**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 (formerly known as MASB Standards), FRS 134 Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of the 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 2004.

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 2004.

### 2. Audit Report

There was no audit qualification by the auditors on the annual financial statements of the Octagon Group for the financial year ended 31 October 2004.

### 3. Seasonality or cyclicality of operations

The principal business of the Group is not subjected to seasonal or cyclical factors. However, the Group's turnover depends on orders placed by the Group's direct and indirect customers.

### 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 of the current financial year, 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

Other than disclosed below, there were no issuance, cancellations, repurchase, resale and repayments of debts and equities securities during the financial period under review:-

(i) 2,620,800 ordinary shares of RM0.50 each were bought back by the Company from open market at an average price (including brokerage, stamp duties and clearing fees) of approximately RM0.81 per share;

(ii) 65,967,899 Warrants at an issue price of RM0.05 per Warrant on the basis of 2 Warrants for every 5 existing ordinary shares of RM0.50 each held were issued on 24 October 2005 and subsequently listed and quoted on 8 November 2005; and

(iii) 10,000 new ordinary shares of RM0.50 each were issued pursuant to the exercise of options under the Employees' Share Option Scheme ("ESOS") of the Company.

## 7. Dividends paid

There was no dividend paid during the quarter under review.

## 8. Segmental Report

The geographical segments for the operations of the Group for the financial year ended 31 October 2005 are as follows: -

| | Malaysia RM'000 | Indonesia RM'000 | Hong Kong RM'000 | Eliminations RM'000 | Consolidated RM'000 |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| External sales | 48,250 | 20,179 | 6,608 | - | 75,037 |
| Inter-segment sales | 18,224 | - | - | (18,224) | - |
| Total revenue | 66,474 | 20,179 | 6,608 | (18,224) | 75,037 |
| **RESULT** | | | | | |
| Segment result | 18,744 | 72 | (601) | - | 18,215 |
| Dividend revenue | | | | | - |
| Interest expense | | | | | (46) |
| Interest revenue | | | | | 650 |
| Taxation | | | | | (5,907) |
| Profit after taxation | | | | | 12,912 |
| Minority Interest | | | | | 325 |
| Profit attributable to shareholders | | | | | 13,237 |
| **OTHER INFORMATION** | | | | | |
| Segment assets | 232,323 | 14,199 | 8,375 | (131,002) | 123,895 |
| Unallocated assets | | | | | 4,895 |
| Deferred tax assets | | | | | 73 |
| Tax assets | | | | | 517 |
| Consolidated total assets | | | | | 129,380 |
| Segment liabilities | 72,747 | 9,769 | 5,088 | (71,322) | 16,282 |
| Unallocated liabilities | | | | | 490 |
| Taxation | | | | | 719 |
| Deferred taxation | | | | | 366 |
| Minority interest | | | | | 5,200 |
| Consolidated total liabilities | | | | | 23,057 |
| Capital expenditure | 9,701 | 64 | 236 | - | 10,001 |
| Depreciation of fixed assets | 1,417 | 318 | 194 | - | 1,929 |
| Provision for expenses | 909 | 51 | | | 960 |
| PPE written off | 6 | - | - | - | 6 |

Inter-segment sales comprises sales revenue which are priced at cost plus a percentage mark-up.

## 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 end of the financial period ended 31 October 2005 up to 16 December 2005 which have not been reflected in the financial statement for the said period:-

(i) On 15 December 2005, the Company announced that GET has increased its issued and paid-up share capital from RM12,750,000 to RM15,000,000 by an allotment of 250,000 ordinary shares of RM1.00 each in GET ("GET Shares") for cash to Syed Omar Bin Syed Abdullah, who is a director and substantial shareholder of GET and 2,000,000 GET Shares for cash to Kamarudin Bin Sudin ("Allotment of Shares"). Pursuant to the Allotment of Shares, the equity interest of the Company in GET will reduce from approximately 64.7% to its original shareholding of 55%.

