

## **DiGi.COM BERHAD ("DiGi" OR "COMPANY")**

**PROPOSED ALLIANCE BETWEEN DiGi, DiGi TELECOMMUNICATIONS SDN BHD ("DiGi TELECOM"), A WHOLLY-OWNED SUBSIDIARY OF DiGi, TIME DOTCOM BERHAD ("TdC") AND TT DOTCOM SDN BHD ("TDSB"), A WHOLLY-OWNED SUBSIDIARY OF TdC, (COLLECTIVELY THE "PARTIES") WHICH INVOLVES THE:**

- **PROPOSED TRANSFER OF THE SPECTRUM ASSIGNMENT NO. SA/01/2006 OVER THE FREQUENCY BANDS OF 1965MHZ-1980MHZ, 2155MHZ-2170MHZ AND 2010MHZ-2015MHZ ("SPECTRUM") TO DiGi TELECOM TO BE SATISFIED VIA A SHARE ISSUANCE OF 27,500,000 NEW ORDINARY SHARES OF RM0.10 EACH IN DiGi ("DiGi SHARES") CREDITED AS FULLY PAID-UP TO TDSB OR ITS NOMINEES ("PROPOSED TRANSFER"); AND**
- **PROPOSED JOINT BUSINESS PLANNING EXERCISE BETWEEN THE PARTIES ("PROPOSED JOINT BUSINESS PLANNING")**

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

### **1. INTRODUCTION**

We refer to the announcement on 14 November 2007 wherein CIMB Investment Bank Berhad ("**CIMB**") announced on behalf of the Board of Directors ("**Board**") of DiGi that the Parties entered into a heads of agreement dated 14 November 2007 ("**HOA**") for the Proposals.

On behalf of the Board of DiGi, CIMB wishes to announce that on 25 January 2008, the Parties entered into the definitive agreement for the Proposals ("**Definitive Agreement**").

Under the HOA, the Parties agreed-in-principle to undertake a joint business planning exercise, i.e. the Proposed Joint Business Planning, as a means to explore mutually beneficial business and commercial opportunities and the transfer of TDSB's assigned rights to the Spectrum from TDSB to DiGi Telecom in consideration of the issuance of 27,500,000 new DiGi Shares credited as fully paid-up, i.e. the Proposed Transfer. The entering into the Definitive Agreement formalises the intention of the Parties under the HOA.

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

The Definitive Agreement sets out the details of the Proposed Transfer and the Proposed Joint Business Planning.

#### **2.1 The Proposed Transfer**

The Proposed Transfer will involve either:

- (i) the transfer of the Spectrum to DiGi Telecom under the Communications and Multimedia (Spectrum) Regulations 2000 ("**CMSR**") with all of TDSB's rights and benefits in the Spectrum, free of any Security Interest or other third party rights created by TDSB and as far as reasonably possible, free of any obligations/requirements imposed on TDSB by any Government agency in relation to the Spectrum other than those imposed on and accepted by DiGi in relation to any conditional regulatory approval in Section 7 below.

"**Security Interest**" as mentioned above refers to an interest or power (a) reserved in or over an interest in any asset including, but not limited to, any retention of title; or (b) created or otherwise arising in or over any interest in any asset under a bill of sale, mortgage, charge, lien, pledge, trust or power, by way of security for the payment of a debt or any other monetary obligation or the performance of any other obligation and includes, but is not limited to, any agreement to grant or create any of the above; or

- (ii) where the transfer of the Spectrum is not practicable, the surrender of the Spectrum by TDSB and the reissuing of it in DiGi Telecom's name.

In consideration of the above, DiGi will issue to TDSB or its nominees, which comprise TdC and all its subsidiaries ("**TDSB or its Nominees**") 27,500,000 new DiGi Shares credited as fully paid-up ("**Consideration Shares**") at an issue price of RM23.80 per DiGi Share, determined based on the five (5)-day volume weighted average market price ("**VWAMP**") of DiGi Shares up to and including 9 November 2007 (being the full market day prior to the date the offer to enter into the HOA was extended to TdC) (adjusted for special gross dividend of RM1.00 per share). Based on the above, the total consideration would be RM654.5 million.

