, the Group has recorded a loss per share of 2.0 sen for the quarter under review.

The Group is continuing its effort in streamlining its business and operations in the Coatings division and CleanTech division. The Coatings division is continuing its effort to diversify its product range, increasing its focus on higher end products and closely managing its cost, which includes consolidation of its operations to minimise cost. The Group is also practising tighter control over development expenditure and to be more vigilant on the development and execution of its business in CleanTech 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 RM10.376 million as compared to RM51.976 million in the preceding quarter ended 31 October 2009. The Coatings division achieved a lower turnover of RM10.376 million in the current quarter under review as compared to RM11.809 million in the previous quarter, arising from the decreased in demand by existing customers. Meanwhile, there is no revenue generated by the CleanTech division in this quarter under review relative to RM40.167 million in the previous quarter, generated mainly from the sale of technical documents to the Sri Lankan Project company.

The Group recorded a loss before taxation of RM3.334 million in the current quarter under review as compared to loss before taxation of RM3.061 million recorded in the previous quarter, in tandem with the lower turnover recorded in the current quarter under review.

3. Prospects

After a deep global recession, economic growth is now slowly turning positive in the fourth quarter of 2009, as a wide range of policy interventions has supported demand and reduced uncertainty in financial markets. However, the recovery is expected to be slow, as financial markets remain cautious, stimulus measures will likely be withdrawn in the not too distant future and households in countries that suffered asset price precipitation are forced to rebuild savings while struggling with high unemployment pressures.

The Malaysian economy registered a positive growth of 4.5% in the fourth quarter as compared to the negative growth in the first three quarters, amid strengthened domestic and external demand. Sustained growth in private consumption and increased public sector spending contributed to higher domestic demand. The implementation of the fiscal stimulus measures had gained further momentum during the quarter, providing an additional impetus to growth. For the year as a whole, the Malaysian economy contracted by 1.7% as compared to the growth of 4.6% in 2008. However, in Sri Lanka where Octagon has business interest in, the overall economic conditions are improving as the external balances are strong, remittance inflows continue at a high rate, tourism prospects are rapidly improving and gross reserves remain at comfortable level. In 2009, the global economy contracted by 2.2% as compared to the growth of 3.0% in 2008.

The manufacturing sector recovered to record a positive growth of 5.3% in the fourth quarter as compared to the negative growth of 8.6% in the third quarter, reflecting improvements in both external and domestic demand. Manufactured exports improved further to record a positive growth in both electronic and electrical products ("E&E") and non E&E exports. The E&E cluster turned around to expand by 2% in the fourth quarter as compared to the negative growth of 22.6% in the third quarter, more evidently in semiconductors and electrical products segments as external demand recovered. However, the gross exports of consumer electrical products showed a negative growth of 2.7% in the fourth quarter relative to the growth of 32.0% in the third quarter. In 2009, the overall gross exports for E&E decreased by 10.9% as compared to the negative growth of 1.2% in 2008.

The Malaysian economy is projected to grow by 4.5% - 5.5% in 2010, underpinned by the strengthening domestic demand and an improving external environment. Higher domestic demand, particularly from private consumption spending, is expected to increase given the stable labour market conditions, improved consumer and business confidence and continued access to consumer financing. Further improvement in external demand, following the gradual recovery in the global economy, is also expected to provide further impetus to the domestic economy.

International trends and worldwide attention towards global warming issues like the Copenhagen Summit shows the urgent need for renewable energy resources to play a bigger role in combating the rise in global warming arising from overwhelming wastes in the landfill left to be treated and greenhouse gas emissions generated by burning of fossils fuels. According to International Energy Agency, around 60% of global electricity production in 2030 would need to come from a mix of renewable (37%), nuclear (18%) and plants fitted with carbon capture and storage (5%).

According to International Renewable Energy Agency's newsletter, renewable already represent 18% of global energy consumption. This number is expected to increase as better technologies are developed, the right legal, economic and social frameworks are put in place and investment increases. The future for renewable energy looks bright indeed and in this regard, augurs well for CleanTech division which has technologies to provide solutions to combat global warming.

Moving forward, the Group aims to have higher income contribution from the CleanTech division by expanding geographically and making solid inroads on commercialising its advanced and innovative technologies in the renewable energy industry.

