

REPLY TO THE QUERY FROM BURSA MALAYSIA SECURITIES BERHAD (“BURSA SECURITIES”)

HONG SENG CONSOLIDATED BERHAD (“HONG SENG” OR THE “COMPANY” OR THE “VENDOR”) AND ITS SUBSIDIARIES (“HONG SENG GROUP” OR THE “GROUP”) - SHARES SALE AGREEMENT FOR THE PROPOSED DISPOSAL OF 51% EQUITY INTEREST IN INNOV8TIF HOLDINGS SDN BHD

We refer to the Company's announcement made on 12 May 2023 (“**Announcement**”) and the query from Bursa Securities dated 16 May 2023 (“**Query**”) in relation to the proposed disposal of 51% equity interest in Innov8tif Holdings Sdn Bhd (“**Innov8tif Holdings**”) (“**Proposed Disposal**”).

Unless otherwise stated, defined terms used in this reply shall carry the same meanings as defined in the Announcement.

The Company wishes to provide the following additional information pursuant to the Query.

1. Additional information under Section 1 of the Announcement
 - (a) To tabulate the list of conditions precedent under the Agreement between Hong Seng and ICSB that had been met together with the date of fulfillment.

No.	Conditions Precedent	Date of fulfillment
1.	Hong Seng being satisfied with the results of its due diligence investigation into ICSB’s title to the Sale Shares, the financial and legal due diligence as well as the independent valuation to be carried out on Innov8tif Group.	2 May 2023
2.	Any approvals from the relevant authorities or parties, if so required, for the transfer of the Sale Shares.	None noted
3.	The completion of the agreement for the acquisition of 100% stake in Xendity by Innov8tif Holdings	26 April 2023
4.	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 ICSB.	Capital injection - 9 February 2023 Capitalisation - 26 April 2023
5.	The execution of an agreement or undertaking letter by ICSB with/to Hong Seng, in which ICSB undertakes and covenants to procure the KMP of Innov8tif Group to enter into an agreement and/or any other relevant employment letter with Innov8tif Group, 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 between Hong Seng and ICSB and to accept any other terms stipulated in the said service agreement to manage Innov8tif Group’s operations and to drive Innov8tif Group’s business growth.	2 May 2023

- (b) To quantify the estimated expenses in relation to the Acquisition of Innov8tif Holdings and the Proposed Disposal together with the purpose of the expenses.

Purposes	RM
Professional fees and other related expenses incurred for the financial and legal due diligence as well as the independent valuation carried out on Innov8tif Group pursuant to the <u>Acquisition of Innov8tif Holdings</u>	161,000
Professional fees and other related expenses incurred pursuant to the <u>Proposed Disposal</u> *	-
Total estimated expenses	161,000

Note:

**The expenses in relation to the Proposed Disposal shall be borne by the Purchaser.*

2. Date of acquisition of 100% stake in Xendity by Innov8tif Holdings and the completion date thereof.

Reply

Innov8tif Holdings had on 20 January 2023 executed an agreement to acquire 100% stake in Xendity and the said acquisition was completed on 26 April 2023.

3. Listing of new projects that had been secured by Xendity in the FYE December 2022.

Reply

The new projects that had been secured by Xendity in the FYE December 2022 are as follows:

No.	Project
1.	3 e-KYC Projects - in collaboration with CTOS Data Systems Sdn Bhd to provide e-KYC solutions to clients in the banking industry
2.	1 Data Analytics and Advisory Project - in collaboration with CTOS Data Systems Sdn Bhd to provide related services to client in the banking industry

4. To clarify whether the key bases and assumptions used in arriving at the indicative Sale Shares values include Xendity's financial data and state the reasons thereof.

Reply

As disclosed in reply to item 1 above, the Acquisition of Innov8tif Holdings is subjected to the completion of the agreement for the acquisition of 100% stake in Xendity by Innov8tif Holdings. Thus, Xendity is part of the target group to be acquired by Hong Seng, which its financial data was included in the valuation of the Sale Shares as appraised by SCA.

5. Further clarification on the rationale for Hong Seng to enter into the Proposed Disposal within a short period of time i.e., less than 4 months after purchasing it on 31 January 2023 taking into consideration Hong Seng no prior experience and the due diligence process conducted prior to the purchase of Innov8tif Holdings in January 2023.

Reply

The risks factors and the benefits of the Acquisition of Innov8tif Holdings which were disclosed in the Announcement remained the same. Hong Seng initially intended to venture into the digital ID business by leveraging the experience and expertise of ICSB and the KMP through the ready business of Innov8tif Group, subsequent to the completion of the Acquisition of Innov8tif Holdings. However, an unexpected and attractive offer was received from REVENUE to acquire the Sale Shares at a substantial premium of RM5.145 million to Hong Seng's original acquisition price for the Sale Shares before Hong Seng could venture into the industry. This offer has prompted the management to assess whether to divest the Sale Shares or to retain the ownership of the Sale Shares.

Considering the long-term prospects of Innov8tif Group, additional resources would be required to stay competitive in the dynamic market and expand into a broader regional customer base. These resources encompass extensive funding, highly skilled manpower and continuous solution enhancements. Therefore, it would entail a longer gestation period before the Group is able to recoup the investment made to generate higher profits.

After having considered the challenges and uncertainties associated with the venturing into a new industry without prior experience, the Board is of the view that the Proposed Disposal presents a more favorable option whereby Hong Seng will be able to realise an immediate gain on disposal of approximately RM5.145 million. Furthermore, the Proposed Disposal allows the Group to sidestep potential risks, save time, and conserve resources that would otherwise be necessary to establish a foothold and compete effectively in the market.

6. To show and aggregate percentage ratios for the Acquisition of Innov8tif Holdings and the Proposed Disposal in accordance with Paragraph 10.12(2)(b) of Main Market Listing Requirements of Bursa Securities.

Reply

The highest percentage ratio applicable to the Acquisition of Innov8tif Holdings is 7.95% whereas the highest percentage ratio applicable to the Proposed Disposal is 9.27%.

Pursuant to Paragraph 10.12(2)(b) of the Main Market Listing Requirements of Bursa Securities, transactions involving the acquisition or disposal of securities or interests in one particular corporation/asset will be aggregated and such transactions will be treated as if they were one transaction if the terms of such transactions were agreed upon within a period of 12 months.

As such, the Acquisition of Innov8tif Holdings and the Proposed Disposal shall be aggregated and the aggregate percentage ratios for both transactions is 17.22%.

This announcement is dated 17 May 2023.