PARAGRAPH/RULE 8.03A COMPANIES : REGULARISATION PLAN

DIVFEX BERHAD

Type	Announcement
Subject	PARAGRAPH/RULE 8.03A COMPANIES REGULARISATION PLAN
Description	DIVFEX BERHAD ("DIVFEX" OR THE "COMPANY") (FORMERLY KNOWN AS DIVERSIFIED GATEWAY SOLUTIONS BERHAD) (I) PROPOSED RIGHTS ISSUE WITH WARRANTS; AND (II) PROPOSED ESOS (COLLECTIVELY, THE "PROPOSED REGULARISATION PLAN")

On behalf of the Board of Directors of Divfex ("**Board**"), M & A Securities Sdn Bhd wishes to announce that the Company is proposing to undertake the Proposed Regularisation Plan to regularise its financial condition in accordance with Rule 8.04(3) of the Listing Requirements, as follows:

(i) a proposed renounceable rights issue on the basis of 1 new ordinary share in Divfex ("**Rights Share(s)**") for every 2 existing ordinary shares held in Divfex ("**Divfex Share" or "Share(s)**"), together with free detachable warrants ("**Warrants**") on the basis of 1 Warrant for every 1 Rights Share subscribed for, by the entitled shareholders whose names appear in the record of depositors of the Company ("**Entitled Shareholders**") on an entitlement date to be determined later ("**Entitlement Date**") ("**Proposed Rights Issue with Warrants**"); and

(ii) a proposed establishment of an employees' share options scheme ("**Scheme**") of up to 15.0% of the total issued Divfex Shares (excluding treasury shares, if any) at any point in time during the duration of the scheme, for the eligible directors and employees of Divfex and its subsidiaries ("**Divfex Group**") ("**Proposed ESOS**").

(collectively referred to as "**Proposed Regularisation Plan**")

Kindly refer to the attachment for further details on the Proposed Regularisation Plan.

This announcement is dated 5 July 2022.

Please refer attachment below.

Attachments

Divfex - Requisite Announcement (05.07.2022).pdf
220.3 kB

Announcement Info

Company Name	DIVFEX BERHAD
Stock Name	DFX
Date Announced	05 Jul 2022
Category	General Announcement for PLC
Reference Number	GA1-05072022-00045

DIVFEX BERHAD ("DIVFEX" OR "COMPANY") (FORMERLY KNOWN AS DIVERSIFIED GATEWAY SOLUTIONS BERHAD)

(I) PROPOSED RIGHTS ISSUE WITH WARRANTS; AND
(II) PROPOSED ESOS

(COLLECTIVELY, THE "PROPOSED REGULARISATION PLAN")

1. BACKGROUND

On 6 January 2020, the Board of Directors of Divfex ("**Board**") announced that following the completion of the disposal of 24,500 ordinary shares, representing 100.0% equity interest in ISS Consulting (Thailand) Ltd ("**ISS(T)**") to itelligence AG for a cash consideration of THB236,429,000 (equivalent to approximately RM32.031 million based on the exchange rate then of RM1 : THB7.38), the Company is deemed to be an affected listed corporation ("**ALC**") pursuant to Rule 8.03A 2(a)(bb) of the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad ("**Bursa Securities**")("**Listing Requirements**") whereby a listed corporation may not have a level of operations that is adequate to warrant continued trading or listing on the Official List as Divfex is deemed to have ceased its major business or operations as a result of the disposal of its major business that contributes 70.0% or more of the revenue on a consolidated basis based on its latest audited financial statements as at 30 June 2019 or its unaudited financial statements as at 30 September 2019.

On 24 December 2021, M & A Securities Sdn Bhd ("**M & A Securities**") announced on behalf of the Board that the Company had submitted an application to Bursa Securities for an extension of time of 12 months up to 6 January 2023 to submit a regularisation plan to Bursa Securities and vide its letter dated 27 January 2022, Bursa Securities had approved the extension of time of 6 months up to 6 July 2022 for Divfex to submit its regularisation plan.

