SINOTOP HOLDINGS BERHAD ("SINOTOP" OR THE "COMPANY")

PROPOSED ACQUISITION BY SINOTOP OF 51% EQUITY INTEREST IN TELEVISION AIRTIME SERVICES SDN BHD ("TAS")

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1. INTRODUCTION

Reference is made to the Company's announcement on 6 March 2020 whereby the Company had on even date entered into a heads of agreement ("**HOA**") with En. Sabri Bin Ab Rahman ("**SAR**") to exclusively explore and negotiate further on the proposed investment of 51% in TAS by Sinotop.

The Board of Directors of Sinotop ("**Board**") wishes to announce that Sinotop (the "**Purchaser**") had on 23 April 2020 entered into a conditional share sale agreement ("**SSA**") with SAR (the "**Vendor**") for the acquisition by Sinotop of 5,865,000 ordinary shares in TAS ("**TAS Shares**") ("**Sale Shares**"), representing 51% of the equity interest in TAS from the Vendor for a total purchase consideration of RM7,000,000 ("**Purchase Consideration**") to be satisfied via issuance of 38,461,538 new ordinary shares in Sinotop ("**Sinotop Shares**") ("**Consideration Shares**") at an issue price of RM0.13 per Consideration Share for a total shares consideration of RM5,000,000 and cash consideration of RM2,000,000 ("**Proposed Shares Acquisition**").

Post completion of the Proposed Shares Acquisition, Sinotop and SAR will hold 51% and 49% equity interest in TAS respectively.

2. DETAILS OF THE PROPOSED SHARES ACQUISITION

The Proposed Shares Acquisition entails the Vendor agreeing to sell and the Purchaser agreeing to purchase the Sale Shares for the Purchase Consideration of RM7,000,000 which will be satisfied via the issuance of 38,461,538 new Sinotop Shares at the issue price of RM0.13 per Consideration Share for a total shares consideration of RM5,000,000 and cash consideration of RM2,000,000.

In relation to the issuance of Consideration Shares, the Vendor will appoint two (2) other nominee investors to receive part of the Consideration Shares. The Vendor will inform the Purchaser in writing of the details of the Vendor's nominee investors on or before the unconditional date of the SSA so that the Consideration Shares can be issued and allotted to the Vendor and the Vendor's nominee investors in the desired and appropriate proportion.

The Sale Shares from the Vendor are free from all encumbrances, liens, charges, pledges, equities, mortgages together with all rights and benefits attaching thereto, including but not limited to all bonuses, rights, dividends and other distributions paid or made after the date of the SSA.

Pursuant to the Proposed Shares Acquisition, SAR had provided a profit guarantee in respect of the aggregate audited net profit after tax of Dapat Vista (M) Sdn Bhd ("**DVSB**"), an existing 20%-owned associate company of TAS, for the financial years ending 31 December 2020, 2021 and 2022 ("**Guaranteed Financial Years**") of not less than a total sum of RM9,000,000 excluding extraordinary items ("**Profit Guarantee**"). Further details of the Profit Guarantee are set out in Section 2.1.7 below.

2.1 Salient Terms of the SSA

2.1.1 Sale and Purchase

In consideration of the Purchase Consideration to be paid by the Purchaser to the Vendor in the manner provided herein and the mutual promises herein contained and subject to the terms and conditions of the SSA:-

(a) the Vendor shall sell and transfer to the Purchaser the Sale Shares free from all encumbrances, liens, charges, pledges, equities, mortgages and together with all rights and benefits attaching thereto; and

(b) the Purchaser shall purchase and accept the transfer of the Sale Shares from the Vendor free from all encumbrances, liens, charges, pledges, equities, mortgages together with all rights and benefits attaching thereto, including but not limited to all bonuses, rights, dividends and other distributions paid or made after the date of the SSA, at the Purchase Consideration.

2.1.2 Purchase Consideration

The total consideration for the sale, purchase and transfer of the Sale Shares shall be the sum of Ringgit Malaysia Seven Million (RM7,000,000) Only arrived at on a willing buyer willing seller basis.

2.1.3 Satisfaction of Purchase Consideration

The Purchase Consideration shall be paid and/or satisfied as follows: -

(a) as to the sum of RM2,000,000 only to be paid for in cash; and

(b) as to the balance sum of RM5,000,000 only to be satisfied by issuance and allotment by the Purchaser to the Vendor and/or the Vendor's nominees, of 38,461,538 new ordinary shares in the Purchaser at the issue price of RM0.13 only per Consideration Share.

