

**THE INDEPENDENT ADVICE CIRCULAR ("IAC") IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. YOU SHOULD READ THIS IAC IN CONJUNCTION WITH THE CIRCULAR TO SHAREHOLDERS DATED 3 MAY 2006 ISSUED BY AVENUE CAPITAL RESOURCES BERHAD ("ACRB" OR "COMPANY") WHICH HAS BEEN DESPATCHED TO YOU.**

If you are in any doubt as to the course of action you should take, please consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

If you have sold or transferred all your ordinary shares in ACRB, you should at once hand this IAC to the stockbroker, bank or agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The approval of the Securities Commission ("SC") of this IAC shall not be taken that the SC recommends the Proposals (as defined herein). Shareholders should rely on their own evaluation to assess the merits and risks of the Proposals. Bursa Malaysia Securities Berhad takes no responsibility for the contents of this IAC, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this IAC. Shareholders should rely on their own evaluation to assess the merits and risk of the Proposals.



**AVENUE CAPITAL RESOURCES BERHAD** (478-A)

**INDEPENDENT ADVICE CIRCULAR TO SHAREHOLDERS  
IN RELATION TO THE**

- (I) PROPOSED MERGER BETWEEN AVENUE CAPITAL RESOURCES BERHAD AND ECM LIBRA BERHAD ("ECM LIBRA"), VIA THE PROPOSED ACQUISITIONS BY AVENUE INTERNATIONAL CAPITAL BERHAD ("AICB") OF THE OPERATING SUBSIDIARIES OF ECM LIBRA, IN CONSIDERATION OF THE ALLOTMENT AND ISSUANCE OF 442,000,000 NEW ORDINARY SHARES OF RM1.00 EACH IN AICB ("AICB SHARES") TO BE CREDITED AS FULLY PAID UP TO ECM LIBRA ("PROPOSED MERGER"); AND**
- (II) PROPOSED EXEMPTION PURSUANT TO PRACTICE NOTE 2.9.1 OF THE MALAYSIAN CODE ON TAKE-OVERS AND MERGERS, 1998 TO ECM LIBRA AND THE PARTIES DEEMED ACTING IN CONCERT FROM THE OBLIGATION TO UNDERTAKE A MANDATORY OFFER FOR THE REMAINING AICB SHARES NOT ALREADY HELD BY THEM UPON COMPLETION OF THE PROPOSED MERGER ("PROPOSED EXEMPTION")**

**(COLLECTIVELY REFERRED TO AS "PROPOSALS")**

*Independent Adviser*



**K & N KENANGA BHD**  
Company No. 15678-H

**This Independent Advice Circular is dated 9 May 2006**

## DEFINITIONS

Unless the context otherwise requires, the following definitions shall apply throughout this Independent Advice Circular and the accompanying appendices:

“ACRB” or “Company”	:	Avenue Capital Resources Berhad
“ACRB Group” or “Group”	:	ACRB and its existing subsidiaries and associated companies
“ACRB Share(s)”	:	Ordinary share(s) of RM1.00 each in ACRB
“Act”	:	Companies Act, 1965
“AICB”	:	Avenue International Capital Berhad
“AICB Group”	:	AICB and its subsidiaries and associated company, after completion of the Reorganisation
“AICB Share(s)”	:	Ordinary share(s) of RM1.00 each in AICB
“Aroma”	:	Aroma Teraju Sdn Bhd
“Avenue”	:	Avenue Securities Sdn Bhd
“BNM”	:	Bank Negara Malaysia
“Board”	:	Board of Directors
“Bursa Securities”	:	Bursa Malaysia Securities Berhad
“Circular”	:	Circular to the Shareholders of the Company dated 3 May 2006 for the Proposals
“Code”	:	Malaysian Code on Take-Overs and Mergers, 1998
“Consideration Shares”	:	442,000,000 new AICB Shares to be credited as fully paid-up to be issued pursuant to the Proposed Merger
“ECMLC”	:	ECM Libra Capital Sdn Bhd
“ECMLCM”	:	ECM Libra Capital Markets Sdn Bhd
“ECMLH”	:	ECM Libra Holdings Limited
“ECMLP”	:	ECM Libra Partners Sdn Bhd
“ECMLS”	:	ECM Libra Securities Sdn Bhd
“ECM Companies”	:	ECMLC, ECMLCM, ECMLH, ECMLP and ECMLS, collectively
“ECM Libra”	:	ECM Libra Berhad
“ECM Libra Group”	:	ECM Libra and its subsidiaries and associated company
“ECM Libra Share(s)”	:	Ordinary share(s) of RM1.00 each in ECM Libra
“EGM”	:	Extraordinary general meeting
“EPS”	:	Earnings per share

**DEFINITIONS (Cont'd)**

“ESOS”	:	Employees’ share option scheme
“FYE”	:	Financial year ended/ending
“GDP”	:	Gross domestic product
“HKD”	:	Hong Kong Dollar
“IA”	:	Independent Adviser
“IAC”	:	Independent Advice Circular
“ICULS”	:	Irredeemable convertible unsecured loan stocks 2002/2007 of RM1.00 nominal value each in ACRB
“Kenanga”	:	K&N Kenanga Bhd
“LAT”	:	Loss after taxation
“LBT”	:	Loss before taxation
“LPS”	:	Loss per share
“NA”	:	Net assets
“NTA”	:	Net tangible assets
“PACs”	:	Parties deemed acting in concert with ECM Libra for the purpose of the Proposed Merger and Proposed Exemption pursuant to Section 33(3) of the Securities Commission Act, 1993, including Dato’ Kalimullah bin Masheerul Hassan, Lim Kian Onn and Chua Ming Huat, collectively
“PAT”	:	Profit after taxation
“PBT”	:	Profit before taxation
“PBR”	:	Price-to-book ratio
“PER”	:	Price earnings ratio
“Proposals”	:	Proposed Merger and Proposed Exemption, collectively
“Proposed Exemption”	:	Proposed exemption to ECM Libra and the PACs to undertake a mandatory offer for all the remaining AICB Shares not already held by them upon completion of the Proposed Merger
“Proposed Merger”	:	Proposed merger between ACRB and ECM Libra, via the proposed acquisitions by AICB of the entire equity interests in each of the ECM Companies from ECM Libra, in consideration of the allotment and issuance of 442,000,000 Consideration Shares to ECM Libra
“PSH”	:	Pos Malaysia & Services Holdings Berhad
“PSH Share(s)”	:	Ordinary share(s) of RM1.00 each in PSH

## **DEFINITIONS (*Cont'd*)**

<b>“Reorganisation”</b>	:	Reorganisation exercise of the ACRB Group as approved by the SC on 29 September 2005 and the stockholders of ACRB on 1 December 2005, involving the following inter-conditional transactions: <ul style="list-style-type: none"><li>(a) Exchange of all the ACRB Shares, ICULS and Warrants with new AICB Shares pursuant to a scheme of arrangement of ACRB under Section 176 of the Act;</li><li>(b) Distribution of assets in specie comprising all the PSH Shares held by ACRB and all the shareholdings of ACRB in its subsidiaries and associated company involved in the provision of financial services to AICB, via a reduction in the share capital of ACRB under Section 64 of the Act;</li><li>(c) Distribution of assets in specie comprising all the PSH Shares held by AICB to its shareholders after (a) and (b) above via a reduction in the share capital of AICB under Section 64 of the Act;</li><li>(d) Cancellation of goodwill arising from (a) above pursuant to a reduction in the share capital of AICB under Section 64 of the Act;</li><li>(e) Consolidation of the AICB shares after (c) and (d) above back to its par value of RM1.00 each; and</li><li>(f) Transfer of the listing status of ACRB to AICB, such that ACRB will be delisted and AICB will assume the listing status of ACRB on the Main Board of Bursa Securities</li></ul>
<b>“RM”</b>	:	Ringgit Malaysia
<b>“SC”</b>	:	Securities Commission
<b>“SC Guidelines”</b>	:	SC’s Policies and Guidelines on Issue/Offer of Securities
<b>“SGD”</b>	:	Singapore Dollar
<b>“SSA”</b>	:	Conditional Share Sale Agreement dated 19 January 2006 entered into between ACRB, AICB and ECM Libra for the purpose of the Proposed Merger
<b>“USD”</b>	:	United States Dollar
<b>“Unconditional Date of the SSA”</b>	:	The date on which the last of the conditions precedent specified in the SSA is received, obtained, fulfilled or waived, as the case may be, or such other date as mutually agreed by ECM Libra, ACRB and AICB
<b>“WAMP”</b>	:	Weighted average market price
<b>“Warrants”</b>	:	Warrants 2002/2007 in ACRB

In this IAC, unless there is something in the subject or context inconsistent herewith, the singular includes the plural, references to gender include both genders and the neuter.

## CONTENTS

## Page

### INDEPENDENT ADVICE LETTER TO THE DIRECTORS AND SHAREHOLDERS OF ACRB IN RELATION TO THE PROPOSALS

EXECUTIVE SUMMARY .....	v
1. INTRODUCTION .....	1
2. DETAILS OF THE PROPOSALS .....	2
3. DECLARATION OF INTEREST .....	9
4. EVALUATION OF THE PROPOSALS .....	10
5. CONFIRMATION .....	34
6. FURTHER INFORMATION .....	34
7. DIRECTORS' RESPONSIBILITY STATEMENT .....	34
8. CONCLUSION AND RECOMMENDATION .....	34
<b>APPENDICES</b>	
I(A) BACKGROUND INFORMATION ON ECMLC .....	37
I(B) BACKGROUND INFORMATION ON ECMLP .....	40
I(C) BACKGROUND INFORMATION ON ECMLCM .....	43
I(D) BACKGROUND INFORMATION ON ECMLH .....	46
I(E) BACKGROUND INFORMATION ON ECMLS .....	53
II BACKGROUND INFORMATION ON ECM LIBRA .....	58
III BACKGROUND INFORMATION ON ACRB .....	60
IV BACKGROUND INFORMATION ON AICB .....	64
V FURTHER INFORMATION .....	67



## EXECUTIVE SUMMARY

**This Executive Summary is intended to be a brief summary of the IAC only. We advise the shareholders of ACRB to read this IAC together with the Circular dated 3 May 2006 issued by ACRB, which has already been despatched to you, before voting on the resolutions pertaining to the Proposals at the forthcoming EGM of ACRB.**

This IAC has the following purposes:-

- (i) to provide an opinion to the shareholders of ACRB/AICB on whether the Proposed Merger and Proposed Exemption are fair and reasonable and not detrimental to the shareholders of ACRB/AICB; and
- (ii) to provide the shareholders of ACRB/AICB with an independent evaluation of the terms and effects of the Proposed Exemption and our recommendation as to the action the shareholders of ACRB/AICB should take in relation to the Proposed Exemption.

**Shareholders should note the scope and limitations of Kenanga's evaluation and opinion as set out in Section 4.1 of this IAC.**

### Reference/ Section in this IAC

#### (A) INTRODUCTION

1

On 19 January 2006, ACRB announced that it had entered into the SSA with ECM Libra for the Proposed Merger which involves the proposed acquisitions by AICB (a new company incorporated to undertake the Reorganisation) of the entire equity interest in the ECM Companies to be satisfied by the allotment and issuance of the Consideration Shares. As a result of the Proposed Merger, the shareholdings of ECM Libra in AICB will increase from zero to approximately 53.2%. Avenue also announced on 19 January 2006 that subsequent to the Proposed Merger, ECM Libra and the PACs propose to seek an exemption under Practice Note 2.9.1 of the Code from the obligation to undertake a mandatory offer for all the remaining AICB Shares not already held by them upon completion of the Proposed Merger.