On 4 January 2022, the Board announced that the Company had entered into the following agreements:

(a) a conditional share sale and purchase agreement to acquire 510,000 ordinary shares representing 51.0% equity interest in Excel Commerce Solutions Sdn Bhd ("**Excel**") from Thomas Lu Khin Phin for a cash consideration of RM4.59 million ("**Excel Acquisition**");

(b) a conditional share sale and purchase agreement to acquire 255,000 ordinary shares representing 51.0% equity interest in Finther Tecnologica Sdn Bhd from Faizal Bin Bahadon and Chan Ming Chong for a cash consideration of RM7.65 million ("**Finther Acquisition**"); and

(c) a conditional share sale and purchase agreement to dispose of its entire 70.0% equity interest in QBI Packaging Sdn Bhd and Makan Channel Sdn Bhd to Insas Technology Berhad ("**ITB**") for a total cash consideration of RM3.50 million ("**Disposal**").

The Disposal had been completed on 14 April 2022 and the Excel Acquisition and Finther Acquisition were completed on 17 May 2022.

The Board will submit an application to Bursa Securities on 5 July 2022 for an extension of time of 6 months up to 6 January 2023 to submit a regularisation plan to Bursa Securities.

2. INTRODUCTION

On behalf of the Board, M & A Securities wishes to announce that the Company is proposing to undertake the Proposed Regularisation Plan to regularise its financial condition in accordance with Rule 8.04(3) of the Listing Requirements, as follows:

(i) a proposed renounceable rights issue on the basis of 1 new ordinary share in Divfex ("**Rights Share(s)**") for every 2 existing ordinary shares held in Divfex ("**Divfex Share" or "Share(s)**"), together with free detachable warrants ("**Warrants**") on the basis of 1 Warrant for every 1 Rights Share subscribed for, by the entitled shareholders whose names appear in the record of depositors of the Company ("**Entitled Shareholders**") on an entitlement date to be determined later ("**Entitlement Date**") ("**Proposed Rights Issue with Warrants**"); and

(ii) a proposed establishment of an employees' share options scheme ("**Scheme**") of up to 15.0% of the total issued Divfex Shares (excluding treasury shares, if any) at any point in time during the duration of the scheme, for the eligible directors and employees of Divfex and its subsidiaries ("**Divfex Group**") ("**Proposed ESOS**").

(collectively referred to as "**Proposed Regularisation Plan**")

3. DETAILS OF THE PROPOSED REGULARISATION PLAN

3.1 Proposed Right Issue with Warrants

3.1.1 Details of the Proposed Rights Issue with Warrants

The Proposed Rights Issue with Warrants entails an issuance of 372,865,480 Rights Shares on the basis of 1 Rights Share for every 2 existing Divfex Shares held, together with 372,865,480 Warrants on the basis of 1 Warrant for every 1 Rights Share subscribed for by the Entitled Shareholders as at the close of business on the Entitlement Date. The Entitlement Date will be determined by the Board after obtaining the approvals for the Proposed Rights Issue with Warrants from all relevant authorities and the shareholders of the Company.

As at 4 July 2022, being the latest practicable date prior to the date of this announcement ("**LPD**"), Divfex has an issued share capital of RM60,053,793 comprising 745,730,961 Divfex Shares.

Based on the above total Divfex Shares in issue, 372,865,480 Rights Shares will be made available for subscription and 372,865,480 Warrants will be issued pursuant to the Proposed Rights Issue with Warrants.

The Proposed Rights Issue with Warrants will be undertaken on a full subscription basis, after taking into consideration the total funds the Company intends to raise from the Proposed Rights Issue with Warrant amounting to RM26.1 million based on the indicative issue price of RM0.07 per Rights Share ("**Full Subscription Level**"). This would entail a full subscription of 372,865,480 Rights Shares together with 372,865,480 free Warrants, which will be channelled towards the proposed utilisation of proceeds as set out in Section 4. In order to meet the Full Subscription Level, the Company intends to procure irrevocable written undertaking(s) from its substantial shareholder, namely ITB and directors to subscribe in full for their respective entitlements under the Proposed Rights Issue with Warrants ("**Entitlement Undertakings**"). Additional undertakings will be procured and/or underwriting arrangements will be made by the Company for the remaining Rights Shares for which no undertaking has been obtained ("**Additional Undertakings**"). Further details of the Entitlement Undertakings and the underwriting arrangement are set out in Section 3.1.7.