2.1.4 Conditions Precedent

The SSA and the sale and purchase of the Sale Shares hereunder shall be subject to and conditional upon the fulfilment of the following conditions ("**Conditions Precedent**") within a period of one (1) month from the date of the SSA or such extended period as may be agreed upon between the Vendor and the Purchaser by mutual consent ("**Cut-Off Date**"):-

(a) the results of the due diligence being satisfactory to the Purchaser;

(b) the proposed borrowing by TAS having been procured or obtained from bank or any other financial institution ("**Proposed TAS Borrowing**") which grants the Proposed TAS Borrowing ("**Financier**") upon terms acceptable to both the Vendor and the Purchaser, and the relevant letter of offer having been issued by the Financier, provided however that the Purchaser has an option to waive this condition precedent subject to terms in the SSA;

(c) the Purchaser obtaining the approval of Bursa Securities in respect of its additional listing application for the listing and quotation of the Consideration Shares on the Main Board of Bursa Securities;

(d) the Vendor obtaining or procuring the written approvals or consents of the creditors, financiers and/or customers of TAS and DVSB (if required or applicable) to the change in shareholding structure and/or management of TAS and DVSB resulting from the transactions contemplated by the SSA;

(e) the Vendor having procured Nabil Bin Abdullah to transfer the one (1) share he holds in TAS to the Vendor; and

(f) the Vendor having caused TAS to transfer to the Vendor and/or the Vendor's nominees all shares and interests held by TAS in all companies in which TAS holds shares, other than DVSB, and such transfers having been completed.

2.1.5 Completion

2.1.5.1 Simultaneously on completion date of the SSA: -

(a) the stakeholder shall be authorised to release the Deposit (as defined in Section 2.11 herein) to the Vendor; and

(b) the Purchaser shall issue and allot the Consideration Shares to the Vendor and/or the Vendor's nominee investors;

and within five (5) business days thereafter, the Purchaser shall cause the Consideration Shares to be listed on Bursa Securities.

2.1.5.2 Provided that the SSA has not been terminated in accordance with the provisions of the SSA, completion shall take place immediately upon the registration of the Sale Shares in the name of the Purchaser.

2.1.5.3 The Purchaser shall pay the balance of the cash portion of RM1,000,000 only to the Vendor within two (2) months from the completion date of the SSA.

2.1.6 Condition Subsequent

2.1.6.1 Notwithstanding completion may have occurred, the Vendor shall cause to be delivered to the Purchaser the signed audited accounts of TAS for financial year ended 31 December 2019 duly prepared in accordance with the same standards and practices as per its previous accounting years, as soon as reasonably practicable and at any rate not later than 30 June 2020.

2.1.6.2 Such audited accounts of TAS shall, inter alia, provide fully for all required write-offs/ impairments/ provisions including goodwill balances, investment in subsidiaries, amount owing from subsidiaries and related companies, and non-trade receivables.

2.1.7 Profit Guarantee

2.1.7.1 In consideration of the Purchaser agreeing to purchase the Sale Shares, the Vendor hereby guarantees that the aggregate audited net profit after tax of DVSB for the financial years ending 31 December 2020, 2021 and 2022 shall collectively be not less than a total sum of RM9,000,000 only, excluding extraordinary items.

2.1.7.2 In the event that the aggregate audited net profit after tax of DVSB for the financial years ending 31 December 2020, 2021 and 2022 shall collectively be less than a total sum of **RM9,000,000**, then the Vendor shall be liable to top-up the shortfall in cash to DVSB within ninety (90) days from the date that the audited accounts of DVSB for the financial year ending 31 December 2022 is made available to the Vendor.

2.2 Information on TAS

TAS was incorporated in Malaysia as a private limited company on 17 November 1992. It is an investment holding company previously engaged in the provision of production facilities and management services, producers, distributors and dealers in video shows, drama and cinematographic pictures and provision of corporate management services. In 2000, TAS venture into digital data management via incorporation of an associate company, namely DVSB.

The share capital of TAS as at 22 April 2020, being the last practicable date prior to this announcement ("**LPD**") is RM11,500,000 comprising 11,500,000 TAS Shares. The shareholders of TAS and their respective shareholdings in TAS as at LPD are as follows:-

Name	Direct		Indirect	
	No. of TAS Shares	**%**	**No. of TAS Shares**	**%**
SAR	11,499,999	99.99	-	-
Nabil Bin Abdullah [1]	1	Negligible	-	-

Note:-
(1) The one (1) TAS Share held by Nabil Bin Abdullah will be transferred to SAR before the completion of the SSA in accordance to the SSA.