#### *IA for the Proposed Merger*

The Adviser for the Proposed Merger is Avenue, which is a subsidiary of ACRB. The SC had requested ACRB to appoint an IA to provide an opinion on whether the Proposed Merger is fair and reasonable given that there is a potential conflict of interest position arising from Avenue being the Adviser to ACRB in respect of the Proposed Merger.

Kenanga has been appointed as ACRB's IA by the Board of ACRB and an independent advice letter has been submitted by Kenanga to the SC on 14 March 2006.

*IA for the Proposed Exemption*

On 24 March 2006, Avenue announced that the SC had, via its letter dated 23 March 2006 stated that the SC will only consider the application for the Proposed Exemption after the conditions as set out in Section 2.3 of this IAC have been fulfilled.

Pursuant to one of the conditions imposed by the SC for the Proposed Exemption, Kenanga was appointed as the IA to provide the shareholders of ACRB with competent independent advice regarding the Proposed Exemption pursuant to the provisions of the Code, subject to the approval of the appointment of Kenanga as the IA by the SC. The approval of the SC for Kenanga's appointment as the IA for the Proposed Exemption was obtained on 29 March 2006.

**(B) PROPOSED MERGER**

**2.1 and 2.2**

The ACRB Group is currently undertaking the Reorganisation, which would result in AICB emerging as the new holding company of the ACRB Group. Details of the Reorganisation are set out in Section 2.1 of this IAC. AICB will also assume the listing status of ACRB, and will be listed on the Main Board of Bursa Securities in place of ACRB. The Reorganisation is currently in the process of being implemented.

The Proposed Merger entails the proposed acquisitions by AICB, of the entire equity interests in each of the ECM Companies, in consideration of the allotment and issuance of 442,000,000 Consideration Shares to ECM Libra.

Upon completion of the Proposed Merger, ECM Libra will undertake a capital reconstruction exercise which comprises, amongst others, the proposed distribution of 433,000,000 out of the 442,000,000 AICB Shares to be received by ECM Libra pursuant to the Proposed Merger to the shareholders of ECM Libra via a reduction in the par value of each ECM Libra Share.

**(C) PROPOSED EXEMPTION**

**2.3**

The shareholdings of ECM Libra in AICB will increase from zero to approximately 53.2% upon completion of the Proposed Merger. ECM Libra and the PACs, namely, Dato' Kalimullah bin Masheerul Hassan, Lim Kian Onn and Chua Ming Huat, will therefore, be obliged to undertake a mandatory offer for all the remaining AICB Shares not already owned by them after the Proposed Merger in accordance with the provisions of Part II of the Code.

Accordingly, they propose to seek an exemption under Practice Note 2.9.1 of the Code from the obligation to undertake a mandatory offer for all the remaining AICB Shares not already owned by them.

**(D) EVALUATION OF THE PROPOSALS**

**4**

In assessing the Proposals, Kenanga has taken into consideration the following key factors:-

**(i) Rationale for and benefits of the Proposed Merger**

**4.2.1**

The rationale for and benefits of the Proposed Merger are detailed in Sections 4.1 and 5 of the Circular. Our evaluation on the pertinent points are set out as follows:-

**(a) Cost savings in transformation into an investment bank**

The Proposed Merger will significantly reduce Avenue's cost of entry to be an investment bank.

The Proposed Merger will enable both the stockbroking subsidiaries of ACRB and ECM Libra to collectively meet the minimum capital funds requirements of RM500 million imposed by the authorities without the need of injecting new capital and to share the one-time RM52.5 million cost for one discount house licence in order to qualify for the investment bank status.

Please refer to Section 4.2.1(a) for details.

**(b) Transformation into a larger and more robust investment bank**

The merged ACRB Group and ECM Companies would be in a stronger position to compete in a liberalised environment.

The Proposed Merger would enable ACRB and ECM Libra to form a firm foundation, both financially and operationally, to compete and better withstand the expected increased competition in the financial services industry brought upon by the deregulation and liberalisation of the domestic capital markets.



**(c) More comprehensive product range and services**

The enlarged ACRB Group would be able to offer a more comprehensive product range and services particularly with the additional scope of banking activities such as the acceptance of wholesale deposits and lending activities to complement the fee-based activities of the investment bank.

**(d) Increase revenue and earnings capability**

The Proposed Merger is expected to enhance revenue and earnings capability of the enlarged AICB Group. The Proposed Merger will enable the merged entity to expand its geographical reach and expedite market accessibility. In addition, the merged entity will be able to cross sell their existing and new enhanced products to a broader clientele base given the wider combined network of branches nationwide.

**(e) Enhance human capital and market share**

The combination of the two (2) entities' expertise and strengths upon transformation of the enlarged AICB Group into an investment bank is expected to strengthen the group's competitiveness in the capital markets.

The Proposed Merger will allow both parties to capitalise on their respective strengths, attract new talent and initiate the development of a more competitive range of products.

**(f) Cost savings in administration and business support**

Upon completion of the Proposed Merger, the enlarged AICB Group is expected to achieve economies of scale in administration and business support by consolidating operational activities such as back office processes and rationalisation of branch operations. The aforementioned consolidation is expected to improve efficiency of operations and result in cost savings.

	<b>Reference/ Section in this IAC</b>
<b>(ii) Rationale for the Proposed Exemption</b>	<b>4.2.2</b>
<p>The Proposed Exemption is required to facilitate the successful implementation of the Proposed Merger, which is expected to enable the enlarged AICB Group to capitalise on the benefits of the Proposed Merger.</p>	
<b>(iii) Reasonableness of the valuation of the ECM Companies and the issue price of the Consideration Shares for the Proposed Merger</b>	<b>4.2.3</b>
<p>We have considered the following factors in our evaluation on the reasonableness of the valuation of the ECM Companies and the issue price of the Consideration Shares:-</p> <ul style="list-style-type: none"> <li>(a) Comparable listed companies and comparable historical transactions;</li> <li>(b) Valuation of the ECM Companies based on ECM Libra's market capitalisation;</li> <li>(c) Valuation of the ECM Companies having regard to the value of the Consideration Shares; and</li> <li>(d) Reasonableness of the issue price of RM1.00 for the Consideration Shares from ACRB's perspective.</li> </ul>	
<b>(iv) Mode of payment for the Proposed Merger</b>	<b>4.2.4</b>
<p>The consideration for the acquisitions of ECM Companies will be satisfied entirely by the issuance of new AICB Shares.</p>	
<b>(v) Financial effects of the Proposals</b>	<b>4.2.5</b>
<p>Upon completion of the Proposals and internal rationalisation exercise, Avenue, the entity to be transformed into an investment bank, should be able to achieve an unimpaired shareholder's fund of at least RM500 million as imposed by BNM and the SC under the Guidelines on Investment Banks.</p> <p>The Proposed Merger will generate synergistic benefits in the business operations of the merged entity and is expected to increase the earnings base of the AICB Group in the future. This should in turn enhance shareholders' value of AICB accordingly.</p>	

	Reference/ Section in this IAC
<p><b>(vi) Industry outlook and Prospects of the enlarged AICB Group</b></p> <p>The AICB Group is expected to benefit from the encouraging economic outlook and the growth in the capital market in which it operates as set out in the Section 6 of the Circular. In addition, the Proposed Merger is expected to benefit the enlarged AICB Group given the benefits highlighted in Section 5 of the Circular.</p>	4.2.6
<p><b>(vii) Risk Factors</b></p> <p>Shareholders should take into consideration the risk factors associated with the Proposed Merger as set out in Section 7 of the Circular.</p> <p>In addition, Shareholders should also take into account the following risk factors associated with the Proposed Merger:-</p> <p>(a) Merger risks;  (b) Dependence on key personnel; and  (c) Licences and regulatory environment.</p>	4.2.7
<p><b>(viii) Implications of the Proposed Exemption</b></p> <p>The Proposed Merger and Proposed Exemption are inter-conditional.</p> <p>Voting <b>in favour</b> of the Proposed Exemption will ultimately lead to ACRB being able to carry out and complete the Proposed Merger. In turn, Shareholders will be able to participate in the expected positive prospects of the enlarged AICB Group arising from the benefits of the Proposed Merger as mentioned in Section 5 of the Circular.</p> <p>Voting <b>against</b> the Proposed Exemption will result in the Proposed Merger being not implemented. AICB will be required to pursue other avenues to attain the investment bank status for Avenue, its stockbroking subsidiary. AICB could potentially be required to raise a substantial amount to obtain an investment bank status on its own (please refer to Section 4.2.1 (a) of this IAC for details) as it has to meet the minimum capital requirement for an investment bank. This in turn will delay Avenue's plan of transforming into an investment bank.</p>	4.2.8

**(E) KENANGA'S CONCLUSION AND RECOMMENDATION**

**8**

**BASED ON OUR ABOVE EVALUATION OF THE PROPOSALS, WE ARE OF THE OPINION THAT THE PROPOSED MERGER AND PROPOSED EXEMPTION ARE FAIR AND REASONABLE AND NOT DETRIMENTAL TO THE SHAREHOLDERS OF ACRB/AICB.**

**IN ADDITION, WE RECOMMEND THAT YOU VOTE IN FAVOUR OF THE RESOLUTION RELATING TO THE PROPOSED EXEMPTION TO BE TABLED AT THE FORTHCOMING EGM OF THE COMPANY.**

**We advise the shareholders to consider both this IAC and the letter from the Board of ACRB as set out in the Circular carefully before voting on the resolution pertaining to the Proposed Exemption at the forthcoming EGM of ACRB.**

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9 May 2006

**To: The Shareholders of Avenue Capital Resources Berhad**

Dear Sir / Madam,

- (I) **PROPOSED MERGER BETWEEN AVENUE CAPITAL RESOURCES BERHAD AND ECM LIBRA BERHAD ("ECM LIBRA"), VIA THE PROPOSED ACQUISITIONS BY AVENUE INTERNATIONAL CAPITAL BERHAD ("AICB") OF THE OPERATING SUBSIDIARIES OF ECM LIBRA, IN CONSIDERATION OF THE ALLOTMENT AND ISSUANCE OF 442,000,000 NEW ORDINARY SHARES OF RM1.00 EACH IN AICB ("AICB SHARES") TO BE CREDITED AS FULLY PAID UP TO ECM LIBRA ("PROPOSED MERGER"); AND**
- (II) **PROPOSED EXEMPTION PURSUANT TO PRACTICE NOTE 2.9.1 OF THE MALAYSIAN CODE ON TAKE-OVERS AND MERGERS, 1998 TO ECM LIBRA AND THE PARTIES DEEMED ACTING IN CONCERT FROM THE OBLIGATION TO UNDERTAKE A MANDATORY OFFER FOR THE REMAINING AICB SHARES NOT ALREADY HELD BY THEM UPON COMPLETION OF THE PROPOSED MERGER ("PROPOSED EXEMPTION")**

**(COLLECTIVELY REFERRED TO AS "PROPOSALS")**

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## **1. INTRODUCTION**

On 19 January 2006, ACRB announced that it had entered into the SSA with ECM Libra for the Proposed Merger which involved the proposed acquisitions by AICB of the entire equity interest in the ECM Companies to be satisfied by the allotment and issuance of the Consideration Shares to ECM Libra. As a result of the Proposed Merger, the shareholdings of ECM Libra in AICB will increase from zero to approximately 53.2%. Avenue also announced on 19 January 2006 that subsequent to the Proposed Merger, ECM Libra and the PACs propose to seek an exemption under Practice Note 2.9.1 of the Code from the obligation to undertake a mandatory offer for all the remaining AICB Shares not already held by them upon completion of the Proposed Merger.

