

HONG SENG CONSOLIDATED BERHAD (“HONG SENG” OR THE “COMPANY” OR THE “PURCHASER”) AND ITS SUBSIDIARIES (“HONG SENG GROUP” OR THE “GROUP”) - SHARES SALE AGREEMENT

1. INTRODUCTION

The Board of Directors of Hong Seng (“**Board**”) wishes to announce that the Company has on 31 January 2023 entered into a Shares Sale Agreement (“**SSA**”) with Innov8tif Consortium Sdn Bhd (“**Innov8tif Consortium**” or the “**Vendor**”), to undertake the proposed acquisition of 717,570 ordinary shares in Innov8tif Holdings Sdn Bhd (“**Innov8tif Holdings**”) (“**Sale Shares**”), representing 51% of the enlarged issued share capital in Innov8tif Holdings, from the Vendor for a total cash purchase consideration of RM30,855,000 (“**Purchase Consideration**”) (“**Proposed Acquisition**”).

Hong Seng and the Vendor shall hereinafter be collectively referred to as the “**Parties**” and individually referred to as a “**Party**”.

2. DETAILS OF THE PROPOSED ACQUISITION

Pursuant to the SSA, the Vendor has agreed to sell and the Purchaser has agreed to purchase the Sale Shares based on the terms and conditions of the SSA. Further information on the salient terms of the SSA are set out in Section 2.3 of this announcement.

Innov8tif Holdings would become a 51% owned subsidiary of Hong Seng upon the completion of the sale and purchase of the Sale Shares pursuant to the terms and conditions as set out in the SSA.

2.1 Information on Innov8tif Holdings

Innov8tif Holdings was newly incorporated as a private limited company in Malaysia on 18 January 2023. As at 30 January 2023, being the latest practicable date prior to this announcement (“**LPD**”), the existing issued share capital of Innov8tif Holdings is RM1 comprising 1 ordinary share. Innov8tif Holdings intends to increase its issued share capital to RM60,500,000 comprising 1,407,000 ordinary shares via allotment of 1,406,999 new ordinary shares to Innov8tif Consortium pursuant to the Capital Injection and Capitalisation (as defined below). Thus, upon completion of the said allotment of new ordinary shares, the Sale Shares shall comprise of 717,570 ordinary shares which to be acquired by Hong Seng pursuant to the Proposed Acquisition.

As at the LPD, the directors of Innov8tif Holdings are Soh Peng Nam, Lee Chin Seong, Law Tien Soon and Yong Kim Fui and is wholly-owned by Innov8tif Consortium.

Pursuant to an internal restructuring exercise, Innov8tif Consortium had incorporated Innov8tif Holdings for the purposes to hold the Innov8tif Solutions Group (as defined below) in order to streamline its expansion strategies which, include future business acquisitions and/or partnerships (“**Internal restructuring**”).

Pursuant to the Internal Restructuring, there will be an additional capital injection made by the Innov8tif Consortium amounting to RM42,999,999 through the injection of Innov8tif Solutions Group (as defined below) into Innov8tif Holdings. In consideration of the capital injection, Innov8tif Holdings shall allot 999,999 new ordinary shares of RM42,999,999 to Innov8tif Consortium (“**Capital Injection**”). Following the Capital Injection, Innov8tif Holdings’ enlarged issued share capital shall be increased to RM43,000,000 comprising 1,000,000 ordinary shares, and Innov8tif Holdings shall hold the legal and beneficial equity interest of the following companies:

No.	Name of subsidiaries and date of incorporation	Principal activities	Directors	Issued share capital	% of shareholdings
1.	Innov8tif Solutions Sdn Bhd (“ Innov8tif Solutions ”) <i>(Incorporated on 29 August 2011)</i>	Engaged in information communications technology (“ ICT ”) system development, development and maintenance service with software trading and services	Lee Chin Seong, Law Tien Soon, Soh Peng Nam and Yong Kim Fui	RM4,500,000 comprising 562,500 ordinary shares	100
Subsidiaries of Innov8tif Solutions					
1.	Innov8tif Technology Sdn Bhd (“ InnoTech ”) <i>(Incorporated on 5 May 2014)</i>	Engaged in information technology (“ IT ”) and event marketing business	Law Tien Soon, Lee Chin Seong and Soh Peng Nam	RM10,000 comprising 10,000 ordinary shares	100
2.	Innov8tif Solutions Pte Ltd (“ InnoSG ”) <i>(Incorporated in Singapore on 16 April 2014)</i>	Provide IT consultancy and computer services activities	Law Tien Soon, Lee Chin Seong, Soh Peng Nam and Yu Keng Ing	SGD10,000 comprising 10,000 ordinary shares	100