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The subsidiaries and associate companies of TAS as at LPD are as follows:-

Name of Company	Equity Interest Held	Principal Activities	Country of Incorporation
Subsidiaries			
Electronic Media Airtime Services Sdn Bhd ("**EMAS**")	100%	Dormant	Malaysia
KAS Industries Sdn Bhd	100%	Dormant	Malaysia
Radio Airtime Services Sdn Bhd	100%	Dormant	Malaysia
TAS Education Sdn Bhd	100%	Dormant	Malaysia
Unique Link (M) Sdn Bhd	100%	Dormant	Malaysia
PlayTV Asia Sdn Bhd (direct subsidiary of EMAS)	100%	Dormant	Malaysia
Associate Companies			
DVSB	20%	Providing mobile value-added services	Malaysia
Fantastic Fiesta Sdn Bhd (direct associate company of EMAS)	30%	Dormant	Malaysia

For information, saved for DVSB, all subsidiaries and associate companies of TAS will be transferred out from TAS to the Vendor or Vendor's nominee before the completion of the SSA in accordance to the SSA.

As at LPD, the directors of TAS are Norwati Binti Abd Razak and Ashari Bin Shuib.

Based on the latest audited financial statement of TAS and its subsidiaries ("**TAS Group**") for the financial year ended ("**FYE**") 31 December 2018, TAS Group recorded a loss after taxation of RM121,952 and net assets of RM11,414,294.

2.3 Information on DVSB

DVSB was incorporated in Malaysia as a private limited company on 20 March 2000. DVSB is a digital technology company that is principally involved in the development, operations and maintenance of mobile messaging and mobile payment applications for government electronic services.

As at LPD, DVSB's share capital is RM11,500,000 comprising 11,500,000 ordinary shares in DVSB. The shareholders of DVSB and their respective shareholdings in DVSB as at the LPD are as follows:-

Name	Direct		Indirect	
	No. of shares	%	No. of shares	%
HeiTech Padu Berhad ("**HTP**")	9,200,000	80.00	-	-
TAS	2,300,000	20.00	-	-

The directors of DVSB are SAR and Salmi Nadia Binti Mohd Hilmey as at LPD.

As at LPD, DVSB do not have subsidiary, associate and joint venture company.

On 10 December 2019, TAS and HTP entered into a sale and purchase agreement for the disposal by HTP of 60% equity interest in DVSB to TAS for a total consideration of RM13.5 million, together with the settlement of outstanding amount by TAS to HTP amounting to RM4.0 million ("**TAS Debt**") ("**TAS-HTP SPA**") ("**Proposed Share Transaction Between TAS and HTP**"). TAS has paid an aggregate sum of RM5.0 million to HTP under the TAS-HTP SPA, which sum has been utilised to fully settle the TAS Debt and the balance thereof RM1.0 mil towards settlement of the consideration for the Proposed Transaction Between TAS and HTP.

For information, based on the TAS-HTP SPA and as agreed between TAS and HTP, upon the payment for the initial and second tranches on 29 May 2020, 36% of the share capital of DVSB shall be transferred by HTP to TAS. Pursuant thereto, TAS will own 56% of the share capital of DVSB. The balance 24% of the share capital of DVSB shall be transferred by HTP to TAS in proportionate amounts upon payment of each of the balance tranche by TAS up to December 2023 in accordance with the terms of the TAS-HTP SPA. Upon full completion of the Proposed Share Transaction Between TAS and HTP, TAS shall own 80% equity interest in DVSB, with the remaining of 20% owned by HTP.

Based on the latest audited financial statement of DVSB for the FYE 31 December 2019, DVSB recorded a loss after taxation of RM710,680 and net assets of RM2,155,560.

2.4 Basis and justification in arriving at the Purchase Consideration

The Purchase Consideration for the Proposed Shares Acquisition is RM7.0 million for a 51% equity stake in the share capital of TAS. Such consideration was arrived at on a willing buyer-willing seller basis after taking into consideration the following:-

(i) The Profit Guarantee to be provided by SAR in respect of the aggregate audited net profit after tax of DVSB for the Guaranteed Financial Years of not less than a total sum of RM9,000,000, excluding extraordinary items.

(ii) Based on the Purchase Consideration and the 80% equity interest to be held by TAS in DVSB upon completion of the Proposed Share Transaction Between TAS and HTP, the implied 100% equity value for DVSB is RM17.2 million. The implied price-to-earnings ratio ("**P/E**") based on an average Profit Guarantee over the Guaranteed Financial Years of RM3.0 million per annum is 5.7 times.

