

**OCB BERHAD**  
**(Company No: 3465-H)**  
**(Incorporated in Malaysia)**

**NOTES TO THE INTERIM FINANCIAL REPORT**

**A1 Basis of preparation**

The interim financial report has been prepared in accordance with Financial Reporting Standards (“FRS”) 134, Interim Financial Reporting (formerly known as MASB 26) and Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad.

**Changes in Accounting Policies**

The significant accounting policies and methods of computation adopted by the Company in this Interim Financial Statement are consistent with those adopted in the annual financial statements for the year ended 31 December 2005, except for the adoption of the following new/revised FRS with effect from 1 January 2006, and the early adoption of three (3) other standards, namely FRS 117 – Leases, FRS 124 – Related Party Disclosures and FRS 139 – Financial Instruments: Recognition and Measurement which were issued by Malaysian Accounting Standard Board (MASB) for periods commencing on or after 1 October 2006:-

FRS 3	Business Combinations
FRS 101	Presentation of Financial Statements
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110	Events After Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible assets

The adoption of all the abovementioned FRS does not have a significant impact on the Group.

The principal effects of the changes in accounting policies resulting from the adoption of applicable new/revised FRS are set out under Notes (a), (b) and (c) below:-

**(a) FRS 117 – Leases**

With the adoption of FRS 117 with effect from 1 January 2006, the leasehold interest in land held for own use is accounted for as being held under an operating lease. Such leasehold land will no longer be revalued and such prepaid lease payments are amortised on a straight line basis over the remaining lease term of the land.

Prior to 1 January 2006, leasehold land was classified as property, plant and equipment and was stated at cost less accumulated depreciation. The reclassification of leasehold land as prepaid lease payments has been accounted for retrospectively in accordance with FRS 117 by restating the Balance Sheet presentation as at 31 December 2005 as follows:-

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**Balance Sheet as at 31 December 2005**

	<b>Previously stated</b>	<b>Effects of changes in accounting policy</b>	<b>Restated</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Non current assets</b>			
Property, plant and equipment	76,643	(7,920)	68,723
Prepaid lease payments	-	7,724	7,724
<hr/>			
<b>Current assets</b>			
Prepaid lease payments	-	196	196
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**(b) FRS 3 – Business Combinations**

With effect from 1 January 2006, in accordance with FRS 3, amortization of positive goodwill is no longer allowed. Such goodwill is tested annually for impairment, including the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognized when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount.

In addition, FRS 3 requires that if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which has been known as negative goodwill under the previous accounting policy), the excess is recognized immediately in the Income Statement as it arises.

During the quarter under review, negative goodwill amounting to RM1.1 million arising from consolidation of the accounts of Enigma Sinar Sdn Bhd (“Enigma Sinar”), an 80%-owned subsidiary company, was recognized in the Income Statement.

**(c) FRS 101 – Presentation of Financial Statements and FRS 127 – Consolidated and Separate Financial Statements**

In previous years, minority interests at the Balance Sheet date were presented in the Consolidated Balance Sheet separately from liabilities and as deduction from net assets. Minority interest in the results of the Group for the year was also separately presented in the Income Statement as a deduction before arriving at the profit attributable to shareholders of the Company.

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With effect from 1 January 2006, in order to comply with FRS 101 and FRS 127, minority interest at the Balance Sheet date has been presented in the Consolidated Balance Sheet within the equity, separately from the equity attributable to the equity holders of the Company, and minority interest in the results of the Group for the period has been presented on the face of the Consolidated Income Statement as an allocation of the total profit or loss for the period between the minority interest and the equity holders of the Company.

The presentation of minority interest in the Consolidated Balance Sheet, Income Statement and Statement of Changes in Equity for the comparative period has been restated accordingly.

**A2 Audit report**

The audit report of the Company's preceding Annual Financial Statements was not qualified.

**A3 Seasonal or cyclical factors**

The Group's operations were not significantly affected by any seasonal or cyclical factors during the quarter under review.