*(Innov8tif Solutions, InnoTech and InnoSG are collectively be referred to as “**Innov8tif Solutions Group**”)*

Innov8tif Solutions Group is an ISO27001:2013 certified AI group of companies with its principal business in providing digital solutions to help businesses in widening sales funnel, speed-up processes without paper and prevent frauds since 2011.

Innov8tif Solutions Group specialises in identity verification (“**IDV**”) technology to support e-KYC and anti-fraud processes, customer onboarding process automation and mobile biometric authentication. Innov8tif Solutions Group’s customer base comprises the telecommunication companies, BFSI (banking, financial services & insurance), investment firms, multinational manufacturing companies and government which include those in the ASEAN region. Amongst, many are public listed companies.

As part of its business expansion plan, Innov8tif Holdings had on 20 January 2023 executed a share sale agreement with Xendity Pte Ltd (“**XPL**”) (a wholly-owned subsidiary of Green Packet Berhad, a public company listed on the Main Market of Bursa Malaysia Securities Berhad) whereby Innov8tif Holdings has agreed to acquire 100% equity interest in Xendity Sdn Bhd (“**Xendity**”) for a cash purchase consideration of RM17.50 million (“**Agreement for the Acquisition of Xendity**”). As at the LPD, Innov8tif Holdings is still in the process of acquiring Xendity and upon completion of the said agreement, Xendity will become a wholly-owned subsidiary of Innov8tif Holdings.

Concurrently with the completion of the Agreement for the Acquisition of Xendity, Innov8tif Consortium has agreed to capitalise the amount owing by Innov8tif Holdings to the Innov8tif Consortium in the sum of RM17.50 million (advances made by Innov8tif Consortium to Innov8tif Holdings for the purpose to fund the consideration pursuant to the Agreement for the Acquisition of Xendity) via allotment of 407,000 new ordinary shares to Innov8tif Consortium (“**Capitalisation**”). Following the Capitalisation, Innov8tif Holdings’ enlarged issued share capital shall be increased to RM60,500,000 comprising 1,407,000 ordinary shares.

Incorporated on 1 November 2017, Xendity is a software technology company with its main principal business in providing digital onboarding solutions by using e-KYC technology. Xendity’s products are mainly categorised into two forms, namely pay-per-use and software as a service (“**SaaS**”) catered to its customers who are mainly from the banking industry in Malaysia. As at the LPD, the issued share capital of Xendity is RM10,955,949 comprising 10,955,949 ordinary shares and Leong Seng Wui is the sole director of Xendity and is wholly-owned by XPL.

With both Innov8tif Solutions Group and Xendity under the same roof, Innov8tif Holdings will be able to create a synergy between both companies to enrich and accelerate the research and development of the service offerings to roll out more products that are suitable for the new target markets and wider user/customer groups in line with its plan to strengthen its presence in the ASEAN markets. The combined resources, expertise and capabilities of both companies will allow Innov8tif Holdings to achieve greater efficiency and to reduce the operational costs which will eventually generate higher profits for the group.

*(Innov8tif Holdings, Innov8tif Solutions Group and Xendity are collectively be referred to as “**Target Group**” or “**Innov8tif Holdings Group**” which to be acquired by Hong Seng pursuant to the Proposed Acquisition)*

As Innov8tif Holdings is a newly incorporated investment holding company by Innov8tif Consortium with the purposes to hold Innov8tif Solutions Group and Xendity and therefore the consolidated financial information of Innov8tif Holdings Group is not available at this juncture. The respective financial information of Innov8tif Solutions Group and Xendity are set out below.