Nevertheless, based on relevant accounting standards the actual value of the Consideration Shares to be recorded in the books of DiGi may be determined based on the fair value of DiGi Shares on the actual date of their issue. For illustrative purposes, based on the five (5)-day VWAMP of DiGi Shares up to 24 January 2008 of RM23.24, being the last full market day immediately prior to the date on which the terms of the Definitive Agreement were agreed upon, the value of the Consideration Shares amount to approximately RM639.1 million.

The Consideration Shares will upon allotment and issue, rank equally in all respects with the existing DiGi Shares except that they will not be entitled to any dividends, rights, allotments and/or other distributions, where the entitlement date (namely the date as at the close of business on which the shareholders of the Company must be entered in the Record of Depositors maintained with Bursa Malaysia Depository Sdn Bhd in order to be entitled to any dividends, rights, allotments and/or other distributions) is before the date of allotment of the Consideration Shares.

DiGi will make an application to Bursa Malaysia Securities Berhad ("**Bursa Securities**") for the listing of and quotation for the Consideration Shares on the Main Board of Bursa Securities.

As at 17 January 2008, TdC via its wholly-owned subsidiary, Hakikat Pasti Sdn Bhd, holds indirectly 50,250,000 DiGi Shares representing 6.70% equity interest in DiGi. Upon allotment and issue of the Consideration Shares to TDSB or its Nominees, TdC's direct and/or indirect shareholdings in DiGi will increase to 77,750,000 DiGi Shares representing 10.0% equity interest of DiGi's enlarged issued and paid-up share capital after the Proposed Transfer.

## **2.2 Other salient terms of the Definitive Agreement**

- (i) The Definitive Agreement is subject to:
  - (a) the approvals in Sections 7(a) to (g) below;
  - (b) DiGi and/or DiGi Telecom being satisfied with the results of its review of the Spectrum, including its terms, liabilities and Security Interest (if any) and the attached business plan. Nevertheless, DiGi and DiGi Telecom acknowledge that they are satisfied with the technical and operational characteristics and suitability of the frequency bands of the Spectrum for all its purposes; and
  - (c) the Parties having entered into the Service Agreement, the details of which are set out in Section 2.6(i) of this announcement.

The above conditions are collectively referred to as "**Conditions**", and are to be complied with by 30 June 2008 or such later date agreed by the Parties.

- (ii) A Party has seven (7) days to reject a regulatory approval if such approval contains any condition which materially and adversely affects it or it cannot legally comply with such condition. However, DiGi is not entitled to reject any conditional regulatory approval due to any condition or requirement relating to the payment of any fees for the Proposed Transfer and the roll-out of infrastructure relating to the Spectrum after the receipt of the Spectrum by DiGi Telecom under the Proposed Transfer. An avenue for appeal is provided under the Definitive Agreement.
- (iii) The number of Consideration Shares will be adjusted if DiGi implements any capital reductions (except any capital reduction involving the cancellation of capital which is lost or unrepresented by available assets, or in consequence of DiGi purchasing its own shares), bonus issues, rights issues, capital repayments or stock dividends (excluding all dividend payments in cash) ("**Adjustment**") between the date of the HOA (being 14 November 2007) and up to the Completion Date (defined in Section 2.2(iv) below).

Any Adjustment will be determined by an investment bank jointly appointed by the Parties ("**Appointed Investment Bank**"), in accordance with prevailing practices and principles underlying adjustments applicable to warrants in Malaysia or other adjustment formula deemed appropriate by the Appointed Investment Bank. The determination of the Appointed Investment Bank will be final and binding on the Parties.