(ii) On 25 November 2005, the Company subscribed for 734,951 new ordinary shares of RM1.00 each in APT for a total cash consideration of RM734,951 ("Subscription of Shares"). The shareholdings of the Company in APT remain at 49% after the Subscription of Shares.

(iii) On 8 November 2005, Commerce International Merchant Bankers Berhad announced on behalf of the Company that the rights issue of 65,967,899 warrants at an issue price of RM0.05 per warrant on the basis of 2 warrants for every 5 existing ordinary shares of RM0.50 each held in the Company has been completed with the listing and quotation of 65,967,899 Warrants on the Main Board of Bursa Malaysia Securities Berhad on 8 November 2005.

**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**

On 3 September 2000, a fire had occurred at part of the open store yard of Durachem Sdn Bhd ("Durachem"), a wholly-owned subsidiary of the Company, which is used to store certain raw materials. The fire had resulted in damage to the refuse chamber, the back portion of the production building for powder blending and back-up generator set. The fire had also indirectly resulted in some damage to an adjacent third party's warehouse.

On 14 March 2001, Durachem received a notice of claim amounting to RM62,065 for damage caused to the adjacent third party's warehouse. Durachem has denied the claim and has forwarded the said claim to its insurer, Mitsui Sumitomo Insurance (Malaysia) Bhd. for their further action.

On 13 March 2003, Durachem was served a Writ of Summons together with Statement of Claim dated 2 January 2003 by Kellogg's Malaysia Manufacturing Sdn Bhd and Zurich Insurance (Malaysia) Bhd ("Plaintiffs"). The Plaintiffs are claiming for an amount of RM1.5 million as compensation for damage to goods, the interest at the rate of 8% per annum on the aforesaid sum of RM1.5 million from the date of filing of the Summons to the date of judgment, the costs and other relief deemed fit and proper by the Court. Further details are set out in Section (B)11 of this note.

Save as disclosed above, as at 16 December 2005, 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 registered a higher turnover of RM24.806 million as compared to RM17.573 million recorded in the fourth quarter of the last financial year. This is due to the increase in demand by existing customers, as well as additional sales contributed by the Premierpath Group.

The gross profit margin of the Group fluctuates on a monthly basis. There is no significant change in the gross profit margin for the fourth quarter of the financial year ended 31 October 2005 of 41.57% as compared to 41.50% recorded for the corresponding period in the previous financial year. The Group is continuing its effort to reduce overhead costs through stringent control measures in resource planning in order to maximise profit and minimise overhead expenditure.

The profit before taxation margin for the 4$^{th}$ Quarter of the current financial year has recorded a drop from 29.88% registered for the corresponding period in the previous financial year to 26.06%. The drop in the margin is due to higher administration and other expenses as a result of the Group's expansion program.

**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 RM24.806 million as compared to RM22.141 million in the preceding quarter ended 31 July 2005. The Group's turnover has increased by approximately 12.04%, mainly due to the increase in demand by existing customers as well as contribution from the Premierpath Group. As a result of the above, the profit before taxation has improved approximately 25.75%, from RM5.142 million to RM6.466 million.

**3. Prospects**

The Malaysian economy expanded by 5.3% in the third quarter of 2005 as compared to 4.4% recorded in the second quarter of 2005. Value added in the manufacturing sector expanded by 3.4% during the third quarter as compared to 3.1% registered in the second quarter. In the export-oriented industries, output growth sustained itself from the second quarter at 4.1% in the third quarter through support by the pick-up in the electronics and electrical products (E&E) industry. In the third quarter, output of the E&E industry increased by 3.2% as compared to 0.9% in the second quarter.

Prospects for the Malaysian economy in the remainder of the year remain favourable. The global economic expansion is expected to be sustained at a steady pace, despite the high oil prices. The growth momentum in the US has remained strong despite the effects of the hurricanes while the recovery in Japan is becoming more entrenched. Expansion in regional demand is expected to remain strong, supported by the continued improvement in the global electronics cycle and sustained strong growth in P.R. China. The favourable external environment is therefore expected to support the expansion in domestic demand.

