

## **INDUSTRONICS BERHAD ("ITRONIC" OR "THE COMPANY")**

- **PROPOSED ISSUANCE OF UP TO 250,000,000 NEW REDEEMABLE CONVERTIBLE PREFERENCE SHARES ("RCPS") TO BLUEMOUNT INVESTMENT FUND SPC ("BIF") AT AN ISSUE PRICE OF RM0.08 PER RCPS ("PROPOSED ISSUANCE OF RCPS"); AND**
- **PROPOSED AMENDMENTS TO THE CONSTITUTION OF THE COMPANY TO FACILITATE THE PROPOSED ISSUANCE OF RCPS ("PROPOSED AMENDMENTS")**

### **(COLLECTIVELY, THE "PROPOSALS")**

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## **1. INTRODUCTION**

On behalf of the Board of Directors of Itronics ("**Board**"), M&A Securities Sdn Bhd ("**M&A Securities**") wishes to announce that the Company proposes to undertake the Proposed Issuance of RCPS and the Proposed Amendment.

On even date, the Company entered into a conditional subscription agreement with BIF ("**Subscriber**") in relation to the Proposed Issuance of RCPS ("**Subscription Agreement**").

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

### **2.1 Proposed Issuance of RCPS**

Itronic had on 13 February 2020 entered into the Subscription Agreement with BIF for the proposed subscription of up to 250,000,000 new RCPS, in tranches, by BIF at a subscription price of RM0.08 per RCPS. Details of the Subscriber are set out in Sections 2.1.1.

Pursuant to the Subscription Agreement, the Subscriber shall, or the Company shall require the Subscriber to subscribe for up to 250,000,000 new RCPS based on the terms of the RCPS (as detailed in Section 2.1.2 below).

As at the date of this announcement ("**LPD**"), the Company has an issued share capital of RM7,240,907 comprising of 133,402,574 ordinary shares ("**Itronic Shares**" or "**Shares**"). The Company does not have other classes of securities besides its ordinary shares.

#### **2.1.1 Information on the Subscriber**

BIF is an exempted company incorporated with limited liability and registered as a segregated portfolio company under the laws of the Cayman Islands. BIF is wholly-owned by Bluemount Financial Holdings Limited, a company incorporated in the British Virgin Island and the directors of BIF as at the LPD are Li Hok Yin and Yeung Tong Seng Terry, both being citizens of People's Republic of China, Hong Kong.

BIF is principally involved in managing its own funds and investment portfolios and invests in a variety of financial instruments, including but not limited to investing in quoted securities through private unlisted debt-to-equities convertible instruments known as redeemable convertible notes and redeemable convertible preference shares. The RCPS shall be subscribed by BIF and allocated to the Cyber Investment Fund SP ("**CIF**"), a segregated portfolio of BIF as designated by the directors of BIF in September 2019.

## 2.1.2 Salient Terms of the RCPS

The salient terms of the RCPS are as follows:

- Issue Price** : RM0.08 per RCPS
- Issue Size** : Up to RM20,000,000.00 by way of issuance of up to 250,000,000 RCPS. The RCPS will be issued in 5 tranches as follows:
- Tranche 1:** Up to RM4,000,000 by way of issuance of up to 50,000,000 RCPS
- Tranche 2:** Up to RM4,000,000 by way of issuance of up to 50,000,000 RCPS together with the unsubscribed portion of Tranche 1 RCPS, if any
- Tranche 3:** Up to RM4,000,000 by way of issuance of up to 50,000,000 RCPS together with the unsubscribed portion of Tranche 2 RCPS, if any
- Tranche 4:** Up to RM4,000,000 by way of issuance of up to 50,000,000 RCPS together with the unsubscribed portion of Tranche 3 RCPS, if any
- Tranche 5:** Up to RM4,000,000 by way of issuance of up to 50,000,000 RCPS together with the unsubscribed portion of Tranche 4 RCPS, if any

Subject to the following:

- (i) outstanding RCPS not exceeding 50% of the issued share capital of the Company at any point;
- (ii) all the tranches of the RCPS can be subscribed in whole or in part at the option of the Company;
- (iii) the unsubscribed portion of any tranches of the RCPS (save for Tranche 5 RCPS) shall automatically be rolled over to the next tranche; and
- (iv) the unsubscribed portion of Tranche 5 RCPS shall automatically be lapse after the issuance of Tranche 5 RCPS.

- Conditions Precedent** : Subject to the provisions of the Subscription Agreement the Subscriber shall, on the Issue Date (as defined below), subscribe for the RCPS provided always that the following conditions precedent shall have been satisfied on or before the date falling 6 calendar months from the date of the Subscription Agreement, or such other date as the Parties may agree in writing ("**Conditional Date**"):
- (i) the approval from Bank Negara Malaysia for the issuance of the RCPS to the Subscriber shall have been obtained and, where such approval(s) are obtained subject to any conditions and/or amendments, such conditions and/or amendments being acceptable to the Subscriber (on behalf of CIF), and to the extent that any such conditions are required to be fulfilled on or before the Conditional Date, they are fulfilled. In addition, such approval(s) shall not be amended, withdrawn, revoked, rescinded or cancelled;

- (ii) the approval(s) of the fund director of CIF for the investment into the Company and subscription of the RCPS shall have been obtained and, where such approval(s) are obtained subject to any conditions and/or amendments, such conditions and/or amendments being acceptable to the Company, and to the extent that any such conditions are required to be fulfilled on or before the Conditional Date, they are fulfilled. In addition, such approval(s) shall not be amended, withdrawn, revoked, rescinded or cancelled;
- (iii) the approval(s) of shareholders of the Company for:
  - (a) the invitation for subscription, or the issue, of the RCPS and the allotment and the issue of the Conversion Shares; and
  - (b) the amendments to the Constitution of the Company to reflect and incorporate the terms of the RCPS,
 

shall have been obtained at a general meeting of the Company and, where such approval(s) are obtained subject to any conditions and/or amendments, such conditions and/or amendments being acceptable to the Subscriber (on behalf of the Segregated Portfolio), and to the extent that any such conditions are required to be fulfilled on or before the Conditional Date, they are fulfilled. In addition, such approval(s) shall not be amended, withdrawn, revoked, rescinded or cancelled; and
- (iv) all necessary approvals and/or consents of Bursa Securities or any other regulatory authorities for the allotment and issue of the Conversion Shares upon the exercise of the conversion rights in respect of the RCPS, the listing of the Conversion Shares on the Main Market and such other relevant approvals in relation thereto and in connection therewith for the transactions contemplated under the Subscription Agreement shall have been duly obtained and such approvals shall not be amended, withdrawn, revoked, rescinded or cancelled and, where such approvals are obtained subject to any conditions and/or amendments, such conditions and/or amendments being acceptable to the Subscriber (on behalf of CIF), and to the extent that any such conditions are required to be fulfilled on or before the Conditional Date, they are fulfilled.

In the event that any party becomes aware that any of the above conditions precedent is not fulfilled or incapable of being fulfilled/waived at any time on or before the Conditional Date, either party shall be entitled to terminate this Agreement by giving notice to that effect to the other party; then this Agreement shall be terminated and cease to be of any further effect save for any antecedent breaches.