In addition, assuming all 372,865,480 Warrants are exercised, a total of 372,865,480 Divfex Shares will be issued arising therefrom, raising further gross proceeds of approximately RM26.1 million at the indicative exercise price of RM0.07 per Warrant.

3.1.2 Basis and justification of arriving at the indicative issue price of the Rights Shares and exercise price of the Warrants

(a) Rights Shares

The issue price of the Rights Shares under the Proposed Rights Issue with Warrants will be determined by the Board at a later date after taking into consideration, amongst others, the following:

(i) the historical share price of Divfex;

(ii) the 5-day volume weighted average market price ("**5D-VWAMP**") of Divfex Shares up to the price-fixing date;

(iii) the theoretical ex-rights price ("**TERP**") of Divfex Shares based on the 5D-VWAMP of Divfex Shares up to and including the last trading day prior to the price-fixing date; and

(iv) the funding requirements of the Group as set out in Section 4 below.

In any event, the discount of the issue price of the Rights Shares shall not be more than 30.0% from the 5D-VWAMP of Divfex Shares up to the price-fixing date. This discount range was determined by the Board after taking into consideration a suitable issue price deemed attractive to encourage subscription of the Rights Shares by the Entitled Shareholders and/or renouncee(s). For illustrative purposes, an indicative issue price of RM0.07 per Rights Share would represent a discount of approximately 11.5% to the TERP of Divfex Shares of approximately RM0.0791 per Share, calculated based on the 5D-VWAMP of Divfex Shares up to 4 July 2022 of RM0.0882 (being the market day preceding the date of the announcement of the Proposed Rights Issue with Warrants) and assuming an exercise price of RM0.07 per Warrant.

(b) Warrants

The exercise price of the Warrants under the Proposed Rights Issue with Warrants will be determined by the Board at a later date, after taking into consideration, amongst others, the following:

(i) the 5D-VWAMP of Divfex Shares up to the price-fixing date; and

(ii) the TERP of Divfex Shares.

The Warrants are attached to the Rights Shares without any cost and will be issued in proportion to the Rights Shares subscribed by the Entitled Shareholders. In any event, the discount of the exercise price of the Warrants shall not be more than 20% from the 5D-VWAMP of Divfex Shares up to the price-fixing date. This discount range was determined by the Board after taking into consideration a sweetener price to stimulate more demand for subscription of Rights Shares, as well as the future prospects of the Group, further details of which are set out in Section 7.3 below and potential funding requirements.

3.1.3 Entitlements to the Rights Shares

The Rights Shares will be provisionally allotted to the Entitled Shareholders. Fractional entitlements pursuant to the Proposed Rights Issue with Warrants if any, will be dealt with in such manner as the Board in its absolute discretion deems fit and in the best interest of the Company.

For the avoidance of doubt, the Warrants are attached to the Rights Shares without any cost to the Entitled Shareholders and renouncee(s). The Proposed Rights Issue with Warrants is renounceable in full or in part. The Warrants will be immediately detached from the Rights Shares upon issuance and will be separately traded. Accordingly, Entitled Shareholders can subscribe for and/or renounce their entitlements to the Rights Shares in full or in part. The renunciation of the Rights Shares by the Entitled Shareholders will accordingly entail the renunciation of the Warrants to be issued together with the Rights Shares. For avoidance of doubt, the Rights Shares and the Warrants are not separately renounceable. If the Entitled Shareholders decide to accept only part of their Rights Shares entitlements, they shall be entitled to the number of Warrants in proportion to the Rights Shares they have accepted.

The Rights Shares which are not taken up or validly taken up shall be made available for excess applications by the Entitled Shareholders and/or their renouncee(s). It is the intention of the Board to allocate the excess Rights Shares in a fair and equitable manner on a basis to be determined by the Board and announced later by the Company.