Given these developments, the growth momentum in the Malaysian economy is expected to continue into the fourth quarter, supported by both strong external demand and sustained expansion in domestic demand, led by private sector activity. The electronics sector is expected to ride on the current recovery in the global semiconductor industry.

Barring unforeseen circumstances, the Board of Directors of Octagon is optimistic that the Group will be able to remain profitable in the next financial year.

**4. Variance of Actual Profit From Forecast Profit**

Not applicable.

**5. Taxation**

| | Current Quarter RM'000 | Cumulative year to date RM'000 |
|---|---|---|
| Current | 1,926 | 5,870 |
| Under/(Overprovision) in prior year | 28 | 28 |
| Deferred taxation | 9 | 9 |
| | 1,963 | 5,907 |

The effective rate of taxation of the Group is higher than the statutory rate of taxation mainly due to certain expenses being disallowed for taxation purposes.

**6. Profits on Sale of Investments and/or Properties**

There were no sale of investments and/or properties for the current financial period ended 31 October 2005.

**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 2005 were as follows:

| | |
|---|---|
| At cost | RM47,500 |
| At carrying value/book value | RM47,500 |
| At market value | RM48,000 |

**8. Status of Corporate Proposals**

**8.1 Corporate Proposals**

Save as disclosed below, there are no other corporate proposals announced but not completed as at 16 December 2005: -

On 8 July 2005, CIMB announced, on behalf of the Company, that the Company proposes to issue up to RM130 million nominal value commercial papers ("CPs") and/or medium-term notes ("MTNs") programme under the Islamic financing principles of Murabahah and Ijarah (“CP/MTN Programme”) with a sub-limit of up to RM50 million in nominal value for the CPs.

On 24 October 2005, CIMB announced, on behalf of the Company, that the SC has approved the CP/MTN Programme on 20 October 2005. Documents in relation to the implementation of the CP/MTN Programme is currently being prepared.

## 8.2 Utilisation of proceeds

(a) The status of utilisation of the proceeds raised from the rights issue and public issue pursuant to the listing of the Company on the Second Board of the Bursa Securities on 8 November 2000 amounting to RM24.490 million is as follows: -

| | As approved by the Securities Commission RM'000 | (a) @Revision made by Octagon RM'000 | (b) Amount utilized as at 16 December 2005 RM'000 | (c) = (a) – (b) Amount unutilized as at 16 December 2005 RM'000 |
|---|---|---|---|---|
| Part finance the purchase of Industrial land | 3,310 | 3,310 | 3,310 | - |
| Construction of office, warehouse and factory buildings | 8,000 | 6,500 | 6,102 | 398 |
| Purchase of plant and machinery and testing equipment and apparatus and upgrading of the research and development facilities | 2,000 | 4,000 | 2,335 | 1,665 |
| Research and development expenditure | 2,000 | - | - | - |
| Acquisition of Profound Peak Sdn Bhd | 599 | 599 | 599 | - |
| Repayment of bank borrowings | 2,384 | 2,384 | 2,384 | - |
| Working capital | 4,197 | 5,789 | 5,789 | - |
| Estimated listing expenses | 2,000 | 1,908 | 1,908 | - |
| | 24,490 | 24,490 | 22,427 | 2,063 |

***Note: -***

@ The revision to the utilization of proceeds and the revision to the manner of utilization of proceeds were announced to the Bursa Securities on 21 May 2001, 28 September 2001, 13 August 2002 and 31 December 2004 respectively.

* As announced on 13 August 2002, 24 December 2002, 18 December 2003 and 31 December 2004, any excess amount not utilised for the aforesaid purposes will be utilised for the working capital of the Octagon Group.

(b) As at 16 December 2005, the total proceeds of RM3.298 million from the Right Issue of Warrants has been fully utilised, out of which, RM2.795 million has been used for the Group's working capital purposes and the remaining RM0.503 million for payment of expenses relating to the Right Issue of Warrants.

