

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 (“FRS”) 134 Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of 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 2006.

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 2006, except for the adoption of the new/revised FRSs effective for financial period beginning on or after 1 January 2006:-

FRS 2	Share-based payment
FRS 3	Business Combinations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 117	Lease
FRS 121	Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets

The adoption of the new/revised FRSs does not have significant financial impact on the Octagon Group except for the following:-

FRS 2 – Share-based Payment

FRS 2 requires an entity to recognise payment transactions in its financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity.

Octagon has implemented share-based payment via an employee share option scheme (“ESOS”) which is governed by the by-laws approved by the shareholders at an Extraordinary General Meeting held on 18 April 2002. The ESOS was implemented on 28 August 2002 and will be in force for 5 years till 27 August 2007, with an option to renew for a further period of up to 5 years.

The Group has applied FRS 2 in accordance with its transitional provisions which exempted the recognising of employee cost relating to ESOS in income statements for ESOS options granted before 1 January 2005.

FRS 3 – Business Combination, FRS 136 – Impairment of Assets and FRS 138 – Intangible Assets

The adoption of the FRS 3 and the consequential changes of FRS 136 and FRS 138 have resulted in a change in the accounting policy relating to goodwill on consolidation, resulting in the Octagon Group ceasing annual goodwill amortisation. Prior to 1 November 2006, goodwill was amortised over a period of 18 years. Goodwill is now tested for impairment annually.

Goodwill is now stated at cost less accumulated impairment losses. Any impairment loss is recognised in the income statement and subsequent reversal is not allowed. The carrying amount of goodwill as at 1 November 2006 of RM14.582 million has ceased to be amortised. The effect of this has reduced the amortisation charges by RM159,142 in the current quarter ended 30 April 2007.

Under FRS 3, any excess of the Group's interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over cost of acquisition (previously referred to as "negative goodwill"), after reassessment, is now recognised immediately in the income statement. Prior to 1 November 2006, negative goodwill was capitalised as reserves on consolidation. The carrying amount of reserve on consolidation as at 1 November 2006 of RM1,370,777 was derecognised with a corresponding adjustment made to the opening balance of retained earnings.

FRS 101 – Presentation of Financial Statements and FRS 127 – Consolidated and Separate Financial Statements

The adoption of the revised FRS 101 and FRS 127 have affected the presentation of minority interest, share of net after-tax results of associates and other disclosures. In the consolidated balance sheet, minority interests are now presented within total equity. In the consolidated income statements, minority interests are presented as an allocation of the total profit/loss for the period. A similar requirement is also applicable to the statement of changes in equity. The current period's presentation of the Octagon Group's financial statements is based on the revised requirements of FRS 101 and FRS 127, with the comparatives restated to conform with the current period's presentation.

FRS 117 – Leases

The adoption of the revised FRS 117 has resulted in a retrospective change in accounting policy relating to the classification of leasehold land. Leasehold land was previously classified as property, plant and equipment and was stated at cost less accumulated depreciated and accumulated impairment losses. The prepaid lease payments are amortised on a straight line basis over the remaining lease term of the land.

The reclassification of leasehold land as prepaid lease payments has been accounted for retrospectively. Comparatives which have been restated due to this change in accounting policy are disclosed in Note 2.

2. Comparative

The following comparative amounts have been restated due to the adoption of new and revised FRSS:

	Previously Stated RM'000	Adjustment FRS 117 RM'000	Restated RM'000
As at 31 October 2006			
Property, plant and equipment	27,567	(2,488)	25,079
Prepaid lease payments	-	2,488	2,488

3. Audit Report

There was no audit qualification by the auditors on the audited financial statements of the Octagon Group for the financial year ended 31 October 2006.

4. 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.

5. 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.

6. 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.

7. 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.

8. Dividends paid

There was no dividend paid during the quarter under review.

