

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 2005.

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 2005.

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 2005.

3. Seasonality or cyclicity of operations

The principal business of the Group is not subjected to seasonal or cyclical factors. However, the Group's turnover could be lower during the period from November to March, depending 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 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:-

4,290,800 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 RM0.77 per share.

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 period ended 31 January 2006 are as follows: -

	Malaysia RM'000	Indonesia RM'000	Hong Kong RM'000	Eliminations RM'000	Consolidated RM'000
REVENUES					
External sales	9,759	4,295	1,540	-	15,594
Inter-segment sales	3,700	-	-	(3,700)	-
Total revenue	<u>13,459</u>	<u>4,295</u>	<u>1,540</u>	<u>(3,700)</u>	<u>15,594</u>
RESULT					
Segment result	3,558	16	(208)	(16)	3,350
Dividend revenue					3
Interest expense					(6)
Interest revenue					19
Taxation					(1,104)
Profit after taxation					<u>2,262</u>
Minority Interest					<u>101</u>
Profit attributable to shareholders					<u>2,363</u>
OTHER INFORMATION					
Segment assets	218,792	13,532	8,417	(115,816)	124,925
Unallocated assets					<u>5,920</u>
Consolidated total assets					<u>130,845</u>
Segment liabilities	59,334	8,619	5,315	(55,940)	17,328
Unallocated liabilities					281
Taxation					79
Deferred taxation					366
Minority interest					<u>7,338</u>
Consolidated total liabilities					<u>25,392</u>
Capital expenditure	5,594	132	41	-	5,767
Depreciation of fixed assets	386	67	56	-	509

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 financial period ended 31 January 2006 up to 20 March 2006 which have not been reflected in the financial statement for the said period:-

- (i) On 16 March 2006, the Company announced that Advanced Pyrotech Sdn Bhd ("APT") has increased its issued and paid-up share capital from RM1,500,000 to RM8,000,000 by an allotment of 6,500,000 ordinary shares of RM1.00 each in APT ("APT Shares") of which the Company has subscribed for 3,185,000 new APT Shares for a total cash consideration of RM3,185,000 financed via internally generated funds. The remaining 3,315,000 new APT Shares were allotted to its holding company, K.K. Incinerator Eng. & Const. (Malaysia) Sdn Bhd. The shareholdings of Octagon and KKIECM in APT after the increase in share capital remained at 49% and 51%, respectively;
- (ii) On 13 March 2006, the Company announced its intention to seek the approval of the shareholders for the renewal of the shareholders mandate and new shareholders mandate for recurrent related party transaction of a revenue or trading nature at the forthcoming Annual General Meeting; and
- (iii) On 20 March 2006, the Company announced its intention to seek the approval of the shareholders for the renewal of the share buy back authority at the forthcoming Annual General Meeting.

11. Changes in the Composition of the Group

Save as disclosed below, there were no changes in the composition of the Group for the current quarter under review:-

On 15 December 2005, Green Energy and Technology Sdn Bhd ("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 has reduced from approximately 64.7% to its original shareholding of 55%..

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 20 March 2006, 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 19.45% to RM15.594 million as compared to RM13.055 million recorded in the first quarter of the last financial year. The higher turnover is mainly contributed from its newly acquired subsidiary, Premierpath Sdn Bhd.

Gross profit for the first quarter of the financial year ended 31 October 2006 for the Group increased by 3.42% to RM3.353 million from RM3.242 million for the corresponding period in the previous financial year despite a lower gross profit margin of 44.68% as compared to 45.02% respectively. The drop in the gross profit margin is primarily due to higher raw material costs and competitive product pricing despite the Group's continuous effort to reduce overhead costs through stringent cost control measures. The lower margin is also due to Premierpath Sdn Bhd, which has a niche in the lower end products market.

The Group profit before taxation increased marginally to RM3.366 million from the corresponding period of RM3.352 million. Meanwhile, the profit before taxation margin drop from 25.68% registered for the corresponding period in the previous financial year to 21.58%. Other than the reasons stated above, the drop in the margin is also due to higher overheads and other expenses as a result of the Group's expansion program.

Similarly, the Group profit after taxation grew marginally from RM2.230 million to RM2.262 million whilst profit after taxation and minority interest reduced marginally from RM2.379 million to RM2.363.

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 RM15.594 million as compared to RM24.806 million in the preceding quarter ended 31 October 2005. The Group's turnover has decreased by approximately 37.14%, mainly due to the much shorter working days as a result of the various festive seasons.. As a result of the above, the profit before taxation has dropped approximately 47.94%, from RM6.466 million to RM3.366 million. Based on past records, the Group's turnover is usually lower in the first quarters as compared to the preceding fourth quarters.

3. Prospects

The Malaysian economy expanded by 5.2% in the fourth quarter of 2005 as compared to 5.3% recorded in the third quarter of 2005. Value added in the manufacturing sector expanded by 7.3% during the fourth quarter as compared to 3.5% registered in the third quarter. In the export-oriented industries, gross export of manufactured goods for the electronics and electrical products (E&E) grew by 6.8% and 14.7% in the third and fourth quarters of 2005. However, Group's business which are mainly concentrated in the Consumer Electrical products sector has been affected by the negative growth of -4.2% and -0.6% in the third and fourth quarters of 2005.

In 2006, stronger expansion in China and improved performance in other regional countries is expected to contribute to the economic growth of the region. Given the above, the growth momentum in the Malaysian economy is expected to continue into 2006.

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

4. Variance of Actual Profit From Forecast Profit

Not applicable.

5. Taxation

	Current Quarter	Cumulative year to date
	RM'000	RM'000
Current	1,104	1,104
Under/(Overprovision) in prior year	-	-
Deferred taxation	-	-
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	1,104	1,104

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 January 2006.

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 2006 were as follows:

At cost	RM47,500
At carrying value/book value	RM47,500
At market value	RM51,600

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 20 March 2006: -

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

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, inclusive of the balance of RM2.063 million which has been used for working capital purposes, has been fully utilised.

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 January 2006 are as follows: -

	RM'000
Short term borrowings	
Hire purchase creditors	151
Long term borrowings	
Hire purchase creditors	301
Total	<u>452</u>

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 20 March 2006 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 Durachem Sdn Bhd have filed a Statement of Defence with the High Court of Malaysia in Shah Alam on 23 April 2004. The case management has been fixed on 13 September 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 20 March 2006, 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

No dividend has been proposed for the current period under review.

13. Earnings Per Share

	Quarter ended 31 January		Current year to date	Preceding year corresponding period
	2006	2005	31 January 2006	31 January 2005
Profit after taxation and minority interest (RM'000)	2,363	2,379	2,363	2,379
Weighted average number of ordinary shares in issue ('000)	159,976	*164,720	159,976	*164,720
Adjustment in relation to the ESOS ('000)	-	1,938	-	1,938
Adjustment in relation to the Warrants issued on 24 October 2005 ('000)	-	-	-	-
Adjusted weighted average number of ordinary shares in issue ('000)	159,976	166,658	159,976	166,658
Basic earnings per share (sen)	1.48	1.44	1.48	1.44
Diluted earnings per share (sen)	**	1.43	**	1.43

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.*