Any fractional entitlement under the Proposed Rights Issue with Warrants will be dealt with in such manner as the Board shall in their absolute discretion think expedient and in the best interest of Divfex.

The Warrants will be issued in registered form and constituted by the deed poll to be executed by the Company constituting the Warrants ("**Deed Poll**"), as may be supplemented from time to time.

3.1.4 Listing of the Rights Shares and Warrants

An application will be made to Bursa Securities for the listing of and quotation for the following on the ACE Market of Bursa Securities:

(i) the Rights Shares;

(ii) the Warrants; and

(iii) the new Divfex Shares to be issued from the exercise of the Warrants.

3.1.5 Ranking of the Rights Shares and the new Divfex Shares to be issued arising from the exercise of the Warrants

The Rights Shares and new Divfex Shares from the exercise of Warrants shall upon allotment and issuance, rank equally in all respects with the then existing Divfex Shares in issue, save and except that these shares shall not be entitled to any dividend, rights, allotments and or other distributions, the entitlement date of which is prior to the date of allotment of these shares.

3.1.6 Indicative salient terms of the Warrants

Terms		Details
Number of Warrants	:	372,865,480 new Warrants arising in connection with the Proposed Rights Issue with Warrants and are immediately detached from the Rights Shares upon issuance, each carrying the right to subscribe for one new Share during the Exercise Period at the Exercise Price, subject to the terms and conditions of the Deed Poll.
Detachability	:	The Warrants are immediately detachable upon allotment and issue of the Rights Shares. The Warrants will be traded separately.
Exercise Price	:	The basis of determining the exercise price of the Warrants is set out in Section 3.1.2(b) above. The exercise price and the number of outstanding Warrants shall however be subject to the adjustments in accordance with the terms and provisions of the Deed Poll during the Exercise Period.
Exercise Period	:	The period commencing on and including the date of issuance of the Warrants and ending at the close of business at 5.00 p.m. in Kuala Lumpur, on the date preceding the 5th anniversary of the date of issuance, or if such is not a day on which the stock market of Bursa Securities is open for trading of securities ("**Market Day**"), then it shall be the Market Day immediately preceding the said non-Market Day.
Exercise Rights	:	The rights conferred on a Warrant holder to subscribe for 1 new Divfex Share for each Warrant at any time during the Exercise Period and at the Exercise Price subject to the Deed Poll.
Deed Poll	:	The Warrants will be constituted by a Deed Poll to be executed by Divfex.
Board Lot	:	The Warrants are tradeable upon listing in board lots of 100 units carrying rights to subscribe for 100 new Divfex Shares at any time during the Exercise Period or such other number of units as may be prescribed by Bursa Securities.
Ranking of Warrants	:	The Warrants shall as between the Warrant holders rank *pari passu* and rateably in all aspects amongst themselves.
Ranking of new Divfex Shares to be issued pursuant to exercise of Warrants	:	The new Divfex Shares to be issued arising from the exercise of Exercise Rights represented by the Warrants, shall upon allotment and issue rank *pari passu* in all respects with the existing Divfex Shares, save and except that the new Divfex Shares will not be entitled to any dividend, right, allotment and/or any other forms of distribution where the entitlement date of such dividend, right, allotment and/or other forms of distribution precedes the relevant date of allotment and issuance of the new ordinary shares.