### *IA for the Proposed Merger*

The Adviser for the Proposed Merger is Avenue, which is a subsidiary of ACRB. The SC has required ACRB to appoint an IA to provide an opinion on whether the Proposed Merger is fair and reasonable given that there is a potential conflict of interest position arising from Avenue being the Adviser to ACRB in respect of the Proposed Merger.

Kenanga has been appointed as ACRB's IA by the Board of ACRB and an independent advice letter has been submitted by Kenanga to the SC on 14 March 2006.

### *IA for the Proposed Exemption*

On 24 March 2006, Avenue announced that the SC had, via its letter dated 23 March 2006 stated that the SC will only consider the application for the Proposed Exemption after the conditions as set out in Section 2.3 of this IAC have been fulfilled.





Pursuant to one of the conditions imposed by the SC for the Proposed Exemption, Kenanga was appointed as the IA to provide the shareholders of ACRB with competent independent advice regarding the Proposed Exemption pursuant to the provisions of the Code, subject to the approval of the appointment of Kenanga as IA by the SC.

On 17 March 2006, Kenanga confirmed to the SC of its eligibility to act as the IA for the Proposed Exemption. The appointment of Kenanga as the IA for the Proposed Exemption was approved by the SC on 29 March 2006. The SC had also on 8 May 2006 given its consent to the despatch of this IAC.

The consent of the SC for the despatch of this IAC is not to be taken that the SC concurs with the views and recommendation of Kenanga, as contained herein for the Proposed Exemption but merely that this IAC has complied with all the relevant disclosure requirements pursuant to the Code.

The purposes of this IAC are as follows:-

- (i) to provide an independent opinion to the shareholders of ACRB/AICB on whether the Proposed Merger and Proposed Exemption are fair and reasonable and not detrimental to the shareholders of ACRB/AICB; and
- (ii) to provide the shareholders of ACRB/AICB with an independent evaluation of the terms and effects of the Proposed Exemption and our recommendation as to the action the shareholders of ACRB/AICB should take in relation to the Proposed Exemption.

Other than for the above intended purposes, this IAC should not be used for any other purpose and/or by any other persons and/or reproduced wholly or partially, without the express consent of Kenanga.

**Shareholders of ACRB ("Shareholders") are advised to read this IAC together with the contents set out in the Circular. If you are in doubt of the Proposals, you should consult your stockbroker, bank manager, accountant, solicitor or other professional adviser immediately.**

## **2. DETAILS OF THE PROPOSALS**

### **2.1 Background to the Proposed Merger – ACRB's Reorganisation**

The ACRB Group is currently undertaking the Reorganisation which involves the following inter-conditional transactions:-

- (i) Exchange of all the ACRB Shares, ICULS and Warrants with new AICB Shares ("Exchange");
- (ii) Distribution of assets in specie comprising all the PSH Shares held by ACRB and all the shareholdings of ACRB in its financial services subsidiaries and associated company to AICB, via a reduction in the share capital of ACRB;
- (iii) Distribution of assets in specie comprising all the PSH Shares held by AICB to its shareholders after (i) and (ii) above ("Distribution of PSH Shares") via a reduction in the share capital of AICB;
- (iv) Cancellation of goodwill arising from (i) above pursuant to a reduction in the share capital of AICB;

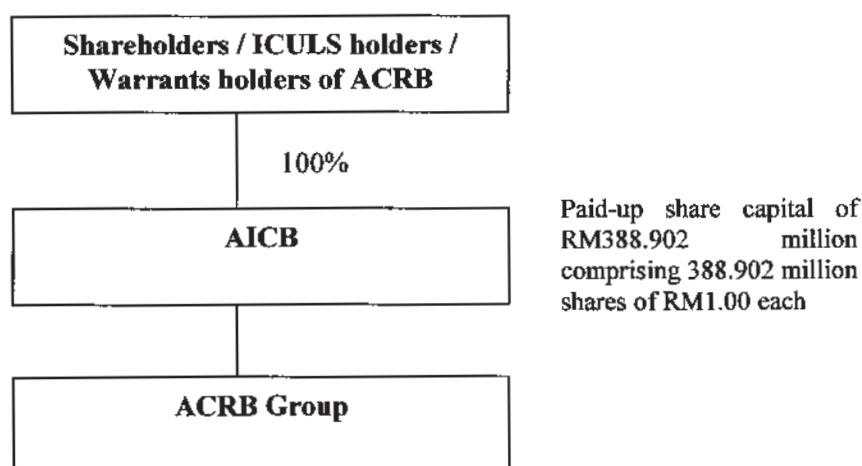


- (v) Consolidation of the AICB shares after (iii) and (iv) above back to its par value of RM1.00 each; and
- (vi) Transfer of the listing status of ACRB to AICB, such that ACRB will be delisted and AICB will assume the listing status of ACRB on the Main Board of Bursa Securities

The Reorganisation is currently in the process of being implemented.

### Corporate structure after Reorganisation

The corporate structure of the AICB Group upon completion of the Reorganisation is as follows:-



## 2.2 Details of the Proposed Merger

The Proposed Merger entails the proposed acquisitions by AICB, of the entire equity interests in each of the ECM Companies, in consideration of the allotment and issuance of 442,000,000 Consideration Shares to ECM Libra.

The details of the ECM Companies and the number of shares to be acquired by AICB under the Proposed Merger are summarised as follows:

Name of ECM Company	Date and place of incorporation	Principal activities	No. of ordinary shares to be acquired
<i>ECMLC</i>	07.05.02; Malaysia	Provision of management, investment advisory and investment consulting services	1,000,000
<i>ECMLP</i>	21.04.99; Malaysia	Provision of credit services	500,000
<i>ECMLCM</i>	17.01.94; Malaysia	Fund management	2,000,000



<b>Name of ECM Company</b>	<b>Date and place of incorporation</b>	<b>Principal activities</b>	<b>No. of ordinary shares to be acquired</b>
<i>ECMLH</i>	19.06.02; Labuan, Malaysia	Investment holding and provision of advisory services	1,316,000
<i>ECMLS</i>	19.09.87; Malaysia	Stockbroking	101,038,732

ECMLH and ECMLS will be acquired by AICB based on their existing group structure. The subsidiaries of ECMLH are ECM Libra Investment Bank Limited, ECM Libra Securities Limited and ECM Libra Investments Limited while the subsidiaries of ECMLS are ECM Libra Securities Nominees Sdn Bhd, ECM Libra Securities Nominees (Tempatan) Sdn Bhd, ECM Libra Securities Nominees (Asing) Sdn Bhd and ECM Libra Securities Portfolio Management Sdn Bhd. In addition, ECM Libra Investments Limited has an associated company i.e. Westcomb Financial Group Limited, by virtue of its 29.2% equity interest in the company. Further details of the ECM Companies are as set out in Appendices I(A) to I(E) of this IAC.

#### **Ranking of the Consideration Shares**

The Consideration Shares shall be issued to ECM Libra on terms that they rank *pari passu* in all respects with the AICB Shares in issue at the date of allotment, save that ECM Libra shall not be entitled to any dividends, rights, allotment and/or distributions as permitted under the SSA, the entitlement date of which is prior to the date of allotment of the Consideration Shares. For the avoidance of doubt, the Consideration Shares shall not be entitled to participate in the Reorganisation.

#### **Basis of valuation of ECM Companies**

The total number of Consideration Shares to be issued pursuant to the Proposed Merger was arrived at on a willing buyer-willing seller basis after taking into consideration, *inter-alia*, the following:

- (a) the total market capitalisation of ECM Libra of RM459.0 million, based on the closing market price of the shares of RM1.06 as at 17 January 2006 (being the last practicable date prior to the date of signing of the SSA);
- (b) the agreed total NTA of the ECM Companies of RM210.0 million as at the Unconditional Date of the SSA; and
- (c) the future earnings potential of the ECM Companies.

#### **Basis of issue price**

The issue price of the Consideration Shares of RM1.00 each has been arrived at after taking into consideration, *inter-alia*, the following:

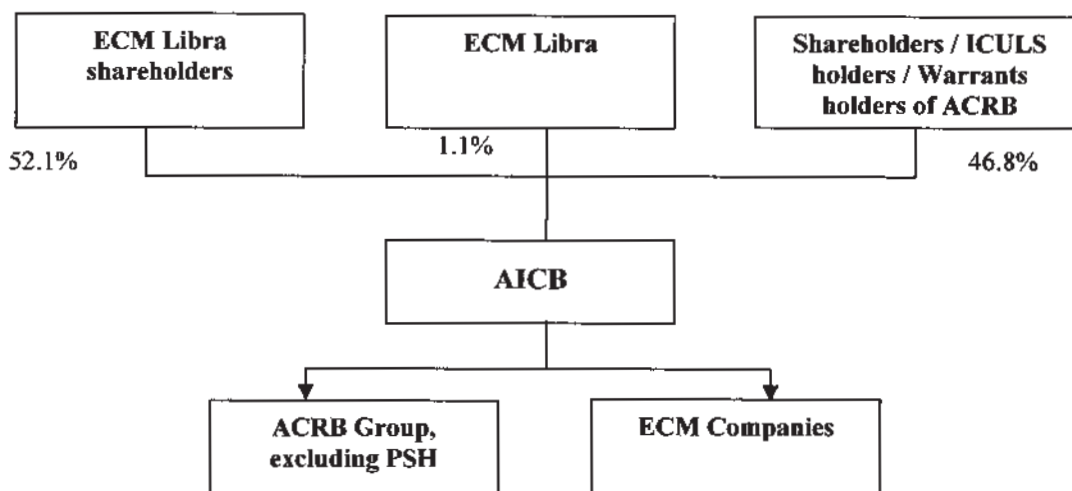
- (a) the proforma NTA per AICB Share after taking into consideration the Reorganisation of RM1.00; and
- (b) the par value of the AICB Shares of RM1.00 each.



### **Corporate structure of the AICB Group after Proposed Merger and Proposed ECM Distribution (as defined hereunder)**

Upon completion of the Proposed Merger, ECM Libra will undertake a capital reconstruction exercise which comprises, amongst others, the proposed distribution of 433,000,000 out of the 442,000,000 AICB Shares to be received by ECM Libra pursuant to the Proposed Merger to the shareholders of ECM Libra via a reduction in the par value of each ECM Libra Share under Section 64 of the Act by an amount equivalent to the cost of investment of each AICB Share ("Proposed ECM Distribution"). The effects of the Proposed ECM Distribution on the shareholding structure of AICB are as set out in Section 4.2.5 (ii) of this IAC.

The corporate structure of the AICB Group upon completion of the Proposed Merger and Proposed ECM Distribution is as follows:-



Please refer to Appendix IV of this IAC for information on AICB.

