

AFFIN HOLDINGS BERHAD (“AFFIN” OR THE “COMPANY”)

PROPOSED RENOUNCEABLE RIGHTS ISSUE OF NEW ORDINARY SHARES OF RM1.00 EACH IN AFFIN (“AFFIN SHARE(S)”) TO RAISE GROSS PROCEEDS OF UP TO RM1,250 MILLION (“PROPOSED RIGHTS ISSUE”)

1. INTRODUCTION

On 22 January 2014, AFFIN Investment Bank Berhad (“**AFFIN Investment**”) announced on behalf of the Board of Directors of AFFIN (“**Board**”) that:

- (i) AFFIN had on the same date entered into a conditional share sale and purchase agreement with Hwang-DBS (Malaysia) Berhad (“**Hwang-DBS**”) for the proposed acquisition of 500,000,000 ordinary shares of RM1.00 each, constituting 100% of the issued and paid-up share capital in HwangDBS Investment Bank Berhad (“**Hwang IB**”) after the completion of the proposed pre-closing reorganisation from Hwang-DBS and the proposed acquisition of 1,700,000 ordinary shares of RM1.00 each, constituting 17% of the issued and paid-up share capital in Hwang Investment Management Berhad (“**Hwang IM**”) held by Y.A.M. Tunku Dato’ Seri Nadzaruddin Ibni Almarhum Tuanku Ja’afar (“**Proposed Acquisition**”); and
- (ii) AFFIN intends to undertake the proposed merger of the businesses, assets, and liabilities of AFFIN Investment with that of Hwang IB after the Proposed Acquisition (“**Proposed Merger**”).

In conjunction with the Proposed Acquisition and Proposed Merger, on behalf of the Board of AFFIN, AFFIN Investment wishes to announce that AFFIN proposes to undertake the Proposed Rights Issue. The Proposed Acquisition, Proposed Merger and Proposed Rights Issue shall collectively be referred to as the “**Proposals**”.

2. DETAILS OF THE PROPOSED RIGHTS ISSUE

2.1 Basis and quantum

AFFIN proposes to undertake a renounceable rights issue of new AFFIN Shares (“**Rights Share(s)**”) to the entitled ordinary shareholders of AFFIN (“**Entitled Shareholders**”) to raise gross proceeds of up to RM1,250 million (“**Intended Gross Proceeds**”) which is to be primarily used for partial repayment of the bridge loans obtained to fund the Proposed Acquisition.

The Proposed Rights Issue will be fully underwritten. The entitlement basis for the Proposed Rights Issue and the issue price have not been fixed at this juncture to provide flexibility to the Board in respect of the pricing of the new AFFIN Shares and the number of Rights Shares to be issued.

Notwithstanding the above, the Intended Gross Proceeds has been determined upfront to provide clarity to AFFIN’s shareholders with respect to the capital outlay required to fully subscribe for their respective entitlements under the Proposed Rights Issue, which can be approximated by multiplying the Intended Gross Proceeds with their respective percentage shareholdings in AFFIN.

Further details of the Proposed Rights Issue will be set out in a circular to the shareholders of AFFIN.

For illustration purposes, based on 1,494.6 million AFFIN Shares in issue as at 28 February 2014, being the latest practicable date prior to this announcement (“**LPD**”), the capital outlay required from a shareholder holding 1,000 AFFIN Shares who wishes to subscribe for his/her entitlement is approximately RM836 (based on the Intended Gross Proceeds of RM1,250 million). The actual outlay required by the Entitled Shareholders to fully subscribe for their entitlements under the Proposed Rights Issue will depend on the entitlement basis, issue price and the level of subscription for the Rights Shares by each Entitled Shareholder.

The issue price for the Rights Shares will be fixed, and accordingly the entitlement basis will be determined, by the Board and announced closer to the implementation of the Proposed Rights Issue, after taking into consideration, amongst others, the then prevailing market conditions and market price of the AFFIN Shares, AFFIN’s issued and paid-up share capital as at the entitlement date as well as the resultant theoretical ex-rights price (“**TERP**”) of the AFFIN Shares. The issue price of the Rights Shares shall in no event be lower than the par value of the AFFIN Shares of RM1.00 (in compliance with regulatory requirements).