The implied P/E of 5.7 times as represented by the Purchase Consideration based on the Profit Guarantee is lower than the average P/E and falls within the range of P/E for the companies listed on Bursa Malaysia Securities Berhad ("**Bursa Securities**") which are comparable to DVSB ("**Comparable Companies**") of 4.1 times and 62.6 times as set out below:-

Comparable Companies (1)	Market Capitalisation (RM' million)	P/E (Times) (2)
MCOM Holdings Berhad	76.4	41.7
Censof Holdings Berhad	42.6	62.6
Nova MSC Berhad	33.8	4.1
Low		4.1
Average		36.1
High		62.6
Purchase Consideration (Implied P/E)		5.7

(Source: Bloomberg as at LPD)

Notes:-

(1) The Comparable Companies are predominantly involved in the business of mobile technology or information technologies solutions provider mainly to the Government which listed on Bursa Securities with market capitalisation of less than RM150 million, excluded companies recorded loss in the latest audited financial statement. Nevertheless, the Comparable Companies set out above are not exhaustive and may not be directly comparable to DVSB in terms of composition of business activities, geographical area, scale of operations, track record, financial performance, risk profile, future prospects and other criteria.

For information, the trading P/E for My E.G. Services Berhad, a company involving in providing e-services between the Malaysian Government and its citizens (which is similar to the businesses of DVSB), with market capitalisation of approximately RM4.1 billion, is 40.2 times as at LPD.

(2) Based on the latest audited financial statements for the respective companies.

(iii) the prospects of the business of DVSB, involving in the mobile and digital solutions segment which the industry is growing and evolving at an overwhelming pace around the world.

2.5 Basis and justification in arriving at the issue price of the Consideration Shares

The issue price of RM0.13 per Consideration Share ("**Issue Price**") was derived after taking into consideration, amongst others, the following:-

(i) The Issue Price was agreed between the Purchaser and the Vendor and approved by the Board on 27 February 2020, which taken into consideration the 5-day volume weighted average price ("**VWAP**") of Sinotop Shares of RM0.1343 up to and including 25 February 2020, being the last trading day of Sinotop Shares prior to 27 February 2020. The Issue Price represents a discount of approximately 3.20% over the 5-day VWAP of Sinotop Shares as at 25 February 2020;

(ii) The Issue Price falls within the range of the low and high prices of Sinotop Shares for the past one (1) year up to LPD of RM0.080 and RM0.405 respectively; and

(iii) the rationale for the Proposed Shares Acquisition as set out in Section 3 of this announcement.

For information, the Issue Price represents a premium of approximately 22.1% over the 5-day VWAP of Sinotop Shares up to and including LPD of RM0.1065.

2.6 Ranking of Consideration Shares

The Consideration Shares shall, upon issuance and allotment to the Vendor and/or the Vendor's nominee investors, rank pari passu in all respects with the existing Sinotop Shares in issue, save and except that the Vendor and/or the Vendor's nominee investors shall not be entitled to any dividends or other distributions and entitlements declared or paid out prior to the date of allotment of the Consideration Shares and/or which entitlement date shall precede the date of allotment of the Consideration Shares.

2.7 Listing of and quotation of the Consideration Shares

An application will be made to Bursa Securities for the listing of and quotation for the Consideration Shares on the Main Market of Bursa Securities.

2.8 Reasonableness of the Profit Guarantee

The Board is of the opinion that the Profit Guarantee is reasonable and realistic after taking into the consideration, amongst others, the following:-

(i) DVSB's earning and growth potential particularly from the contribution of MyPay which was launched in August 2019; and

(ii) the prospects for the mobile and digital solutions industry as set out in Section 4.2 of this announcement.

As stated in the Section 2.1.7 herein, in the event of any shortfall in the Profit Guarantee, the Vendor undertakes to top-up the shortfall in cash to TAS.

2.9 Liabilities to be assumed by Sinotop

Save for the corporate guarantee to be provided by Sinotop to the financial institution in relation to the Proposed TAS Borrowing, there are no other liabilities, contingent liabilities or guarantees to be assumed by Sinotop pursuant to the Proposed Shares Acquisition, save for the liabilities stated in the financial statements of TAS, which will be consolidated into the financial statements of Sinotop and its group of companies ("**Sinotop Group**" or the "**Group**").