Innov8tif Solutions Group

The financial information of Innov8tif Solutions Group for the financial year ended 31 December 2020 (“**FYE 2020**”), financial year ended 31 December 2021 (“**FYE 2021**”) and financial period ended 31 December 2022 (“**FPE 2022**”) are as set out below:

	Audited	Audited	Unaudited
	FYE 2020	FYE 2021	FPE 2022
	RM	RM	RM
Revenue	8,585,049	10,830,793	12,502,153
Profit after taxation	509,876	537,733	469,809
Share capital	500,000	4,500,000	4,500,000
Net assets	1,790,555	5,731,643	6,215,779
Bank borrowings	535,663	574,794	436,947

Xendity

The financial information of Xendity for the 12-months financial year ended 30 June 2021 (“**FYE Jun 2021**”), 6-months financial period ended 31 December 2021 (“**FPE Dec 2021**”) and 12-months financial year ended 31 December 2022 (“**FYE Dec 2022**”) are as set out below:

	Audited	Audited	Unaudited
	FYE Jun 2021	FPE Dec 2021⁽¹⁾	FYE Dec 2022
	RM	RM	RM
Revenue	2,746,891	1,152,888	3,080,432
Loss after taxation ⁽²⁾	(982,691)	(2,349,213)	(3,786,853)
Share capital ⁽³⁾	2,541,697	2,541,697	2,541,697
Net assets/(liabilities) ⁽³⁾	781,899	(1,567,314)	(5,354,167)
Bank borrowings	-	-	-

Notes:

⁽¹⁾ The company had changed its financial year end from June to December.

⁽²⁾ The company was loss making mainly due to the significant software development costs incurred in the prior years.

⁽³⁾ On 16 January 2023, the company had increased its issued share capital from RM2,541,697 to RM10,955,949 and the net assets of the company has increased by the same amount.

2.2 Information on the Vendor

Innov8tif Consortium was incorporated as a private limited company in Malaysia on 18 January 2023 and is principally engaged in the business of investment holding. As at the LPD, the issued share capital of Innov8tif Consortium is RM562,500 comprising 562,500 ordinary shares. As at the LPD, the directors of Innov8tif Consortium are Soh Peng Nam, Lee Chin Seong, Law Tien Soon and Yong Kim Fui and the shareholders of Innov8tif Consortium and their respective shareholdings in Innov8tif Consortium are as follows:

Name of shareholders	No. of existing ordinary shares held	% of shareholdings
Soh Peng Nam	114,000	20.27
Chan Oi Lai	5,625	1.00
Cheong Yuen Kiat	7,500	1.33
Law Tien Soon	114,000	20.27
Lee Chin Seong	144,187	25.63
Lim Ken Wei	25,313	4.50
Low Kien Fei	11,250	2.00
Seah Seow Joe	28,125	5.00
Securemetric Berhad*	112,500	20.00
Total	562,500	100.00

Note:

* A public company listed on the ACE Market of Bursa Malaysia Securities Berhad

2.3 Salient terms of the SSA

The Vendor agrees to sell and the Purchaser agrees to purchase the Sale Shares free from all encumbrances with full legal and beneficial title and subject to the terms and conditions as contained in the SSA.

2.3.1 Conditions Precedent

The SSA shall be conditional upon the following being fulfilled within 3 months from the date of the SSA or any other date as may be agreed upon between the Parties (“**Cut-Off Date**”):

- (i) The Purchaser being satisfied with the results of its due diligence investigation into the Vendor’s title to the Sale Shares, the financial and legal due diligence as well as the independent valuation to be carried out on the Target Group (“**Due**”

Diligence Exercise”) and the Due Diligence Exercise shall be completed by the Purchaser at least 7 days prior to the Cut-Off Date;