Terms		Details
Adjustments in the exercise price and/or number of Warrants	:	The exercise price and/ or number of unexercised Warrants shall be adjusted in the event of alteration to the share capital of the Company, capital distribution or issue of shares in accordance with the provisions of the Deed Poll. If the Company in any way modify the rights attached to any share or loan capital which is not described in the Deed Poll so as to convert or make convertible such share or loan capital into, or attached thereto any rights to acquire or subscribe for new shares, the Company must appoint the adviser or the auditors (who shall act as experts) to consider whether any adjustment is appropriate, and if the directors of the Company after such consultation determines that any adjustment is appropriate, the exercise price or the number of Warrants or both, will be adjusted accordingly.
Modification	:	The Company may, from time to time, subject to the terms and conditions of the Deed Poll, without the consent or sanction of the Warrant holders, modify, amend or add to the Deed Poll, if such modification, amendment or addition made does not materially prejudice the interests of the Warrant holders or is made to correct a manifest error or to comply with the prevailing laws of Malaysia.
Participating rights of the holders of Warrants in any distribution and/or offer of further securities	:	The Warrant holders are not entitled to any voting right or participation in any forms of distribution and/or offer of further securities in the Company until and unless such Warrant holders exercise the Warrants for the new Shares in accordance with the provisions of the Deed Poll and such new Shares will be allotted and issued to the Warrant holders. Each Warrant holder shall be deemed to remain the registered holder of the Warrants credited in his/her securities account until the name of the transferee is entered in the Record of Depositors.
Listing	:	The Warrants and new Divfex Shares to be issued from the exercise of the Warrants will be listed on the ACE Market of Bursa Securities. Approval will be obtained from Bursa Securities for the admission of Warrants to the Official List of Bursa Securities and for the listing of and quotation for the Warrants and new Divfex Shares to be issued from the exercise of the Warrants on the ACE Market of Bursa Securities.
Governing Law	:	Laws of Malaysia.

3.1.7 Shareholder's undertaking and underwriting agreement

In order to meet the Full Subscription Level, the Company intends to procure irrevocable written undertaking(s) from its substantial shareholder, namely ITB and directors to subscribe in full for their respective entitlements under the Proposed Rights Issue with Warrants. The Additional Undertakings and/or underwriting arrangements will be procured by the Company for the remaining Rights Shares for which no undertaking has been obtained. The Additional Undertakings are intended to be procured and/or underwriting arrangement are intended to be finalised prior to the despatch of the circular for the extraordinary general meeting ("**EGM**") to be convened for the Proposed Regularisation Plan.

The Company will ensure that the Entitlement Undertakings, Additional Undertakings and/or underwriting arrangements will not result in the following:

(i) any breach in the public shareholding spread requirement by the Company under Rule 8.02(1) of the Listing Requirements, which stipulates that a listed corporation must ensure that at least 25.0% of its total listed shares (excluding treasury shares) are in the hands of public shareholders; and

(ii) any consequences of mandatory general offer obligations pursuant to the Malaysian Code on Take-Overs and Mergers 2016 ("**Code**") and the Rules on Take-Overs, Mergers and Compulsory Acquisitions issued by the Securities Commission Malaysia ("**SC**") ("**Rules**") immediately after completion of the Proposed Rights Issue with Warrants.

Further, the Company will procure assurance from any Entitled Shareholders providing an undertaking to subscribe for Rights Shares, that they will at all times observe and ensure compliance with the provisions of the Code and the Rules and will seek from the SC the necessary exemptions from undertaking such mandatory take-over offer, if required.

3.2 Proposed ESOS

Following the implementation of the Proposed Rights Issue with Warrants, the Company proposes to undertake the Proposed ESOS, which involves the granting of options ("**ESOS Options**") to the eligible employees, executive directors and non-executive directors of Divfex Group (excluding dormant subsidiaries) who fulfil the eligibility criteria for participation in the Proposed ESOS which will be set out in the by-laws governing the Proposed ESOS ("**By-Laws**") ("**Eligible Person(s)**") ("**Offer**"). The ESOS Options granted under the Proposed ESOS shall entitle the Eligible Persons to subscribe for new Shares at an option price to be determined at a later date ("**Option Price**").

The Proposed ESOS will be administered by a committee to be duly appointed and authorised by the Board from time to time to administer the Proposed ESOS in accordance with the By-Laws ("**ESOS Committee**"). The members of the ESOS Committee may comprise of Directors, senior management personnel of the Group and/ or other persons identified and appointed from time to time by the Board. At as the LPD, the composition of the ESOS Committee has yet to be decided by the Board.