2.10 Estimated financial commitments

The Board does not foresee any material financial commitments required following the completion of the Proposed Shares Acquisition.

2.11 Source of Funding

The total cash consideration of RM2.0 million by Sinotop for the Proposed Shares Acquisition is envisaged to be funded by the Company vide internally generated funds, bank borrowings, and/or proceeds to be raised from the proposed disposal exercise as announced by the Company on 2 May 2019. The exact funding mix will be determined by the Board at a later stage after taking into consideration the gearing level of the Group, interest costs as well as cash requirements of the Group's business operations.

For information, the Company has paid a refundable deposit of RM1.0 million ("**Deposit**") to the stakeholder nominated by TAS in relation to the Proposed Shares Acquisition upon execution of the HOA. For avoidance of doubt, on the unconditional date of the SSA, the Deposit shall form part of the Purchase Consideration.

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3. RATIONALE FOR THE PROPOSED SHARES ACQUISITION

In view of the deteriorating financial performance, eroding profit margin and stiff competition in the business environment of the manufacturing and sale of fabric products segment of Sinotop Group in the People's Republic of China, the Company has entered into a conditional share sale agreement for the disposal of its wholly-owned foreign subsidiary, namely Be Top Group Limited on 2 May 2019. As of the date of this announcement, the transaction for the disposal is still on-going.

Following the disposal of the fabric related business, the project management services and infrastructure construction will be the remaining business of the Group. In view of the slowdown in the construction industry, the Company have been exploring for other viable investment to strengthen the financial performance of the Group.

In this respect, the Company had identified an opportunity to diversify its business income into the mobile and digital solutions segment by investing in TAS and DVSB, to allow the Company to mitigate the risk of purely depend on the construction segment.

Mobile technology is growing and evolving at an overwhelming pace. Availability of mobile devices is rapidly spreading throughout the world and making significant improvements in many lives. By investing in TAS, which eventually will own 80% equity interest in DVSB upon completion of the Proposed Share Transaction Between TAS and HTP, Sinotop will be able to share and tap into the growth potential in the mobile and digital solutions industry going forward.

4. INDUSTRY OVERVIEW, OUTLOOK AND PROSPECTS

4.1 Overview and outlook of the mobile and digital solutions industry in Malaysia

The rapid development of mobile and digital communications in Malaysia has led to high population coverage and penetration rates. This has brought widespread economic benefits to the national economy through value-add, employment and productivity improvements. The mobile and digital solutions industry in Malaysia comprises industry players that offer content, as well as technology solutions. The mobile and digital solutions industry in Malaysia, based on the revenue of industry players, grew from RM7.2 billion in 2015 to an estimated RM8.1 billion in 2018 at a compound annual growth rate ("**CAGR**") of 4.0%. Providence Strategic Partners anticipates the mobile and digital solutions industry in Malaysia to grow from an estimated RM8.1 billion in 2018 to RM8.6 billion in 2020 at a CAGR of 3.0%.

In 2011, the Central Bank of Malaysia developed a 10-year financial sector blueprint which amongst others, outlined the initiative to displace paper-based payment instruments, namely cheques and cash, in favour of the more convenient and cost effective e-payment methods. In 2019, the Central Bank of Malaysia announced that the nation's migration to electronic payment ("**E-payment**") has been promising as mobile payment transaction volume increased 20-fold year-on-year amid a reduction in the usage of traditional methods such as cheque payments. Between 2017 and 2018, mobile payment transaction volume had increased 20-fold from below two million transactions to over 34 million transactions within a year. E-payment acceptance points such as point-of-sale (POS) terminals have more than doubled to 16 terminals per thousand inhabitants in 2018. More merchants are also accepting quick response (QR) payments with over 400,000 registrations recorded to-date. Meanwhile, e-payment transactions have almost tripled to 125 transactions per capita in 2018. At the same time, new business models are emerging. The Central Bank of Malaysia estimates that 40% of financial technology firms (Fintech) in Malaysia are in payments or payment-related services. The electronic wallet (E-wallet) space has been particularly vibrant, contributing to rapid growth in mobile payments.

According to the International Telecommunication Union (ITU), the percentage of households with a computer more than doubled from 31.3% in 2005 to 71.7% in 2018. The percentage of households with access to the internet increased from 15.2% in 2005 to 87.0% in 2018. In Malaysia, smartphone penetration has increased from 51.0% in 2014 to 75.9% in 2017. Mobile devices, and particularly smartphones, are becoming part of the lifestyle for Malaysians who use it for communication, and as a platform for obtaining information, socialising, entertainment and performing banking activities.

