

## 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

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 288,700 ordinary shares of RM0.50 each with internal funds from open market, details of which are as follows:-

Month	No. of shares	Price per share		*Average cost RM	Total cost RM
		Highest RM	Lowest RM		
August 2006	-	-	-	-	-
September 2006	-	-	-	-	-
October 2006	288,700	0.83	0.79	0.83	239,107.20
	<u>288,700</u>				<u>239,107.20</u>

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

## 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 October 2006 are as follows:-

	Malaysia RM'000	Indonesia RM'000	Hong Kong RM'000	Eliminations RM'000	Consolidated RM'000
<b>REVENUES</b>					
External sales	45,740	17,961	11,406	-	75,107
Inter-segment sales	16,984	-	-	(16,984)	-
Total revenue	<u>62,724</u>	<u>17,961</u>	<u>11,406</u>	<u>(16,984)</u>	<u>75,107</u>
<b>RESULT</b>					
Segment result	14,953	(707)	37	-	14,283
Interest expense					(43)
Interest revenue					95
Taxation					(4,426)
Profit after taxation					<u>9,909</u>
Minority Interest					<u>353</u>
Profit attributable to shareholders					<u>10,262</u>
<b>OTHER INFORMATION</b>					
Segment assets	246,477	12,414	11,100	(138,577)	131,414
Unallocated assets					<u>3,363</u>
Consolidated total assets					<u>134,777</u>
Segment liabilities	76,531	8,497	7,907	(77,783)	15,152
Unallocated liabilities					339
Taxation					37
Deferred taxation					873
Minority interest					<u>7,135</u>
Consolidated total liabilities					<u>23,536</u>
Capital expenditure	6,916	83	73	-	7,072
Depreciation of fixed assets	1,714	214	228	-	2,156

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

- On 16 November 2006, the Company subscribed for 4,900,000 new ordinary shares of RM1.00 each in Advanced Pyrotech Sdn. Bhd. ("APT") by way of capitalization of advances to APT amounting to RM4,370,000 and cash consideration of RM530,000 pursuant to the increase in the issued and paid-up share capital of APT from RM15,000,000 to RM25,000,000. The shareholdings of the Company in APT remain at 49% after the subscription of shares on 16 November 2006; and
- On 5 December 2006, the Company subscribed for 2,450,000 new ordinary shares of RM1.00 each in APT by way of capitalization of advances to APT amounting to RM2,450,000 pursuant to the increase in the issued and paid-up share capital of APT from RM25,000,000 to RM30,000,000. The shareholdings of the Company in APT remain at 49% after the subscription of shares on 5 December 2006.

## **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 December 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 21.58% to RM19.453 million as compared to RM24.806 million recorded in the fourth quarter of the last financial year. The lower turnover is mainly due to the weakened consumer electrical products sector, where most of the products of the Group are applied. The gross export of consumer electrical products has registered average negative growth of more than 17% for the first three 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. As stated in the last quarter, 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 most of the products in the industry, including those of the Group's, has been lower than previous years.

Operating profit for the fourth quarter of the financial year ending 31 October 2006 for the Group decreased by 56.35% from RM6.458 million, recorded in the corresponding period in the previous financial year, to RM2.819 million. The gross profit margin of 36.48% is also lower as compared to 41.57% 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 56.45% to RM2.816 million from the corresponding period of RM6.466 million while the Group's profit after taxation and minority interest has decreased from RM4.457 million to RM2.326 million. Other than the reasons stated above, the drop in the margin is also due to increase in travelling and transportation cost as a result of increase in oil prices as well as the higher overheads and other expenses resulting from the Group's new projects, which is still under development.

The Group is continuing its effort to diversify its product range in addition to improving its planning on raw materials purchases and to reduce overhead costs through stringent cost control measures.