9. Segmental Report

The geographical segments for the operations of the Group for the financial period ended 30 April 2007 are as follows:-

	Malaysia RM'000	Indonesia RM'000	Hong Kong RM'000	Eliminations RM'000	Consolidated RM'000
REVENUES					
External sales	25,450	7,361	5,124	-	37,935
Inter-segment sales	8,399	-	-	(8,399)	-
Total revenue	33,849	7,361	5,124	(8,399)	37,935
RESULT					
Segment result	6,764	(492)	(196)	-	6,076
Interest expense					(805)
Interest revenue					41
Taxation					(2,277)
Profit after taxation					3,035
Minority Interest					138
Profit attributable to shareholders					3,173
OTHER INFORMATION					
Segment assets	267,518	11,518	11,015	(140,043)	150,008
Unallocated assets					21,166
Consolidated total assets					171,174
Segment liabilities	109,446	8,102	7,896	(72,392)	53,052
Unallocated liabilities					116
Taxation					-
Deferred taxation					873
Minority interest					2,997
Consolidated total liabilities					57,038
Capital expenditure	2,489	-	13	-	2,502
Depreciation of fixed assets	869	129	117	-	1,115

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

10. 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.

11. Subsequent material events

Other than stated below, there were no material events which have occurred subsequent to the financial period ended 30 April 2007 up to 22 June 2007 which have not been reflected in the financial statement for the said period:-

On 15 May 2007, Octagon Industrial Coatings Technology Sdn Bhd ("OICT"), a wholly-owned subsidiary of the Company, has subscribed for 75,000 new ordinary shares of RM1.00 each in its 30%-owned associated company, Advanced Coatings and Surface Technologies Sdn Bhd ("ACST") for a total cash consideration of RM75,000. The shareholdings of OICT in ACST upon completion of the subscription remain at 30%.

12. Changes in the Composition of the Group

Pursuant to the subscription of 5,000,000 new ordinary shares of RM1.00 each in Green Energy and Technology Sdn. Bhd. ("GET") which was completed on 10 April 2007, Octagon's shareholdings in GET increased from 81.67% to 86.25%.

13. 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)12 of this note. The next case management has been fixed on 21 August 2007.

Save as disclosed above, as at 22 June 2007, 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 5.27% to RM20.379 million as compared to RM19.358 million recorded in the second quarter of the last financial year. The higher turnover is mainly due to the increase in demand by existing customers especially those customers in our Group's operations in the People's Republic of China.

Operating profit for the second quarter of 2007 for the Group however decreased by 8.13% from RM4.315 million, recorded in the corresponding period in the previous financial year, to RM3.964 million. The lower operating profit is mainly attributed to the increase in cost of production, selling expenses, as well as administrative and general expenses. The Group is unable to increase the selling price to its customers to retain its profit margin as the Group's indirect customers, being major brand owners, are not able to increase their product pricing as a result of competitions from other players. Due to this reason, the margin for most of the product in the industry, including those of the Group's, has been lower than previous years.

The Group's profit before taxation has dropped by 46.63% to RM2.224 million from the corresponding period of RM4.167 million while the Group's profit after taxation and minority interest has decreased from RM2.752 million to RM1.067 million. Other than the reasons stated above, the drop in the margin is primarily due to increase in the financial expenses of RM1.490 million being accrued interest amounting to RM750,000 for 2nd Quarter 2007 and loan processing fee amounting to RM740,000 in respect of the loan facility obtained by the Company, as well as overheads and other expenses resulting from the Group's new projects, which are 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 RM20.379 million as compared to RM17.556 million in the preceding first quarter ended 31 January 2007. The Group's turnover has increased by 16.08%, mainly due to the increased in demand by existing customers for the Group, including Indonesia and the People's Republic of China. The profit before taxation has decreased by 27.98%, from RM3.088 million to RM2.224 million, due to the higher accrued interest and loan processing fee, amounting to RM1.49 million, for loan facility obtained by the Company as well as overheads and other expenses resulting from the Group's new projects, which are under development.