#### **2.2.1 Others**

AICB shall purchase and accept the transfer of the shares of the ECM Companies from ECM Libra free from all Encumbrances (as defined hereinafter) and together with all rights and benefits attaching thereto, including all dividends and distributions declared paid or made in respect thereof on or after the date of the SSA, save and except for such payment or distribution as permitted under the SSA. For the purpose herein, Encumbrances means any mortgage, charge, pledge, lien, assignment, hypothecation, security interest, title retention, preferential right or trust arrangement or other security arrangement or agreement conferring a right to a priority of payment.

There are no liabilities of the ECM Companies to be assumed by AICB pursuant to the Proposed Merger. The liabilities of the ECM Companies shall remain in the books of the respective companies and shall be settled in the ordinary course of business. Furthermore, no significant financial commitment shall be required to put the businesses of the ECM Companies on-stream.

The Proposed Merger is expected to be completed within 9 months from 19 January 2006 (being the date of the SSA).





### **2.2.2 Salient features of the SSA**

- (a) The sale, purchase and transfer of the shares of the ECM Companies shall be conditional upon:
  - (i) approvals being obtained from the parties as set out in Section 9 of the Circular; and
  - (ii) completion of the Reorganisation by ACRB and AICB in accordance with the terms of the explanatory statement and circular issued by ACRB on 9 November 2005;(collectively referred to as “Conditions Precedents”).
- (b) If any of the Conditions Precedents are not fulfilled by the date falling 9 calendar months after the date of the SSA or such longer period as the parties may mutually agree, either party may rescind the SSA by written notice to the other party.
- (c) The NTA of the ECM Companies as at the Unconditional Date of the SSA shall be RM210.0 million. If the NTA of the ECM Companies as at the Unconditional Date of the SSA is greater than RM210.0 million, ECM Libra shall be entitled to declare and pay dividends and other distributions or make such other arrangements, payments or distributions by the ECM Companies to ECM Libra up to the amount of the surplus. If the NTA of the ECM Companies as at the Unconditional Date of the SSA is below RM210.0 million, ECM Libra shall pay to the ECM Companies an amount equivalent to the shortfall.
- (d) The NTA of the ACRB Group or AICB Group (as the case may be) as at the Unconditional Date of the SSA shall be RM398.0 million (“Agreed Avenue NTA”). Where there is a variation between the NTA of the ACRB Group or AICB Group (as the case may be) as at the Unconditional Date of the SSA and the Agreed Avenue NTA, and the variation is more than five per cent (5%) of the Agreed Avenue NTA, the parties agree that ECM Libra shall be entitled to rescind the SSA, whereupon the SSA shall immediately thereafter cease to have any effect and become null and void, and neither party shall have any claim or claims against the other party save and except for any antecedent breach.

### **2.3 Details of the Proposed Exemption**

The shareholdings of ECM Libra in AICB will increase from zero to approximately 53.2% upon completion of the Proposed Merger. ECM Libra and the PACs will therefore, be obliged to undertake a mandatory offer for all the remaining AICB Shares not already owned by them after the Proposed Merger in accordance with the provisions of Part II of the Code. For the purpose of the Proposed Merger, the PACs with ECM Libra are Dato’ Kalimullah bin Masheerul Hassan, Lim Kian Onn and Chua Ming Huat, collectively.

On 24 March 2006, Avenue announced that the SC had via its letter dated 23 March 2006 stated that the SC will only consider the application for the Proposed Exemption subject to following conditions have been fulfilled:-





<u>Conditions</u>	<u>Status Of Compliance</u>
(a) ECM Libra and PACs to submit statutory declarations that they will not acquire any voting shares in ACRB/AICB during the period between the date of the application and the granting of the Proposed Exemption by the SC or the conclusion of the EGM to approve the Proposed Exemption, whichever is later;	To be complied with.
(b) Approval for the Proposed Exemption is obtained from the independent shareholders of ACRB/AICB on a poll in the EGM in which the person or group of PACs and any other interested party/parties are to abstain from voting; and	To be complied with.
(c) Provision is to be made to the shareholders of ACRB/AICB for competent independent advice regarding the Proposed Exemption whereby the SC's prior approval is to be sought with regards to the appointment of the adviser and the circular to the shareholders.	Kenanga, being the IA for the Proposed Exemption had obtained the approval of the SC on 29 March 2006 for its appointment. The IAC was approved by the SC on 8 May 2006.

As stated above, ECM Libra and the PACs' shareholdings in AICB will exceed 50% (i.e. 53.2%) upon completion of the Proposed Merger and subject to the granting of approval for the Proposed Exemption, ECM Libra and the PACs may increase their shareholding in AICB without incurring any further obligation under Part II of the Code.

However, the shareholdings of ECM Libra and PACs will be reduced to below 50% (i.e. 23.82%) after the Proposed ECM Distribution. The shareholdings of ECM Libra and PACs in AICB after Proposed ECM Distribution are set out in Section 2.3.2 of this IAC. ECM Libra and the PACs will be required to observe the provision of the Code subsequent to the approval obtained for the Proposed Exemption.

Please refer to Appendices I(A) to I(E) and Appendix II of this IAC for background information on ECM Companies and ECM Libra respectively.

### **2.3.1 Brief information on ACRB**

ACRB was incorporated in Malaysia on 3 March 1926 under the Companies Enactment 1917 as a limited company under the name of Kampong Lanjut Tin Dredging Limited and changed its name to Kampong Lanjut Tin Dredging Berhad on 15 April 1966. On 21 May 1996, the Company changed its name to Phileo Land Berhad and on 4 August 1999, the Company changed its name to Avenue Assets Berhad. Subsequently on 7 November 2003, the Company adopted its present name. ACRB was listed on the Main Board of Bursa Securities on 29 December 1973.

The present authorised share capital of ACRB is RM1,500,000,000 comprising 1,500,000,000 ACRB Shares, while its present issued and paid-up share capital is RM779,495,732 comprising 779,495,732 ACRB Shares.



The Company is principally engaged in investment holding and provision of management services while the principal activities of its subsidiaries and associated companies include, inter-alia, stockbroking and provision of advisory services, asset management services, options and futures services and unit trust management services.

Details on ACRB are set out in Appendix III of this IAC.

### 2.3.2 Shareholdings of ECM Libra and the PACs in AICB

The table below sets out the effect of the Proposed Merger on the shareholdings of ECM Libra and the PACs in ACRB/AICB:-

	(I) As at 14 April 2006			
	<-----Direct----->		<-----Indirect----->	
	No. of AICB Shares		No. of AICB Shares	
	'000	%	'000	%
ECM Libra	-	-	-	-
Lim Kian Onn	-	-	-	-
Dato' Kalimullah bin Masheerul Hassan	-	-	-	-
Chua Ming Huat	-	-	-	-

	(II) After (I) and Proposed Merger				(III) After (II) and Proposed ECM Distribution			
	<-----Direct----->		<-----Indirect----->		<-----Direct----->		<-----Indirect----->	
	No. of AICB Shares		No. of AICB Shares		No. of AICB Shares		No. of AICB Shares	
	'000	%	'000	%	'000	%	'000	%
ECM Libra	442,000	53.20	-	-	9,000	1.08	-	-
Lim Kian Onn	-	-	*442,000	53.20	#76,456	9.20	*9,000	1.08
Dato' Kalimullah bin Masheerul Hassan	-	-	-	-	#56,259	6.77	-	-
Chua Ming Huat	-	-	-	-	#56,259	6.77	-	-

\* Deemed interested by virtue of his shareholdings in ECM Libra.

# Computed based on his shareholding in ECM Libra as at 14 April 2006.



### 3. DECLARATION OF INTEREST

In accordance with Schedule 2 of the Code, the following declarations have been made in respect of the Proposed Exemption:-

- (i) ACRB/AICB does not hold directly or indirectly, any voting shares or convertible securities in ECM Libra as at 5 May 2006, being the latest practicable date prior to the printing and despatch of this IAC ("Latest Practicable Date"). ACRB/AICB has not dealt in the voting shares or convertible securities of ECM Libra for the six (6) months prior to 5 May 2006, being the Latest Practicable Date.
- (ii) None of the Directors of ACRB/AICB hold directly or indirectly, any voting shares or convertible securities in ECM Libra as at 5 May 2006, being the Latest Practicable Date.
- (iii) ECM Libra and PACs have not dealt in the voting shares or convertible securities of ACRB for the six (6) months prior to 5 May 2006, being the Latest Practicable Date.
- (iv) None of the Directors of ACRB/AICB has dealt in the voting shares or convertible securities of ACRB for the six (6) months prior to 5 May 2006, being the Latest Practicable Date.
- (v) None of the Directors of ACRB/AICB has dealt in the voting shares or convertible securities of ECM Libra for the six (6) months prior to 5 May 2006, being the Latest Practicable Date.
- (vi) None of the Directors of ACRB/AICB has any existing or proposed service contracts with the Company or its subsidiaries.
- (vii) Save as disclosed below, none of the Directors of ACRB/AICB hold directly or indirectly, any voting shares or convertible securities in ACRB as at 5 May 2006, being the Latest Practicable Date:-

<u>Name</u>	<----- Direct ----->			<----- Indirect ----->	
	No. of shares		No. of ESOS	No. of shares	
	'000	%	options '000	'000	%
Wee Hoe Soon @ Gooi Hoe Soon	-	-	3,000	-	-
Datuk Siti Maslamah binti Osman	-	-	500	-	-
Dato' Lim Tong Yong @ Lim Tong Yaim	30	< 0.01	500	-	-
Datuk Dr. Baharun Azhar bin Raffiai	-	-	500	-	-
Ooi Giap Ch'ng	-	-	500	-	-
Tajuddin bin Atan	-	-	-	-	-



<u>Name</u>	<b>&lt;----- Direct -----&gt;</b>			<b>&lt;----- Indirect -----&gt;</b>	
	<b>No. of shares</b>	<b>No. of ESOS</b>		<b>No. of shares</b>	
	<b>'000</b>	<b>%</b>	<b>options</b>	<b>'000</b>	<b>%</b>
			<b>'000</b>		
Lim Poh Seong (alternate director to Dato' Lim Tong Yong @ Lim Tong Yaim)	-	-	-	-	-

#### 4. EVALUATION OF THE PROPOSALS

##### 4.1 Scope and limitations of Kenanga's evaluation and opinion

- (a) Kenanga's scope as the IA is limited to expressing an independent opinion on the Proposals based on information and documents provided to Kenanga or which are available to us, including the following:-
- (i) Information obtained or derived from the Circular;
  - (ii) Financial and non-financial information, confirmations and representations provided by ACRB and its management personnel, or obtained in or derived from discussions with the management personnel of ACRB;
  - (iii) Board resolution from ACRB's Board; and
  - (iv) Other publicly available information.

In assuming the aforesaid role and in line with the terms of our appointment, Kenanga has relied on the Company and its directors and/or management to take due care to ensure that all the information, documents and representations provided to Kenanga by the Company to facilitate our evaluation, are accurate, valid and complete in all material aspects. Accordingly, Kenanga is not responsible for independently verifying such information, documents and representations used, referred to and/or relied upon by Kenanga for the purpose of this IA appointment.

- (b) Kenanga, as IA, has evaluated the Proposals and in rendering our advice, we have taken into consideration pertinent matters which we believe are of general importance to an assessment of the implications of the Proposals and would be of significant relevance and general concern to the Shareholders and as such, Kenanga's views as contained in this IAC are addressed to the Shareholders at large and not to any shareholder individually. Hence, we have not given regard to the specific investment objectives, financial situations and particular needs of any individual shareholder or specific group of shareholders. We recommend that any individual shareholder or specific group of shareholders who require specific advice within the context of their individual objectives, financial situation and particular needs, should consult their stockbroker, bank manager, solicitor, accountant or other professional adviser.