- Issue Date** : The Subscriber shall , or the Company shall require the Subscriber to:
- (i) subscribe for the Tranche 1 RCPS within 10 business days or on a date the parties may agree in writing after the last of the conditions precedents as set out above is fulfilled, such date being the Issue Date of Tranche 1 RCPS;
  - (ii) subject to Concurrent Subscription, subscribe for Tranche 2 RCPS within 10 business days or on a date the Parties may agree in writing after the Tranche 1 RCPS being converted into Conversion Shares (as

- (iii) defined below), such date being the Issue Date of Tranche 2 RCPS; subject to Concurrent Subscription, subscribe for Tranche 3 RCPS within 10 business days or on a date the Parties may agree in writing after the Tranche 2 RCPS being converted into Conversion Shares, such date being the Issue Date of Tranche 3 RCPS;
- (iv) subject to Concurrent Subscription, subscribe for Tranche 4 RCPS within 10 business days or on a date the Parties may agree in writing after the Tranche 3 RCPS being converted into Conversion Shares, such date being the Issue Date of Tranche 4 RCPS; and
- (v) subject to Concurrent Subscription, subscribe for Tranche 5 RCPS within 10 business days or on a date the Parties may agree in writing after the Tranche 4 RCPS being converted into Conversion Shares, such date being the Issue Date of Tranche 5 RCPS.

**"Concurrent Subscription"** means in respect of each subsequent Tranche 2 RCPS, Tranche 3 RCPS, Tranche 4 RCPS and Tranche 5 RCPS, as long as the outstanding RCPS do not exceed 50% of the issued share capital of the Company at any point, the parties to the Subscription Agreement shall be entitled (at their election) to subscribe and issue for each such subsequent tranche notwithstanding the last RCPS comprised in the immediately preceding tranche has yet to be converted into Conversion Shares.

**Issue Period** : The period of approximately 5 years from and inclusive of the Issue Date of the Tranche 1 RCPS, up to one month before the Maturity Date.

**Maturity Date** : The date falling on the business day immediately before the 5th anniversary of the Issue Date of the Tranche 1 RCPS or such other later date as may be determined in writing by the Company and Subscriber.

**Dividend Rate** : A cumulative preference dividend rate per annum of 4% of the Issue Price shall be payable out of post taxation profits of the Company. The dividends shall be paid semi-annually, on 30 June and 31 December each calendar year. No dividends shall be paid on the ordinary shares of the Company unless the dividends on the RCPS have first been paid.

The right to receive preference dividends, including preference dividends in arrears, shall cease once the RCPS are converted into Itronic Shares or redeemed by the Company.

**Conversion Terms** : Subject to and upon compliance with the terms and conditions in the Subscription Agreement, the RCPS may be converted into Itronic Shares ("**Conversion Shares**", each a "**Conversion Share**" during the Conversion Period.

Each RCPS shall be entitled to be converted into 1 Conversion Shares in the Company ("**Conversion Ratio**") at the conversion price of RM0.08 for each Conversion Share ("**Conversion Price**"). All RCPS which are converted will be cancelled by the Company and shall not be reissued or resold.

The Conversion Ratio and/or Conversion Price are subject to any applicable adjustments as set out in the Subscription Agreement. If, during the subsistence of the Subscription Agreement an event has occurred including, without limitation, where the Company shall (i) make a stock split, (ii) consolidate its outstanding Shares into a smaller number of shares, or (iii) re-classify any of its Shares into other securities of the Company, such that the

closing price per Share before and after such event does not represent the same economic and financial participation that a shareholder of the Company would have had without the occurrence of such an event, then the Conversion Ratio and/or Conversion Price shall, at the determination of the Board, be adjusted to reflect the impact of such an event in such a manner as an independent reputable bank (such as but not limited to Bloomberg L.P.) or a reputable firm of investment advisers licensed by the Securities Commission Malaysia would. Such bank or firm may be agreed between the Company and the Subscriber or, if not so agreed, the Company and the Subscriber shall agree to a bank or firm as nominated by the Malaysia Institute of Accountants which it deems is fair and reasonable to make such changes to the Conversion Ratio and/or Conversion Price.

**Conversion Upon Maturity** : Subject to:-

- (i) the Non-Default Redemption; and
- (ii) the Conversion Cap.

Any remaining outstanding RCPS must be converted into Conversion Shares on the Maturity Date, unless the Company exercises its rights in respect of Non-Default Redemption prior to the Maturity Date, together with payment by the Company of all accumulated and unpaid dividend accrued on the converted RCPS.

Any remaining RCPS which are not converted due to a breach of the Conversion Cap shall be redeemed by the Company under Non-Default Redemption at the Non-Default Redemption Amount.

“**Conversion Cap**” means the extent of conversion of the RCPS by the Subscriber shall be capped such that its resultant ordinary shareholding in the Company shall not exceed 20% of the enlarged total number of ordinary shares of the Company at any point in time following a conversion.

**Conversion Period** : The period from and including the respective Issue Date up to the close of business on the day falling 7 days prior to the Maturity Date.

Notwithstanding the above, the Company may from time to time give a not less than 7 days' written notice to the Subscriber specifying a period which the RCPS will not be convertible, provided always that the aggregate of the days on which the RCPS are not convertible shall not exceed 30 business days in any calendar year.

**Non-Default Redemption** : Subject to there being no Event of Default, the Company may, subject to and in accordance with Section 72 of the Companies Act 2016, at any time and from time to time during the Redemption Period, purchase the RCPS at the Non-Default Redemption Amount.

All RCPS which are redeemed will be cancelled by the Company and shall not be reissued or resold.

**Non-Default Redemption Amount** : 100% of the principal amount of RCPS, or such other amount as may be agreed in writing between the Company and the Subscriber, together with all accumulated and unpaid dividend accrued on the RCPS to be redeemed.

**Redemption Period** : The period from and including the respective RCPS Issue Date up to the close of business on the day falling 7 days prior to the RCPS Maturity Date.

**Event of Default**

- : For so long as there are any RCPS outstanding, if any of the following events (each, an "**Event of Default**") occurs:
- (i) Non-Payment: Company fails to pay the redemption sum and any unpaid accrued payment as at the Maturity Date and that such failure to pay has not been remedied; or
  - (ii) Breach of obligations: Company fails to observe or perform any of its obligations under the Subscription Agreement or under any undertaking or arrangement entered into in connection therewith and, in the case of a failure capable of being remedied, it has not been remedied within 30 days after the issue of written notice by the Subscriber, that it has been remedied to the satisfaction of the Subscriber; or
  - (iii) Misrepresentation: any representation, warranty or statement which is made (or acknowledged to have been made) by Company in the Subscription Agreement or which is contained in any certificate, statement, legal opinion or notice provided under or in connection herewith or therewith proves to be incorrect in any material respect, or if repeated at any time with reference to the facts and circumstances subsisting at such time would not be accurate in all material respects and is likely to have a material adverse effect on Company to perform its obligations under the Subscription Agreement and which, if capable of remedy, if not remedied within 30 days after the issue of written notice by the Subscriber; or
  - (iv) Invalidity: any provision of the Subscription Agreement and/or the RCPS is or becomes, for any reason, invalid or unenforceable; or
  - (v) Cessation of business: Company changes the nature or scope of its business, suspends a substantial part of the present business operations which it now conducts directly or indirectly, or any governmental authority expropriates or proposes to expropriate all or part of its assets and the result of any of the foregoing is, in the determination of the Subscriber, materially and adversely affect the financial condition of Company or its ability to observe or perform its obligations under the RCPS; or
  - (vi) Appointment of Receiver, Legal process: an encumbrancer takes possession of, or a trustee, receiver or similar officer is appointed in respect of, all or any part of the business or assets of Company or distress, execution, sequestration or other process is levied or enforced upon or sued against any of the undertaking(s), assets, rights or revenues of Company of a claim exceeding 5% of the net tangible assets of Company and is not discharged or contested in good faith within 30 Business Days, and such distress or execution in the reasonable opinion of the Subscriber, materially prejudicial to the interests of Subscriber; or
  - (vii) Insolvency: Company becomes insolvent or is unable to pay its debts as they fall due, stops or suspends payment of all or a material part of its debts, begins, negotiations or takes any proceeding or other step with a view to readjustment, rescheduling or deferral of all of its borrowed money (or of any part of its borrowed money which it will or might otherwise be unable to pay when due) or proposes to make a general assignment or an arrangement or composition with or for the