3. Prospects

The Malaysian economy expanded by 5.9% in 2006 compared to 5.2% recorded in 2005. The expansion was broadly resulted from the robust global growth during the year which has led to stronger demand for electronics and primary commodities. This external demand was supported by domestic activity as private consumption rose in line with incomes and private investment increased to expand productive capacity to meet demand. Supported by sustained global growth and resilient domestic demand, the Malaysian economy is expected to register solid growth in 2007, with real gross domestic products expanding by 6%.

The value-added growth in the manufacturing sector expanded by 7.0% in the year 2006 compared to 5.1% in 2005 underpinned by continued upturn in global electronics cycle couple with strong external demand for resource-based industries such as petroleum, rubber and off-estate processing. For the year 2007, the growth in the manufacturing sector is expected to be sustained at 6.6% while the electronics and electrical sector may experience some moderation in the first half of 2007. Gross export for electronic and electrical products registered a negative growth of 1.9% in the first quarter of 2007, compared to a growth of 1.7% in the fourth quarter in 2006. The gross export of consumer electrical products recorded a negative of 10.9% in the fourth quarter of 2006 and resulted in an overall negative growth of 15.6% for the year 2006. It weakens further to register a negative growth of 18.9% in the first quarter of 2007.

The Group has also taken measures to counter the effects of the declining margins by widening its customer base and increasing its focus on higher end products for its coatings business. The Group also has plans to continuously expand its capability in the coatings business by expanding into high performance coatings for industries such as aviation, marine, oil and gas, industrial and infrastructure.

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 current 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	1,200	2,277
Under/(Overprovision) in prior year	-	-
Deferred taxation	-	-
	<u>1,200</u>	<u>2,277</u>

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 period ended 30 April 2007.

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 2007 were as follows:

At cost	RM47,500
At carrying value/book value	RM47,500
At market value	RM110,000

8. Other Investments

In January 2007, Octagon subscribed for RM4,000,000 in unquoted subordinated bonds with a tenure of five (5) years. The subscription of the secondary bonds is part of the terms of the unsecured fixed term loan facility under Primary Collateralised Loan Obligation Programme with RHB Investment Bank Berhad.

Investment in unquoted instruments as at 30 April 2007 was as follows:

Subordinated bonds	RM4,000,000
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9. Status of Corporate Proposals

Save as disclosed below, there are no other corporate proposals announced but not completed as at 22 June 2007: -

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 implementation of the CP/MTN Programme will depend on the debt market conditions.

10. 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 2007 are as follows: -

	RM'000
Short term borrowings	
Hire purchase creditors	139
Long term borrowings	
Hire purchase creditors	116
Collateralised loan obligations	40,000
Total	<u>40,255</u>

All of the Group borrowings are denominated in Ringgit Malaysia.

11. Off Balance Sheet Financial Instruments

The Group does not have any financial instruments with off balance sheet risk as at 22 June 2007, being the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report

12. 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 June 2007, 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.

13. Dividends

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

14. 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 30 April 2007 are as below:-

Type(s) of financial assistance	For the period from 01.02.2007 to 30.04.2007 (RM)	Cumulative Balance as at 30.04.2007 (RM)
Non-interest bearing cash advances to non-wholly owned subsidiaries	7,278,287	24,107,436
Non-interest bearing cash advances to associated company	1,000,000	1,244,176

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

15. Earnings Per Share

	Quarter ended		Current year	Preceding year
	30 April 2007	30 April 2006	to date 30 April 2007	corresponding period 30 April 2006
Profit after taxation and minority interest (RM'000)	1,067	2,752	3,173	5,115
Weighted average number of ordinary shares in issue ('000)	157,194	158,008	157,194	158,985
Adjustment in relation to the ESOS ('000)	-	-	-	-
Adjustment in relation to the Warrants issued on 24 October 2005 ('000)	-	-	-	-
Adjusted weighted average number of ordinary shares in issue ('000)	157,194	158,008	157,194	158,985
Basic earnings per share (sen)	0.68	1.74	2.02	3.22
Diluted earnings per share (sen)	*	*	*	*

Note:

* *Diluted earnings per share is not computed 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.*