## 9. Group Borrowings and Debt Securities

All of the Group banking facilities which include bank overdraft and revolving 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 RM18.3 million.

Total Group borrowings as at 31 October 2005 are as follows: -

| | RM'000 |
|---|---|
| **Short term borrowings** | |
| Hire purchase creditors | 151 |
| **Long term borrowings** | |
| Hire purchase creditors | 339 |
| Total | 490 |

All of the Group borrowings are denominated in Ringgit Malaysia.

## 10. Off Balance Sheet Financial Instruments

The Group does not have any financial instruments with off balance sheet risk as at 16 December 2005 being the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report.

## 11. Material Litigation

On 13 March 2003, Durachem was served with Writ of Summons together with Statement of Claims dated 2 January 2003 by Kellogg's Malaysia Manufacturing Sdn Bhd ("Kellogg's") and Zurich Insurance (Malaysia) Bhd ("Plaintiffs"). The solicitors of Duracham Sdn Bhd have filed a Statement of Defence with the High Court of Malaysia in Shah Alam on 23 April 2004. The case has been fixed for mention on 17 January 2006.

The Plaintiffs are claiming for a total sum of RM1.5 million as compensation for damage to goods, the interest at the rate of 8% per annum on the aforesaid sum of RM1.5 million from the date of filing of the Summons to the date of judgement, the costs and any other relief deemed fit and proper by the Court. The solicitors of Durachem are of the view that even if Durachem is held liable for the fire, the quantum claimed by the Plaintiff may be reduced. Durachem has a public liability insurance amounting to RM1 million at the time of the fire. Hence, in the event that the claim is successful, the expected losses arising from the suit will be the sum claimed (net of the public liability insurance), interest, legal fees and other relief, the amount of which can only be determined upon award of judgement. Based on the above, the Directors of Octagon are of the opinion that the aforesaid litigation will not have any material effects on the financial position and operation of the Group.

Save as disclosed above, as at 16 December 2005, 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.

## 12. Dividends

The Board of Directors has recommended a final dividend of 2.5% (1.25 sen per ordinary share of RM0.50 each) less 28% tax for the financial year ended 31 October 2005, subject to the approval of the shareholders at an Annual General Meeting to be held on a date to be announced later. An interim dividend of 10% (10 sen per ordinary share of RM1.00 each) less 28% tax has been paid on 28 July 2005, which is prior to the completion of the share split of every 1 ordinary shares of RM1.00 each into 2 new ordinary shares of RM0.50 each on 2 August 2005.

## 13. Earnings Per Share

| | Quarter ended 31 October 2005 | Quarter ended 31 October 2004 | Current year to date 31 October 2005 | Preceding year corresponding period 31 October 2004 |
|---|---|---|---|---|
| Profit after taxation and minority interest (RM'000) | 4,457 | 3,502 | 13,237 | 11,922 |
| Weighted average number of ordinary shares in issue* ('000) | 164,536 | 150,087 | 164,735 | 155,268 |
| Adjustment in relation to the ESOS ('000) | - | 2,885 | 952 | 4,118 |
| Adjustment in relation to the Warrants issued on 24 October 2005 ('000) | - | - | - | - |
| Adjusted weighted average number of ordinary shares in issue ('000) | 164,536 | 159,972 | 165,687 | 159,386 |
| Basic earnings per share (sen) | 2.71 | 2.33 | 8.04 | 7.68 |
| Diluted earnings per share (sen) | ** | 2.29 | 7.99 | 7.48 |

***Notes:***

* *The weighted average number of shares in issue has been adjusted for the Share Split and Bonus Issue.*

** *Diluted earnings per share is not computed for the quarter ended 31 October 2005 as the potential ordinary shares to be issued are anti-dilutive. Similarly, no adjustment is made to the weighted average number of shares in relation to the warrants as any potential ordinary shares are also anti-dilutive.*