## 4.2 Kenanga's evaluation of the Proposals

In assessing the Proposals, Kenanga has considered the following:-

- 4.2.1 Rationale for and benefits of the Proposed Merger;
- 4.2.2 Rationale for the Proposed Exemption;
- 4.2.3 Reasonableness of the valuation of ECM Companies and the issue price of Consideration Shares for the Proposed Merger;
- 4.2.4 Mode of payment for the Proposed Merger;
- 4.2.5 Financial effects of the Proposals;
- 4.2.6 Industry outlook and prospects of the enlarged AICB Group;
- 4.2.7 Risk factors; and
- 4.2.8 Implications of the Proposed Exemption.

### 4.2.1 Rationale for and benefits of the Proposed Merger

The rationale for and benefits of the Proposed Merger are detailed in Sections 4.1 and 5 of the Circular and our evaluation on the pertinent points are set out as follows:-

(a) **The Proposed Merger will significantly reduce Avenue's cost of entry to be an investment bank.**

Based on the requirements imposed by BNM and SC, Avenue, the stockbroking subsidiary of ACRB, would require the following to obtain an investment banking licence:-

- to increase its shareholders' funds to meet the minimum capital funds requirements of RM500 million; and
- to incur a payment of RM52.5 million for a discount house licence.

The Proposed Merger will enable both the stockbroking subsidiaries of ACRB and ECM Libra to collectively meet the aforementioned minimum capital funds requirements of RM500 million without the need of injecting new capital and to share the one-time RM52.5 million cost for one discount house licence in order to qualify for the investment bank status. Avenue would need to pay for one (1) discount house licence, while ECMLS would need to pay for two (2) discount house licences if each of them were to apply separately for their investment bank status.

(b) **The merged ACRB Group and ECM Companies would be in a stronger position to compete in a liberalised environment.**

The deregulation and liberalisation of the capital markets in Malaysia will inevitably intensify competition in the domestic financial markets. The entrance of global investment banks and stockbroking firms into the domestic financial sector will exert pressure as well as pose a great challenge to the local players. Five (5) foreign stockbroking firms namely Credit Lyonnais (CLSA), Credit Suisse First Boston, JPMorgan, Macquarie Bank and Union Bank of Switzerland have already been licensed to operate in Malaysia in 2005. With the granting of stockbroking licenses to foreign players, local stockbroking firms will be forced to re-strategise and reposition themselves to





defend their market share as well as to take advantage of the opportunities that would arise with liberalisation.

The Proposed Merger would enable the enlarged AICB group to form a firm foundation, both financially and operationally, to compete and better withstand the expected intense competition in the financial services industry brought by the deregulation and liberalisation of domestic capital markets.

**(c) The enlarged AICB Group would be able to offer a more comprehensive product range and services.**

Post transformation of the AICB Group into an investment bank, the enlarged AICB Group would be able to offer a comprehensive range of investment banking services in addition to their existing products and services as follows:-

Existing range of services	Additional services post-Investment Bank transformation
1. Financial advisory	1. Financing – Bridging finance
2. Equities underwriting	2. Deposit taking and corporate lending
3. Bonds underwriting	3. Proprietary trading of equities and fixed income securities
4. Margin financing	4. Foreign exchange trading
5. Equity securities brokerage	5. Derivative products
6. Investment services	6. Structured products
	7. Islamic products
	8. Interbank dealings
	9. Money market transactions

The additional scope of banking activities includes the acceptance of wholesale deposits and lending activities to complement the fee-based activities of the investment bank. In relation thereto, the enlarged AICB Group hopes to leverage on the combined balance sheets and capital base of the enlarged AICB Group to reduce the overall cost of funds and to undertake additional activities in the money market to support the lending business. This in turn is expected to increase its competitiveness in equities underwriting, bonds underwriting and proprietary trading.

**(d) The Proposed Merger is expected to enhance revenue and earnings capability of the enlarged AICB Group.**

The Proposed Merger will enable the merged entity to expand its geographical reach and expedite market accessibility. For instance, the enlarged AICB Group, in line with its enhanced products offerings, is expected to penetrate and expand its operations in the respective ECM Companies which are currently involved in the provision of offshore investment banking services and stockbroking in Singapore and Hong Kong respectively.



Similarly, on the local front, the merged entity will be able to cross sell their existing and new enhanced products to a broader clientele base given the wider combined network of branches nationwide. The enlarged AICB Group can also capitalise on the combined research capabilities of the two groups to further enhance sales support to its expanded customers.

(e) **Enhanced human capital and market share**

**The combination of the two (2) entities' expertise and strengths upon transformation of the enlarged AICB Group into an investment bank is expected to strengthen the group's competitiveness in the capital markets.**

The enlarged AICB Group is also expected to further increase its market share in broking, equity offerings, debt market and mergers and acquisitions upon completion of the Proposed Merger. This augurs well for the AICB Group.

Both ACRB and ECM Libra have their own key strengths in terms of product delivery and services. For instance, Avenue is strong in asset management and listing of small and medium industries companies whilst ECM Libra's forte lies in equity distribution.

The Proposed Merger will allow both parties to capitalise on their respective strengths, attract new talent and initiate the development of a more competitive range of products.

As an illustration, the following are the selected ranking of Avenue and ECMLS for 2005 as ranked by Bloomberg:-

	<b>Avenue</b>	<b>ECMLS</b>
<b>Equity offerings</b> <i>(The total amount of equity raised in Malaysia over the past 2 years ended 31 December 2005 totalled approximately RM9.98 billion. There were a total of 170 issues and 24 underwriters)</i> <i>(Source: Bloomberg)</i>	<b>Ranked 18<sup>th</sup> out of 24 underwriters</b>	<b>Ranked 4<sup>th</sup> out of 24 underwriters</b>
<b>Debt market</b> <i>(The total amount of debt raised in Malaysia over the past 2 years ended 31 December 2005 totalled approximately RM44.15 billion. There were a total of 683 issues and 25 participants)</i> <i>(Source: Bloomberg)</i>	<b>Ranked 21<sup>st</sup> out of 25 advisors</b>	<b>Not ranked</b>
<b>Mergers and Acquisitions ("M&amp;A")</b> <i>(Source: Bloomberg)</i>	<b>Ranked 8<sup>th</sup> based on Bloomberg's M&amp;A league table</b>	<b>Not ranked</b>



In the past few years, both ACRB and ECM Companies have achieved significant recognition and awards in the Malaysian financial sectors for their products and services. ACRB was voted inter-alia, the following:-

- (a) “Top Research House (3<sup>rd</sup>) (2005), “Best Local House Analyst” (2004), “Most Improved Local Research House (2004)” and “Best Analyst” for the transport, construction and infrastructure industries as well as for overall stock market (2004) by “The Edge” polls; and
- (b) In ‘The Asia Money’ polls in November 2004, Avenue’s research, sales and broking team was highly ranked in the following categories: “Best Local Brokerage House” (2<sup>nd</sup>), “Most Independent Research House” (2<sup>nd</sup>) and “Research” in various industries.

As for the ECM Companies, the group has an impressive established track record in handling major equity distribution deals, including high profile transactions for AirAsia Berhad (2004), Telekom Malaysia Bhd (2004), Maxis Communications Bhd (2003) and Technology Resources Industries Berhad (now renamed Celcom (Malaysia) Berhad) (2002).

**(f) Scale of economies in administration and business support**

Upon completion of the Proposed Merger, the enlarged AICB Group is expected to achieve economies of scale in administration and business support by consolidating operational activities such as back office processes and rationalisations of branch operations. The aforementioned consolidation is expected to improve efficiency of operations and result in cost savings.

**CONCLUSION:-**

**In respect of the above, we are of the view that the rationale for and benefits of the Proposed Merger are reasonable.**

**4.2.2 Rationale for the Proposed Exemption**

The rationale for the Proposed Exemption as extracted from Section 4.2 of the Circular is as follows:-

*“The Proposed Merger and Proposed Exemption are inter-conditional upon each other. As such, the Proposed Exemption, if approved by the SC and the shareholders of ACRB would enable AICB to proceed ahead with the Proposed Merger, and to realise the expected benefits of the Proposed Merger.*

*Furthermore, in view of the Proposed ECM Distribution, ECM Libra’s shareholding of 53.2% in AICB is only temporary pending completion of the distribution in specie by ECM Libra to its shareholders. Upon completion of the Proposed ECM Distribution, ECM Libra’s shareholding in AICB will decrease to only 1.1%.”*



#### **CONCLUSION:-**

**The Proposed Exemption is required to facilitate the successful implementation of the Proposed Merger, which is expected to enable the enlarged AICB Group to capitalise on the benefits of the Proposed Merger as detailed in Kenanga's evaluation on the rationale for and benefits of the Proposed Merger under Section 4.2.1 of this IAC. We are of the view that the rationale for the Proposed Exemption is reasonable.**

#### **4.2.3 Reasonableness of the valuation of the ECM Companies and the issue price of the Consideration Shares for the Proposed Merger**

The information in respect of comparable listed companies and comparable historical transactions as set out under Sections 4.2.3 (i) and (ii) respectively below form part of our evaluation to assess the reasonableness of the valuation of the ECM Companies and the issue price of the Consideration Shares for the Proposed Merger.

##### **(i) Comparable Listed Companies**

ECM Companies are principally involved in the provision of financial services which include management & investment advisory services, credit services, fund management, offshore investment banking services and stockbroking.

For illustrative purposes, set out in the table below are the PER and PBR multiples of comparable listed companies principally involved in the stockbroking and/or investment/merchant banking industries ("Comparable Companies"):-

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Company	Financial year end	<sup>(1)</sup> Market price (RM)	<sup>(2)</sup> NTA per share (RM)	Net EPS (sen)	PBR (times)	PER (times)
<i>Hwang-DBS (Malaysia) Berhad ("Hwang-DBS") group</i>	31.07.05	1.28	2.00	10.10	0.64	12.67
<i>K&amp;N Kenanga Holdings Berhad ("Kenanga Holdings") group</i>	31.12.04	0.55	1.15	6.30	0.48	8.73
<i>OSK Holdings Berhad ("OSK") group</i>	31.12.04	1.21	1.46	4.49	0.83	26.95
<i>TA Securities Bhd ("TA") group</i>	31.01.05	0.66	1.33	8.76	0.50	7.53
<i>AmlInvestment Group Berhad ("AIGB") group</i>	31.03.05	1.71	1.41	17.50	1.21	9.77
<i>CIMB Berhad ("CIMB") group</i>	31.12.04	6.24	1.61	33.93	3.88	18.39
				<b>High</b>	<b>3.88</b>	<b>26.95</b>
				<b>Low</b>	<b>0.48</b>	<b>7.53</b>
				<b>Average</b>	<b>1.26</b>	<b>14.01</b>

**Notes:**

- (1) Based on the 5-day WAMP of the respective companies up to and including 19 January 2006, being the announcement date for the Proposed Merger.
- (2) Based on the audited financial statements for the stated financial year end of the respective companies.