The growth in smartphone penetration in Malaysia was primarily contributed by extensive mobile broadband coverage and competition that led to competitively priced mobile broadband packages. In addition, smartphone prices have become more affordable as a result of service providers launching innovative packages. Coupled with an ongoing demand for digital services among Malaysians, these have encouraged mobile phone users to migrate to smartphones.

Malaysia has seen a steady growth of newly registered enterprises at an average increase of 4.3% annually. According to the latest available data from the Companies Commission of Malaysia, new enterprises in Malaysia grew from 882,846 in 2009 to 1.3 million in 2019. This steady growth trend is expected to continue in light of the nation's developing economy over the long-term. The growing number of enterprises registered each year provides opportunities for greater demand for mobile and digital solutions in Malaysia.

(Source: Providence Strategic Partners)

4.2 Prospects of the Proposed Shares Acquisition

The Board believes that the Proposed Shares Acquisition provides the Group an excellent opportunity to venture into the mobile and digital solutions industry which is at the growth industry cycle.

DVSB, incorporated in 2000, has established track record of developing mobile messaging and mobile payment applications based on user needs. DVSB has secured from Malaysian Administrative Modernisation and Management Planning Unit ("**MAMPU**") a build/operate/own ("**BOO**") contract, which allows DVSB to access and develop small application and connection services for 370 Government agencies and departments in Malaysia. DVSB is well positioned to support Malaysia's efforts to be more digitally enabled arising from its 16 years long standing and established business relationships with the Government ministries and agencies for whom DVSB has developed mobile messaging and mobile payment application, and continues to operate and maintain till today.

In August 2019, DVSB launched "**MyPay 2.0**", aims to offer a one-stop platform for all queries and payment-related transactions with Government agencies in Malaysia. Currently, DVSB has rolled out MyPay 2.0 services for 17 Government ministries and agencies including the Polis Diraja Malaysia (PDRM), National Higher Education Fund (PTPTN), Road Transport Department Malaysia (JPJ), Lembaga Pembiayaan Perumahan Sektor Awam (LPPSA), Selangor Land Office, Majlis Bandaraya Subang Jaya (MBSJ), Majlis Bandaraya Petaling Jaya (MBPJ) and Election Commission of Malaysia (SPR). DVSB intends to roll out MyPay 2.0 services for more Government agencies, thereby enabling users to use MyPay 2.0 as a convenient and easy way to obtain information and make relevant payments to various government agencies on a single platform.

Further, in February 2020, DVSB launched Malaysia's first digital bail payment solution, namely e-Jamin. The e-Jamin digital platform would be launched in stages, starting with Kuala Lumpur, Shah Alam and Seremban, and expected to be expanded to nationwide.

With the outlook of the mobile and digital solution industry in Malaysia as well as prospect of DVSB, the Board believes that the Proposed Shares Acquisition will enable the Group to diversify its revenue and earnings streams to enhance the Sinotop Group's profitability and shareholders' value.

Based on Main Market Listing Requirements of Bursa Securities ("**MMLR**"), a listed issuer must obtain its shareholder approval in a general meeting for any transaction or business arrangement which might reasonably be expected to result in either the diversion of 25% or more of the net assets of the listed issuer, or the contribution from such an operation of 25% or more of the net profits of the listed issuer. Upon the completion of the SSA, the Company will assess the contribution from TAS Group and seek for shareholders' approval, where require, in according to the MMLR.

5. RISKS FACTORS

5.1 Non-completion of the Proposed Shares Acquisition

There is a possibility that the Proposed Shares Acquisition may not be completed due to failure in fulfilling the Conditions Precedent as set out in the SSA within the timeframe prescribed therein.

Nevertheless, the Board will take reasonable steps to ensure that the condition's precedent as set out in the SSA are met within the stipulated timeframe and that every effort is made to obtain all necessary approvals for the Proposed Shares Acquisition in order to complete the Proposed Shares Acquisition in a timely manner.

5.2 Achievability of the Profit Guarantee

The Profit Guarantee is based on various bases and assumptions which are deemed reasonable, but nevertheless subject to certain uncertainties and contingencies, which may be outside of DVSB's control. While the Board has taken reasonable steps to assess the achievability of the Profit Guarantee, there can be no assurance that the Profit Guarantee will be met.

Nevertheless, in the event any Profit Shortfall arise, the Vendor agrees and covenants to make good the Profit Shortfall by paying to DVSB the Profit Shortfall amount.

