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

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

The Company has bought back 525,400 ordinary shares of RM0.50 each with internal funds from open market, details of which are as follows:-

		Price per share			
Month	**No. of shares**	**Highest**	**Lowest**	***Average cost**	**Total cost**
		RM	**RM**	**RM**	**RM**
May 2006	88,400	0.91	0.96	0.93	82,630
June 2006	428,400	0.93	0.97	0.96	409,262
July 2006	8,600	0.90	0.90	0.91	7,798
	525,400				499,690

* Average cost is inclusive of brokerage, stamp duties and clearing fees.

7. Dividends paid

A final dividend of 1.25 sen per ordinary share of RM0.50 each less 28% tax amounting to RM1,422,078.35 for the financial year ended 31 October 2005 was paid on 25 May 2006.

8. Segmental Report

The geographical segments for the operations of the Group for the financial period ended 31 July 2006 are as follows: -

	Malaysia RM'000	**Indonesia RM'000**	**Hong Kong RM'000**	**Eliminations RM'000**	**Consolidated RM'000**
REVENUES					
External sales	34,748	12,861	8,045	-	55,654
Inter-segment sales	12,402	-	-	(12,402)	-
Total revenue	47,150	12,861	8,045	(12,402)	55,654
RESULT					
Segment result	11,958	(497)	44	(47)	11,459
Dividend revenue					6
Interest expense					(18)
Interest revenue					72
Taxation					(3,725)
Profit after taxation					7,794
Minority Interest					142
Profit attributable to shareholders					7,936
OTHER INFORMATION					
Segment assets	230,459	12,203	10,875	(123,607)	129,930
Unallocated assets					3,670
Consolidated total assets					133,600
Segment liabilities	58,784	7,745	7,478	(57,513)	16,494
Unallocated liabilities					224
Taxation					-
Deferred taxation					366
Minority interest					7,274
Consolidated total liabilities					24,358
Capital expenditure	6,717	184	90	-	6,991
Depreciation of fixed assets	1,197	209	169	-	1,575

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 July 2006 up to 22 September 2006 which have not been reflected in the financial statement for the said period:-

On 21 August 2006, the Company announced that Advanced Pyrotech Sdn Bhd (“APT”), its associated company, has entered into a sale and purchase agreement with Ann Joo Resources Berhad for the acquisition of 4 pieces of adjoining leasehold land in Mukim Klang, Daerah Klang, Selangor, for a total purchase consideration of RM8,939,160 (“Proposed Purpose of Land”). The Proposed Purchase of Land is for the purpose of development of a 120 tonnes per day Continuous Pyrolysis plant that will process rubber chips and produce recovered oil, carbon black and steel wire, all of which are commodities products.

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 22 September 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 decreased by 6.5% to RM20.702 million as compared to RM22.141 million recorded in the third quarter of the last financial year. The lower turnover is mainly due to the weaken consumer electrical products sector, where most of the products of the Group are applied. The gross export of consumer electrical products has registered consecutive negative growth of more than 15% for the first two quarters of 2006 despite the electronics and electrical products sector registering positive growth. This has resulted in slow down in demand as well as increase in competitions in the end products market of the Group's customers. The Group's customers, being major brand owners, are not able to increase product pricing as a result of intense competitions from other smaller players, e.g. those players from China. Hence, the pricing as well as the margin for the most of the products in the industry, including those of the Group's, has been lower than previous years.

Operating profit for the third quarter of the financial year ending 31 October 2006 for the Group decreased by 22.45% from RM5.108 million, recorded in the corresponding period in the previous financial year, to RM3.961 million. The gross profit margin of 35.44% is also lower as compared to 39.62% recorded in the corresponding period in the previous financial year. This is mainly due to higher raw material costs resulted from the impact of increase in oil prices and the competitive product pricing as mentioned above.

The Group's profit before taxation has dropped by 22.48% to RM3.986 million from the corresponding period of RM5.142 million while the Group's profit after taxation and minority interest has decreased from RM3.658 million to RM2.821 million. 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.

The Group is continuing its effort to improve its planning on raw materials purchases and to reduce overhead costs through stringent cost control measures.

Please refer to the attached file for further commentary on the financial performance of the Group.

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 RM20.702 million as compared to RM19.358 million in the preceding quarter ended 30 April 2006. The Group's turnover has increased by 6.94%, mainly due to the improved contribution from its subsidiary in China. However, the profit before taxation has decreased slightly by 4.34%, from RM4.167 million to RM3.986 million due to lower margin as a result of increased competition as explained in Note 1 above, higher raw material cost, lower margin products sold by some of its subsidiary as well as higher overhead costs in the period under review.

3. Prospects

The Malaysian economy strengthened with real gross domestic product ("GDP") expanding at 5.9% in the 2nd quarter of 2006 as compared to 5.5% recorded for the 1st quarter of 2006. Economic activity continued to be driven by the private sector.

On the external front, the trade surplus continued to narrow to RM23.2 billion from RM25.8 billion as recorded in the 1st quarter of 2006. Exports of Electronics and Electricals products, as a whole, expanded by 6.4% in the 2nd quarter of 2006 as compared to 8.4% recorded in the 1st quarter of 2006 despite lower prices in a number of selected segments. However, the gross export of consumer electrical products continued to registered negative growth of 18.4% in the 2nd quarter of 2006 after recorded a negative growth of 20.2% in the first quarter of 2006.

The Malaysian economy is expected to sustain its growth momentum in the second half of 2006. Growth would continue to be driven by domestic demand, particularly private sector activity and by the external sector amidst high commodity prices.

Barring unforeseen circumstances, the Board of Directors of Octagon is optimistic that the Group will be able to remain profitable, albeit at slower rate, 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	1,170	3,725
Under/(Overprovision) in prior year	-	-
Deferred taxation	-	-
	1,170	3,725

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 July 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 July 2006 were as follows:

At cost	RM47,500
At carrying value/book value	RM47,500
At market value	RM56,000

8. Status of Corporate Proposals

Save as disclosed below, there are no other corporate proposals announced but not completed as at 22 September 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 31 July 2006 are as follows: -

	RM'000
Short term borrowings	
Hire purchase creditors	151
Long term borrowings	
Hire purchase creditors	224
Total	375

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 22 September 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 next case management has been fixed on 21 August 2007.

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 22 September 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 July 2006	2005	Current year to date 31 July 2006	Preceding year corresponding period 31 July 2005
Profit after taxation and minority interest (RM'000)	2,821	3,658	7,936	8,780
Weighted average number of ordinary shares in issue ('000)	157,681	*164,888	158,545	*164,803
Adjustment in relation to the ESOS ('000)	-	116	-	973
Adjustment in relation to the Warrants issued on 24 October 2005 ('000)	-	-	-	-
Adjusted weighted average number of ordinary shares in issue ('000)	157,681	165,004	158,545	165,776
Basic earnings per share (sen)	1.79	2.22	5.01	5.33
Diluted earnings per share (sen)	*	2.22	*	5.30

Note:

* *Diluted earnings per share is not computed for the quarter ended 31 July 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.*