benefit of its creditors or a moratorium is agreed or declared in respect of or affecting all or a part of the borrowed money of Company; or

- (viii) Winding-Up: Company takes any action or any legal proceedings started or other steps taken for (aa) Company to be adjudicated or found insolvent, (bb) the winding-up, dissolution of Company either by an order of a Court of competent jurisdiction or by way of voluntary winding-up save and except to effect a reorganisation of the business of Company (cc) the appointment of a liquidator, trustee receiver or similar officer of Company over the whole or any part of Company's undertaking(s), assets, rights or revenues other than a winding-up or of assets for the purpose of amalgamation or reconstruction which has been previously approved by the Subscriber or any order of a court of competent jurisdiction; or
- (ix) Analogous Events: anything analogous to any of the events specified in paragraph (vii) or (viii) above occurs under the laws of any applicable jurisdiction; or
- (x) Indebtedness Not Paid: any borrowed money or indebtedness of Company is not paid when due or becomes due and payable or any guarantee or indemnity given by Company in respect of such borrowed money is not honoured when due and called upon save and except for any legitimate dispute to the claim; or
- (xi) Nationalisation of Assets: all or a material part of the undertaking(s), assets, rights or revenues of, or shares or other ownership interests in, Company is seized, nationalised, expropriated or compulsorily acquired by or under the authority of any governmental body save where adequate compensation has been paid; or
- (xii) Illegality: it becomes unlawful at any time for Company to perform all or any of its obligations under this Agreement and/or the RCPS or due to the fault or omission of Company; and/or RCPS or this Agreement becomes unenforceable against Company;

then the Subscriber may and if they deem fit in their respective absolute discretion, declare that an Event of Default has occurred.

**Termination** : Upon the occurrence of the Event of Default, the following shall occur:

- (i) all outstanding RCPS shall immediately become redeemable at the discretion of the Subscriber at 100% of the principal amount of the outstanding RCPS (the "**Default Redemption Amount**"), together with all accrued dividend, within 30 days from the date the Company is in receipt of the notice of event of default from the Subscriber ("**EOD Payment Period**"). Interest shall accrue on the Default Redemption Amount on a daily basis at the rate of 8.00% per annum ("**Default Interest**") commencing from the next day after the expiry of EOD Payment Period up to and including the date which the Subscriber receives full payment of the Default Redemption Amount, together with accrued Default Interest;
- (ii) the Subscription Agreement shall terminate and be of no further effect save that the Company shall remain liable for its obligations under any RCPS which have become redeemable, the payment of all

costs and expenses referred to in the Subscription Agreement already incurred or incurred in consequence of such termination, and the respective obligations of the parties under the Subscription Agreement which would have continued had the arrangements for the issue and subscription of the RCPS been completed shall continue and any antecedent breaches by any Parties; and

- (iii) each Party shall cease to have further rights or obligations under this Agreement provided that such termination shall be without prejudice to any rights of the Parties which may have accrued prior to such termination.

For the avoidance of doubt, nothing herein shall affect the RCPS or the Conversion Shares already issued to the Subscriber pursuant to the Subscription Agreement and the obligations of the Company to the Subscriber in respect of such RCPS or the Conversion Shares under the Subscription Agreement or otherwise, those provisions shall continue to survive termination.

**Transferability** : The RCPS are not transferable and not tradeable.

**Listing status** : The RCPS shall not be listed on any stock exchange. The Conversion Shares shall be listed on the Main Market of Bursa Securities.

**Governing Laws** : The Subscription Agreement and RCPS shall be governed by the laws of Malaysia.

### **2.1.3 Basis of arriving at the Issue Price and Conversion Price**

The RCPS Issue Price and RCPS Conversion Price were determined and fixed by the Board after taking into consideration the 5-day weighted average market price ("**5D-VWAMP**") of Itronic Shares up to and including 12 February 2020, being the last market day prior to this announcement, of RM0.09. The RCPS Issue Price and RCPS Conversion Price of RM0.08 represent a discount of 10% to the 5D-VWAMP of Itronic Shares. The Issue Price and Conversion Price were also determined after taking into consideration the funding requirement of Itronic, as detailed in Section 2.3 of this announcement.

After considering the above, the Board is of the view that the Issue Price and Conversion Price are fair and reasonable and do not prejudice the interests of existing shareholders of Itronic.

### **2.1.4 Ranking of the RCPS and Conversion Shares**

The RCPS shall rank equally amongst themselves and will rank ahead in point of priority to the ordinary shares and all other classes of shares (if any) in Itronic, in respect of payment out of the assets of Itronic upon any liquidation, dissolution or winding-up of Itronic.

The Conversion Shares to be issued arising from the conversion of the RCPS will, upon allotment and issuance, rank equally in all respects with the then existing Itronic Shares.

### **2.1.5 Listing and quotation of the RCPS and Conversion Shares**

The RCPS will not be listed on Bursa Securities.

An application will be submitted to Bursa Securities within 1 month from the date of this Announcement for the listing and quotation of the Conversion Shares to be issued arising from the conversion of the RCPS on the Main Market of Bursa Securities.



## 2.2 Proposed Amendment

The Proposed Amendment entails the consequential amendments to the Constitution of the Company to facilitate the creation of RCPS in accordance with the Proposed Issuance of RCPS.