- (ii) Any approvals from the relevant authorities or parties, if so required, for the transfer of the Sale Share;
- (iii) The completion of the Agreement for the Acquisition of Xendity;
- (iv) The completion of the Capital Injection and Capitalisation whereby the issued share capital of Innov8tif Holdings shall be increased to RM60,500,000 comprising 1,407,000 ordinary shares via allotment of 1,406,999 new ordinary shares to Innov8tif Consortium; and
- (v) the execution of an agreement or undertaking letter by the Vendor with/to the Purchaser, in which the Vendor undertakes and covenants to procure the key management personnel (“**KMP**”) of the Target Group to enter into an agreement and/or any other relevant employment letter with the Target Group (collectively be referred to as the “**Service Agreement**”), for the purposes of ensuring the KMP to remain with the Target Group for a period of at least 3 years from the Completion Date (as defined in Section 2.3.3 of this announcement) and to accept any other terms stipulated in the Service Agreement to manage the Target Group’s operations and to drive Target Group’s business growth.

If any of the Conditions Precedent are not satisfied by the Cut-Off Date (not due to a default of any party), any party will be entitled to issue a notice of termination to the other party whereupon such termination neither party shall have any further right or obligation under the SSA.

The SSA shall become unconditional on the day upon which the last of the Conditions Precedent are fulfilled in accordance with the provisions of the SSA (“**Unconditional Date**”).

2.3.2 Purchase Consideration and Manner of Payment

The Purchase Consideration for the Sale Shares of RM30,855,000 shall be satisfied by the Purchaser to the Vendor via cash in the following manner:

- (i) Upon execution of the SSA, the Purchaser shall pay the deposit in the sum of RM3,085,500 which is equivalent to 10% of the Purchase Consideration (“**Deposit**”) to the solicitors as stakeholders, being the refundable deposit (in the event that the Conditions Precedent are not satisfied) towards the Purchase Consideration and the solicitors are authorised to release the Deposit to the Vendor within 3 business days upon execution of the SSA by the Parties;
- (ii) On or before the Completion Date (as defined in Section 2.3.3 below), the Purchaser shall pay the second payment in the sum of RM24,414,500 which is equivalent to approximately 79% of the Purchase Consideration (“**Balance Consideration**”) to the solicitors as stakeholders and the solicitors are authorised to release the Balance Consideration to the Vendor on the Completion Date; and
- (iii) Within 1 year from the Completion Date and upon fulfillment of 12 months of services by the KMP in the Target Group in accordance with terms and conditions as stated in the Service Agreement, the Purchaser shall pay the third and final payment in the sum of RM3,355,000 which is equivalent to approximately 11% of the Purchase Consideration (“**Retention Sum**”) to the Vendor.

The Parties agree that in the event of non-fulfillment of 12 months of services by the KMP due to voluntary resignation and/or resignation due to disciplinary action and/or breach of the KMP's employment contract with the Target Group by such KMP from the Target Group, then the Purchaser shall not be obligated to pay the Retention Sum to the Vendor.

Notwithstanding that on Completion Date, the Retention Sum has not been paid by the Purchaser to the Vendor, the Sale Shares shall be duly vested in the Purchaser upon settlement of the Balance Consideration by the Purchaser to the Vendor in accordance with the terms and conditions as set out in 2.3.2(ii) of this announcement and the Purchaser shall then be the legal and beneficial owner of the Sale Shares on Completion Date.

2.3.3 Completion Date

The completion of the SSA shall be take place within 14 days from the Unconditional Date or such other date as may be agreed upon between the Parties (“**Completion Date**”) and upon the full payment of the Balance Consideration to the Vendor in accordance with the manner payment as set out in Section 2.3.2 of this announcement.

Upon the Unconditional Date, the Vendor shall execute and deposit the completion documents with the solicitors to be held as stakeholder. On the Completion Date, the Purchaser shall authorise the solicitors to release the Balance Consideration to the Vendor and simultaneously the Vendor shall authorise the solicitors to immediately release the completion documents to the Purchaser and/or Innov8tif Holdings' company secretary to, amongst others, effect the transfer of the Sale Shares to the Purchaser.

Upon the Completion Date, the Purchaser shall be entitled, as the majority shareholder, to the dominant right to control or direct the Target Group's management and operations as the Purchaser deems fit but shall endeavour to collaborate in good faith with Innov8tif Consortium and their nominee director(s) and/or the KMP to operate the management and operations of the Target Group, and that the Purchaser shall be the holding company of the Target Group upon the Completion Date.