In addition, if DiGi implements a rights issue, DiGi must offer TDSB or its Nominees additional DiGi Shares for subscription ("**Additional Shares**") at the theoretical ex-rights price of DiGi Shares ("**TERP**"), which if aggregated with the number of Consideration Shares TDSB or its Nominees will receive after the Adjustment will represent the same proportion of the total enlarged share capital of DiGi after the completion of the rights issue, the issue of the Consideration Shares and the Additional Shares, as the Consideration Shares represented by the share capital of DiGi immediately before the rights issue but after including the Consideration Shares. Other than the number of Additional Shares, the Appointed Investment Bank will also determine the TERP and in doing so, apply the market price which is not less than the current market price used in determining the Adjustment.

- (iv) The completion of the Proposed Transfer will take place on the day which is seven (7) business days after the date on which all the Conditions have been fulfilled or any other time and date the Parties agree to in writing ("**Completion Date**") ("**Completion**").
- (v) The Definitive Agreement may be terminated if any of the Parties breaches a term of the agreement where it is unable to remedy or fails to remedy the breach within thirty (30) days or the breach is not remediable. Further, DiGi and/or DiGi Telecom may terminate the Definitive Agreement if there is a material adverse change in respect of the Spectrum after the date of the Definitive Agreement; and TdC and/or TDSB may terminate the Definitive Agreement if there are breaches of warranties given by DiGi and/or DiGi Telecom in the Definitive Agreement.
- (vi) The Proposed Transfer will not include the transfer of any of the liabilities of TDSB or TdC relating to the building/rolling-out of the networks and services offered by or to any third party in relation to the utilisation of the Spectrum, including any fines or penalties imposed by any Government agency. Nevertheless, the Parties have agreed to share equally any fines and liabilities incurred by TDSB in respect of any failure to roll out infrastructure according to the detailed business plan attached to the Spectrum which accrue from the date of the Definitive Agreement until the Completion Date.

## **2.3 Basis for purchase consideration and original cost of investment**

The purchase consideration for the Spectrum was arrived at on a willing buyer-willing seller basis after taking into consideration, amongst others, the general outlook and challenges of the telecommunication industry in Malaysia and our potential ability to provide enhanced basic, new innovative and advanced products and services, including third generation wireless communications technology (“**3G**”), fixed and mobile broadband services.

The Board of DiGi has engaged an independent valuer to conduct an independent valuation of the Spectrum. A valuation certificate from the independent valuer will be included in the Circular to Shareholders for the Proposed Transfer to be despatched to DiGi’s shareholders in due course.

The Board of DiGi understands that the original cost of investment in the Spectrum by TDSB is approximately RM67.8 million which was made between October 2005 to April 2007. The above includes the RM50 million Spectrum assignment fee paid to the MCMC.

## **2.4 Assumed liabilities, encumbrances and additional financial commitment required**

DiGi Telecom will, upon completion of the Proposed Transfer, be required to comply with all the terms of the Spectrum, which may include certain obligations set out in the existing detailed business plan of TDSB attached to the Spectrum. While DiGi is not aware of the extent of such obligations, it does not have any reason to expect any inability to comply or non-compliance with such obligations in the future to have any material adverse effect on its financial position or operations. In any event, where required, appeals will be lodged with the MCMC to address such conditions.

DiGi Telecom will acquire the Spectrum free from any Security Interest, claims, liens, charges, equities, pledges, trusts or third party rights created by TDSB and with all rights attaching thereto as from the Completion Date. Further, as explained in Section 2.2(vi) above, DiGi has agreed to share equally certain fines and liabilities incurred by TDSB in respect of the Spectrum. Additionally, as a pre-condition which the MCMC is expected to impose under the terms of the Spectrum, DiGi Telecom will be required to procure a bank guarantee (the amount of which is expected to be about RM50 million) in favour of the MCMC in respect of the Spectrum.

Assuming the Proposed Transfer is completed in the middle of 2008, the Board of DiGi expects DiGi and its subsidiaries (“**DiGi Group**”) to incur total additional capital expenditure of between RM600 million to RM800 million in the first three (3) years of DiGi’s 3G roll-out, of which between RM150 million to RM200 million could be spent in the financial year 2008. The above is expected to be funded via internally generated funds.