## 2.3 Utilisation of proceeds

The Proposed Issuance of RCPS is expected to raise gross proceeds of up to RM20.0 million which will be utilized in the following manner:-

	<b>Notes</b>	<b>Amount</b>	<b>Expected time frame for the utilisation upon receipt of Tranche I</b>
Business expansion	(i)(iv)	RM12.60 million	Within 24 months
Working capital for the Group's existing business	(ii)(iv)	RM7.00 million	Within 12 months
Estimated expenses relating to the Proposals	(iii)	RM0.40 million	Within 1 month
<b>Total</b>		<b>RM20.00 million</b>	

### Notes:

#### (i) Business expansion

Itronic and its subsidiaries ("Group") are in the business of providing electronics and information display system, telecommunication system, audio video multimedia systems and other various information communication technology ("ICT") related system. The Group plans to allocate up to RM12.60 million of proceeds from the Proposed Issuance of RCPS to fund the development of new products and solution offerings as part of its business expansion, as detailed below:-

<b>Details</b>	<b>Amount</b>
<p><b>(a) Intelligent tracking system</b></p> <p>The Company plans to develop an intelligent tracking system which tracks transports, physical assets and people which will enable more efficient transport management by the client. The system will embed technologies such as, amongst others, global positioning system (GPS) tracking, artificial intelligence (AI) and emergency services (such as sends emergency message to the nearest hospital and/or police station when meet any accident, panic button etc). The system will service customers from various industries such as infrastructure, transportation and logistics industries.</p> <p>Specifically, proceeds allocated will be utilised to set up and fund the research and development division (RM1.50 million), and subsequently an operation centre that is equipped with systems, servers and other related IT infrastructure (RM3.50 million).</p>	RM4.00 million
<p><b>(b) 3-Dimensional ("3D") display hardware and mobile application</b></p> <p>The Company plans to allocate RM5.60 million to expand its business to include provision of 3D display hardwares and 3D mobile application that display 3D contents. As at LPD, our Group is in the midst of finalising a technology licensing agreement with Pearson Tech Limited, a company based in Hong Kong and a 3D content developer to expand the business. The allocated proceeds of up to RM5.60 million shall be used to purchase hardware and software (RM2.10 million), hiring of engineers for 3D mobile application and related content development (RM1.00 million), sales and distribution (RM2.50 million).</p> <p>Further details will be announced upon finalizing the agreement and partnerships to develop the 3D display hardware and mobile application.</p>	RM5.60 million
<p><b>(c) Satellite receiver device</b></p> <p>The Company intends to allocate RM3.00 million to expand its electronics and technology segment to include satellite receiver device with a radio-</p>	RM3.00 million

frequency module that uses low noise block downconverter that is used for satellite TV reception. The Company is in discussion with a supplier based in Taiwan to secure licensing/distribution rights.

The fund allocated is to fund the purchase of the satellite receiver devices, inventories and distribution expenses in the South East Asia market, and also the related operating and administrative expenses, including but not limited to staff salaries and marketing expenses.

RM12.60 million

(ii) **Working capital for the Group's existing business segments**

Up to RM7.00 million from the Proposed Issuance of RCPS has been earmarked for working capital to finance the Group's electronics and public information dissemination system business and trading of precision instruments business segments:-

<u>Description</u>	<u>Amount</u>
<b>Electronics and public information dissemination system business</b>	
Staff cost relating to hiring engineers and developers for works relating to upgrading and enhancement of public information dissemination system such as flight information display system and stocks information display system	RM2.00 million
Hiring of sub-contractors for the installation and technical supports required for the upgrading and enhancement of public information dissemination system	RM2.00 million
<b>Trading of precision instruments business</b>	
Purchase of inventories for the trading of precision instruments	<u>RM3.00 million</u>
	<u>RM7.00 million</u>

(iii) This includes payment of fees to the relevant authorities, advisory and professional fees, printing and advertising and other miscellaneous expenses related to the Proposals. If the actual expenses are higher than the amount allocated, the deficit will be funded out of amount allocated to working capital for the Group's existing business. Conversely, if the actual expenses are lower than the amount allocated, the excess will be reallocated towards working capital of the Group's existing business.

The breakdown of the estimated expenses for the Proposed Private Placement is as follows:-

<u>Description</u>	<u>Amount</u>
Advisory and professional fees	RM0.30 million
Others (fees to relevant authorities, printing, advertising and miscellaneous)	RM0.10 million
	<u>RM0.40 million</u>

(iv) As the issuance of Tranche 2, Tranche 3, Tranche 4 and Tranche 5 of RCPS is at the option of the Company and the Subscriber, the total gross proceeds to be raised will depend on the Group's financial and cash flow position as well as its funding requirements at the relevant point in time.

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

#### **3.1 Proposed Issuance of RCPS and Proposed Amendment**

The Proposed Issuance of RCPS enables the Company to raise the requisite proceeds to be utilised in the manner as set out in Section 2.3 of this Announcement.

After due consideration of the various method of fund-raising as well as the terms and conditions of the RCPS (salient terms as set out in Section 2.1.2 of this Announcement), the Board is of the opinion that the Proposed Issuance of RCPS is the most appropriate means of raising funds given the prevailing market conditions, after taking into consideration, among others, the following factors:

- (i) The Proposed Issuance of RCPS allows the Group to raise funds expeditiously without incurring additional bank borrowings. In view of the Group's weak financial performance for the recent financial periods, it has been difficult for the Group to obtain additional bank borrowings, especially of a large amount.
- (ii) provides greater certainty in raising the funds required as compared to other forms of equity fund raising such as a private placement or a rights issue which is dependent upon the prevailing market sentiment and economic conditions. Underwriting and undertaking arrangements for such other forms of equity fund raising would be difficult to procure, particularly that the amount to be raised of RM20.00 million is more than double of the Company's market capitalisation as at the LPD of RM12.00 million;
- (iii) The RCPS would provide its holder with an annual dividend of 4% per annum in addition to the potential upside of Itronic Shares post conversion of the RCPS; and
- (iv) The issuance of RCPS would minimise the immediate dilution of the EPS and existing shareholders' equity interest in the Company, as compared to an outright issuance of ordinary shares.

The Proposed Issuance of RCPS will strengthen the Company's financial position with enhanced shareholders' funds. These factors are expected to facilitate the business expansion plans of the Company.

The Proposed Amendment is necessary to facilitate the creation of the RCPS.

#### 4. EFFECTS OF THE PROPOSALS

The Proposed Amendment will not have any effect on the share capital, net assets, gearing, earnings and earnings per share as well as substantial shareholders' shareholdings of Itronic.

##### 4.1 Issued share capital

The pro forma effects of the Proposed Issuance of RCPS on the issued share capital of Itronic as at the LPD are as follows:-

	<b>No. of Itronic Shares</b>	<b>RM</b>	<b>No. of RCPS</b>	<b>RM</b>
Issued share capital of Itronic as at the LPD	133,402,574	7,240,907	-	-
To be issued pursuant to the Proposed Issuance of RCPS	-	-	250,000,000	<sup>(i)</sup> 20,000,000
	<u>133,402,574</u>	<u>7,240,907</u>	<u>250,000,000</u>	<u>20,000,000</u>
To be issued assuming the conversion of all RCPS <sup>(i)</sup>	250,000,000	20,000,000	(250,000,000)	(20,000,000)
<b>Enlarged share capital</b>	<b><u>383,402,574</u></b>	<b><u>27,240,907</u></b>	<b><u>-</u></b>	<b><u>-</u></b>

**Notes:**

- (i) Based on the Conversion Price, which is RM0.08.