2.3.4 Termination

The SSA shall continue and remain in full force and effect, unless terminated pursuant to the provisions of the SSA.

- (i) The Vendor may, at any time up to the Completion Date and while such default subsists, give a notice of termination to the Purchaser in the event that the Purchaser defaults in the satisfaction of the Deposit and the Balance Consideration in accordance with the provisions of the SSA or is otherwise in fundamental breach of its obligations under the SSA and the Vendor shall within 7 days of the notice of termination or such other period as agreed by the Parties refund to the Purchaser all monies paid by the Purchaser towards the Purchase Consideration and any other sum paid under the SSA free of interest in accordance with the SSA less the Deposit which shall be forfeited by the Vendor as agreed liquidated damages.
- (ii) The Purchaser may, at any time up to the Completion Date and/or up to 12 months after the Completion Date and while such default subsists, give a notice of termination to the Vendor in the event that the Vendor fails, neglects or refuses to complete the sale of the Sale Shares in accordance with the provisions of the SSA or is otherwise in fundamental breach of its obligations and/or warranties under the SSA and the Vendor shall within 7 days of the notice of termination or such other period as agreed by the Parties refund to the Purchaser all monies paid by

the Purchaser towards the Purchase Consideration and any other sum paid under the SSA free of interest in accordance with the SSA together with a cash payment of 10% of the Purchase Consideration which is equivalent to the Deposit to the Purchaser as agreed liquidated damages.

- (iii) A party may, at any time prior to Completion Date, give a notice of termination to the other party if:
 - (a) the other party is or becomes, or is adjudicated or found to be, bankrupt or insolvent or suspends payment of its debts or is (or is deemed to be) unable to or admits inability to pay its debts as they fall due or proposes or enters into any composition or other arrangement for the benefit of its creditors generally or proceedings are commenced in relation to that party under any law regulation or procedure relating to reconstruction or adjustment of debts; or
 - (b) an administrator or receiver and manager is appointed over, or distress, attachment or execution is levied or enforced upon, any part of the assets or undertaking of the other party.
- (iv) If at any time within 12 months after the Completion Date, the Purchaser becomes aware that any of the Vendor's warranties in the SSA is untrue or incorrect in a material respect and which, if capable of rectification, has not been rectified by the Vendor within 30 days, or such longer period as may be mutually agreed between the Parties, of being so requested to do by the Purchaser then the Purchaser may rescind the SSA and termination clause as set out in Section 2.3.4(ii) of this announcement shall apply and thereafter, neither party shall have any claims against the other; or the Purchaser to continue with the SSA and the Purchaser may seek appropriate legal action against the Vendor for any damages sustained by the Purchaser as a result of any breach of warranties by the Vendor as the appropriate remedy.

2.4 Basis and justification at arriving at the Purchase Consideration

The Purchase Consideration was agreed between the Vendors and the Purchaser on a 'willing buyer-willing seller' basis after taking into consideration the following:

- (i) The Target Group's existing businesses and continuing operations with capabilities in its widely recognised and award-winning digital onboarding and IDV solutions which are designed to help revolutionise existing processes for businesses especially industries with higher compliance requirement;
- (ii) Indicative value of the Sale Shares (i.e., 51% equity interest in Innov8tif Holdings) ranges from RM28.71 million to RM34.56 million, as appraised by Strategic Capital Advisory Sdn Bhd ("SCA") (an independent valuer appointed by the Company) on 13 January 2023 based on the valuation report dated 27 January 2023. Based on the abovementioned range of values, the median value of the Sale Shares is approximately RM31.64 million and the Purchase Consideration of RM30.855 million represents a discount of 2.48% to the said median value. The valuation was derived based on the Discounted Free Cash Flow to Firm ("FCFF") Methodology after taking into consideration various factors, amongst others, Target Group's future earnings generating capabilities, projected future cash flow, sustainability as well as various business considerations affecting the business and operations of the Target Group.

