

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

1. INTRODUCTION

We refer to the Company’s announcements made on 31 January 2023 and 7 February 2023 in relation to a shares sale agreement dated 31 January 2023 (“**Agreement**”) entered between Innov8tif Consortium Sdn Bhd (“**ICSB**”) and Hong Seng, Hong Seng has acquired 717,570 ordinary shares in Innov8tif Holdings Sdn Bhd (“**Innov8tif Holdings**”) (“**Sale Shares**”), representing 51% of the entire issued share capital in Innov8tif Holdings, from ICSB at a total cash purchase consideration of RM30,855,000 (“**Acquisition of Innov8tif Holdings**”).

The Agreement has become unconditional on 2 May 2023 upon fulfillment of the conditions precedent by the parties under the Agreement. Hong Seng has paid a deposit in the sum of RM3,085,500 to ICSB under the Agreement and shall retain a sum of RM3,355,000 under the Agreement, as security for the performance of the 12 months’ services by the key management personnel (“**KMP**”) in Innov8tif Holdings and its subsidiaries (“**Innov8tif Group**”). Hong Seng and ICSB has also on 2 May 2023 executed a service agreement for the purposes of ensuring the KMP to remain with Innov8tif Group for a period of at least 3 years from the completion date of the Agreement and other terms to manage Innov8tif Group’s operations and to drive Innov8tif Group’s business growth. The Agreement is currently pending the payment of balance consideration in the sum of RM24,414,500 by Hong Seng to ICSB. In view thereof, Hong Seng shall hold the beneficial interest of the 51% of the entire issued share capital of Innov8tif Holdings, notwithstanding that the balance consideration has yet to be paid to ICSB and the full legal title of these ordinary shares have yet to be fully vested unto and to Hong Seng.

Further to the Acquisition of Innov8tif Holdings, the Board of Directors of Hong Seng (“**Board**”) wishes to announce that the Company has on 12 May 2023 entered into a Shares Sale Agreement (“**SSA**”) with Revenue Group Berhad (“**REVENUE**” or the “**Purchaser**”), to dispose the Sale Shares, representing 51% of the issued share capital in Innov8tif Holdings, to REVENUE at a total cash disposal consideration of RM36 million (“**Disposal Consideration**”) (“**Proposed Disposal**”).

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

2. DETAILS OF THE PROPOSED DISPOSAL

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.

Subject to the completion of the SSA, Hong Seng shall continue to assume the entire responsibility for and undertaking to observe and perform all whatsoever agreements conditions covenants liabilities stipulations and terms on the part of Hong Seng contained and expressed in the Agreement entered with ICSB as well as to take the necessary actions to cause or procure ICSB to effect the transfer of Sale Shares in favour of REVENUE upon completion of the SSA, in which ICSB has agreed to the Proposed Disposal of the Sale Shares by Hong Seng to REVENUE.

In addition, Hong Seng and ICSB has also on today executed a letter of extension whereby the parties have mutually agreed to extend the completion date of the Agreement from 16 May 2023 for a further period of 90 days to 14 August 2023, in order for Hong Seng to fulfill its obligations under the Agreement. As such, Hong Seng shall satisfy the balance consideration under the Agreement to ICSB on or before 14 August 2023.

2.1 Information on Innov8tif Holdings

Innov8tif Holdings is a newly incorporated investment holding company in Malaysia on 18 January 2023 under the Companies Act 2016. Innov8tif Holdings currently holds the 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
2.	Xendity Sdn Bhd (“ Xendity ”) <i>(Incorporated on 1 November 2017)</i>	Engaged in software research and development	Lee Chin Seong, Law Tien Soon and Soh Peng Nam	RM10,955,949 comprising 10,955,949 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 Holdings, Innov8tif Solutions Group and Xendity are collectively be referred to as “Innov8tif Group”)

As at 11 May 2023, being the latest practicable date prior to this announcement (“**LPD**”), the existing issued share capital of Innov8tif Holdings is RM60,500,000 comprising 1,407,000 ordinary shares.