## **2.5 Information on the Spectrum**

The Spectrum is a 3G spectrum bearing the assignment number SA/01/2006 over the following frequency bands: 1965 MHz - 1980 MHz, 2155 MHz - 2170 MHz and 2010 MHz - 2015 MHz. The Spectrum was issued to TDSB under Section 159 of the Communications and Multimedia Act 1998 and the CMSR with effect from 8 November 2006 and is valid up to 1 April 2018 or such later date as may be approved by the MCMC.

## 2.6 The Proposed Joint Business Planning

Under the Definitive Agreement, the Parties have agreed to embark on a joint business planning exercise to establish a governance structure and identify business areas for collaboration. The three (3) key areas of the Proposed Joint Business Planning are as follows:

- (i) The procurement and utilisation of the international and domestic fibre leases/bandwidth of TdC and/or TDSB under a service agreement (“**Service Agreement**”), where DiGi and/or DiGi Telecom will engage TdC and/or TDSB as one of its main suppliers of international and domestic fibre leases/bandwidth for a minimum transaction value of RM12.5 million for each twelve (12)-month period commencing from the Completion Date for a period of 36 months which can be extended on mutually acceptable terms;
- (ii) The Parties will use their utmost endeavours to enter into an agreement to set out the principles and the deliverables for the parties’ collaboration in relation to key business areas encompassing (a) DiGi and/or DiGi Telecom to offer TdC and/or TDSB Mobile Virtual Network Operator arrangements to allow TdC and/or TDSB to offer mobile services using 3G after the commercial launch of 3G services by DiGi and/or DiGi Telecom; (b) provision and development of executive training and knowledge and technology transfer to develop respective areas of competencies of the Parties; and (c) other business opportunities between the Parties including but not limited to exploring/developing initiatives such as jointly developing mobile services for their respective customers particularly wireless broadband services over 3G or WiFi; distributing each others products and services; consolidation of fixed-line services, joint marketing and cross selling; sharing of content and application in their respective business areas; and sharing of data centre.

The above initiatives will be governed by a joint steering committee, core working team and business areas working groups to be formed and operated under the terms of reference in the Definitive Agreement. Although implementation of the opportunities developed under the collaborative framework are intended to be carried out after the completion of the Proposed Transfer, where applicable, the Parties will identify opportunities that can be implemented before then on a goodwill basis; and

- (iii) DiGi will offer TdC and/or TDSB reseller rights to second generation wireless communications technology related services for selected products. Where the offer is accepted, the Parties will enter into a formal agreement within an agreed timeframe.

## 2.7 Information on TDSB

TDSB was incorporated in Malaysia under the Companies Act 1965 (“**Act**”) as a private limited company on 17 November 1979 under the name of TES Sdn Bhd. On 16 February 1981 it changed its name to TIME Engineering & Slipway Sdn Bhd. Further, on 14 June 1991 it changed its name to TIME Telecommunications Sdn Bhd and adopted its present name on 28 February 2000.

The authorised share capital of TDSB is RM2,800,000,000 comprising 2,800,000,000 ordinary shares of RM1.00 each (“**TDSB Shares**”), of which 2,480,288,000 TDSB Shares have been issued and fully paid-up.

The principal activities of TDSB are that of the provision of voice, data, video and image communication services through its established domestic and international network.

As at 17 January 2008, the Directors of TDSB are Dato' Ir. Wan Muhamad Wan Ibrahim and Dato' Baharum Salleh. The substantial shareholders (holding 5% or more of the issued and paid-up share capital) of TDSB as at 17 January 2008 are as follows:

**Please refer to Table 1**

### **3. RATIONALE FOR THE PROPOSALS**

The Board of DiGi believes that the transfer of the Spectrum from TDSB to DiGi Telecom under the Proposed Transfer would enhance the competitiveness of the DiGi Group in the medium to long term. The acquisition of the Spectrum would allow the DiGi Group to address its long term spectrum constraint and to improve network efficiency and capacity, thereby allowing better network traffic management, as well as to provide enhanced basic, new innovative and advanced products and services, including 3G and fixed and mobile broadband services.

