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 cyclicality 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

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 dividend paid during the quarter under review.

8. Segmental Report

The geographical segments for the operations of the Group for the financial period ended 30 April 2006 are as follows: -

	Malaysia RM'000	Indonesia RM'000	Hong Kong RM'000	Eliminations RM'000	Consolidated RM'000
REVENUES					
External sales	22,331	8,696	3,925	-	34,952
Inter-segment sales	8,039	-	-	(8,039)	-
Total revenue	30,370	8,696	3,925	(8,039)	34,952
RESULT					
Segment result	8,209	(530)	(146)	(32)	7,501
Dividend revenue					3
Interest expense					(12)
Interest revenue					41
Taxation					(2.555)
Profit after taxation					4,978
Minority Interest					137
Profit attributable to shareholders					5,115
OTHER INFORMATION					
Segment assets	228,272	13,155	8,360	(124,139)	125,648
Unallocated assets					5,537
Consolidated total assets					131,185
Segment liabilities	59,413	8,664	5,123	(58,311)	14,889
Unallocated liabilities					253
Taxation					-
Deferred taxation					366
Minority interest					7,291
Consolidated total liabilities					22,799
Capital expenditure	6,542	183	84	-	6,809
Depreciation of fixed assets	790	137	112	-	1,039

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

There were no material events which have occurred subsequent to the financial period ended 30 April 2006 up to 21 June 2006 which have not been reflected in the financial statement for the said period.

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 21 June 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 28.75% to RM19.358 million as compared to RM15.035 million recorded in the second quarter of the last financial year. The higher turnover is mainly contributed from its newly acquired subsidiary, Premierpath Sdn Bhd.

Operating profit for the second quarter of the financial year ending 31 October 2006 for the Group increased by 10.99% to RM4.151 million from RM3.740 million for the corresponding period in the previous financial year despite a lower gross profit margin of 37.38% as compared to 41.25%. 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 has increased by 7.98% to RM4.167 million from the corresponding period of RM3.859 million. Meanwhile, the profit before taxation margin drop from 25.67% registered for the corresponding period in the previous financial year to 21.53%. 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 RM2.618 million to RM2.716 million whilst profit after taxation and minority interest increased marginally from RM2.743 million to RM2.752 million.

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 RM19.358 million as compared to RM15.594 million in the preceding quarter ended 31 January 2006. The Group's turnover has increased by approximately 24.14%, mainly due to the much shorter working days in the preceding quarter as a result of the various festive seasons. As a result of the above, the profit before taxation has improved approximately 23.8%, from RM3.366 million to RM4.167 million.

3. Prospects

The growth momentum of the Malaysian economy was maintained with real gross domestic product ("GDP") rising by 5.3% in the first quarter of 2006 as compared to 5.2% recorded for the fourth quarter of 2005. Economic activity continued to be driven by the private sector. Value-added growth in the manufacturing sector continued on its upward trend to expand by 8%, which approximates the 7.9% registered in the fourth quarter of 2005, in line with recovery in the global semiconductor cycle.

On the external front, the nation's trade surplus narrowed to RM25.8 billion from RM28.6 billion recorded in the fourth quarter of 2005 as growth in gross imports of 13.7% was higher relative to gross exports of 11.5%. Although shipment of computers and computer-related products was robust, growth in exports of electronics and electrical products as a whole was more moderate at 8.4% as compared to 14.7% in the fourth quarter of 2005 due to slower growth in exports of electrical appliances. The moderation in growth in electronics and electrical export receipts during the quarter was partly attributable to lower prices of some products as a result of intense competition.

Barring unforeseen circumstances, the Board of Directors of Octagon is optimistic that the Group will be able to remain profitable in the current 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	1,451	2,555
Under/(Overprovision) in prior year	-	-
Deferred taxation	-	-
	1,451	2,555

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 30 April 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 30 April 2006 were as follows:

At cost	RM47,500
At carrying value/book value	RM47,500
At market value	RM55,600

8. Status of Corporate Proposals

Save as disclosed below, there are no other corporate proposals announced but not completed as at 21 June 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. The timing of implementation of the CP/MTN Programme will depends on the debt market conditions;

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 30 April 2006 are as follows: -

	RM'000
Short term borrowings	
Hire purchase creditors	151
Long term borrowings	
Hire purchase creditors	253
Total	404

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 21 June 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 Duracham 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 21 June 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 30 April 2006	Quarter ended 30 April 2005	Current year to date 30 April 2006	Preceding year corresponding period 30 April 2005
Profit after taxation and minority interest (RM'000)	2,752	2,743	5,115	5,122
Weighted average number of ordinary shares in issue ('000)	158,008	*164,800	158,985	*164,760
Adjustment in relation to the ESOS ('000)	-	1,399	-	1,624
Adjustment in relation to the Warrants issued on 24 October 2005 ('000)	-	-	-	-
Adjusted weighted average number of ordinary shares in issue ('000)	158,008	166,199	158,985	166,383
Basic earnings per share (sen)	1.74	1.66	3.22	3.11
Diluted earnings per share (sen)	**	1.65	**	3.08

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 30 April 2006 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.*