Strategies and efforts are being carried out by the Group to remedy the effect of the declining margin in the Coatings division by streamlining the business and production as well as increasing its focus on higher end products The Board will continue monitoring the progress of both divisions vigilantly and formulate various strategies to address market conditions existing at any point in time as the Group move forward to 2010.

4. **Variance of actual profit from forecast profit**

Not applicable.

5. **Taxation**

	Current Quarter RM'000	Cumulative year to date RM'000
Current	380	380
Under/(Over)provision in prior year	-	-
Deferred taxation	-	-
	380	380

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 January 2010.

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 January 2010 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 January 2010 are as follows:

	RM
Subordinated bonds	4,000,000
Provision for diminution in value	(1,582,000)
Balance as at 31 January 2010	2,418,000

9. Status of corporate proposals

Save as disclosed below, there are no other corporate proposals announced but not completed as at 25 March 2010.

On 29 January 2010, the Board announced that GET had, on 28 January 2010, entered into a Supplemental Shareholders' Agreement with Octagon, Tadhamon Capital B.S.C. (c) ("Tadhamon") and Orizon Consolidated Limited ("OCL") for GET to acquire 46 ordinary shares of US$1.00 each in OCL ("OCL Shares"), representing 46% of the issued and paid up share capital of OCL, from Tadhamon for a cash consideration of US$46.00, including the possibility of assumption of liabilities and obligations of GET by Octagon ("Proposed Acquisition") and to vary certain terms and conditions of the Shareholders' Agreement dated 28 December 2009 ("Supplemental Shareholders' Agreement"). Upon completion of the Proposed Acquisition, GET's shareholding in OCL will increase from 5% to 51%, thus making OCL a 51%-owned subsidiary of GET.

Pursuant to the Proposed Acquisition, GET also entered into the following ancillary agreements on the same date:-

- a Deed of Guarantee with Tadhamon where GET guarantees Tadhamon the due and punctual payment, performance and discharge of OCL's obligations resulted from Mandatory Early Settlement Events under the Murabaha Agreement dated 29 December 2009 once OCL is a 51%-owned subsidiary of GET. Mandatory Early Settlement Events are events such as the waste to energy project undertaken by ORE is unable to achieve financial close within 12 months from 29 December 2009 and Octagon fails to obtain shareholders' approval for the Proposed Acquisition by 30 April 2010 ("Deed of Guarantee");

- an Assumption of Liability Agreement with OCL and ORE whereby OCL has agreed to assume the debt owing by ORE to GET unto its books;

- a Shareholder Loan Agreement with OCL to record and regulate the debt owing by OCL to GET, arising from the Assumption of Liability Agreement;

- a Conversion Agreement with Tadhamon and OCL to allow GET and Tadhamon the option to convert the respective debts owing to them by OCL into equity in OCL; and

- a Share Transfer Agreement with Tadhamon allowing GET the right to acquire all OCL Shares held by Tadhamon under certain agreed circumstances.

The Proposed Acquisition including the possibility of assumption of liabilities and obligations of GET under the Deed of Guarantee by Octagon pursuant to the Supplemental Shareholders' Agreement is subject to the approval of the shareholders of the Company in an extraordinary general meeting to be convened.

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 January 2010, 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 January 2010 are as follows: -

	RM'000
Short term borrowings	
Loans obligations	18,632
Long term borrowings	
Collateralised loan obligations	40,000
Less: unamortised loan processing fee	(296)
Loan obligations	120,990
Total	179,326

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 25 March 2010, 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 25 March 2010, 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. On 29 January 2010, Durachem's solicitors served an Order and Judgement dated 14 September 2009 to the solicitors of the defendants

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 January 2010 are as below:-

Type(s) of financial assistance	**For the period from 01.11.2009 to 31.01.2010 RM'000**	**Balance as at 31.01.2010 RM'000**
Non-interest bearing cash advances to non wholly-owned subsidiaries	-	3,701

15. **(Loss) per share**

	Quarter ended		**Current year-to-date**	**Preceding year corresponding period**
	31 January 2010	**31 January 2009**	**31 January 2010**	**31 January 2009**
(Loss) after taxation and minority interest (RM'000)	(3,334)	(3,074)	(3,334)	(3,074)
Weighted average number of ordinary shares in issue ('000)	166,787	166,787	166,787	166,787
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	166,787
Basic (loss) per share (sen)	(2.00)	(1.84)	(2.00)	(1.84)
Diluted (loss) per share (sen)	*	*	*	*

Note:

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