## 4.2 Net Assets ("NA") and Gearing

The pro forma effects of the Proposed Issuance of RCPS on the NA, NA per Share and gearing of the Itronic Group, based on the latest audited consolidated statement of financial position of Itronic as at 31 December 2018 are as follows:-

	<b>Audited as at 31 December 2018</b>	<b>(I) After subsequent events up to the LPD<sup>(i)</sup></b>	<b>(II) After (I) and the Proposed Issuance of RCPS</b>	<b>(III) After (II) and the full conversion of RCPS</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
Share capital	52,634,454	7,240,907	7,240,907	27,240,907
RCPS reserve	-	-	20,000,000	-
Other reserves	8,379,163	6,739,250	6,739,250	6,739,250
(Accumulated losses)	(46,763,416)	(205,585)	<sup>(iii)</sup> (605,585)	(605,585)
<b>Shareholders' funds / NA</b>	<b>14,250,201</b>	<b>13,774,572</b>	<b>33,374,572</b>	<b>33,374,572</b>
Non-controlling interests	50,587	61,587	61,587	61,587
Total equity	14,300,788	13,836,159	163,464,463	205,952,327
Number of Itronic Shares	102,762,800	133,402,574	133,402,574	383,402,574
NA per share	0.14	0.10	0.25	0.09
Borrowing	365,381	365,381	365,381	365,381
Gearing	0.03	0.03	0.01	0.01

### Notes:

- (i) Based on the unaudited consolidated financial statements of Itronic as at 30 September 2019, after taking into consideration of the following:
- (a) The issuance of 10,276,280 Itronic Shares pursuant to the Private Placement at an issue price of RM0.09 each, which was completed on 26 March 2019; and
  - (b) The share capital reduction exercise of RM48.20 million of the Company's issued share capital pursuant to Section 116 of the Companies Act 2016, which was completed on 23 May 2019; and
  - (c) The issuance of 20,363,494 pursuant to the Proposed Share Issuance at an issue price of RM0.0924 per share, which was completed on 7 August 2019.
- (ii) Based on the full issuance of 250,000,000 RCPS at RCPS Issue Price of RM0.08 each, and deducting the estimated expenses of RM0.40 million in relation to the Proposals.

Further to the above, the Proposed Issuance of RCPS, if implemented, are expected to contribute positively to the Group's earnings in the future financial years arising from proposed utilisation of proceeds from the Proposed Issuance of RCPS (as set out in Section 2.3 of this Announcement). Such contribution is expected to enhance the NA, NA per Share and gearing of the Group.

#### 4.3 Earnings and Earnings per Share ("EPS")

The EPS of the Company is expected to reduce as and when the RCPS are converted into Conversion Shares.

Notwithstanding the above, Proposed Issuance of RCPS and, if implemented, are expected to contribute positively to the Group's earnings in the future financial years arising from the proposed utilisation of proceeds from the Proposed Issuance of RCPS (as set out in Section 2.3 of this Announcement) as and when the benefits of the utilisation of proceeds are realised.

#### 4.4 Convertible securities

As at the LPD, Itronic does not have any outstanding convertible securities.

#### 4.5 Substantial Shareholders' Shareholdings

The pro forma effects of the Proposed Issuance of RCPS on the shareholdings of the substantial shareholders as at the LPD are as follows:-

Substantial shareholders	As at the LPD				After the Proposals and assuming full conversion of RCPS			
	Direct		Indirect		Direct		Indirect	
	No. of Itronic Shares	% <sup>(i)</sup>	No. of Itronic Shares	% <sup>(i)</sup>	No. of Itronic Shares	% <sup>(ii)</sup>	No. of Itronic Shares	% <sup>(ii)</sup>
Luk Tung Lam	28,157,200	21.11	-	-	28,157,200	7.34	-	-
Lissington Limited	8,547,800	6.41	-	-	8,547,800	2.23	-	-
Cha Ka Leung Kevin	20,552,560	15.41	-	-	20,552,560	5.36	-	-
Chu Boon Tiong	10,276,280	7.70	-	-	10,276,280	2.68	-	-
Subscriber	-	-	-	-	250,000,000 <sup>(iii)</sup>	65.21	-	-

#### Notes:

- (i) Based on total number of 133,402,574 Shares as at LPD.
- (ii) Based on enlarged total number of 383,402,574 Shares upon full conversion of the RCPS.
- (iii) Assuming all 250,000,000 RCPS are converted in Conversion Shares at RM0.08. The Subscription Agreement provides that the Subscriber can only convert the RCPS up to the RCPS Conversion Cap (i.e. its resultant equity interest in Itronic shall not exceed 20% at any point in time following a conversion). It is expected that the Subscriber will sell the Conversion Shares in the open market in order to maintain its equity interest within the prescribed threshold.

## **5. INDUSTRY OVERVIEW AND PROSPECTS**

### **5.1 Overview and outlook of the Malaysian economy**

The Malaysian economy grew 4.4% in the Q3 of 2019 (Q3 2018: 4.4%) amid uncertainties in the global economy and trade. Growth was led by domestic demand (3.5%), particularly private sector expenditure. Private consumption recorded a strong growth of 7% supported by stable labour market, steady income growth and benign inflation. Private investment rose marginally by 0.3% primarily channeled into the services and manufacturing sectors. Public consumption increased moderately by 1% on account of improved spending on supplies and services. Public investment contracted by 14.1% mainly due to lower capital spending by public corporations, especially in oil and gas related industries, utilities and telecommunication segments.

On the supply side, growth was driven mainly by the services sector. The services sector increased 5.9% driven by wholesale and retail trade; information and communication; finance and insurance; as well as food & beverages and accommodation subsectors. The manufacturing sector expanded moderately by 3.6% supported by the electrical and electronics; petroleum, chemical, rubber and plastic products; transport equipment, other manufacturing and repair; as well as wood products, furniture, paper products and printing. The agriculture sector rebounded 3.7% following expansion in oil palm (8.4%), rubber (7.3%), other agriculture (3%) and livestock (7%) subsectors. However, forestry and logging as well as fishing subsectors declined 12.3% and 2.6%, respectively.

Total trade contracted 3.7% to RM460.5 billion following continued external headwinds. Nevertheless, the trade surplus increased by 33.3% to RM33.5 billion. Gross exports declined 1.9% due to lower exports of manufactured, agriculture and mining goods. Similarly, gross imports fell 5.8% weighed down by lower imports of capital, intermediate and consumption goods.

*(Source: Malaysian Economy Third Quarter 2019 issued by Ministry of Finance)*

The prospect of the Malaysian economy remains robust amid increasing uncertainties in the external environment. Real GDP is expected to grow by 4.7% in 2019 and 4.8% in 2020. The growth is underpinned by resilient domestic demand, particularly household spending following stable labour market and low inflation. Meanwhile, private investment is expected to grow at a slower pace in 2019 and gain traction in 2020 following the resumption of infrastructure projects coupled with ongoing capital spending in the services and manufacturing sectors. Favourable private sector expenditure activity will offset the impact of lower public expenditure in 2019. However, economic growth is expected to rebound in 2020 with improvement in public corporations' capital outlays.

On the supply side, the services and manufacturing sectors will continue to be the main contributors to economic growth. The services sector, driven by the activities of the wholesale and retail trade, information and communications, as well as finance and insurance sub-sectors, is projected to remain firm backed by robust household spending.

*(Source: Economic Outlook 2020, Ministry of Finance Malaysia)*

## 5.2 Overview of Malaysian ICT Industry

ICT has evolved beyond being a mere collection of technological tools, but a socio-economic enabler as well as a key driver of business transformation. According to the Information and Communication Technology Satellite Account 2018, the Malaysian ICT industry contributed RM182.35 billion (in terms of gross value added) or 12.6% to the national economy in 2018. The ICT services industry dominated with a share of 43.2%, followed by ICT manufacturing at 34.1%, ICT trade at 15.4% and content and media at 7.3%

The main categories of ICT services are telecommunication services and computer programming, consultancy, information and related activities. The ICT services industry registered a growth of 9.2% to RM78.66 billion in 2018 supported by telecommunication services. The ICT services industry notable growth is due to the positive competition between industry players which has encouraged them to innovate and produce high-value products. Moreover, the Malaysian Government's support in terms of funding schemes such as the MSC Development Grant Scheme and the Industrial Research and Development Grant Scheme for idea generation and research and design ("**R&D**") has further enhanced the performance of this ICT services industry. Meanwhile, ICT manufacturing industry registered a growth of 2.9% to RM62.14 billion supported by electronic components and boards, communication equipment and consumer electronics.