Further, the Proposed Joint Business Planning aims to allow the Parties to collaborate for the purposes of consolidating their respective strengths in the telecommunications market and to explore additional areas of cooperation with the objective of enhancing values of their respective businesses.

### **4. EFFECTS OF THE PROPOSALS ON DiGi**

The Proposed Joint Business Planning will not have any effect on the share capital and substantial shareholders' shareholding in DiGi as well as the net assets ("**NA**"), NA per share, gearing, earnings and earnings per share ("**EPS**") of the DiGi Group. The effects of the Proposed Transfer are as follows:

#### **4.1 Share Capital**

The proforma effects of the Proposed Transfer on the issued and paid-up share capital of DiGi are as follows:

**Please refer to Table 2**

#### **4.2 NA, NA per share and gearing**

The proforma effects of the Proposed Transfer on the NA, NA per share and gearing of the DiGi Group had it been completed on 31 December 2006 are as follows:

**Please refer to Table 3**

#### **4.3 EPS**

Barring any unforeseen circumstances, the Board of DiGi expects the Proposed Transfer to be completed by the middle of calendar year 2008 and DiGi Telecom to begin the roll-out of 3G services by the second half of 2008. Taking into account the above and that substantial revenues attributable to the 3G services are only expected to be generated in the medium to longer term, DiGi expects the Proposed Transfer to reduce its consolidated earnings for the financial year ending 31 December 2008 due to costs and expenses of obtaining and utilising the Spectrum, as well as in relation to the roll-out of 3G services.

Moreover, the issuance of the 27.5 million new DiGi Shares under the Proposed Transfer representing about 3.54% of DiGi's enlarged issued and paid-up share capital will dilute the consolidated EPS of DiGi.

Notwithstanding the above and barring any unforeseen circumstances, as set out in Sections 3 and 5 of this document, DiGi expects to receive positive contributions from its investment in the Spectrum in the medium to long term which would outweigh the costs to be incurred. Such contributions are expected to flow to the earnings of the DiGi Group and enhance its EPS.

#### **4.4 Substantial shareholders' shareholdings in DiGi**

The proforma effects of the Proposed Transfer on the substantial shareholders' shareholdings in DiGi are as follows:

**Please refer to Table 4**

### **5. THE PROSPECTS**

As explained in Section 3 above, the DiGi Group is expected to benefit from the Proposals, particularly with regard to the Proposed Transfer.

Since much of the DiGi Group's core networks are 3G-ready, any additional capital expenditure for the roll-out of 3G services is manageable and the 3G network will be deployed to optimise business benefits, enhance DiGi's operating efficiency and increase overall network capacity. For the same reason, assuming the Proposed Transfer is completed in the middle of the financial year ending 31 December 2008, DiGi expects that it will be able to operate the Spectrum and roll out its 3G services within the same financial year. Moreover, DiGi is expected to be able to commence offering broadband services by the end of 2008.

Based on the above, the Board of DiGi believes that the DiGi Group's future operating and financial performances in the medium to long-term will be superior than in the case without the Spectrum.

### **6. RISK FACTORS**

DiGi does not expect any material risks to DiGi Group's business arising from the Proposals which are different from those currently faced by the DiGi Group. The risks relating to the Proposals include but are not limited to the following:

- (i) If 3G services in Malaysia are not as well received as expected or growth in the telecommunications market is slower than anticipated, the potential net benefits expected to be derived from the Proposed Transfer may be reduced in view that the DiGi Group will be incurring costs to acquire the Spectrum as well as capital expenditure to roll-out 3G services. Moreover, there are existing threats of substitutes of 3G technology from other wireless broadband solutions;
- (ii) Although DiGi intends to implement its plans for the Spectrum upon completion of the Proposed Transfer on a prompt basis, there can be no assurance that the planning and execution of rolling-out 3G services and/or the installation of 3G infrastructure will be without any interruptions or delay; and
- (iii) While the DiGi Group will take all necessary steps to prevent any breaches of the terms and conditions of the Spectrum, in the event any such breaches occur, the Government and/or MCMC may suspend or cancel the Spectrum under the most severe circumstance. In such a case, DiGi may not be able to enjoy the full benefits of having the Spectrum or will not be able to recover its investment in the Spectrum.