**A4 Unusual items**

There were no unusual items during this quarter affecting assets, liabilities, equity, net income or cash flow.

**A5 Changes in estimates of amount reported previously with a material effect in current interim period**

There were no estimations of amount used in our previous reporting which have a material impact in the current reporting period.

**A6 Debt and equity securities**

There were no issuance and repayment of debts and equity securities during the current quarter under review.

**A7 Dividends**

No dividend was paid during the quarter under review.

A first and final gross dividend of 2.5% per share less Malaysian Income Tax at 28% for the financial year ended 31 December 2005 was paid on 28 July 2006.

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**A8 Segmental information**

Business segments information for the two quarters ended 30 June 2006:-

	<b>Building Materials RM'000</b>	<b>Bedding Products RM'000</b>	<b>Consumer Foods RM'000</b>	<b>Investments RM'000</b>	<b>Elimination RM'000</b>	<b>Consolidated RM'000</b>
<b>Revenue</b>						
External revenue	19,012	25,848	42,749	432	(128)	87,913
<b>Result</b>						
Profit/(Loss) from Operations	2,526	3,195	5,040	2,880	-	13,641
Finance costs						(4,650)
Investing results						-
Profit before taxation						8,991
Taxation						(2,653)
Net profit for the period						<b>6,338</b>
<b>Other information</b>						
Segment assets	61,366	94,887	123,267	131,958	-	<b>411,478</b>
Segment liabilities	(27,185)	(27,658)	(32,517)	(97,365)	-	(184,725)
Capital expenditure on property, plant and equipment	-	-	190	-	-	190
Depreciation	189	1,139	1,428	123	-	2,879

**A9 Revaluations**

There were no amendments in the valuation amount of revalued assets brought forward to the current quarter.

**A10 Material events subsequent to the end of the reporting period**

Save as disclosed below, there were no materials events subsequent to the end of the quarter reported as at the date of issuance of this report.

On 7 July 2006, Enigma Sinar an 80%-owned subsidiary of the Company disposed of 1,300,000 ordinary shares of RM1.00 each in QSR Brands Berhad (“QSR Shares”) representing 0.54% of QSR Brands Berhad’s (“QSR”) issued and paid-up share capital then via off-market transaction for a total cash consideration of RM3.978 million. The gain arising from the disposal was approximately RM338,000.

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**A11 Changes in composition of the Group**

There were no changes in the composition of the Group for the quarter under review.

**A12 Contingent liabilities or assets**

There were no third party contingent liabilities entered into by the Company during the quarter under review.

Under the terms of the Sale and Purchase Agreements with Ample Term Sdn Bhd ("ATSB") for the disposals of Rantai Pesona Sdn Bhd ("RPSB") and Linear Profile Sdn Bhd ("LPSB"), ATSB shall within twelve (12) months from the completion of the said Agreements cause the Company to be released and/or discharged as a guarantor for any debts of RPSB and LPSB owing to Bank Islam Malaysia Berhad under cash note facilities amounting to RM13,287,016.

**B1 Review of performance**

The Group recorded a marginal increase of 5% in revenue to RM45.8 million for the current quarter against RM43.8 million in the preceding year corresponding quarter. The increase was mainly due to stronger sales recorded by the building materials and bedding products divisions.

The building materials division witnessed an increase of 30% in revenue to RM10.7 million as against RM8.2 million in the preceding year corresponding quarter due to higher completions of projects. Likewise, the bedding products division also reported an increase of 6% in revenue from RM12.4 million to RM13.1 million.

However, the consumer foods division registered a marginal decrease of 4% in revenue to RM21.7 million as compared to RM22.5 million the preceding year corresponding quarter.

Profit before tax of the Group increased by 91% to RM5.5 million primarily due to the other operating gain of approximately RM1.6 million arising from the disposal of 5,000,000 QSR Shares by Enigma Sinar.