The entitlement basis and the corresponding number of Rights Shares to be issued can only be determined in conjunction with the fixing of the issue price such that the Intended Gross Proceeds is raised. It is the intention of the Board to fix an entitlement basis which will minimise the occurrence of odd lots and fractional entitlements.

The Proposed Rights Issue is renounceable in full or in part. Accordingly, the Entitled Shareholders can subscribe for and/or renounce their entitlements to the Rights Shares in full or in part.

The Rights Shares will be provisionally allocated to the Entitled Shareholders. Fractional entitlements under the Proposed Rights Issue, if any, will be dealt with in such manner as the Board in its absolute discretion deems fit and in the best interest of AFFIN and its shareholders.

The Rights Shares which are not taken up or validly taken up by the Entitled Shareholders shall be made available for the excess applications by the other Entitled Shareholders and/or their renounee(s). It is the intention of the Board to allocate the excess Rights Shares, if any, in a fair and equitable manner on a basis to be determined by the Board and announced later by AFFIN.

2.2 Ranking of the Rights Shares

The Rights Shares shall, upon allotment and issuance, rank *pari passu* in all respects with the then existing AFFIN Shares, save and except that the Rights Shares will not be entitled to any dividends, rights, allotments and/or other forms of distributions that may be declared, made or paid in respect of which the entitlement date is before the allotment date of the Rights Shares.

2.3 Shareholders’ undertaking and underwriting arrangements

The Proposed Rights Issue is intended to be undertaken on a full subscription basis.

AFFIN has obtained the support from its major shareholders, namely Lembaga Tabung Angkatan Tentera (“**LTAT**”), Boustead Holdings Berhad (“**BHB**”) and The Bank of East Asia, Limited (“**BEA**”) (collectively, the “**Major Shareholders**”), to each provide an irrevocable undertaking to subscribe in full for their respective entitlement for the Rights Shares under the Proposed Rights Issue.

The shareholdings of each of the Major Shareholders and the amount of their full respective entitlements for the Rights Shares under the Proposed Rights Issue are set out as follows:

Major Shareholders	Shareholdings as at LPD		Entitlement amount*
	No. of AFFIN Shares (million)	(%)	(RM' million)
LTAT	525.8	35.2	439.8
BHB	309.2	20.7	258.6
BEA	351.5	23.5	294.0
Total	1,186.5	79.4	992.4

Note:

* Based on the Intended Gross Proceeds of RM1,250 million.

The remaining portion of Rights Shares for which no undertaking is obtained will be fully underwritten. Such underwriting arrangement will be in place prior to the implementation of the Proposed Rights Issue.

2.4 Listing of and quotation for the Rights Shares

An application will be made to Bursa Malaysia Securities Berhad (“**Bursa Securities**”) for the listing of and quotation for the Rights Shares on the Main Market of Bursa Securities.

2.5 Utilisation of proceeds raised from the Proposed Rights Issue

The Intended Gross Proceeds is proposed to be used for the partial repayment of the bridge loans obtained to fund the Proposed Acquisition and RM200.0 million capital injection into AFFIN Bank Berhad (“**AFFIN Bank**”) as follows:

	Timeframe for utilisation ⁽¹⁾	RM'million
Capital injection into AFFIN Bank ⁽²⁾	Within 1 month	200.0
Partial repayment of the bridge loans obtained to fund the Proposed Acquisition ⁽³⁾⁽⁴⁾	Within 1 month	1,050.0
Total		1,250.0

Notes:

(1) From the date of listing of the Rights Shares.

(2) To fund future growth of AFFIN Bank.

(3) The bridge loans of RM1,400 million will be drawn on the closing of the Proposed Acquisition, which is expected to take place in early April 2014. The bridge loans will be for tenure of 1 year from the date of drawdown and the interest cost payable on the bridge loan is based on cost of fund plus 0.75% per annum. The repayment of the bridge loans will result in interest savings of approximately RM32 million assuming completion of the Proposed Rights Issue in end June 2014 and interest cost of 4.1% per annum.

(4) The purchase consideration for the Proposed Acquisition is assumed at the Base Price. The amount in excess of the Base Price, being the NA Adjustment (if any) will be paid by AFFIN through existing cash.