Discounted FCFF Methodology is a valuation method which considers both the time value of money and the projected net cash flow generated discounted at a specified discount rate to derive at the valuation of the subject matter. It is based on discounted cash flows, involving the application of an appropriately selected discount rate applied

on the projected future cash flows to be earned by the capital contributors of a company, i.e. equity shareholders and debt capital providers. As the Discounted FCF method entails the discounting of future cash flows to be generated from the business at a specified discount rate to arrive at the fair value of the investment, the risk involved in generating such cash flows will also be taken into consideration.

- (iii) Target Group's future growth potential in the R&D development of a complete digital identity ("ID") assurance and management solutions which will make the services more accessible to a wider group of users and new target markets. Moreover, the management foresees that with the combined larger market shares of both Innov8tif Solutions Group and Xendity, the Target Group will have a better appeal among its prospective customers due to the increased service and product efficiencies and potentially more cost-effective solutions offered. The Target Group will also be in a position to tap into the global trend of digitalisation to expand its footprints to other markets in the ASEAN region; and
- (iv) The rationale and benefits of the Proposed Acquisition as set out in Section 3 of this announcement.

Premised on the above, the Board is of the view that the Purchase Consideration is justifiable.

2.5 Sources of funding

The Purchase Consideration will be satisfied wholly in cash based on the payment terms as set out in Section 2.3.2 of this announcement. The Purchase Consideration is expected to be funded via the Group's internally generated funds.

2.6 Liabilities to be assumed by Hong Seng Group

Save for the liabilities as stated in the financial statements of the Target Group, there are no other liabilities, including contingent liabilities and guarantees to be assumed by Hong Seng Group arising from the Proposed Acquisition.

3. RATIONALE AND BENEFITS FOR THE PROPOSED ACQUISITION

The Proposed Acquisition is viewed positively for Hong Seng to acquire the readily available business of the Target Group and to provide an initial foray for Hong Seng to venture into the digital industry.

The Board is of the view that the business of digital ID assurance and digital IDV solutions is a fast-growing sector as more organisations are embracing cloud computing and undergoing digital transformations in line with the Post-App era where the mobile phone has become the gateway to the majority of interaction points, whether it is between people, between businesses and people or people and things. Hence, digital ID assurance and management will become increasingly important in any business that requires online customer identity verification especially in the telecommunication, banking and financial services sector.

However, taking cognisance of Hong Seng as a new entrant in the industry which has no prior experience, the Group through the Proposed Acquisition will work closely with the Vendor (being the remaining 49% shareholder in Innov8tif Holdings) who are experienced with its background in the digital solution industry to grow the businesses of the Target Group.

In addition, the Parties will retain the KMP in the Target Group for the purposes of managing the Target Group's operations. The strategic partnership between Hong Seng and the Vendor in the Target Group will enable the Parties to leverage on the combined resources and capabilities of all parties supported by the respective KMP's experience and expertise to strengthen and build the business.

Hong Seng is constantly exploring initiatives and opportunities to diversify its business activities to keep abreast with the ever-changing global trends. Upon completion of the Proposed Acquisition, the

Board believes that the digital business of the Target Group would contribute positively to Hong Seng Group's future earnings and to improve Hong Seng Group's financial position while reducing dependency on its existing businesses after taken into consideration the prospects of the digital industry as set out in Section 4 of this announcement.

4. PROSPECT

In 2020 and 2021, the FinTech sector thrived significantly as the Covid-19 pandemic and implementation of the Movement Control Order in Malaysia intensified the need for digital connectivity to replace physical interactions between service providers and consumers.

According to the Malaysia Fintech Report 2021 published by the Fintech News Malaysia (with reference to statistics obtained from the Central Bank of Malaysia and the Securities Commission Malaysia), the number of FinTech companies in Malaysia have reached 233 in 2020, while the spike in mobile banking usage and cashless payment options became an inevitable trend as consumers continue to adapt the 'new normal' to fit their lifestyle.