Both the bedding products and building materials divisions reported higher pre-tax profit of 15% and 50% respectively in the current quarter as compared to the preceding year corresponding quarter, while the consumer foods division suffered a decrease in pre-tax profit of 18%.

In the opinion of the Board of Directors, the results of the current quarter ended 30 June 2006 have not been affected by any transaction or event of a material or unusual nature other than that mentioned above.

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**B2 Comparison of profit before tax for the current quarter with immediate preceding quarter**

	<b>Current quarter 30/06/06 RM'000</b>	<b>Immediate preceding quarter 31/03/06 RM'000</b>
Revenue	45,807	42,106
Consolidated profit before taxation	<u>5,538</u>	<u>3,453</u>

The Company registered a higher pre-tax profit of RM5.5 million for the current quarter as compared to RM3.5 million in the immediate preceding quarter mainly due to other operating gain from the disposal of 5,000,000 QSR Shares.

**B3 Current year prospects**

The Group remains optimistic on the outlook for the financial year ending 31 December 2006. The Group is expected to perform satisfactorily in the current financial year.

**B4 Explanation on variances of actual results compared with forecasted and shortfall in profit guarantee.**

Not applicable

**B5 Taxation**

	<b>Current quarter 30/06/06 RM'000</b>	<b>Cumulative current year to date 30/06/06 RM'000</b>
Current Taxation	1,569	2,653
(Over)/under Taxation	-	-
Deferred Taxation – Current	-	-
Deferred Taxation – Prior	-	-
	<u>1,569</u>	<u>2,653</u>

The effective tax rate on the Group's profit is higher than the statutory rate due to certain expenses disallowed by the Inland Revenue Board and there is no Group relief on losses incurred within the group of companies.

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**B6 Sales of unquoted investments and properties**

There were no sales of unquoted investments or properties during the current quarter under review.

**B7 Purchases and sales of quoted securities**

Investments in quoted securities as at 30 June 2006 are as follows:-

	<b>RM'000</b>
At cost	44,578
Less: Provision for diminution in value	<u>(18)</u>
At carrying value	<u><b>44,560</b></u>
At market value	<u><u><b>50,416</b></u></u>

On 3 April 2006, Enigma Sinar an 80%-owned subsidiary of the Company disposed of 5,000,000 QSR Shares representing 2.08% of QSR's issued and paid-up share capital then via off-market transaction at a price of RM3.20 per QSR share for a total cash consideration of RM16.0 million. The gain arising from the disposal for Enigma Sinar was approximately RM2.0 million.

**B8 (a) Status of corporate proposal**

There was no corporate proposal announced during the quarter under review.

**(b) Status of the Utilisation of Proceeds**

The total gross proceeds of RM37.4 million arising from the Rights Issue has been utilized in the following manner:-

	<b>Proposed utilisation RM'000</b>	<b>Utilised as at 28.08.2006 RM'000</b>	<b>Balance unutilised RM'000</b>
Defrayment of expenses incidental to the Corporate Exercise	2,000	2,000	-
Repayment of bank borrowings	18,625	11,095	7,530
Working capital	16,775	16,775	-
<b>Total</b>	<u><u><b>37,400</b></u></u>	<u><u><b>29,870</b></u></u>	<u><u><b>7,530</b></u></u>

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**B9 Group borrowings and debts securities**

Bank borrowings as at the end of this quarter:-

	<b>Secured RM'000</b>
<b>Short Term Borrowings</b>	
Hire purchase creditors	1,031
Bank overdrafts	17,635
Banker acceptances/trust receipts	21,973
Term loans	1,345
	<u><b>41,984</b></u>
<b>Long Term Borrowings</b>	
Hire purchase creditors	656
Term loans	45,017
Fixed rate serial bonds	55,000
	<u><b>100,673</b></u>

**B10 Off balance sheet financial instruments**

There were no financial instruments negotiated with off balance sheet risk as at the date of issuance of this report.