3. RATIONALE FOR THE PROPOSED RIGHTS ISSUE

After due consideration of the various funding options available to the Company, the Board is of the view that the Proposed Rights Issue is the most appropriate avenue of fund raising for AFFIN given the following:

- (i) the Proposed Rights Issue is to primarily enable AFFIN to raise the required capital in order to partially repay the bridge loans obtained to fund the Proposed Acquisition;
- (ii) to provide existing shareholders of AFFIN with an opportunity to maintain their equity interest in the Company as well as increase their equity participation and ultimately, participate at a discount to the prevailing market price of AFFIN in the prospects and future growth of AFFIN; and
- (iii) the Proposed Rights Issue will further strengthen the capital base and consequently improve the shareholders' funds and gearing of AFFIN which will provide greater flexibility in optimising the capital structure of AFFIN in the future. This will place AFFIN in a better position to take advantage of growth and business opportunities from the enlarged investment banking operations following the Proposed Acquisition and Proposed Merger as well as the opportunities in commercial banking activities through AFFIN Bank and AFFIN Islamic Bank Berhad.

4. FINANCIAL EFFECTS OF THE PROPOSED RIGHTS ISSUE

For illustration purposes, the pro forma effects of the Proposed Rights Issue on the issued and paid-up share capital of and substantial shareholders' shareholdings in, the Company, as well as the net assets ("NA") and gearing, earnings and earnings per share ("EPS") of AFFIN group, which are based on the following assumptions are set out below:

Proposed Acquisition

- (i) The purchase price is based on the base price of RM1,363.0 million for the Proposed Acquisition;
- (ii) Assumes estimated transaction costs in relation to the Proposed Acquisition of RM32.0 million and estimated financing costs associated with the bridge loans of RM33.0 million (being the upfront lender fee and assuming interest cost of 4.1% per annum on the RM1,400 million bridge loans for a period of 6 months), in aggregate amounting to RM65.0 million; and
- (iii) The integration costs are not reflected herein.

Proposed Rights Issue

- (i) Assumes an indicative issue price of RM2.87 per Rights Share which is at 25% discount to the TERP of AFFIN Shares of RM3.83 per AFFIN Share (based on the 5-day volume weighted average market price of AFFIN Shares up to the LPD of RM4.11). This will result in the issuance of approximately 435.5 million Rights Shares on the basis of 125 Rights Shares for every 429 AFFIN Shares held by the Entitled Shareholders such that the Intended Gross Proceeds is raised.
- (ii) Assumes estimated Proposed Rights Issue costs of RM5.0 million.

The issue price and entitlement basis above are purely for illustration purposes only and should not be taken as an indication or reference to the final issue price or the entitlement basis of the Proposed Rights Issue which will be determined and announced by the Board closer to the implementation of the Proposed Rights Issue.

4.1 Issued and paid-up capital

The effect of the Proposed Rights Issue on the issued and paid-up share capital of AFFIN is as follows:

	No. of AFFIN Shares (million)	RM' million
Issued and paid-up share capital as at LPD	1,494.6	1,494.6
AFFIN Shares to be issued pursuant to the Proposed Rights Issue	435.5	435.5
Enlarged issued and paid-up share capital	1,930.1	1,930.1

AFFIN does not have any convertible securities as at the LPD.

4.2 Earnings and EPS

The Proposed Rights Issue will result in AFFIN's consolidated EPS being diluted as a result of the increase on the number of AFFIN Shares in issue. However, the actual impact of AFFIN's consolidated EPS will also depend on, amongst others, the actual number for Rights Shares to be issued, the subscription level for the Rights Shares and the financial performance of the enlarged AFFIN group moving forward after taking into consideration, amongst others, the effects of the Proposed Acquisition and Proposed Merger.