The ICT industry remains vibrant and subject to new and existing technological trends such as big data analytics ("**BDA**"), the Internet of Things ("**IoT**"), blockchain, cloud computing, mobility and social media solutions, artificial intelligence and robotics. This has been made possible through the Malaysian Government's efforts to provide affordable broadband access as well as investing in 5G technology infrastructure to create a digitalised economy.

The infrastructure for 5G network technology is the key backbone to drive the growth and development of ICT industry upwards. According to its Budget 2020, the Malaysian Government allocated a 5G Ecosystem Development Grant worth RM50.00 million as well as an allocation of RM25.00 millions of contestable matching grant fund to spur more pilot projects on digital applications such as drone delivery, autonomous vehicle, block chain technology and other products and services that leverage on fibre optics and 5G infrastructure.

The Malaysian Government has also allocated RM20.00 million towards creating a conducive, inclusive, and competitive Digital Content Ecosystem. The Malaysian digital content ecosystem represents an industry that has tremendous export potential, and is greatly reliant on talent and ingenuity. The digital content industry is a critical sector within the digital economy, hence the allocation of RM20.00 million provides opportunity for content creators and for the country to step up its efforts in this competitive space and to develop world class animation, games, visual effects and digital content platforms. In addition, the Malaysian Government aim to launch a national cybersecurity policy to build cyber-user security platforms and infrastructures, especially for digital entrepreneurs.

Moving forward, Protégé Associates estimates the ICT industry at RM19.65 billion in 2019 and the industry is projected to reach RM27.21 billion by 2024, with a compound annual growth rate ("**CAGR**") of 7.1% from 2020 to 2024. The ICT industry will continue to generate positive growth especially with the continuing emergence of BDA, artificial intelligence and robotics being the drivers of the 4th Industrial Revolution.

*(Source: Protégé Associates)*

### 5.3 Overview of the Malaysian Mobile Content and Solutions Market

In Malaysia, the mobile content and solutions market can be broken down into 6 main categories, namely mobile phone personalisation, infotainment, information, banking and financial services and communication. These content and solutions are made available to users via SMS broadcast, mobile website and mobile applications.

An increase in internet accessibility and improvements in mobile network technology helps to drive the demand for mobile content and solutions, as more consumers are consuming more media content. Malaysia is among the frontrunner in introducing the 5G mobile network technology in the Association of South East Asian Nations ("**ASEAN**") region and remains on track for commercialisation of 5G by 3rd quarter of 2020. The deployment of 5G technology is expected to reduce latency and transaction times, hence becoming a catalyst for the development of mobile content and solutions and promote further use via smartphones and other connected devices.

The Internet age has allowed for replacement of physical functions with virtual possibilities. Physical activities such as shopping and paying for goods and services can now be conducted online through e-commerce marketplaces such as Lelong.my, Lazada and Taobao. Banking and bill payment processes have also gained traction from the high mobile phone penetration among the Malaysian population. In 2019, financial transactions conducted via the mobile banking channel stood at an estimated 475.3 million transactions, which is approximately 2.5 times that of 191.2 million transactions registered in 2018. The proliferation of these virtual functions helps to drive the creation of more mobile content and solutions.

In addition, growing usage of mobile content and solutions are identified in 3 areas; mobile social networking, mobile banking and mobile advertising. Mobile advertising has been recognised as a cost-efficient marketing method that can reach targeted audience with minimal restriction of time and place. Various mobile advertising channels can be found in Malaysia namely mobile messaging advertising, in-game mobile advertising and location-based advertising and more recently through social networking applications.

The Malaysian Government has also continued to drive the migration to e-payment through various initiatives such as the launch of DuitNow, new payment service where users can transfer money between different banking accounts using mobile phone numbers as well as the recent implementation of one-off e-Tunai Rakyat programme to accelerate the use and adoption of e-wallets. In addition, the growth of access to mobile technology in Malaysia has sparked more investments in these start-up tech companies encourage and guide the companies to expand, further spurring the development of local applications and software and in turn spur growth in the Malaysian mobile content and solutions market.

In 2018, the Malaysian mobile advertising expenditure as a proxy for the size of Malaysian mobile content and solutions market amounted to RM322.4 and is projected to reach RM2.22 billion in 2024, with a CAGR of 23.0% from 2020 to 2024. The positive outlook on the demand for mobile content and solutions in Malaysia stems mainly from factors such as the increase in internet accessibility and improvements in mobile network technology, replacement of physical functions with virtual functions and growing popularity of mobile apps/content. On the supply side, the mobile content and solutions market is expected to be boosted by factors such as collaboration between telecommunication operators and mobile content and solutions service provider, the Government support towards e-payment as well as investment into and growth of start-up tech companies.

*(Source: Protégé Associates)*



## 5.4 Overview of Hong Kong ICT Industry

As a leading financial centre, logistics hub and retail destination, Hong Kong ICT has a key role in supporting the city's major industries. In 2018, the Hong Kong ICT industry generated HKD211.52 billion in terms of business receipt from information and communication services, an increase of 5.5% from 2017. The Hong Kong ICT industry contributed to 5.7% of Hong Kong GDP in 2017.

To foster the growth and development of Hong Kong ICT industry, the Hong Kong Special Administrative Region ("**HKSAR**") Government has put in place initiatives such as funding support, provision of ICT infrastructure, international cooperation and manpower development. The 'Smart City Blueprint' unveiled in December 2017, maps out development plans for the next 5 years to enhance Hong Kong's sustainability by making use of innovation and technology. The HKSAR Government has also identified 4 focus areas namely, biotechnology, artificial intelligence, smart city and financial technologies ("**FinTech**") to drive the development of ICT.

In terms of ICT infrastructure, the Hong Kong Science and Technology Park and Cyberport help to nurture technology start-ups and entrepreneurs by providing facilities such as R&D offices, meeting venues, accommodation together with professional support services such as mentorship to pitching opportunities. The 5G mobile network is an important telecommunication infrastructure and has immense potential for various business services and smart city application. As such, the HKSAR Government had in August 2018 begin auctions of spectrum in 3.3GHz, 3.5GHz and 4.9GHz bands in preparation of the commercial launch of 5G services and application in 2020. As for funding support, the Hong Kong Government's Innovation and Technology Fund ("**ITF**") provide an alternative source of funding for the ICT industry. As of 31 October 2019, the ITF has approved 12,161 funding applications on projects amounting to a total of HKD17.78 billion.

Moving forward, Protégé Associates estimates the Hong Kong ICT industry in terms of business receipt from information and communication services at HKD222.09 billion in 2019 and the industry are projected to reach HKD290.52 billion by 2024, with a CAGR of 5.5% from 2020 to 2024. The HK ICT industry will continue to generate positive growth in the medium to longer term with its 5 years planned development and transformation into smart city as well as the continuous support from the HKSAR Government particularly in providing ICT facility to entrepreneur and technology start-up to kick start their innovations and facilitate local and foreign ICT investment.