### **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 RM19.453 million as compared to RM20.702 million in the preceding quarter ended 31 July 2006. The Group's turnover has decreased by 6.03%, mainly due to the decreased in demand by existing customers. The profit before taxation has decreased by 29.35%, from RM3.986 million to RM2.816 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 continued to remain on a steady growth path, with real gross domestic product ("GDP") expanding at 5.8% in the 3<sup>rd</sup> quarter of 2006 as compared to 6.2% recorded for the 2<sup>nd</sup> quarter of 2006. Economic activity continued to be driven by the private sector. Key contributors to growth were from the services, manufacturing and agriculture sectors. Contribution from the external sector was also stronger in the 3<sup>rd</sup> quarter of 2006.

On the external front, the trade surplus amounted to RM28.9 billion from RM22.9 billion as recorded in the 2<sup>nd</sup> quarter of 2006. Exports of Electronics and Electricals products, as a whole, expanded strongly by 10.3% in the 3<sup>rd</sup> quarter of 2006 as compared to 5.6% recorded in the 2<sup>nd</sup> quarter of 2006. However, the gross export of consumer electrical products continued to registered negative growth of 13.3% in the 3<sup>rd</sup> quarter of 2006 after recording a negative growth of 18.5% and 20.2% in the first two quarters of 2006.

The Malaysian economy is expected to sustain its growth momentum in 2007. Growth would continue to be driven by domestic demand, both by the private and public sectors activity and by the external sector amidst firm commodity prices.

Barring unforeseen circumstances, the Board of Directors of Octagon is optimistic that the Group will be able to remain profitable, despite the slowdown in the gross export of consumer electrical products sector, in the next financial year.

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

Not applicable.

**5. Taxation**

	<b>Current Quarter RM'000</b>	<b>Cumulative year to date RM'000</b>
Current	705	4,430
Under/(Overprovision) in prior year	(386)	(386)
Deferred taxation	382	382
	<u>701</u>	<u>4,426</u>

The effective rate of taxation of the Group is higher than the statutory rate of taxation for the financial year ended 31 October 2006 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 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 October 2006 were as follows:

At cost	RM47,500
At carrying value/book value	RM47,500
At market value	RM72,000

**8. Status of Corporate Proposals**

Save as disclosed below, there are no other corporate proposals announced but not completed as at 22 December 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 depend 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 October 2006 are as follows: -

	<b>RM'000</b>
<b>Short term borrowings</b>	
Hire purchase creditors	155
Banker acceptances	2,000
<b>Long term borrowings</b>	
Hire purchase creditors	184
Total	<u>2,339</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 22 December 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 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 December 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

The Board of Directors has recommended a final dividend of 8% (4 sen per ordinary share of RM0.50 each) less 28% tax for the financial year ended 31 October 2006, subject to the approval of the shareholders at an Annual General Meeting to be held on a date to be announced later.

### 13. Provision of Financial Assistance

Pursuant to paragraph 8.23 of the Bursa Malaysia Securities Berhad's Listing Requirements and Practice Note 11/2001, details of the financial assistance provided by the Octagon Group as at 31 October 2006 are as below:-

Type(s) of financial assistance	For the period from 01.08.2006 to 31.10.2006 (RM)	Cumulative Balance as at 31.10.2006 (RM)
Non-interest bearing cash advances to non-wholly owned subsidiaries	3,811,995	18,941,211
Non-interest bearing cash advances to associated company	4,000,000	4,370,000

The financial assistance provided during the quarter does not have any material effect on the earnings, net assets and liquidity of the Octagon Group.

### 14. Earnings Per Share

	Quarter ended 31 Oct		Current year to date	Preceding year corresponding period
	2006	2005	31 Oct 2006	31 Oct 2005
Profit after taxation and minority interest (RM'000)	2,326	4,457	10,262	13,237
Weighted average number of ordinary shares in issue ('000)	157,433	164,536	158,265	164,735
Adjustment in relation to the ESOS ('000)	-	-	-	952
Adjustment in relation to the Warrants issued on 24 October 2005 ('000)	-	-	-	-
Adjusted weighted average number of ordinary shares in issue ('000)	157,433	164,536	158,265	165,687
Basic earnings per share (sen)	1.48	2.71	6.48	8.04
Diluted earnings per share (sen)	*	*	*	7.99

**Note:**

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