Consequentially, mobile banking transactions grew more than double from RM200 billion in 2019 to RM460 billion in 2020 given the increase in mobile banking subscribers to 20.2 million in 2020 as compared to 17.2 million in 2019. The transaction volume for online banking, e-wallet, and merchant registration for QR code acceptance surged by 49%, 131% and 164% respectively compared to 2019. Additionally, the BNM issued an electronic know-your-customer (e-KYC) policy document (e-KYC Policy Document) on June 30, 2020, that is applicable to all financial institutions and sets out the minimum requirements and standards that a financial institution must follow when implementing e-KYC for the identification and verification of individuals. The e-KYC Policy Document, outlines the requirements for FinTech services providers to obtain board approval on its overall risk appetite and internal mechanism governing the implementation of e-KYC which impose accountability on the board, to use an appropriate combination of authentication factors to verify a customer's identity through e-KYC, and to use artificial intelligence to automate the decision to verify a customer's identity through e-KYC.

(Source: Regulating Malaysia's Fintech And What To Expect In 2022 published online by The Legal 500 dated 12 January 2022)

According to Data Bridge Market Research, the global IDV market was valued at USD 8.41 billion in 2021 and is expected to reach USD 26.34 billion by 2029, registering a CAGR of 15.34% during the forecast period of 2022-2029.

(Source: Global Identity Verification Market – Industry Trends and Forecast to 2029 published by Data Bridge Market Research in September 2022)

Meanwhile, another study conducted in 2021 by advisory firm Aite-Novarica looked at ten vendors in the document identification and verification (ID&V) space, highlighting a notable growth in the demand for document ID&V solutions. Within the next two years, 90% of financial institutions surveyed by the firm shared plans to implement mobile identity document capture and verification solutions.

(Source: Digital ID Verification, Remote Document Signing to Become the Norm in Finance Sector, an article published by Finance News Malaysia on 24 June 2022)

The McKinsey Global Institute studied this revolutionary technology in seven different countries and concluded that the digital ID empowers civic and social empowerment as well as inclusive economic and societal gains. Further, McKinsey projects that "extending full digital ID coverage could unlock economic value equivalent to 3% to 13% of GDP in 2030," with half of that wealth directly in the hands of individuals.

Besides that, the United Nation recognises the power and promise of digital identity, which is why it has set a goal of universal legal identity by 2030. The prospect of equity on a global level is astounding, and the latest estimates project that 6.5 billion people will be using digital IDs by 2026.

(Source: Digital Identity Verification Can Lead To A More Equitable Future published by Forbes.com on 28 October 2022)

In view of the above prospects and positive outlook of the digital IDV sector driven by the pandemic and the correlated increase in online transactions and digital lifestyles resulting in the booming demand of IDV in a wide range of industries towards digitalisation, the Board opines that the Proposed Acquisition will contribute positively to the business prospects of the Group, which in turn is expected to improve the future financial performance and position of the Group.

5. RISK FACTORS

The risk related to the Proposed Acquisition is typical to any commercial contract and these include breaches or non-compliance of the obligations under the SSA.

The completion of the Proposed Acquisition is conditional upon fulfilment of the Conditions Precedent in the SSA. In the event that the Conditions Precedent are not fulfilled, the Proposed Acquisition may be delayed or terminated, and Hong Seng Group will not be able to meet its objectives as stated in Section 3 of this announcement. Notwithstanding the above, Hong Seng Group will use its best endeavour to ensure that every effort is made to comply with the terms of SSA so that the Proposed Acquisition will be completed in accordance with the terms and conditions of the SSA.

Risk factors affecting the Proposed Acquisition include but are not limited to changes in conditions of competition, economic, business, political and legal framework environment. Hong Seng Group will undertake the necessary efforts to mitigate the various business risks identified.

The Proposed Acquisition is expected to contribute positively to the future earnings of Hong Seng Group upon materialisation of the potential benefits from the Target Group's businesses. However, there is no assurance that the anticipated benefits of the Proposed Acquisition will be realised or that Hong Seng Group will be able to generate sufficient revenue and earnings therefrom to offset the associated cost of investment. In mitigating such risks, the Company has taken the necessary steps to conduct legal and financial due diligence as well as the independent valuation on the Target Group, which formed part of the Conditions Precedent (as set out in Section 2.3.1 of this announcement) for the Proposed Acquisition. In addition, over and above the completion of the Proposed Acquisition, Hong Seng Group will continue to work closely with the Vendor to keep abreast of the changes in political, social, economic and regulatory conditions but there can be no assurance that it will not materially affect the business of the Target Group.