As at the LPD, the directors of Innov8tif Holdings are Lee Chin Seong, Law Tien Soon, Soh Peng Nam and Yong Kim Fui. The shareholders of Innov8tif Holdings are as follows:

Name of shareholders	No. of existing ordinary shares held	% of shareholdings
ICSB	689,430	49
Hong Seng	717,570 ⁽¹⁾	51
Total	1,407,000	100

Note:

⁽¹⁾ Represents the Sale Shares whereby Hong Seng holds the beneficial interest pursuant to the Agreement as detailed in Section 1 of this announcement, which to be disposed by Hong Seng to REVENUE pursuant to the SSA.

Innov8tif 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 Group specialises in identity verification (“IDV”) technology to support e-KYC and anti-fraud processes, customer onboarding process automation and mobile biometric authentication. Innov8tif 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 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 Dec 2020”), financial year ended 31 December 2021 (“FYE Dec 2021”) and financial year ended 31 December 2022 (“FPE Dec 2022”) are as set out below:

	Audited	Audited	Unaudited
	FYE Dec 2020	FYE Dec 2021	FYE Dec 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

The revenue for the FYE Dec 2022 had increased by approximately RM1.67 million or 15.4% as compared to the FYE Dec 2021 mainly contributed by the strategic expansion initiatives implemented by the management which include employment of new talents and increased manpower to improve product development and intensified marketing efforts to capture the wider regional markets and generate more sources of revenue for the group. As such, the group also incurred higher costs for the said initiatives resulting a decrease in profit after tax of approximately RM0.07 million or 12.6% to approximately RM0.05 million in the FYE Dec 2022. The costs incurred are vital for long term prospects of the group and thus, would also require a longer gestation period before the group is able to recoup the investment made to generate higher profits.

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	(982,691)	(2,349,213)	(3,786,853)
Share capital ⁽²⁾	2,541,697	2,541,697	2,541,697
Net assets/(liabilities) ⁽²⁾	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⁾ 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.

The increase in revenue in the FYE Dec 2022 as compared to extrapolated 6 months-FPE Dec 2021 was mainly due to new projects set up secured by the company. However, the company was still in loss position which mainly due to higher software development costs and licensing fees incurred as well as increase in staff costs and depreciation & amortisation expenses for the transfer of e-KYC and related software at a cost of RM4.37 million to the company during the FYE Dec 2022.

2.2 Information on the Purchaser

REVENUE is a public company listed on the Main Market of Bursa Malaysia Securities Berhad (“**Bursa Securities**”). REVENUE and its subsidiaries (“**REVENUE Group**”) is one of the leading cashless payment solution providers in Malaysia and are predominantly in the Business-to-Business space and its solutions are categorised into three key segments - deployment of Electronic Data Capture terminals; Electronic Transaction Processing; as well as provision of solutions & services related to payment infrastructure.

As at the LPD, the issued ordinary share capital of REVENUE is RM171,831,153 comprising 504,522,441 ordinary shares.

The directors of REVENUE and their respective shareholdings in REVENUE as at the LPD are as follows:

Name	Direct		Indirect	
	Number of ordinary shares	%	Number of ordinary shares	%
Kamari Zaman Bin Juhari	-	-	-	-
Leong Seng Wui	27,141,086	5.38	-	-
Teh Chee Hoe	26,310,900	5.22	-	-
Ng Chee Keong	-	-	-	-
Jade Lee Gaik Suan	-	-	-	-
Krishnan A/L Dorairaju	-	-	-	-
Chandera Sekaran @ Dawson	-	-	-	-
Azman Hisham Bin Che Doi	-	-	-	-
Dato’ Tang Ngat Ngoh	-	-	-	-

The substantial shareholders of REVENUE and their respective shareholdings in REVENUE as at the LPD are as follows:

