

OCTAGON CONSOLIDATED BERHAD (“OCTAGON” OR “THE COMPANY”)

EXECUTION OF DEBT SETTLEMENT AGREEMENT (“DSA”) PURSUANT TO OCTAGON’S DEBT SETTLEMENT SCHEME

1. INTRODUCTION

Further to the announcement on 9 January 2013, the Board of Directors (“Board”) of Octagon wishes to announce that Octagon and Advanced Pyrotech Sdn Bhd (“APT”), a wholly-owned subsidiary of Octagon, have on 18 March 2013 entered into a Debt Settlement Agreement (“DSA”) with the financial institution lenders, namely Amanah Raya Capital Sdn Bhd (“ARC”), Kuwait Finance House (Malaysia) Berhad (“KFH”), and Malaysian Trustees Berhad, representing the creditors under the collateralized loan obligation (“CLO Creditor”). ARC, KFH and the CLO Creditors will hereinafter be collectively referred to as FI Creditors. The DSA is to formalise the terms and conditions of the settlement of the debts owing by Octagon and APT to the FI Creditors (“Proposed Debt Settlement Scheme”).

The Proposed Debt Settlement Scheme is part of the Company’s regularisation plan to address the Group’s financial conditions and subject to, inter-alia, the approval of the relevant authorities, to uplift the Company from being an affected listed issuer pursuant to Practice Note 17 (“PN17”) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”) (“Proposed Rationalisation Scheme”).

2. INFORMATION ON THE PROPOSED DEBT SETTLEMENT SCHEME

Pursuant to the Proposed Debt Settlement Scheme, the aggregate amount due to the FI Creditors of RM182.57 million as at the cut-off date agreed by FI Creditors of 31 October 2011 shall be settled based on the proceeds from the proposed divestment of subsidiaries of Octagon (“Proposed Divestment Programme”). The details of the Proposed Divestment Programme will be announced after the terms and conditions of the Proposed Divestment Programme have been finalised and approved.

The amount owing by Octagon and APT to the FI Creditors based on the cut-off date of 31 October 2011 and the proposed settlement pursuant to the Proposed Debt Settlement Scheme are as set out in Table A.

Table A: Amount owing by Octagon and APT to the FI Creditors and of the proposed settlement pursuant to the Proposed Debt Settlement Scheme

FI Creditors	Amount owing as at cut-off date 31 October 2011 RM'million	Proposed settlement		
		Cash RM'million	Islamic Redeemable Convertible Cumulative Preference Shares to be issued by APT	Waiver
			RM'million	RM'million
ARC	74.67	17.45	5.00	52.22
CLO Creditors	40.78	8.55	-	32.23
KFH	67.12	36.73	5.00	25.39
TOTAL	182.57	62.73	10.00	109.84

3. DETAILS OF REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES (“RCCPS”)

The salient terms of the Islamic Redeemable Convertible Cumulative Preference Shares (“RCCPS”) are set out in Appendix I of this announcement.

4. DETAILS OF THE DEBT SETTLEMENT AGREEMENT (“DSA”)

4.1 Acceptance of the cash portion and RCCPS towards full settlement of indebtedness

Upon the request of Octagon, the respective FI Creditors has agreed to the following:

- (a) ARC has agreed to accept by the Settlement Date, (being a date no later than ten (10) business days after the date where the FI Creditor’s solicitors issue the Confirmation (as set out in paragraph 4.2.1 below)) or such other date as may be agreed upon in writing by the FI Creditors, (a) cash amount of RM17,450,000 payable by Octagon to ARC (“ARC Cash Portion”); and (b) 5,000,000 RCCPS to be issued by APT to ARC at an issue price of RM5,000,000.00 (which price shall be deemed as fully paid-up) (“ARC RCCPS”), collectively as full and final settlement of all outstanding amounts payable by Octagon to ARC and Octagon shall be discharged from its obligations to ARC. ARC has also agreed to waive any and all default or penalties, interest, costs and expenses howsoever incurred and accruing and payable by Octagon to ARC;
- (b) the CLO Creditors has agreed to accept by the Settlement Date cash amount of RM 8,550,000 payable by Octagon to the CLO Creditors (“CLO Creditor Cash Portion”) as full and final settlement of all outstanding amounts payable by Octagon to the CLO Creditors and Octagon shall be discharged from its obligations to the CLO Creditors. The CLO Creditor has also agreed to waive any and all default or penalties, interest, costs and expenses howsoever incurred and accruing and payable by Octagon to the CLO Creditor; and
- (c) KFH has agreed to accept (a) by the Settlement Date (i) cash amount of RM36,730,000 payable by Octagon to KFH (“KFH Cash Portion”); and (ii) 5,000,000 RCCPS to be issued by APT to KFH at an issue price of RM5,000,000.00 (which price shall be deemed as fully paid-up) (“KFH RCCPS”), and (b) from time to time as and when any part of the amount up to the equivalent of USD1,220,000 under the performance bond granted by its contractor to APT pursuant to an engineering, procurement, construction and commissioning contract (“KKIECM Amount”) thereof is recovered by APT, collectively as full and final settlement of all outstanding amounts payable by Octagon and APT to KFH and Octagon and APT shall be discharged from their respective obligations to KFH (but without prejudice to KFH’s rights under the personal guarantee granted by Kim Ki Kyeong, a director of APT, and the Assignment of the performance bond). KFH has also agreed to waive any and all default compensation or penalties, profit, ta’awidh, costs and expenses howsoever incurred and accruing and payable by Octagon and APT to KFH.