## **7. APPROVALS REQUIRED**

The Proposed Transfer is subject to the following approvals being obtained:

- (a) the approval of the Securities Commission (“**SC**”) for the issue of the Consideration Shares to TDSB or its Nominees and the listing of and quotation for the Consideration Shares on the Main Board of Bursa Securities;
- (b) the approval of the SC, under the Guideline on the Acquisition of Interests, Mergers and Take-Overs by Local and Foreign Interests of the Foreign Investment Committee for the issue of the Consideration Shares to TDSB or its Nominees;
- (c) the approval-in-principle of Bursa Securities for the listing of and quotation for the Consideration Shares on the Main Board of Bursa Securities;
- (d) the approval of the MCMC for the Proposed Transfer, TDSB to be released from its obligations in relation to the Spectrum on DiGi Telecom’s receipt of the Spectrum and the release and return to TDSB the bank guarantee of RM50 million issued in favour of the MCMC in respect of the Spectrum on DiGi Telecom’s receipt of the Spectrum;
- (e) the approval of DiGi’s shareholders for the Proposed Transfer;
- (f) the approval of TdC’s shareholders for the Proposed Transfer; and
- (g) any other relevant regulatory authorities and/or parties, if applicable.

With regard to the above, where applicable, the same approvals sought for the issuance of and listing of and quotation for the Consideration Shares would also be sought for the additional DiGi Shares that may be issued as a result of the Adjustment.

The Proposed Transfer is conditional upon the Parties entering into the Service Agreement (as detailed in Section 2.6(i) above), which forms part of the Proposed Joint Business Planning.

## **8. DIRECTORS’ AND MAJOR SHAREHOLDERS’ INTERESTS**

None of the Directors and/or major shareholders (as defined in Paragraph 1.01 of the Listing Requirements of Bursa Securities) of DiGi or persons connected to them has any interest, direct or indirect, in the Proposals.

Nevertheless, based on the indirect shareholdings of TdC as at 17 January 2008 of 6.7%, upon the issuance of the Consideration Shares, TdC will become a major shareholder of DiGi (as defined in Paragraph 1.01 of the Listing Requirements of Bursa Securities). Accordingly, the rules governing related party transactions and/or recurring related party transactions of a revenue nature under the Listing Requirements of Bursa Securities would apply to the transactions contemplated by the Parties under the Proposed Joint Business Planning. In this regard, where required, appropriate announcements as well as shareholders’ approvals would be sought by DiGi for such transactions.

## **9. STATEMENT BY THE DIRECTORS**

The Board of DiGi is of the opinion that the Proposed Transfer is in the best interest of DiGi.

## **10. ADVISER**

CIMB has been appointed as adviser for the Proposals.



**11. ESTIMATED TIME FRAME FOR THE COMPLETION OF THE PROPOSED TRANSFER**

Barring any unforeseen circumstances and subject to all the required approvals being obtained, DiGi expects to complete the Proposed Transfer by the middle of year 2008.

**12. DEPARTURE FROM THE POLICIES AND GUIDELINES ON ISSUE/OFFER OF SECURITIES OF THE SC ("SC GUIDELINES")**

DiGi does not expect the Proposals to result in any departure from the SC Guidelines.

**13. SUBMISSION TO THE AUTHORITIES**

The Company expects to submit the relevant applications for the Proposed Transfer to the authorities within four (4) months from the date of this announcement.

**14. DOCUMENTS FOR INSPECTION**

A copy of the Definitive Agreement will be available for inspection at the registered office of DiGi at Level 7, Setia 1, 15 Lorong Dungun, Damansara Heights, 50490 Kuala Lumpur, Malaysia during normal business hours from Mondays to Fridays (except for public holidays) for a period of three (3) months from the date of this announcement.

This announcement is dated 25 January 2008.