Name	Direct		Indirect	
	Number of ordinary shares	%	Number of ordinary shares	%
Leong Seng Wui	27,141,086	5.38	-	-
Teh Chee Hoe	26,310,900	5.22	-	-

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 2 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, having reviewed and satisfied with the results of Hong Seng’s due diligence investigation, the financial and legal due diligence as well as the independent valuation carried out in connection with its acquisition of the Sale Shares from ICSB pursuant to the Agreement, which includes the due diligence reports, documents and/or information deemed necessary and requested by the Purchaser. The Purchaser may engage independent parties to assist in conducting further due diligence on Innov8tif Group to address any identified deficiencies (if so required);
- (ii) any approvals from the relevant authorities or parties as may be required by law or regulation or deemed necessary by the Parties to facilitate the sale of the Sale Shares; and
- (iii) the execution of an agreement or undertaking letter by ICSB with/to the Purchaser, in which Hong Seng shall cause ICSB to undertake and covenant to procure the KMP to enter into an agreement and/or any other relevant employment letter with Innov8tif Group (collectively be referred to as the “**Service Agreement**”) which the Service Agreement shall contain the terms and conditions as stipulated in the service agreement entered between Hong Seng and ICSB previously unless otherwise agreed by ICSB, for the purposes of ensuring the KMP to remain with Innov8tif Group for a period of at least 3 years from the Completion Date (as defined in Section 2.3.3 below) and to accept any other terms stipulated in the Service Agreement to manage Innov8tif Group’s operations and to drive Innov8tif 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 Disposal Consideration and Manner of Payment

The Disposal Consideration for the Sale Shares of RM36 million 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 RM7,200,000 which is equivalent to 20% of the Disposal Consideration (“**Deposit**”) to the solicitors as stakeholders, being the refundable deposit (in the event that the Conditions Precedent are not satisfied) towards the Disposal 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 RM25,445,000 which is equivalent to approximately 71% of the Disposal 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 Innov8tif 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 9% of the Disposal Consideration (“**Retention Sum**”) to ICSB.

For clarification, pursuant to the Agreement entered between Hong Seng and ICSB previously, Hong Seng shall retain a sum of RM3,355,000 (being the Retention Sum as security for the performance of the 12 months’ services by the KMP in Innov8tif Group) and Hong Seng shall pay the Retention Sum to ICSB on the 1-year anniversary of the completion of the Agreement and upon fulfillment of 12 months’ service by the KMP in Innov8tif Group from the completion of the Agreement.

In view thereof, the Parties agree that the Purchaser shall undertake to perform the duties and liabilities on the payment of Retention Sum on behalf of Hong Seng to ICSB pursuant to the SSA in the manner as set out in Section 2.3.2(iii) and Hong Seng shall be released from its obligations to pay ICSB upon completion of the SSA.

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 Innov8tif Group by such KMP from Innov8tif Group, then the Purchaser shall not be obligated to pay the Retention Sum to ICSB.

Notwithstanding that on the Completion Date, the Retention Sum has not been paid by the Purchaser to ICSB, 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 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 or cause ICSB to 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 Innov8tif Group’s management and operations as the Purchaser deems fit but shall endeavour to collaborate in good faith with ICSB and their nominee directors and/or the KMP to operate the management and operations of Innov8tif Group, and that the Purchaser shall be the holding company of Innov8tif 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 Disposal 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 Disposal Consideration and any other sum paid under the SSA free of interest in accordance with the SSA together with a cash payment of 20% of the Disposal 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 Disposal Consideration

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

- (i) 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 (“**Valuation Report**”), which the said indicative value is derived based on the Discounted Free Cash Flow to Firm (“**FCFF**”) Methodology method after taking into consideration the following key bases and assumptions:

Projected period	5 years from financial year ending 31 December (“FYE”) 2023 to FYE 2027
Revenue growth rate per annum ⁽¹⁾	96.2% to 9.8% (during FYE 2023 to FYE 2027)
Cost of sales incremental rate per annum ⁽²⁾	80.2% to 12.4% (during FYE 2023 to FYE 2027)
Operating expenses incremental rate per annum ⁽³⁾	15.8% to 7.6% (during FYE 2023 to FYE 2027)
Net profit margin across the projected period	14.0% to 15.8%
Discount rate / Weighted average cost of capital ⁽⁴⁾	13.73% to 14.73%
Terminal growth rate	1.0%
Terminal value ⁽⁴⁾	RM15.54 million to RM19.75 million

Notes:

- (1) *Innov8tif Group's main source of revenue is generated from the set-up and implementation, subscription, transaction and onboarding, technical support and development services in relation to the e-KYC technology. The growth percentage per annum above are projected based on the management's estimated overall growth rate of Innov8tif Group across the projected period.*
- (2) *The cost of sales comprises licensing fees, web hosting services and purchases of e-KYC related products.*
- (3) *The operating expenses comprises mainly staff cost, marketing expenses and office maintenance cost.*
- (4) *SCA had performed the sensitivity analysis on 3 key parameters, namely the discount rate, FCFF and the terminal value as these assumptions have significant impact on the implied valuation of Innov8tif Holdings. SCA has stress tested the future financials by varying the values adopted in the discount rate, FCFF and terminal value on a 0.5% and 3.0% upward and downward variance respectively to arrive at a reasonable range of the equity value of Innov8tif Holdings.*

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 FCFF methodology 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.

Based on the abovementioned range of values as appraised by SCA, the highest indicative value of the Sale Shares is approximately RM34.56 million and the Disposal Consideration of RM36 million represents a premium of 4.17% to the said value.

- (ii) Innov8tif 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, with the combined larger market shares of both Innov8tif Solutions Group and Xendity, Innov8tif 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. Innov8tif 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
- (iii) The rationale and benefits of the Proposed Disposal as set out in Section 3 of this announcement.

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

2.5 Utilisation of proceeds

The net proceeds of RM32,645,000 to be received from the Purchaser in relation to the Proposed Disposal after deducting the Retention Sum of RM3,355,000 which to be assumed by the Purchaser to ICSB in accordance with the clause as set out in Section 2.3.2(iii) of this announcement, will be used as detailed below:

- (i) To utilise RM24,414,500 from the net proceeds to pay the balance consideration due to ICSB under the Agreement; and
- (ii) The remaining balance of RM8,230,500 will be mainly utilised for working capital purposes for the Group's existing businesses including healthcare, gloves, nitrile butadiene latex, integrated logistics services and financial services businesses and to fund for any future business expansions to be undertaken by the Group and/or any future prospective business, project and/or acquisitions to be identified by the Group within 18 months from the Completion Date of the Proposed Disposal. The details of the utilisation of the proceeds have not been determined at this juncture and the allocation of proceeds to fund each category is depending on the funding requirements of the Group at any relevant time.

2.6 Liabilities to remain with Hong Seng Group

There are no liabilities, including contingent liabilities and guarantees, in relation to the Proposed Disposal which will remain with Hong Seng Group and there are no any guarantees given by Hong Seng Group to the Purchaser/Innov8tif Holdings in relation to the Proposed Disposal.

2.7 Original cost and date of investment

Hong Seng's original cost and date of investment of the Sale Shares pursuant to the Agreement is set out below:

Date of Agreement	Number of ordinary shares	Cost of investment (RM)
31 January 2023	717,570	30,855,000

2.8 Estimated gain arising from the Proposed Disposal

The estimated gain on the Proposed Disposal is computed as below:

	RM
Disposal Consideration	36,000,000
Cost of investment	30,855,000
Estimated gain arising from the Proposed Disposal	<u>5,145,000</u>

3. RATIONALE AND BENEFITS FOR THE PROPOSED DISPOSAL

The prospects of Innov8tif Group and the digital industry remain positive. However, Hong Seng as new entrant has no prior experience in the industry, hence, will be dependent on its partner, ICSB (being the 49% shareholder in Innov8tif Holdings) who are experienced with its background in the digital solutions industry to grow the businesses of Innov8tif Group. For long term prospects, Innov8tif Group will require additional funding and time to widen its targeted market as well as to enhance its offerings and services in order to strengthen its presence in the ASEAN markets. Therefore, it would require a longer gestation period before the Group is able to recoup the investment made to generate higher profits.