**Limitation:**

*It should be noted that comparison of the PER and PBR ratios between the above companies involved in the stockbroking/investment/merchant banking industry is to provide a reasonable proxy for the evaluation of the consideration for the Proposed Merger. There is no company, which is fully comparable with the ECM Companies even if it is within the securities industry. Furthermore, the financial information of the companies listed may also consist of financial results from activities which are not in the stockbroking/ investment/merchant banking industry.*

**(ii) Comparable historical transactions**

Set out in the following page is the PBR ratios for selected comparable historical transactions in the acquisitions of equity interests in financial services companies over the last 6 years.





### Comparable historical transactions

The comparable historical transactions involving the acquisitions of equity interest in financial services companies are as follows:-

<b>Date of announcement / (Date of completion)</b>	<b>Acquirer</b>	<b>Acquiree</b>	<b>Purchase consideration (RM'million)</b>	<b>NTA (RM'million)</b>	<b>PBR (times)</b>
4 June 2004 / (31 December 2004)	Alliance Merchant Bank Berhad	Kuala Lumpur City Securities Sdn Bhd, KLCity Research Sdn Bhd, KLCity Ventures Sdn Bhd, KLCity Asset Management (L) Limited and KLCS Futures Sdn Bhd, collectively	273.0	210.0 (warranted NTA)	1.3
16 March 2004 / (30 September 2004)	Malaysian International Merchant Berhad	Leong and Company Sdn Bhd	170.0	100.0 (agreed NTA)	1.7
26 December 2000 / (22 August 2001)	K&N Kenanga Holdings Berhad	Sarawak Securities Sdn Bhd and Sarawak Securities Futures Sdn Bhd	282.2	186.6 (adjusted as at 31 December 2000)	1.5
26 December 2000 / (30 August 2001)	K&N Kenanga Holdings Berhad	Peninsular Securities Sdn Bhd	Completion NTA+72.0	130.2 (audited as at 31 December 2000)	1.6
10 October 2000 / (28 May 2001)	O.S.K. Holdings Berhad (now known as OSK Holdings Berhad)	KE-ZAN Holdings Berhad (the holding company of KE-ZAN Securities Sdn Bhd)	200.0	136.3 (audited as at 31 March 2000)	1.5
16 October 2000/ (26 February 2001)	AMMB Holdings Berhad	South Johor Securities Sdn Bhd	175.0	91.1 (warranted NTA)	1.9



#### **4.2.3.1 Valuation of the ECM Companies based on ECM Libra's market capitalisation**

The total number of Consideration Shares to be issued pursuant to the Proposed Merger was arrived at on a willing buyer-willing seller basis after taking into consideration, inter-alia, the total market capitalisation of **ECM Libra (as a proxy for the market value of the ECM Companies being acquired)** of RM458.98 million, based on the closing market price of the shares of RM1.06 as at 17 January 2006 (being the last practicable date prior to the date of signing of the SSA).

The basis of pricing the ECM Libra Shares is based on market-based principles. The market price of RM1.06 per ECM Libra Share represents a PER and PBR of 11.38 times and 2.11 times respectively as follows:-

<b>Market capitalisation</b>	<b>PAT*</b>	<b>NTA*</b>	<b>PER</b>	<b>PBR</b>
<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>times</b>	<b>times</b>
458,980	40,339	217,487	11.38	2.11

\* *Comparison based on latest audited financial statements of ECM Libra for FYE 31 March 2005.*

Based on the above, the ECM Libra Shares' PER of 11.38 times is lower than the average PER of the Comparable Companies of 14.01 times and is within the range of the PER of the Comparable Companies of 7.53 to 26.95 times as set out in Section 4.2.3 (i) of this IAC.

We take note that the PBR of ECM Libra Shares of 2.11 times is higher than the average PBR of the Comparable Companies of 1.26 times. However, it is still within the range of the PBR of the Comparable Companies of between 0.48 and 3.88 times.

#### **4.2.3.2 Valuation of the ECM Companies having regard to the value of the Consideration Shares**

The total number of the Consideration Shares to be issued by AICB pursuant to the Proposed Merger is 442 million. The total value of the Consideration Shares may be considered based on the following two (2) perspectives:-

##### **BASIS 1: Issue price of RM 1.00 per AICB Share**

Pursuant to the Reorganisation, AICB will be listed on the Main Board of Bursa Securities in place of ACRB. The issue price of the Consideration Shares is RM1.00 each, which represents:-

- (i) the par value of the AICB Shares of RM1.00 each; and
- (ii) the proforma NTA per AICB Share after the Reorganisation of RM1.00 each.

However, pending the listing of AICB, there is currently no market value of the AICB Shares.



## **BASIS 2: Proforma market price of RM0.66 per AICB Share**

Notwithstanding that there is currently no market value of the AICB Shares, the proforma market value of AICB Shares after adjusting for the Reorganisation (using the market price of ACRB as a base) as set out below may also provide an indicative market value of AICB Shares. The proforma market price is calculated as follows:-

Number of AICB Shares in issue after Exchange ('000)	849,128
Closing price of ACRB Shares @ 16 January 2006 (RM)	0.69
Proforma market capitalisation of AICB after Exchange (RM'000)	585,898
Less: Distribution value of PSH Shares (RM'000)*	(328,319)
Proforma residual market capitalisation of AICB after the Distribution of PSH Shares (RM'000)	257,579
Number of AICB Shares in issue after Reorganisation ('000)	388,902

<b>Proforma market price per AICB Share after the Reorganisation (RM)</b>	<b>0.6623</b>
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\* Based on the total number of 78,545,166 PSH Shares to be distributed and the closing market price of PSH Shares as at 16 January 2006 of RM4.18.

Based on the above, the proforma residual market capitalisation of AICB after the Reorganisation and Distribution of PSH Shares is RM257.58 million, translating into a proforma market price of **RM0.66 per AICB Share**.

Set out below is the evaluation of the value of the Consideration Shares based on Basis 1 and Basis 2:

## **BASIS 1:**

### **(a) Valuation of the Consideration Shares based on the issue price of RM1.00**

Value per share (RM)		1.00
No. of shares to be issued (RM'000)		442,000
Total valuation (RM'000)	A	442,000
<b>Valuation of the ECM Companies</b>		
Market capitalisation of ECM Libra as at 17 January 2006 (RM'000)	B	458,980
% of Premium/(Discount) over market capitalisation	(A-B)/B	(3.7%)
Audited PAT of the ECM Companies for the FYE 31 March 2005 (RM'000)	C	39,549
PER (times) based on valuation of Consideration Shares	A/C	11.18
Agreed NTA of the ECM Companies (RM'000)	D	210,000
PBR (times) based on valuation of Consideration Shares	A/D	2.10



### **Commentary:-**

#### **Discount of Consideration Shares value to the market value of ECM Companies**

Based on Basis 1, the Proposed Merger would entail AICB acquiring the ECM Companies at a discount of 3.70% to their market values (using ECM Libra's market capitalisation as at 17 January 2006 as proxy).

#### **PER**

The PER based on valuation of Consideration Shares under Basis 1 of 11.18 times is lower than the average PER of the Comparable Companies of 14.01 times and is within the range of the PER of the Comparable Companies of between 7.53 to 26.95 times as set out in Section 4.2.3(i) of this IAC.

#### **PBR**

We have also compared the PBR based on valuation of Consideration Shares under Basis 1 with the PBR of Comparable Companies, and although the PBR of 2.10 times is higher than the average PBR of the Comparable Companies of 1.26 times, it is still within the range of the PBR of the Comparable Companies of 0.48 to 3.88 times as set out in Section 4.2.3 (i) of this IAC.

### **BASIS 2:**

#### **(b) Valuation of the Consideration Shares based on proforma market value of AICB Shares of RM0.66**

Value per share (RM)		0.66
No. of shares to be issued (RM'000)		442,000
Total valuation (RM'000)	A	291,720
<b>Valuation of the ECM Companies</b>		
Market capitalisation of ECM Libra as at 17 January 2006 (RM'000)	B	458,980
<b>% of Premium/(Discount) over market capitalisation</b>	(A-B)/B	<b>(36.4%)</b>
Audited PAT of the ECM Companies for the FYE 31 March 2005 (RM'000)	C	39,549
<b>PER (times) based on valuation of Consideration Shares</b>	A/C	<b>7.38</b>
Agreed NTA of the ECM Companies (RM'000)	D	210,000
<b>PBR (times) based on valuation of Consideration Shares</b>	A/D	<b>1.39</b>



#### **Commentary:-**

#### **Discount of Consideration Shares value to the market value of ECM Companies**

Based on Basis 2, the Proposed Merger would entail AICB acquiring the ECM Companies at a discount of 36.4% to their market values (using ECM Libra's market capitalisation as at 17 January 2006 as a proxy).

#### **PER**

The PER based on valuation of Consideration Shares under Basis 2 of 7.38 times is lower than the average PER of the Comparable Companies of 14.01 times and is within the range of the PER of the Comparable Companies of between 7.53 to 26.95 times as set out in Section 4.2.3(i) of this IAC.

#### **PBR**

We have compared the PBR based on valuation of Consideration Shares under Basis 2 with the PBR of Comparable Companies, the PBR of 1.39 times is in line with the average PBR of the Comparable Companies of 1.26 times and comparable historical transactions as set out in Sections 4.2.3 (i) and (ii) of this IAC.

#### **CONCLUSION:-**

**In respect of the above sections, the valuation of the ECM Companies is reasonable.**

#### **4.2.3.3 Reasonableness of the issue price of RM1.00 for the Consideration Shares from ACRB's perspective**

The reasonableness of the issue price for the Consideration Shares in comparison to PAT and NTA of ACRB is analysed based on the following parameters:-

	Note		
PAT (RM million)	(a)	21.5 (FYE 31 January 2005)*	49.4 (FYE 31 January 2006)**
Warranted NTA of ACRB or AICB Group (as the case may be) as at Unconditional Date of SSA (RM million)	(b)	398.0	398.0
Number of AICB Shares after the Reorganisation and before Proposed Merger (million)	(c)	388.9	388.9





Valuation of AICB Shares after the Reorganisation and before Proposed Merger based on issue price of RM1.00 (RM million)	(d)= (c)*RM1.00	388.9	388.9
<b>PER (times)</b>	<b>(d)/(a)</b>	<b>18.09</b>	<b>7.87</b>
<b>PBR (times)</b>	<b>(d)/(b)</b>	<b>0.98</b>	<b>0.98</b>

Notes:-

- \* Based on ACRB's latest audited PAT for the FYE 31 January 2005 of RM24.375 million, net of its share of PAT of PSH for the FYE 31 January 2005 of RM12.784 million, and the impairment loss on the investment in the PSH Shares of RM9.956 million to take into account the effect of the Distribution of PSH Shares as mentioned in Section 2.1(iii) of this IAC under the Reorganisation.
- \*\* Based on ACRB's latest unaudited quarterly results of PAT for the FYE 31 January 2006 of RM53.653 million, net of its share of PAT of PSH for the FYE 31 January 2006 of RM22.279 million, and the impairment loss on the investment in the PSH Shares of RM18.038 million to take into account the effect of the Distribution of PSH Shares as mentioned in Section 2.1(iii) of this IAC under the Reorganisation.

#### Commentary:-

The issuance of the AICB Shares to acquire ECM Companies by ACRB at:-

- (i) the PER of 18.09 and 7.87 times as stated above are within the range of the PER of the Comparable Companies of between 7.53 times and 26.95 times as set out in Section 4.2.3 (i) of this IAC; and
- (ii) the PBR of 0.98 times are within the range of the PBR of the Comparable Companies of between 0.48 and 3.88 times as set out in Section 4.2.3 (i) of this IAC.