*(Source: Protégé Associates)*

## 5.5 Overview of Outdoor Advertising Market in Malaysia

In Malaysia, the advertising industry can be categorised by the type of media on which advertising is placed namely, the newspapers, television, radio, magazines, outdoor, point of sale, internet and cinema. The rise of Internet usage, increased use and availability of smartphone and broadband connection had help to promote the growth of digital advertising.

Despite the challenges, outdoor advertising is one of the traditional advertising platforms that benefits from digitisation and remain vital in the advertising competitive landscape. Outdoor advertising typically involve the placing of advertisements on mediums such as billboard, bus, poster, signage, etc. in public places which attracts large amount of pedestrian traffic and eyeballs. Over the years, there is a gradual replacement of static billboards to digital billboards as they are more interactive.

Technology will continue to drive growth in outdoor advertising, as more static displays are digitised and advertisers increasingly leverage on audience measurement and programmatic buying tools. Traditionally, the year in which major events are held such as the FIFA World Cup and Olympics commands great interests and reaches out to the majority of the population, translating to the kind of attention and attraction so desired by advertisers for their brands/products. The advertising industry in Malaysia is projected to receive a boost in advertising spending in line with major upcoming events such as the Olympic Games 2020 and FIFA World Cup 2022. The 15th Malaysian general election is anticipated to be held in 2023 which will have positive impact on outdoor advertising spending.

In terms of supply, the on-going and upcoming mega infrastructure such as the East Coast Rail Link, Kuala Lumpur-Singapore High Speed Rail and the Pan Borneo High will contribute to the creation of more billboard sites and thus drive up billboard inventory nationwide. In 2018, the Malaysian outdoor advertising market size in terms of advertising expenditure amounted to RM358.40 million, an increase of 11.5% from 2017. The growth is partly due to campaign advertising contributed from the 2018 General Election. The market is estimated to spend RM387.10 million in 2019. The market size of outdoor advertising market in Malaysia is expected to maintain a steady growth, reaching RM612.00 million by 2024, with a CAGR of 9.7% from 2020 to 2024.

*(Source: Protégé Associates)*

## **5.6 Overview of Outdoor Advertising Market in Hong Kong**

Channel of outdoor advertisements are metro, airport, bus, minibus, taxi, buildings and facilities, etc., such as hospitals, clinics and retail stores. Transportation media generally provides large amount of advertising spaces and can attract large amount of the pedestrians and commuter traffic.

In today's digital era, outdoor advertising remains an indispensable role as it is characterised for its high effectiveness and large coverage to attain awareness at highly mobile population area. In order to remain competitive in this market, outdoor media agencies have been innovating and adapt to the new technology trends to provide better services rather than just high printing quality, from LED screens inclusions to 3D outdoor projections. Digital billboards as well as digital street furniture are being utilised in Hong Kong to optimise the current advertising tools and to provide better interaction between the brands and their target consumers.

In 2018, the market size of outdoor advertising market in Hong Kong in terms of advertising spending stood at HKD6.11 billion, an increase of 1.5% from 2017. The market is estimated to spend HKD6.19 billion in 2019. Driven by improved technology and improved space management, the market size of outdoor advertising market in Hong Kong is expected to maintain a stable growth, reaching HKD6.82 billion by 2024, with a CAGR of 2.0% from 2020 to 2024.

The key growth driver for Hong Kong's outdoor advertising market is the increasing Hong Kong population density and time spent outside of home. The Hong Kong population density as of 2018 stood at 6,890 persons per square kilometre. More people in Hong Kong are spending substantial time travelling, commuting, shopping or socialising outside their homes. In addition, outdoor advertising is characterised by large advertising spaces, relatively long exposure and convenience to covering potential audience. With such high cost-effectiveness, the priority of outdoor advertising as a total advertising solution is increasing which will bring more opportunities to outdoor advertising space providers.

*(Source: Protégé Associates)*

## 5.7 Overview of Hong Kong Retail Sector

For 2018 as a whole, the value of total retail sales was provisionally estimated at HKD485.2 billion, increased by 8.8% in value and 7.6% in volume over 2017. Analysed by broad type of retail outlet and comparing the whole year of 2018 with the whole year of 2017, the stronger growth in sales value was mainly driven by growth in jewellery, watches and clocks and valuable gifts (13.7%) and sales of commodities in department stores (9.6%).

However in November 2019, the value of total retail sales was provisionally estimated at HKD30.0 billion, decreased by 23.6% compared with the same month in 2018. For the first 11 months of 2019, it was provisionally estimated that the value of retail sales decreased by 10.3% compared with the same period in 2018. This is mainly due to ripple effects from the civil unrest which has hammered tourist arrivals and caused several major shopping outlets to temporarily suspend its business. Analysed by broad type of retail outlet and comparing November 2019 with the same month in 2018, the stronger deterioration in retail sales volume was mainly driven by a more profound fall in clothing and footwear (-31.9%), sales of commodities in department stores (-32.9%), and jewellery, watches and clocks and valuable gifts (-43.5%).

According to the Hong Kong Tourism Board, there were only 2.60 million tourist arrivals in November 2019, a decline of 55.90% from the same month in 2018. Visitors from mainland China fell to 1.90 million arrivals in November 2019. In the first 11 months of 2019, the number of visitor arrivals fell by 10.00% to 52.70 million from the same period in 2018. Civil unrest is anticipated to continue to depress the retail and tourism sectors, which will likely to further suppress private consumption.

In the face of deteriorating retail sales, retailers are looking toward investing in e-commerce that could help improve retail sales. E-commerce retailers in Hong Kong are able to leverage on a highly connected domestic market. As of September 2018, 90.50% of Hong Kong's 7.50 million people used the Internet and 89.90% of the population has smartphone. There are about 35.80% of population above the 15 years old whom had used online purchasing services for personal matter.

As e-commerce users demand more from retailers and expect products to be delivered within days, Hong Kong is strategically placed to meet this need. The Hong Kong–Zhuhai–Macao Bridge officially opened on 24 October 2018, Hong Kong's proximity to Chinese manufacturing hubs such as Shenzhen and Guangzhou offers a vast pool of products that retailers can source. In addition, the Guangzhou-Shenzhen-Hong Kong rail link puts travelling distance between Hong Kong and Beijing within 9 hours. Hong Kong airport has also taken the boom of Chinese e-commerce. In 2018, Hong Kong's inward and outward movement of cargo reached 5 million tonnes.

To facilitate and promote its e-commerce sector, the HKSAR Government in its 2019/2020 budget allocated HKD1.0 billion for its Export Marketing and Industrial Organisation Support Fund to assist small and medium enterprise in their export promotion activities. Hong Kong also has a favourable tax structure where businesses that generate profit less than HKD2.00 million are subject to 8.25% of corporate tax while businesses that make above HKD2.00 million in profit are taxed at a rate of 16.50%. The HKSAR Government also does not impose a sales tax or value-added tax on goods sold.

Going forward, Hong Kong strategic location, availability of infrastructure coupled with business-friendly government policy helps unlock new market opportunities for retailers and potentially drive e-commerce retails.