5.3 Investment and integration risk

Although the Proposed Shares Acquisition are expected to contribute positively to the future earnings of Sinotop as mentioned in Section 4.2, there is no guarantee that the anticipated benefits from the Proposed Shares Acquisition will be realised or that DVSB will be able to generate sufficient returns to offset the associated cost of investment.

As such, there is no assurance that the Proposed Shares Acquisition will enable the Company to improve its financial performance and the duration required for Sinotop to recoup its investment could be longer than anticipated.

Nevertheless, the Board has exercised due care in considering the potential risk and benefits associated with the Proposed Shares Acquisition will be value accretive to Sinotop, after taking into consideration, inter-alia, the prospects of DVSB, the experience and expertise of the Vendor and the management team of TAS and DVSB in mobile and digital solutions businesses as well as the Profit Guarantee.

5.4 Dependency on directors and key management personnel

DVSB's operations depend significant on the ability, expertise and continued efforts of its directors and key management personnel. Any loss of these key personnel without suitable and timely replacements and an inability to attract or retain qualified and suitable personnel may have an adverse impact on its businesses. Sinotop recognize the importance of attracting and retaining the key personnel.

Thus, post Proposed Shares Acquisition, Sinotop will adopt appropriate approaches or measures to retain such key personnel. To avoid over dependency on any key personnel, Sinotop will also strive to attract qualified and experience employees to support the mobile and digital solutions businesses.

5.5 Dependency on major customers

The major customers of DVSB are mainly the Government ministries and agencies in Malaysia. For the past three (3) financial years under review and up to LPD, DVSB has not experienced any loss of major customers that had a material adverse effect on their business operations and financial performance.

Nevertheless, there is no assurance that DVSB dependency on this group of customers would not have an impact on its future business operations and financial performance.

5.6 Political, economic and regulatory risk

Any adverse development in the political, economic, regulatory and social environment in Malaysia, the principal place of business of TAS and DVSB, directly or indirectly, could have a material adverse effect on the financial performance and prospects of TAS and DVSB. These uncertainties include changes in political leadership, economic conditions, which are generally beyond the management's control and will affect all the players in the industry.

Notwithstanding the foregoing, Sinotop will adopt a proactive approach in monitoring any development in the political, economic and regulatory environment in Malaysia and will seek the necessary professional advice to mitigate any risk arising from such changes.

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6. FINANCIAL EFFECTS

6.1 Share capital

The proforma effects of the Proposed Shares Acquisition on the issued share capital of Sinotop are as follow:-

	No. of Sinotop Shares ('000)	RM ('000)
Share capital as at the LPD	394,899	118,470
Sinotop Shares to be issued pursuant to the Proposed Shares Acquisition	38,462	5,000
Enlarged share capital	**433,361**	**123,470**

6.2 Net assets and gearing

The proforma effects of the Proposed Shares Acquisition on the consolidated net assets per share and gearing of Sinotop are as follow:-

	Audited FYE 30 June 2019 RM'000	After Proposed Shares Acquisition RM'000
Share capital	118,470	123,470
Statutory reserves	15,697	15,697
Accumulated Losses	(68,371)	(68,546) (1)
	65,796	70,621
Reserves classified as held for sale	40,338	40,338
Equity attributable to the owners of the Company / Net assets	**106,134**	**110,959**
Non-controlling interests	-	5,593 (2)
Total Equity	**106,134**	**116,552**
No. of Sinotop Shares ('000)	394,899	433,361
Net assets per Sinotop Share attributable to shareholders (RM)	0.27	0.26
Total borrowings (RM'000)	-	220 (3)
Gearing (times)	-	0.002 (3)

<u>*Notes:-*</u>

(1) *After taking into account of the estimated expenses for the Proposed Shares Acquisition of RM175,000.*

(2) *Calculated based on the net assets of TAS Group of RM11,414,294 as at 31 December 2018.*

(3) *After taking into account the bank overdraft of RM219,655 of TAS Group as at 31 December 2018. The gearing is calculated based on total borrowings over net assets.*

6.3 Earnings per share ("EPS")

Assuming the Proposed Shares Acquisition is completed by the second (2nd) quarter of 2020 and taking into consideration the Profit Guarantee provided by SAR in respect of the Guaranteed Financial Years, the Proposed Shares Acquisition is expected to contribute positively to the earnings of the Group for the financial year ending 30 June 2021 and onward.

