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 31 July 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 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.

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**

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 resold 5,158,500 ordinary shares of RM0.50 each from its treasury shares at the consideration of RM1.00 per share and the net proceed from the resale of treasury shares amounts to RM5,140,548.

8. **Dividends paid**

A final dividend of 4.0 sen per ordinary share of RM0.50 each less 27% tax amounting to RM4,590,066.26 for the financial year ended 31 October 2006 was paid on 23 May 2007.

9. **Segmental Report**

The geographical segments for the operations of the Group for the financial period ended 31 July 2007 are as follows:-

	Malaysia RM'000	**Indonesia RM'000**	**Hong Kong RM'000**	**Eliminations RM'000**	**Consolidated RM'000**
REVENUES					
External sales	39,833	11,263	9,208	-	60,304
Inter-segment sales	12,662	-	-	(12,662)	-
Total revenue	52,495	11,263	9,208	(12,662)	60,304
RESULT					
Segment result	10,456	(572)	(162)	-	9,722
Interest expense					(1,573)
Interest revenue					81
Dividend received					2
Taxation					(3,386)
Profit after taxation					4,846
Minority Interest					160
Profit attributable to shareholders					5,006
OTHER INFORMATION					
Segment assets	261,069	11,165	12,033	(138,702)	145,565
Unallocated assets					25,102
Consolidated total assets					170,667
Segment liabilities	98,272	7,843	8,883	(64,762)	50,236
Unallocated liabilities					84
Taxation					-
Deferred taxation					873
Minority interest					2,975
Consolidated total liabilities					54,168
Capital expenditure	3,630	-	129	-	3,759
Depreciation of fixed assets	1,271	193	175	-	1,639

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

There were no material events which have occurred subsequent to the financial period ended 31 July 2007 up to 21 September 2007 which have not been reflected in the financial statement for the said period.

12. 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 25 July 2007, Durachem Sdn Bhd, a wholly-owned subsidiary of the Company, has incorporated a wholly-owned subsidiary in Republic of Vietnam, Durachem Vietnam Co. Ltd.

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)12 of this note. The case management has been fixed on 14 April 2008.

Save as disclosed above, as at 21 September 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 8.05% to RM22.369 million as compared to RM20.702 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 within the Group.

Operating profit for the third quarter of 2007 for the Group however decreased by 6.02% from RM4.121 million, recorded in the corresponding period in the previous financial year, to RM3.873 million. The lower operating profit is mainly contributed by the increased cost of production, selling and distribution expenses. The Group is unable to sell at a higher selling price to its customers to retain the 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 26.74% to RM2.920 million from the corresponding period of RM3.986 million while the Group's profit after taxation and minority interest has decreased from RM2.821 million to RM1.833 million. Other than the reasons stated above, the drop in the margin is primarily due to increase in the financial expenses of RM0.763 million being interest for 3rd Quarter 2007 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 RM22.369 million as compared to RM20.379 million in the preceding second quarter ended 30 April 2007. The Group's turnover has increased by 9.76%, mainly due to the increased in demand by existing customers for the Group, especially for customers in People's Republic of China. The profit before taxation of RM2.920 million is higher by 31.29% as compared to RM2.224 million recorded in second quarter of 2007 as there was a loan processing fee of RM740,000 being charged in the second quarter of 2007 for the loan facility obtained by the Company. The selling and distribution expenses have increased in the current quarter as compared to the previous quarter ended 30 April 2007.

3. Prospects

The Malaysian economy continues to expand by 5.7% in the second quarter of 2007, following a growth of 5.5% in the first quarter. For the first half of the year, the economy posted a 5.6% growth. Private sector activity remained resilient in the second quarter while increased in public sector spending provided added support to the growth.

Value-added growth in the manufacturing sector registered a positive growth of 1.5% in the second quarter of 2007 compared to 2% in the first quarter. During the first half of the year, softer external demand, particularly for electrical and electronic (E&E) products, textiles and apparels as well as machinery and equipment affected the overall performance of the sector, which grew at 0.5% as compared to 8.8% registered during the same period in 2006.

Output in the export-oriented industries contracted 1.9% during the first 6 months as compared to an increase of 11.1% last year. The output of E&E products recorded a negative growth of 5.6% for the first half of 2007 as compared to a positive growth of 13.4% during the same period last year on account of weak global demand. In particular, the output of office, accounting and computing machinery as well as audio visual and communication apparatus contracted by 18% and 14.5% respectively.

Growth prospect for the global economy remain favourable in 2008 and the Malaysian economy is anticipated to strengthen further to 6.0%-6.5% in 2008 with positive contribution from all sectors of the economy. Value added in manufacturing sector is projected to grow by 3.8% in line with expansion in global trade.

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. 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	1,109	3,386
Under/(Overprovision) in prior year	-	-
Deferred taxation	-	-
	1,109	3,386

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 31 July 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 31 July 2007 were as follows:

At cost	RM47,500
At carrying value/book value	RM47,500
At market value	RM161,280

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 31 July 2007 was as follows:

Subordinated bonds	RM4,000,000

9. Status of Corporate Proposals

Save as disclosed below, there are no other corporate proposals announced but not completed as at 21 September 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 depends 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 31 July 2007 are as follows: -

	RM'000
Short term borrowings	
Hire purchase creditors	130
Long term borrowings	
Hire purchase creditors	84
Collateralised loan obligations	40,000
Total	40,214

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 21 September 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 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 14 April 2008.

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 September 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 Octogan Group as at 31 July 2007 are as below:-

Type(s) of financial assistance	**For the period from 01.05.2007 to 31.07.2007 (RM)**	**Cumulative Balance as at 31.07.2007 (RM)**
Non-interest bearing cash advances to non-wholly owned subsidiaries	847,526	20,454,962

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 to date**	**Preceding year corresponding period**
	31 July 2007	**31 July 2006**	**31 July 2007**	**31 July 2006**
Profit after taxation and minority interest (RM'000)	1,833	2,821	5,006	7,936
Weighted average number of ordinary shares in issue ('000)	158,315	157,681	157,572	158,545
Adjustment in relation to the ESOS ('000)	320	-	-	-
Adjustment in relation to the Warrants issued on 24 October 2005 ('000)	-	-	-	-
Adjusted weighted average number of ordinary shares in issue ('000)	158,635	157,681	157,572	158,9545
Basic earnings per share (sen)	1.158	1.79	3.18	5.01
Diluted earnings per share (sen)	1.155	*	*	*

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.*