*(Source: Protégé Associates)*

## **5.8 Prospect of the Group**

Despite the prevailing uncertainties in the global economy, the Group is optimistic about the future performance given new opportunities arising from the introduction of new technologies such as artificial intelligent, faster 5G network connection and enhancement in the led display system.

Moving forward, the Group is expected to maintain the revenue stream from some of the prospective business segment through system enhancement as well as service and maintenance contracts, especially for flight information system and stadium scoreboard systems. At the same time, the Group is expecting to enter into a new area of competitive by exploring business opportunities relating to the advancement of new technologies.

The Group is pleased to inform that the Group has identified and plan to set up a new MSC office in Puchong Financial Corporate Centre, as our new corporate office for our operation centre, a showroom and equipped with call centre to support our future business expansion.

We remain positive on the impact of the trade war between the United State and China as we are continuously improving and adapting to the evolving environment. Our procedures and manufacturing methods are reviewed consistently to be more effective and efficient and to remain competitive without compromising the high level of quality standards.

*(Source: Management of Itronic)*

## **6. RISK FACTORS**

The risk factors associated with the Proposals are as follows:

### **6.1 Changes in technology**

The Group's businesses are subjected to rapid technological change and intense competition. There can be no assurance that the Group will be able to keep pace with this change. The Group's products and services could be subject to technological obsolescence and there can be no assurance that the Group will be able to adapt to rapidly changing technology. The Group's businesses would be materially and adversely affected if the Group is unable for technological or other reason to develop product or product enhancements do not meet market acceptance. The Group has a highly skilled and dedicated R&D team who work closely with the current market trend and technology to ensure continuous product development.

### **6.2 Competitive industry**

The Group faces competition from existing competitors and potential new market entrants in the market. The intensity of competition may lead to price erosions, which in turn may affect the Group's financial performance. There can be no assurance that the Group's competitors will not develop new technologies and products obsolete or non-competitive or that the Group will be able to successfully enhances its products or develop new products when necessary.

The Group believes that its competitive advantages and strengths in terms of market reputation, reliability and quality products and services, will put the Group in a better position to compete and improve its market position and market share. However, there can be no assurance that the Group is able to compete effectively with current and new competitors in the future.

### **6.3 Consumer data protection**

The ability to provide secure transmissions of confidential information over networks accessible to the public is essential in the ICT industry. Under the Personal Data Protection Act 2010, any service provider that collects customer information has a responsibility to adopt and implement a policy that protects the privacy of identifiable information.

Despite the Group is taking all reasonable steps to ensure that parties who have access to customer's information in its ordinary course of the business do not disclose such information without the prior consent of the customers, the Group cannot assure that unauthorised access, computer viruses, accidental or intentional actions and other disruptions will not occur. As at today, there has been no occurrence of unauthorised access, computer viruses, accidental or intentional actions and other disruptions that have materially affected the Group's operations.

### **6.4 Cybersecurity risk**

The Group's electronic and system integration business is exposed to cyber security risk as they may be susceptible to data breaches, malware attack and phishing activities, amongst others. Although the Group has put in place security measures to protect against cyber attacks, there is no assurance that these measures are sufficient to prevent the occurrence of any cyber-attacks on its electronic and system integration business in the future which would compromise the security of its users' data.

The occurrence of such incidences may, amongst others, hinder the Group's ability to attract and retain customers, materially damage the Group's reputation and potentially expose the Group to litigation. Consequently, we may be required to devote a significant amount of resources to recover from cyber-attacks and strengthen our security measures which may then have a material adverse effect to the Group's business and financial performance.

### **6.5 Dilution of existing shareholders' shareholdings and impact to share price**

As set out in Section 4.5 of this Announcement, the conversion of RCPS into Conversion Shares will dilute the existing shareholders' shareholdings.

Further, in view that the Subscriber may only convert the RCPS up to the RCPS Conversion Cap (i.e. its resultant equity interest in Itronic shall not exceed 20% at any point in time following a conversion), the Subscriber may need to dispose of its converted Itronic Shares in order to maintain its equity interest within the prescribed threshold. This will lead to a surge in the supply of Itronic Shares in the market and accordingly, the share price of Itronic might be affected.

Nonetheless, the issuance of RCPS is expected to contribute positively to the Group's earnings in the future financial years from the proposed utilisation of proceeds raised from the Proposed Issuance of RCPS as set out in Section 2.3 of this Announcement.

### **6.6 Non-completion of the Proposed Issuance of RCPS**

There is a possibility that the Proposed Issuance of RCPS may not be completed due to failure in fulfilling the conditions precedent as set out in the Subscription Agreement within the stipulated timeframe. In such event, the Proposed Issuance of RCPS may be terminated and the Group will not be able to raise the requisite funds for the purposes as set out in Section 2.3 of this Announcement.

The Group will take reasonable steps to ensure that the conditions precedent stated in the RCPS Subscription Agreement will be met within the stipulated timeframe in order to complete the Proposed Issuance of RCPS in a timely manner.

## **6.7 Non-subscription of RCPS**

Unless otherwise elected by the Subscriber and the Company, the issuance and subscription of the RCPS will only be made after the conversion of the immediately preceding tranche. Hence, the Subscriber may choose to delay the conversion of RCPS and not to subscribe for subsequent tranches of the RCPS. As a result, the Company will not be able to raise the requisite funds for the purposes as set out in Section 2.3 of this Announcement.

## **7. APPROVALS REQUIRED**

The Proposals are subject to the following approvals being obtained:

- (i) the approval of Bursa Securities for the issuance of the RCPS to the Subscriber;
- (ii) the approval of the shareholders of Itronic at an EGM to be convened;
- (iii) the approval from Bank Negara Malaysia for the issuance of the RCPS to the Subscriber; and
- (iv) the approval, consent and/or sanction of any other relevant authorities/parties, if required.

## **8. INTER-CONDITIONALITY**

The Proposed Issuance of RCPS and the Proposed Amendment are inter-conditional to each other.

Save as described above, the Proposals are not conditional upon any other corporate proposals.

## **9. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND PERSONS CONNECTED WITH THEM**

None of the Directors, major shareholders and/or persons connected with them has any interests (direct and indirect) in the Proposals.

## **10. STATEMENT BY DIRECTORS**

The Board, after having considered all aspects of the Proposals including the salient terms of the Subscription Agreement, the rationale for the Proposals, industry overview and prospects of the Company as well as the effects of the Proposals, is of the opinion that the Proposals are in the best interests of the Company.

## **11. ADVISER**

M&A Securities has been appointed as the Adviser to Itronic for the Proposals.

## **12. ESTIMATED TIME FRAME FOR COMPLETION**

Barring unforeseen circumstances, the application to authorities is targeted to be submitted to Bursa Securities within 2 months from the date of this announcement. Subject to all required approvals being obtained, the Board expects the Proposed Issuance of RCPS, which will be undertaken in tranches, to be completed before the RCPS Maturity Date.

## **13. DOCUMENTS FOR INSPECTION**

Copies of the following documents are available for inspection at the registered office of Itronic in Malaysia at No. 9A, Jalan Medan Tuanku, Medan Tuanku, 50300 Kuala Lumpur during normal business hours from Monday to Friday (except public holidays) for a period of 3 months from the date of this Announcement:-

- (i) Constitution of Itronic; and
- (ii) Subscription Agreement.

This announcement is dated 13 February 2020.