The consolidated EPS of Sinotop is expected to be diluted as a result of the enlarged issued capital of Sinotop arising from the issuance of the Consideration Shares. Nevertheless, the Proposed Shares Acquisition are expected to contribute positively to the future earnings and EPS of Sinotop Group for the ensuing financial years arising from, amongst others, the earnings contribution from TAS as a result of equity interest in DVSB.

6.4 Substantial Shareholders' Shareholdings

The proforma effects of the Proposed Shares Acquisition on the substantial shareholders' shareholdings of Sinotop are as follow:-

Name	As at the LPD				After the Proposed Shares Acquisition			
	Direct		Indirect		Direct		Indirect	
	No. of Sinotop Shares	%	No. of Sinotop Shares	%	No. of Sinotop Shares	%	No. of Sinotop Shares	%
Gifted Investments Limited	225,125,000	57.01	-	-	225,125,000	51.95	-	-
Pan Ding (1)	-	-	225,125,000	57.01	-	-	225,125,000	51.95
Noble Pinnacle Sdn Bhd	60,000,000	15.19	-	-	60,000,000	13.85	-	-
Dato' Justin Soo Sze Ching (2)	-	-	60,000,000	15.19	-	-	60,000,000	13.85
Lim Yoke Eng (3)	-	-	60,000,000	15.19	-	-	60,000,000	13.85
Hsu, Ching-Fu	25,217,840	6.39	-	-	25,217,840	5.82	-	-
SAR (4)	-	-	-	-	18,461,538	4.26	-	-
Nominee Investor 1 (4)	-	-	-	-	10,000,000	2.31	-	-
Nominee Investor 2 (4)	-	-	-	-	10,000,000	2.31	-	-

<u>Notes:-</u>

(1) By virtue of deemed interest in Gifted Investments Limited.
(2) By virtue of deemed interest in Noble Pinnacle Sdn Bhd.
(3) By virtue of deemed interest in Noble Pinnacle Sdn Bhd.
(4) For illustration purpose, assuming SAR to held 18,461,538 Consideration Shares and he appoints two (2) nominee investors to receive 10,000,000 Consideration Shares each pursuant to the Proposed Shares Acquisition. For information, as per the SSA, SAR will appoint two (2) other nominee investors to receive part of the Consideration Shares.

6.5 Convertible securities

Sinotop does not have any convertible securities as at LPD.

7. APPROVALS REQUIRED

The Proposed Shares Acquisition is subject to, *inter alia*, the following approvals being obtained:-

(i) the approval of Bursa Securities for the listing of and quotation for the Consideration Shares on the Main Market of Bursa Securities ("**Listing Application**");

(ii) any other relevant regulatory authorities and/or parties, if required.

The Proposed Shares Acquisition is not conditional or inter-conditional upon any other corporate exercises undertaken or to be undertaken by Sinotop.

8. INTEREST OF DIRECTORS, MAJOR SHAREHOLDERS AND PERSONS CONNECTED

None of the directors and/or major shareholders of Sinotop and/or persons connected to the Directors and/or major shareholders of Sinotop have any interest, direct or indirect, in the Proposed Shares Acquisition.

9. DIRECTORS' STATEMENT

The Board after having considered all aspects of the Proposed Shares Acquisition, and after careful deliberation, is of the opinion that the Proposed Shares Acquisition are in the best interests of the Company.

10. ADVISERS

Astramina Advisory Sdn Bhd is the appointed Financial Adviser for the Company in relation to the Proposed Shares Acquisition and the appointed Transaction Arranger for SAR and TAS in relation to the Proposed Shares Acquisition.

KAF Investment Bank has been appointed as the Adviser for the Company in relation to the Listing Application for the Proposed Shares Acquisition.

11. PERCENTAGE RATIO

The highest percentage ratio applicable to the Proposed Shares Acquisition pursuant to Paragraph 10.02(g) of the MMLR is 16.64%, which is the aggregate value of consideration for the Proposed Shares Acquisition of RM7.0 million compared with market capitalisation of Sinotop shares as at LPD of RM42.1 million.

12. ESTIMATED TIMEFRAME FOR COMPLETION

The Proposed Shares Acquisition is expected to be completed by the second (2^{nd}) quarter of 2020.

13. DOCUMENTS FOR INSPECTION

The SSA are available for inspection at the registered office of Sinotop during office hours from Monday to Friday (except public holidays) at 802, 8th Floor, Block C, Kelana Square, 17 Jalan SS7/26, 47301 Petaling Jaya, Selangor Darul Ehsan for a period of three (3) months from the date of this announcement.

This announcement is dated 23 April 2020.

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