Thus, the Proposed Disposal is viewed positively to provide a timely opportunity for the Group to immediately to reap the immediate disposal gain of approximately RM5.145 million ahead the actual venture into Innov8tif Group's business operations without exposures to any business, financial and competition risks.

Thus, the Board is of the view that it is viable to dispose the Sale Shares and the proceeds received from the Proposed Disposal could be reallocated to mainly fund the Group's existing businesses, future business expansions and/or any future prospective businesses.

4. RISK FACTORS

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

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

5. EFFECTS OF THE PROPOSED DISPOSAL

5.1 Share capital and shareholdings of substantial shareholders

The Proposed Disposal will not have any effect on the Company's share capital and substantial shareholders' shareholdings in the Company as the Proposed Disposal does not involve any issuance of new ordinary share(s) in Hong Seng ("**Hong Seng Share(s)**").

5.2 Net assets ("NA") and gearing

The pro forma effects of the Proposed Disposal on the NA and gearing of the Group based on its audited consolidated financial statements as at 30 September 2022 are as follows:

	(Audited) As at 30 September 2022 (RM)	After the Proposed Disposal (RM)
Share capital		
- Ordinary shares	251,446,486	251,446,486
- Irredeemable convertible preference shares	35,878	35,878
Fair value reserve	(863,432)	(863,432)
Retained profits	137,707,582	142,852,582 ⁽¹⁾
Shareholders' funds / NA	388,326,514	393,471,514
No. of Hong Seng Shares in issue	5,108,416,768	5,108,416,768
NA per Hong Seng Share (RM)	0.08	0.08
Total borrowings (RM)	14,542,609	14,542,609
Gearing (times)	0.04	0.04

Note:

(1) After including the estimated gain on the Proposed Disposal of RM5,145,000

5.3 Earnings and earnings per share (“EPS”)

The pro forma effects of the Proposed Disposal on the earnings and EPS of the Group based on its audited consolidated financial statements as at 30 September 2022 are as follows:

	(Audited) Financial year ended 30 September 2022 (RM)	After the Proposed Disposal (RM)
Profit after tax attributable to the owners of the Company	97,191,503	97,191,503
Less:		
- Estimated gain arising from the Proposed Disposal	-	5,145,000
	97,191,503	102,336,503
Weighted average number of Hong Seng shares	5,107,633,108	5,107,633,108
EPS (sen)	1.90	2.00

6. APPROVALS REQUIRED

Pursuant to the Main Market Listing Requirements of Bursa Securities, the highest percentage ratio applicable to the Proposed Disposal is 9.27%, calculated based on the value of the Disposal Consideration of RM36 million against the audited consolidated net assets of Hong Seng Group of RM388,326,514 as at 30 September 2022. As such, the Proposed Disposal does not require the approval of shareholders of Hong Seng.

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

7. INTER-CONDITIONALITY OF THE PROPOSED DISPOSAL

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

8. 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 Disposal.

9. DIRECTORS' STATEMENT

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

10. ESTIMATED TIME FRAME FOR COMPLETION

Barring any unforeseen circumstances, the Proposed Disposal is expected to be completed in the 3rd quarter of year 2023 subject to the terms and conditions of the SSA.

11. DOCUMENT AVAILABLE FOR INSPECTION

The SSA and the Valuation Report are 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 12 May 2023.