The ARC Cash Portion, CLO Creditor Cash Portion and KFH Cash Portion are hereinafter collectively referred to as “Cash Portion”.

4.2 Conditions precedent to the acceptance

Each of the FI Creditors agrees to:

- a) accept its respective allocation of the Cash Portion and, in the case of ARC and KFH, the RCCPS by the Settlement Date, as full and final settlement of the respective FI Creditors indebtedness owed to it; and
- b) waive any and all default or penalty interest, default compensation, profit, ta'awidh, costs and expenses pursuant to the request of Octagon and APT,

each in the manner provided in paragraph 4.1 above.

Provided that:-

4.2.1 the FI Creditors' solicitors have on or before 30 June 2013 or such other date as may be agreed upon in writing by the FI Creditors ("Completion Date") confirmed that they are in receipt of, inter alia, the following documents/confirmations (in each case in form and substance acceptable to the FI Creditors) ("Confirmation"):

- (a) in respect of Octagon:
 - (i) certified true copies of certain statutory forms of the Company;
 - (ii) a certified true copy of the resolutions passed by the board of directors of Octagon for:
 - (1) the Proposed Rationalisation Scheme;
 - (2) the issuance of the RCCPS to ARC and KFH pursuant to the DSA; and
 - (3) the execution by Octagon of the DSA and the performance of its obligations thereunder; and
 - (iii) a certified true copy of the approval of the shareholders of Octagon at a general meeting for the Proposed Rationalisation Scheme;
- (b) in respect of APT:
 - (i) certified true copies of certain statutory forms of the Company;
 - (ii) a certified true copy of the resolution passed by the board of directors of APT for:
 - (1) the proposed divestment of APT as part of the Proposed Divestment Programme;
 - (2) the issuance of the RCCPS to ARC and KFH pursuant to the DSA; and
 - (3) the execution by APT of the DSA and the performance of its obligations thereunder; and
 - (iii) a certified true copy of the approval of the shareholders of APT at a general meeting for the issuance of the RCCPS to ARC and KFH pursuant to the DSA;
- (c) evidence that no winding up order has been made against Octagon and APT;
- (d) evidence that all the disposals contemplated in the Proposed Divestment Programme have been completed and that the sale proceeds therefrom have been received by Octagon;
- (e) written irrevocable undertaking issued to KFH from Mazlan Bin Ali, the Managing Director of Octagon, whereby he (i) undertakes to exhaust all means and remedies and take all steps necessary to procure the full recovery of the KKIECM Amounts at APT's and/or his own cost and (ii) guarantees the payment obligations of APT under the KFH RCCPS, in form and substance satisfactory to KFH;

- (f) written irrevocable undertaking issued to ARC and the CLO Creditor from Mazlan Bin Ali whereby he undertakes upon the payment of any part of the KKIECM Amounts to KFH, to immediately pay 51% and 32% of the Reinstated Amount to ARC and the CLO Creditor respectively, in form and substance satisfactory to the ARC and CLO Creditor. For this purpose, the "Reinstated Amount" means such amount or amounts equal to 17% of the KKIECM Amounts paid to KFH provided that the Reinstated Amount shall not exceed RM650,000.00 in aggregate; and
- (g) the creation of a first legal charge over 5,000,000 ordinary shares in APT or any other entity that is acquiring the assets or business of APT (provided that such shares have a net tangible asset value of at least RM5,000,000.00) in favour of KFH as security for APT's payment obligations under the KFH RCCPS in form and substance satisfactory to KFH.