Premised on the above, the issuance of the Consideration Shares by ACRB to acquire ECM Companies based on the issue price of RM1.00 per AICB Share is reasonable.

#### CONCLUSION:-

After taking into consideration the factors set out in Sections 4.2.3 (i) and (ii) and Sections 4.2.3.1 to 4.2.3.3 above, we are of the opinion that the valuation of the ECM Companies and the issue price of Consideration Shares for the Proposed Merger is reasonable.



#### 4.2.4 Mode of payment for the Proposed Merger

The consideration for the acquisitions of ECM Companies will be satisfied entirely by the issuance of new AICB Shares.

#### 4.2.5 Financial effects of the Proposals

We have considered the following effects of the Proposals on the share capital, substantial shareholders' shareholding, NTA/NA and gearing, earnings and dividend of ACRB/AICB.

##### (i) Share capital

The Proposals will not have any effect on the issued and paid-up share capital of ACRB.

The Proposed Exemption will not have any effect on the issued and paid-up share capital of AICB Shares. Upon completion of the Reorganisation, the share capital of AICB shall be increased to 388.902 million AICB Shares. The proforma effects of the Proposed Merger on the issued and paid-up share capital of AICB after the Reorganisation are as follows:

	No. of AICB Shares '000	RM'000
After Reorganisation	388,902	388,902
To be issued pursuant to the Proposed Merger	442,000	442,000
	830,902	830,902
To be issued pursuant to the Proposed ESOS <sup>(1)</sup>	124,635	124,635
Proforma enlarged issued and paid-up share capital	955,537	955,537

*Note:*

- (1) Refers to the proposed establishment by AICB, of an employees' share option scheme for the grant of options to the eligible employees of AICB Group ("Proposed ESOS"). The maximum number of options to be offered under the Proposed ESOS shall not exceed 15% of the total issued and paid-up share capital of AICB at any time during the existence of the Proposed ESOS. The Proposed ESOS was approved by Bursa Securities and the shareholders of ACRB on 18 November 2005 and 1 December 2005 respectively.



**Commentary:-**

**The issued and paid-up capital of AICB will increase after the completion of the Proposed Merger. Subsequently, the enlarged AICB Group intends to carry out an internal rationalisation exercise. Avenue, the entity to be transformed into an investment bank, should be able to achieve an unimpaired shareholders' fund of at least RM500 million as imposed by BNM and the SC under the Guidelines on Investment Banks.**

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## (ii) Substantial shareholders

The Proposed Exemption will not have any effect on the shareholdings of the substantial shareholders of AICB. The proforma effects of the Proposed Merger, including the proforma effects of the Proposed ECM Distribution on the shareholdings of the substantial shareholders of ACRB/AICB after the Reorganisation are as follows:

	ACRB		AICB		(I)	
	As at 14 April 2006		After Reorganisation			
	Direct	Indirect	Direct	Indirect		
	No. of ACRB Shares	%	No. of ACRB Shares	%	No. of AICB Shares '000	%
Aroma	230,168	29.53	-	-	128,019	32.92
Seraya Sensa Sdn Bhd	98,578	12.65	-	-	45,675	11.74
BH Builders Sdn Bhd	55,048	7.06	-	-	25,212	6.48
Parkway Group Healthcare Pte Ltd	-	-	(1)133,404	17.11	-	-
Parkway Holdings Limited	-	-	(2)133,404	17.11	-	-
Swiss Zone Sdn Bhd	-	-	(3)133,404	17.11	-	-
Pantai Holdings Berhad	-	-	(4)133,404	17.11	-	-
Pantai Group Resources Sdn Bhd	-	-	(5)133,404	17.11	-	-
Piramid Perdana Sdn Bhd	-	-	(6)230,168	29.53	-	-
Seleksi Arif Sdn Bhd	-	-	(7)230,168	29.53	-	-
Minister of Finance (Incorporated)	-	-	(8)230,168	29.53	-	-
Bank Simpanan Nasional	-	-	-	-	-	-
ECM Libra	-	-	-	-	-	-
Lim Kian Onn	-	-	-	-	-	-
Dato' Kalimullah bin Masheerul Hassan	-	-	-	-	-	-
Chua Ming Huat	-	-	-	-	-	-



	AICB			
	(II)		(III)	
	After (I) and Proposed Merger	After (II) and Proposed ECM Distribution	After (II) and Proposed ECM Distribution	
	Direct	Indirect	Direct	Indirect
	No. of AICB Shares '000	No. of AICB Shares '000	No. of AICB Shares '000	No. of AICB Shares '000
	%	%	%	%
Aroma	128,019	15.41	-	15.41
Seraya Sensa Sdn Bhd	45,675	5.50	-	5.50
BH Builders Sdn Bhd	25,212	3.03	-	3.03
Parkway Group Healthcare Pte Ltd	-	-	61,626	7.42
Parkway Holdings Limited	-	-	61,626	7.42
Swiss Zone Sdn Bhd	-	-	61,626	7.42
Pantai Holdings Berhad	-	-	61,626	7.42
Pantai Group Resources Sdn Bhd	-	-	61,626	7.42
Piramid Pertama Sdn Bhd	-	-	128,019	15.41
Seleksi Arif Sdn Bhd	-	-	128,019	15.41
Minister of Finance (Incorporated)	-	-	128,019	15.41
Bank Simpanan Nasional	-	-	128,019	15.41
ECM Libra	442,000	53.20	-	1.08
Lim Kian Onn <sup>(1)</sup>	-	-	(9)442,000	53.20
Dato' Kalimullah bin Masheerul Hassan <sup>(1)</sup>	-	-	-	6.77
Chua Ming Huat <sup>(1)</sup>	-	-	-	6.77

**Notes:**

- (1) Deemed interested by virtue of its shareholdings in Swiss Zone Sdn Bhd.
- (2) Deemed interested by virtue of its shareholdings in Parkway Group Healthcare Pte Ltd.





- (3) *Deemed interested by virtue of its shareholdings in Pantai Holdings Berhad.*
- (4) *Deemed interested by virtue of its shareholdings in Pantai Group Resources Sdn Bhd.*
- (5) *Deemed interested by virtue of its shareholdings in Seraya Sensa Sdn Bhd and Glossmere Investments Limited ("Glossmere"). Glossmere holds 34,826,200 shares in ACRB.*
- (6) *Deemed interested by virtue of their shareholdings in Aroma.*
- (7) *Deemed interested by virtue of its shareholdings in Piramid Pertama Sdn Bhd.*
- (8) *Deemed interested by virtue of its shareholdings in Seleksi Arif Sdn Bhd.*
- (9) *Deemed interested by virtue of his shareholdings in ECM Libra.*
- (10) *Computed based on their shareholdings in ECM Libra as at 14 April 2006 and assuming that none of the outstanding 5-year redeemable convertible unsecured loan stocks in ECM Libra are converted into new ECM Libra Shares prior to the entitlement date for the Proposed ECM Distribution.*
- (11) *These substantial shareholders have been identified as the proposed directors of AICB pursuant to the Proposed Merger. However, the effects of the Proposed ESOS on their shareholdings in AICB are not presented, pending finalisation of the allocation criteria.*

**Commentary:-**

**After the Proposed Merger and Proposed ECM Distribution, Aroma who is currently the dominant shareholder of ACRB will continue to remain as the single largest shareholder of AICB with 15.41% equity interest, whilst, three (3) of the existing substantial shareholders of ECM Libra, namely, Dato' Kalimullah bin Masheerul Hassan, Lim Kian Onn and Chua Ming Huat will be substantial shareholders of AICB.**



### (iii) NA/NTA and Gearing

The Proposed Exemption will not have any effects on the NA/NTA and gearing of the ACRB/AICB Group. The proforma effects of the Proposed Merger on the proforma NA/NTA and gearing of the AICB Group based on the audited consolidated financial statements of ACRB as at 31 July 2005, adjusted for the effects of the Reorganisation, on the assumption that the said proposal and transactions have been completed on that date are as follows:

	ACRB		AICB		
	(I)	(II)	(III)	(IV)	(V)
	(1) After adjusting for new issue of ACRB Shares after 31.07.05 RM'000	After (I) and Reorganisation RM'000	After Reorganisation RM'000	After (III) and Proposed Merger RM'000	(6) After (IV) and Proposed ESOS RM'000
Audited as at 31.07.05 RM'000					
Issued capital	779,494	779,496	388,902	830,902	955,537
Loan stocks	52,224	52,222	-	-	-
Share premium	152,022	152,022	-	-	-
Accumulated losses and other reserves	(2) (280,713)	(2) (280,713)	-	(4) (3,000)	(3,000)
Shareholders' funds/NA	703,027	703,027	388,902	827,902	952,537
Less: Intangibles	-	-	-	(3) (232,000)	(232,000)
NTA	703,027	703,027	388,902	595,902	720,537
No. of shares ('000)	779,494	779,496	388,902	830,902	955,537
NA per share (RM)	0.90	0.90	1.00	1.00	1.00
NTA per share (RM)	0.90	0.90	1.00	0.72	0.75
Total bank borrowings (RM'000)	-	-	-	5,000	5,000
Gearing (times)	-	-	-	<0.01	<0.01

#### Notes:

- (1) After taking into conversion of RM2,000 nominal value of ICULS subsequent to 31 July 2005 at the conversion price of RM1.00 per share.
- (2) Inclusive of treasury shares amounting to RM786.



- (3) *Computed based on 442.0 million Consideration Shares to be credited as fully paid-up and to be issued to ECM Libra and the agreed total NTA of the ECM Companies of RM210.0 million as at the Unconditional Date of the SSA.*
- (4) *Being estimated expenses of RM3.0 million in relation to the Proposed Merger.*
- (5) *Based on 15% of the proforma enlarged issued and paid-up share capital of AICB after the Proposed Merger and assuming that the subscription price of the AICB Shares is RM1.00 each.*

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**(iv) Earnings**

Save for the consolidation of the ECM Companies into the books of AICB upon the completion of the Proposed Merger, the said proposal is not expected to have any material effect on the earnings of AICB for the FYE 31 January 2007 in terms of the synergistic effects to be derived from the Proposed Merger, given the lead time required for the transformation of the enlarged AICB Group into an investment banking group, and the internal rationalisation within the enlarged AICB Group.

Moving forward however, the Proposed Merger is expected to be earnings accretive in view of the synergistic benefits that would be realised subsequent to the successful integration of the ECM Companies with the businesses of AICB Group.

**Commentary:-**

**The Proposed Merger will generate synergistic benefits in the business operations of the two (2) merged entities and is expected to increase the earnings base of the AICB Group in the future.**

**(v) Dividends**

The Proposals are not expected to have any material effect on the dividend policy or dividend to be declared by ACRB/AICB, if any, for the FYE 31 January 2007. The level of dividends to be declared in the future shall be determined by the Board after taking into consideration the performance of the enlarged AICB Group and the prevailing economic conditions.

**4.2.6 Industry Outlook and Prospects of the enlarged AICB Group**

The AICB Group is expected to benefit from the encouraging economic outlook and the growth in the capital market in which it operates as set out in the Section 6 of the Circular.