Assuming the Proposals have been completed prior to 1 January 2013 and based on AFFIN's latest audited consolidated income statements for the financial year ended ("FYE") 31 December 2013 and the latest audited income statements of Hwang IB for the FYE 31 July 2013, HDM Futures Sdn Bhd ("HDM Futures") for the FYE 31 July 2013, Hwang IM for the FYE 31 July 2013 and Asian Islamic Investment Management Sdn Bhd ("AIIM") for the FYE 31 March 2013, the pro forma effects on the consolidated earnings of AFFIN are as follows:

(RM'million unless otherwise stated)	Audited as at 31 December 2013	Pro forma I After the Proposed Acquisition⁽¹⁾	Pro forma II After Pro forma I and Proposed Rights Issue⁽⁵⁾	Pro forma III After the Pro forma II and Proposed Merger
Consolidated profit after taxation ("PAT") (attributable to shareholders)	650.0	650.0	635.9	635.9
Add: Contribution from the Acquisition Entities (as defined below) ⁽²⁾⁽³⁾	-			
- Hwang IB	-	29.5	-	-
- Hwang IM	-	22.0	-	-
- AIIM	-	0.7	-	-
- HDM Futures	-	(1.3)	-	-
Pro forma consolidated PAT before one-off costs	650.0	700.9	635.9	635.9
Less: Estimated transaction costs in relation to the Proposed Acquisition		(32.0)	-	-
Estimated financing costs		⁽⁴⁾ (33.0)	-	-
Pro forma consolidated PAT after one-off costs	650.0	635.9	635.9	635.9
EPS (sen)	0.43	0.43	0.33	0.33

Notes:

^ Negligible.

- (1) Excludes any integration cost and does not take into consideration any opportunity benefits/costs of the internal cash used to repay the bridge loans or from the capital injections into the merged investment bank resulting from the proposed merger of the businesses of AFFIN Investment with that of Hwang IB or AFFIN Bank.
- (2) Contribution is based on the respective interests in Hwang IB (including HDM Nominees (Tempatan) Sdn Bhd and HDM Nominees (Asing) Sdn Bhd), Hwang IM, AIIM and HDM Futures (collectively, the "**Acquisition Entities**"). No adjustment has been made for the different financial year ends of the Acquisition Entities relative to AFFIN.
- (3) Excludes the contributions based on the respective interests from HwangDBS Custodian Services Sdn Bhd and HwangDBS Vickers Research Sdn Bhd for the FPE 30 January 2013 and FYE 31 July 2013 respectively. HwangDBS Custodian Services Sdn Bhd has been placed under member's voluntary winding-up on 31 January 2013.
- (4) The financing costs incurred by AFFIN will be for an interim period only as the bridge loans will be repaid from the proceeds to be raised from the Proposed Rights Issue and internally generated funds.
- (5) Excludes the expected earnings to be generated from the capital injection of RM200 million into AFFIN Bank from the proceeds to be raised from the Proposed Rights Issue.

Pursuant to the Proposed Acquisition, AFFIN will incur a one-off transaction costs associated with the transaction costs and financing costs in relation to the Proposed Acquisition. However, given the complementary fit of the businesses of the acquisition entities with that of AFFIN, and the expected synergies to be derived, the impact on the future earnings of AFFIN is expected to be positive in the future.

4.3 NA per AFFIN Share and gearing

The pro forma effects of the Proposed Rights Issue based on the audited consolidated NA of AFFIN as at 31 December 2013, assuming all the Proposals have been completed on 31 December 2013 is set out below:

(RM' million unless otherwise stated)	Audited as at 31 December 2013	Pro forma I After the Proposed Acquisition	Pro forma II After Pro forma I and Proposed Rights Issue	Pro forma III After Pro forma II and Proposed Merger
Share capital	1,494.6	1,494.6	⁽³⁾ 1,930.1	1,930.1
Reserves:				
Share premium	1,400.4	1,400.4	⁽³⁾⁽⁴⁾ 2,209.9	2,209.9
Statutory reserves	1,469.1	1,469.1	1,469.0	1,469.0
Available-for-sale revaluation reserves	15.1	15.1	15.1	15.1
Retained profits	1,997.5	⁽²⁾ 1,932.5	1,932.5	1,932.5
NA (attributable to ordinary equity holders of the Company)	6,376.7	6,311.7	7,556.6	7,556.6
Number of AFFIN Shares (million)	1,494.6	1,494.6	1,930.1	1,930.1
NA per AFFIN Share (RM) ⁽¹⁾	4.27	4.22	3.92	3.92
Borrowings	972.4	2,372.4	⁽⁵⁾ 1,322.4	⁽⁶⁾ 972.4
Gearing (times)	0.15	0.38	0.17	0.13

Notes:

- (1) NA per AFFIN Share is computed based on the shareholders' funds (excluding minority interest) divided by the number of AFFIN Shares in circulation.
- (2) After deducting the total estimated transaction costs in relation to the Proposed Acquisition and estimated financing costs associated with the bridge loans of RM65.0 million.
- (3) The numbers of new AFFIN Shares to be issued is dependent on the issue price and entitlement basis for the Proposed Rights Issue. The difference between the amount raised and the total number of AFFIN Shares issued under the Proposed Rights Issue will be reflected in the share premium of AFFIN.
- (4) Assumes estimated costs of RM5.0 million associated with the Proposed Rights Issue.
- (5) After partial repayment of RM1,050.0 million bridge loans to initially fund the Proposed Acquisition.
- (6) After repayment of the remaining RM350.0 million bridge loans via internally generated funds.

4.4 Substantial shareholders' shareholdings

AFFIN intends to procure the irrevocable undertakings from the Major Shareholders to subscribe in full and/or procure the subscription in full of their respective entitlement for the Rights Shares under the Proposed Rights Issue. The balance of the Proposed Rights Issue for which no undertakings are obtained will be fully underwritten.

Save for the proportionate increase in the total number of AFFIN Shares held respectively by the substantial shareholders, the Proposed Rights Issue will not have any effect on the substantial shareholders' shareholdings of AFFIN in the event they subscribe in full for their entitlements of the Rights Shares.

Substantial shareholders	Existing as at LPD				After the Proposed Rights Issue			
	Direct		Indirect		Direct		Indirect	
	No. of AFFIN Shares (million)	%	No. of AFFIN Shares (million)	%	No. of AFFIN Shares (million)	%	No. of AFFIN Shares (million)	%
LTAT	525.8	35.2	⁽¹⁾ 309.2	20.7	679.1	35.2	⁽¹⁾ 399.4	20.7
BHB	309.2	20.7	-	-	399.4	20.7	-	-
BEA	351.5	23.5	-	-	453.9	23.5	-	-
Employees Provident Fund (Malaysia)	117.9	7.9	-	-	⁽²⁾ 152.3	⁽²⁾ 7.9	-	-

Notes:

(1) Deemed interest by virtue of its shareholdings in BHB pursuant to Section 6A of the Companies Act 1965.

(2) Assumes that Employees Provident Fund (Malaysia) subscribes in full to its entitlement for the Rights Shares.

5. APPROVALS REQUIRED

The Proposed Rights Issue is conditional upon obtaining the following:

- (i) Bank Negara Malaysia (“**BNM**”) for the increase in the issued and paid-up share capital of AFFIN pursuant to the Proposed Rights Issue, which was obtained on 10 January 2014;
- (ii) Bursa Securities for the listing of and quotation for the Rights Shares on the Main Market of Bursa Securities;
- (iii) the shareholders of AFFIN at an Extraordinary General Meeting (“**EGM**”) to be convened; and
- (iv) any other relevant authorities, if required.

Barring any unforeseen circumstances, the application to Bursa Securities in relation to the above is expected to be submitted within one (1) month from the date of this announcement.

6. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND PERSONS CONNECTED

None of the Directors, major shareholders and/or persons connected to them has any interest, either direct or indirect, in the Proposed Rights Issue beyond their respective entitlements to the Rights Shares as shareholders of AFFIN for which all existing shareholders of AFFIN are similarly entitled to, including the right to apply for excess Rights Shares.

7. DIRECTORS’ RECOMMENDATION

The Board, having considered all aspects of the Proposed Rights Issue is of the opinion that the Proposed Rights Issue is in the best interest of the Company. Accordingly, the Board recommends that shareholders vote in favour of the resolution pertaining to the Proposed Rights Issue to be tabled at an EGM to be convened.

8. ADVISERS

The appointed advisers to AFFIN are:

- (i) AFFIN Investment as the principal adviser for the Proposed Rights Issue; and
- (ii) Adnan Sundra & Low as the legal adviser for the Proposed Rights Issue.

9. ESTIMATED TIME FRAME FOR COMPLETION OF THE PROPOSED RIGHTS ISSUE

Barring any unforeseen circumstances and subject to obtaining all the required approvals, the Proposed Rights Issue is expected to be completed by the third quarter of 2014.

This announcement is dated 10 March 2014.