4.2.2 As at the Settlement Date, none of the approvals set out in Clause 4.1 is revoked or varied and there is no breach of the terms of this agreement by Octagon or APT.

4.3 Termination

Any of the FI Creditors may elect to terminate the DSA between itself and APT and Octagon in the event that:

- (a) the FI Creditors' solicitors do not issue the Confirmation by the Completion Date; or
- (b) the conditions precedent set out in paragraph 4.2 above is not met to the satisfaction of the FI Creditors by the Settlement Date; or
- (c) the Cash Portion is not paid by Octagon by the Settlement Date; or
- (d) the RCCPS are not issued by APT by the Settlement Date.

4.4 Waiver and Compromise

The waiver and compromise on the amounts owing to the FI Creditors as set out in Section 2 above is strictly subject to the Company and APT meeting all the requisite terms and conditions as prescribed in the DSA.

In the event that, the cash settlement and the RCCPS provided for are not paid or settled accordingly to the DSA, then the FI Creditors shall retain all their rights, powers and entitlements contained in their respective loans against the Company and APT.

5. RATIONALE

The DSA is executed in accordance with the Proposed Debt Settlement Scheme, which is part of the Proposed Rationalisation Scheme to uplift Octagon from being an affected listed issuer under PN17 of the Main Market Listing Requirements of Bursa Securities.

The rationale for the Proposed Debt Settlement Scheme are as follows:-

- (a) With the agreement of the FI Creditors on the DSA, it would resolve the debts owing by Octagon and APT to these FI Creditors and pare down the Group's debt by RM182.57 million, which would include a waiver of principal debt and associated interests there from amounting to approximately RM109.84 million based on the cut-off date of 31 October 2011. This would vastly improve the balance sheet position of the Group. There will be an additional waiver of interest for 2012 of approximately RM12.688 million which would also be written back to Profit and Loss account. These waivers would have a positive effect to the Profit and Loss of the Group for the current year.

6. EFFECTS OF THE EXECUTION OF THE DSA

6.1 Share capital and substantial shareholders' shareholding

The execution of the DSA will not have any effect on the issued and paid-up share capital and the substantial shareholders' shareholding of Octagon.

6.2 Earnings, net asset and gearing

The debt settlement with the FI Creditors pursuant to the DSA is expected to improve earnings, net asset and gearing position of Octagon.

The debt settlement with the FI Creditors pursuant to the DSA will result in a waiver of principal debt and interest of approximately RM109.84 million based on the cut-off date of 31 October 2011, and a further waiver of interest for 2012 of approximately RM12.688 million, which will result in a corresponding increase in the net assets of the Group in the future. The gearing of the Group will also decrease by about 11 times from approximately RM194.65 million as at 31 October 2012 to RM18.16 million upon the fulfillment conditions precedent and the DSA becoming unconditional. The write back of the debts agreed to be waived by the FI Creditors would improve the earnings of the Group and the reduction in borrowings of the Group in the near future.

7. APPROVALS REQUIRED

The DSA is subject to the approval of the shareholders of Octagon at an extraordinary general meeting to be convened.

8. ESTIMATED TIMEFRAME FOR COMPLETION

The DSA and the Proposed Debt Settlement Scheme will form part of the Proposed Rationalisation Scheme of Octagon which will be announced and submitted to the relevant authorities in due course.

The tentative timeline for the submission and implementation of Proposed Rationalisation Scheme will be announced in due course.

9. DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS AND/OR PERSONS CONNECTED

None of the directors and/or major shareholders and/or persons connected with a director or major shareholder of Octagon has any interest, direct and indirect in the DSA.

10. STATEMENT BY THE BOARD OF DIRECTORS

The Board of Octagon is of the opinion that the execution of the DSA is in the best interest of Octagon.

11. DOCUMENTS FOR INSPECTION

A copy of the DSA will be made available for inspection by shareholders of Octagon at the Registered Office of the Company at 2A, Jalan Gambus 33/4, Taman Perindustrian Elite, Seksyen 33, 40400 Shah Alam, Selangor Darul Ehsan during normal business hours from Monday to Friday (except public holidays) for a period of three (3) months from the date of this Announcement.

This announcement is dated 19 March 2013.