Hong Seng Group will be subjected to additional challenges and risk arising from the digital industry in which Hong Seng Group has no prior experience in ensuring the success of this business. Notwithstanding the above, Hong Seng is tapping on the competency and experience of the Vendor and the Target Group's KMP namely Lee Chin Seong (Chief Executive Officer) and Law Tien Soon (Chief Operating Officer) whom are both founders of Innov8tif Solutions Group with about 20 years of experience in IT business development, software development and engineering in order to ensure business continuity and to drive the business of the Target Group to the next level with the support of the management team and the research and development team.

At this juncture, Hong Seng has identified Christopher Chan and Lester Chin, the Executive Directors of the Company, to lead the Group's venture into the digital industry. With the support from Christopher Chan with more than 20 years of extensive experience in IT and digital solutions sectors and Lester Chin who has more than 13 years of experience in the corporate finance and investment sectors which is instrumental for any capital raising needs, the Board believes that they will be able to

bring valuable insights, network, and resources which are much needed to drive the Target Group moving forward.

6. EFFECTS OF THE PROPOSED ACQUISITION

The Proposed Acquisition will not have any effects on the share capital and substantial shareholders' shareholdings of Hong Seng as the Proposed Acquisition does not involve any issuance of new ordinary shares in Hong Seng.

The Proposed Acquisition is not expected to have any immediate material impact on the net assets, earnings and gearing of Hong Seng Group.

Notwithstanding that, the Board envisages that the Proposed Acquisition is expected to contribute positively to the overall future earnings of the Hong Seng Group as well as the earnings per share of Hong Seng as and when all the potential benefits from Target Group's business is materialised.

7. APPROVALS REQUIRED

Pursuant to the Main Market Listing Requirements of Bursa Securities, the highest percentage ratio applicable to the Proposed Acquisition is 7.95%, calculated based on the value of the Purchase Consideration of RM30,855,000 against the audited consolidated net assets of Hong Seng Group of RM388,326,514 as at 30 September 2022. As such, the Proposed Acquisition does not require the approval of shareholders of Hong Seng.

The Proposed Acquisition is not subject to the approval from any other relevant authorities.

After completion of the Proposed Acquisition, should the Company foresee the digital business to potentially contribute at least 25% or more of the net profits of Hong Seng Group and/or diversion of 25% or more of Hong Seng Group's net assets, the Company will make the necessary announcement and/or seek the approval from its shareholders, if required, for the diversification of its business activities into digital business.

8. INTER-CONDITIONALITY OF THE PROPOSED ACQUISITION

The Proposed Acquisition is not conditional upon any other corporate proposal undertaken or to be undertaken by the Company.

9. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS, CHIEF EXECUTIVE AND PERSONS CONNECTED

None of the Directors, major shareholders and/or chief executive of Hong Seng and persons connected with them has any interest, direct or indirect, in the Proposed Acquisition.

10. DIRECTORS' STATEMENT

The Board after having considered all aspects of the Proposed Acquisition, including but not limited to the terms and conditions of the SSA, rationale, benefits, prospects, risks and effects of the Proposed Acquisition, is of the opinion that the Proposed Acquisition is in the best interest of the Company, and that the terms and conditions of the SSA are fair and reasonable.

11. ESTIMATED TIME FRAME FOR COMPLETION

Barring any unforeseen circumstances, the Proposed Acquisition is expected to be completed in the 2nd quarter of year 2023 subject to the terms and conditions of the SSA.

12. DOCUMENT AVAILABLE FOR INSPECTION

The SSA is available for inspection at the registered office of Hong Seng at Third Floor, No. 77, 79 & 81, Jalan SS 21/60, Damansara Utama, 47400 Petaling Jaya, Selangor during normal business hours from Mondays to Fridays (except public holidays), for a period of 3 months from the date of this announcement.

This announcement is dated 31 January 2023.