**B11 Material litigation**

Save as disclosed below, as at 28 August 2006, OCB and /or its subsidiaries are not engaged in any material litigation either as plaintiff or defendant and the Directors do not have any knowledge of any proceedings pending or threatened against the Group:-

**(i) Kuala Lumpur High Court Originating Summons No. D2-24-315-2005 brought by QSR ("Plaintiff") against Enigma Sinar and 5 Others ("Defendants")**

On 30 August 2005, Enigma Sinar received an Originating Summons (Suit No. D2-24-315-2005) filed by QSR seeking inter-alia declaratory orders that the Extraordinary General Meeting of QSR ("EGM") called by Enigma Sinar and RHB Nominees (Tempatan) Sdn Bhd (as nominee for Eagle Option Sdn Bhd) on 15 September 2005 was invalid being in breach of the Articles of Association of QSR. The other defendants named in the Originating Summons are Kulim (Malaysia) Berhad ("Kulim"), Wisdom Innovative Technology Sdn Bhd, OSK Nominees (Tempatan) Sdn Bhd, AmSec Nominees (Tempatan) Sdn Bhd and RHB Nominees (Tempatan) Sdn Bhd ("RHB Nominees").

QSR further filed an injunctive application on the same date seeking that Enigma Sinar and RHB Nominees, their directors, officers, servants, agents be restraints from holding or proceeding with the EGM called by Enigma Sinar and RHB Nominees or any adjournment thereof until Kulim sends an offer document in accordance with Section 13(7) of the Malaysian Code of Take-Overs and Mergers 1998 to the shareholders of QSR.



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The High Court dismissed the injunctive application with costs on 15 September 2005.

QSR subsequently on 16 September 2005 lodged an appeal to the Court of Appeal against the High Court decision, which is registered as Civil Appeal No.W-02-1000-2005. The Court of Appeal has yet to fix a date of hearing for the appeal. No date has been fixed for hearing of the Originating Summons.

**(ii) Kuala Lumpur High Court Originating Summons No. D2-24-321-2005 brought by Wisdom Innovative Technology Sdn Bhd and OSK Nominees (Tempatan) Sdn Bhd (“Plaintiffs”) against Enigma Sinar and 13 others (“Defendants”)**

On 7 September 2005, Enigma Sinar received an Originating Summons (Suit No.D2-24-321-2005) filed by the Plaintiffs seeking in principal declaratory orders that the special notice issued by Enigma Sinar and the 2<sup>nd</sup> and 3<sup>rd</sup> Defendants on 18 August 2005 to convene an Extraordinary General Meeting (“EGM”) on 15 September 2005 is invalid, consequentially, Enigma Sinar and all the other defendants, their servants, agents, nominees and/or shareholders acting in concert with them, be restrained from moving, or proposing the proposed resolutions contained in the special notice dated 18 August 2005 at the intended EGM scheduled to be held on 15 September 2005.

The High Court dismissed the Originating Summons with costs on 13 September 2005.

The Plaintiffs subsequently on 14 September 2005 lodged to the Court of Appeal against the High Court decision, which is registered as Civil Appeal No. W-02-983-2005. The Court of Appeal has yet to fix a date of hearing for the appeal.

**B12 Dividends**

No interim dividend has been declared for the current quarter.

**B13 Earnings per share**

**(I) Basic earnings per share**

The basic earnings per share is calculated by dividing the Group's net profit for the current quarter by the weighted number of ordinary shares in issue during the said quarter.

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	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Current year quarter 30/06/06	Preceding year corresponding quarter 30/06/05	Current year to date 30/06/06	Preceding year corresponding period 30/06/05
Net profit attributable to equity holders of the parent company (RM'000)	3,518	1,560	5,619	3,158
Number of shares in issue ('000)	102,850	102,850	102,850	102,850
Basic earnings per share (Sen)	3.42	1.52	5.46	3.07

**(II) Diluted earnings per share**

Not applicable.

Dated: 28 August 2006  
 Petaling Jaya