Further to the above, we have also considered the future prospects of the enlarged AICB Group as set out in Section 5.4 of the Circular. The enlarged AICB Group is poised to generate synergistic benefits in the business operations of the two (2) merged entities and to form a stronger investment banking group to compete effectively in a more competitive capital market landscape given the expected further consolidation and liberalisation in the domestic financial services industry.

We have also noted other sources as part of our evaluation:-

The financial services sector is expected to grow at an average of 7% per annum, while its share of gross domestic product (GDP) is forecast to increase to 15.8% by 2010 under the Ninth Malaysia Plan (9MP).



A total of RM6.38 billion has been allocated under the 9MP (2006-2010) to develop the sector, of which RM1.6 billion is for venture capital. Small and medium enterprises development has been allocated RM1.1 billion, government equities RM1.2 billion, Dana Hartanah RM2 billion and other programmes RM480 million.

The government aims to develop a more robust financial services sector by building a competitive industry through progressive liberalisation and promoting competitive domestic financial institutions.

Under the 9MP, the government wants the Islamic banking industry to expand in parallel with conventional banking. "Islamic banking industry is expected to constitute 20% of the overall banking and insurance industry," it said.

As for the takaful industry, it would be developed to form an integral part of the financial system by 2010, it said, adding that a number of strong and highly capitalised takaful operators would be developed under 9MP. Additional takaful licences would be granted to eligible parties to generate greater competition and achieve the target of 20% market share of the total insurance industry.

*(Source: The edgedaily, 3 April 2006)*

Prospects are for stronger growth in the Malaysian economy in 2006. Of significance, the outlook for global economic growth remains sound and would be driven by the upturn in the global investment and electronics cycle. Additional support is expected to come from Japan and the Euro area, as domestic demand strengthens in these economies. Regional demand is also expected to remain robust supported by the recovery in the global electronics cycle, in particular in semiconductors, and sustained economic expansion in the People's Republic of China, India and South Korea. Commodity prices have also shown signs of remaining firm. These trends would continue to have positive impact on both exports and private consumption. With high capacity utilization rates in both the domestic-oriented and export-oriented electronics and electrical industries in the manufacturing sector, private investment activities would be sustained. Thus private sector activities would continue to underpin growth. The latest Department of Statistics, Malaysia leading index indicates that the Malaysian economy would continue to expand during 2006.

*(Source: Bank Negara Malaysia (Economic and Financial Developments in the Malaysian Economy in the Fourth Quarter))*

The year 2006 would see some new initiatives following the announcement of several important medium and long-term documents. The key policy documents to be released this year, namely the Ninth Malaysia Plan and the Third Industrial Master Plan, would chart growth prospects and highlight areas of policy focus and new sources of growth. In particular, both these Plans would stress the importance of making progress in new growth areas in order to achieve the successful transformation of Malaysia into a more resilient knowledge-based economy. Areas for emphasis would include agriculture and biotechnology, Islamic banking and finance, business process and outsourcing services and higher value-added manufacturing activities. More crucially, the emphasis on encouraging private sector-led growth would see more efforts undertaken to ensure that the economic and financial environment are conducive for the building of a dynamic, resilient and flexible economy.





In conclusion, the outlook for 2006 remains very positive and the underlying upgrade to capture the broader global and domestic opportunities ahead. While the Government will continue to provide an enabling environment for businesses to thrive, the shift to new industries, new activities and new growth areas must ultimately be driven by private entrepreneurs seizing the opportunities to expand and innovate.

*(Source: Speech by BNM Deputy Governor, Dato' Ooi Sang Kuang on Economic Outlook and Prospects, 23 January 2006)*

#### **4.2.7 Risk Factors**

Shareholders should take into consideration the risk factors associated with the Proposed Merger as set out in Section 7 of the Circular.

In addition, Shareholders should also take into account the following risk factors associated with the Proposed Merger:-

##### **(i) Merger risks**

The benefits of the Proposed Merger will depend largely on the enlarged group achieving synergies from the integration process.

The AICB Group and ECM Companies are merging as part of their growth strategy to create a larger and more robust investment bank. The success of this strategy will depend significantly on the ability of both groups to combine their operations to gain the synergies from the integration process. However, due to the difference in corporate cultures as well as management and operational systems, there is no assurance that both groups will be able to implement the integration process without encountering difficulties such as operational disruptions and the loss of clientele and key and experienced employees.

Failure to integrate the operations of the two groups in an effective manner or within a relatively short span of time may potentially in turn, lead to a failure or delay in achieving the expected merger synergies and benefits. Further, there is also no assurance that the Proposed Merger would yield the desired or expected returns.

##### **(ii) Dependence of key personnel**

Human capital is an important factor in the financial services sector and the success of the enlarged AICB Group depend largely on the talent of the skilled individuals. The continued ability of the businesses of the enlarged AICB Group to grow and compete effectively largely depends on the ability to attract new employees of high calibre as well as to retain and motivate the existing key employees.

The business performance of the ECM Companies depend, to a significant extent on the key senior management. Hence, the loss of any senior management may have an adverse implication on the operations and financials of the enlarged entity.



**(iii) Licences and regulatory environment**

A benefit of the Proposed Merger is for the enlarged AICB Group to create a larger and more robust investment bank. BNM and the SC have set various criteria to be satisfied in order for financial services groups to successfully achieve the investment bank status. In this respect, BNM and the SC have conducted due diligence review on Avenue, the entity to be transformed into an investment bank, to establish the necessary preconditions required by Avenue to become an investment bank. There is no guarantee that Avenue will be able to satisfy or fulfil all preconditions and all the other conditions which may be imposed by BNM and the SC in order to begin its transformation into an investment bank. Hence, there is no guarantee that the enlarged AICB Group will be able to transform into a full fledged investment banking group.

**4.2.8 Implications of the Proposed Exemption**

***Voting In Favour of the Proposed Exemption***

Should Shareholders vote in favour of the Proposed Exemption, the SC would be able to consider the application made by ECM Libra and the PACs for the Proposed Exemption, which would exempt them from having to undertake a mandatory offer for all the remaining AICB Shares not already held by them upon completion of the Proposed Merger.

In the event that the SC approves the Proposed Exemption, the AICB Group would then be able to carry out and complete the Proposed Merger. In turn, Shareholders will be able to participate in the expected positive prospects of the enlarged AICB Group arising from the benefits of the Proposed Merger as mentioned in Section 5 of the Circular.

***Voting Against the Proposed Exemption***

In the event that Shareholders vote against the Proposed Exemption, the SC would not be able to consider the application by ECM Libra and the PACs for the Proposed Exemption under Practice Note 2.9.1 of the Code.

Consequently, the Proposed Merger will not be implemented as the Proposed Merger and Proposed Exemption are inter-conditional. The benefits of the Proposed Merger cannot be realised accordingly. In addition, the following integration synergies as detailed in Section 5.3 of the Circular and as discussed in Section 4.2.1 of this IAC would not be materialised.

Further, AICB Group may be required to pursue other avenues to attain the investment bank status for its subsidiary, Avenue. AICB could potentially be required to raise a substantial amount to obtain an investment bank status on its own (please refer to Section 4.2.1 (a) of this IAC for details) as it has to meet the minimum capital requirement for an investment bank. Again, an alternate plan to obtain the investment bank status may take considerable time and effort to crystallize. This in turn will delay Avenue's plan of transforming into an investment bank.



## **5. CONFIRMATION**

In accordance with Schedule 2 of the Code, the following confirmations have been obtained from ECM Libra and the PACs that they:-

- (a) do not intend to effect any immediate change to the continuation of the existing business operations of ACRB/AICB and its subsidiaries;
- (b) do not intend to effect any immediate major changes to the ACRB/AICB and its subsidiaries, including any plans to liquidate ACRB/AICB, sell its assets or re-deploy the fixed assets of ACRB/AICB and its subsidiaries or make any other major change in the structure of ACRB/AICB and its subsidiaries, except where such disposal or re-deployment or change is necessary to enhance efficiency and/or to maximise utilisation of resources;
- (c) do not intend to effect any immediate change to the continued employment of the employees of ACRB/AICB and its subsidiaries, except for any re-deployment of staff which may be effected to rationalise and/or improve efficiency; and
- (d) intend to focus on enhancing the profitability of ACRB/AICB and its subsidiaries through the Proposed Merger.

## **6. FURTHER INFORMATION**

We advise the Shareholders to refer to the Appendix V for further information.

## **7. DIRECTORS' RESPONSIBILITY STATEMENT**

This IAC has been seen and approved by the Board of ACRB, who collectively and individually accept full responsibility for the accuracy of the information in this IAC and confirm that after having made all reasonable enquiries and to the best of their knowledge and belief, there are no other material facts that the omission of which would make any statement in this IAC misleading.

## **8. CONCLUSION AND RECOMMENDATION**

Shareholders should consider all the relevant issues and implications raised in this IAC as well as highlighted by the Board in their letter to Shareholders in the Circular dated 3 May 2006 issued by ACRB, which has already been despatched to you, before arriving at a decision to vote on the ordinary resolution pertaining to the Proposed Exemption.

In arriving at the recommendation, we have taken into consideration certain key factors as highlighted in the preceding sections, which are summarised below:-



- (i) the rationale for and benefits of the Proposed Merger which are essentially expected to:-
  - (a) significantly reduce Avenue's cost of entry to be an investment bank;
  - (b) form a stronger investment banking group to compete effectively in a more competitive capital market landscape given the expected further consolidation and liberalisation in the domestic financial services industry;
  - (c) generate synergistic benefits in the business operations of the two (2) merged entities.
- (ii) the rationale for the Proposed Exemption which is to facilitate the implementation of the Proposed Merger;
- (iii) the valuation of the ECM Companies and the issue price of Consideration Shares for the Proposed Merger is reasonable;
- (iv) Financial effects of the Proposals whereby:-
  - (a) upon completion of the Proposals and internal rationalisation exercise, Avenue, the entity to be transformed into an investment bank, should be able to achieve a shareholder's fund of at least RM500 million as imposed by BNM and the SC under the Guidelines on Investment Banks; and
  - (b) the Proposed Merger will generate synergistic benefits in the business operations of the two (2) merged entities and is expected to increase the earnings base of the AICB Group in the future. This should in turn enhance shareholders value of AICB accordingly.
- (v) The AICB Group is expected to benefit from the encouraging economic outlook and the growth in the capital market in which it operates as set out in the Section 6 of the Circular. In addition, the Proposed Merger is expected to benefit the enlarged AICB Group given the benefits highlighted in Section 5 of the Circular;
- (vi) Implications arising from voting for or against the Proposed Exemption by the Directors and shareholders of ACRB as set out in Section 4.2.8 of this IAC.

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**BASED ON OUR ABOVE EVALUATION OF THE PROPOSALS, WE ARE OF THE OPINION THAT THE PROPOSED MERGER AND PROPOSED EXEMPTION ARE FAIR AND REASONABLE AND NOT DETRIMENTAL TO THE SHAREHOLDERS OF ACRB/AICB.**

**IN ADDITION, WE RECOMMEND THAT YOU VOTE IN FAVOUR OF THE RESOLUTION RELATING TO THE PROPOSED EXEMPTION TO BE TABLED AT THE FORTHCOMING EGM OF THE COMPANY.**

Yours faithfully,  
**K&N KENANGA BHD**

**TAN WEI HAN**  
Director  
Corporate Finance

**DEBBIE LEONG**  
Director  
Corporate Finance