3.2.1 Maximum number of Shares available under the Scheme

The maximum number of ESOS Options which may be granted shall not at any point in time in aggregate exceed 15.0% of the total number of issued shares of Divfex (excluding treasury shares, if any) during the duration of the Proposed ESOS ("**Maximum Shares**").

Notwithstanding the above or any other provisions contained in the By-Laws, in the event that the number of Shares to be issued pursuant to the exercise of the ESOS Options granted under the Scheme exceeds the Maximum Shares as a result of the Company purchasing, cancelling and/or reducing its own Shares in accordance with the Companies Act 2016 ("**Act**"), or the Company undertaking any other corporate proposal and thereby diminishing the total number of issued Shares, then such ESOS Options granted prior to the adjustment of such total number of issued Shares (excluding treasury shares, if any) shall remain valid and exercisable in accordance with the provisions of the By-Laws.

However, in such a situation, the ESOS Committee shall not make any further Offer until the total number of Shares under the subsisting ESOS Options, including those Shares that have been issued under the Scheme falls below the Maximum Shares at any point of time over the duration of the Scheme.

3.2.2 Basis of allotment and maximum allowable allocation of new Shares

The aggregate maximum number of ESOS Options that may be granted to any 1 category / designation of employment of the Eligible Person shall be determined entirely at the discretion of the ESOS Committee, after taking into consideration, amongst others:

(i) the provisions of the Listing Requirements or other applicable regulatory requirements prevailing during the duration of the Scheme;

(ii) the number of new Shares to be allocated to any Eligible Person who, either singly or collectively through persons connected with such Eligible Person, holds 20.0% or more of the total number of issued Shares (excluding treasury shares, if any), shall not exceed 10.0% of the total number of new Shares to be issued under the Scheme;

(iii) not more than 70.0% of the ESOS Options available under the Scheme shall be allocated in aggregate to the Directors and senior management personnel of the Group (excluding Divfex's subsidiaries which are dormant). This percentage is fixed to ensure that there will be sufficient ESOS Options to be allocated to other employees of the companies in the Group;

(iv) performance, targets, position, annual appraised performance, seniority and length of service, contribution, category or grade of employment of the Eligible Person; and

(v) such other matters which the ESOS Committee may in its sole and absolute discretion deem fit.

A set of criteria on eligibility and allocation as determined by the ESOS Committee from time to time shall be made available to the Eligible Persons.

The allocation of ESOS Options to non-executive Directors is to recognise the contributions and efforts made by the non-executive Directors to the Group, their independent views in the decision making process and maintaining good corporate practices. Their participation in the equity of the Company is expected to enhance their level of commitment and contribution as well as to enable the Company to attract and retain capable individuals to act as non-executive Directors of the Company.

The ESOS Committee shall have the sole and absolute discretion in determining whether the ESOS Options are subject to vesting conditions and whether such vesting conditions are subject to performance target.

Further, the ESOS Committee has the discretion to determine whether the Eligible Person is required to achieve any specific performance target(s), if determined so, before he/she may exercise the ESOS Options granted to him/her, and that any such performance target(s) if set, shall be stated in the offer letter to the Eligible Person.

No Eligible Person shall participate in the deliberation and/or discussion of their own respective allocations under the Scheme.

No performance target has been set for the allocation of ESOS Options at this juncture. Notwithstanding this, the ESOS Committee may from time to time at its own discretion decide on the performance targets.

3.2.3 Eligibility

Only Eligible Persons who fulfil the following conditions on the date on which an Offer is made by the ESOS Committee to the Eligible Persons ("**Date of Offer**") shall be eligible to participate in the Scheme:

(i) in respect of an employee of the Group, the employee must fulfil the following criteria as at the Date of Offer:

 (a) he / she is at least 18 years of age and he / she is not an undischarged bankrupt or subject to any bankruptcy proceedings;

 (b) he / she is employed on the Date of Offer:

  a. on a full-time basis and is on the payroll of any company in the Group (which are not dormant) for at least 6 months and his/her employment has been confirmed by the relevant company in the Group (which are not dormant) on the Date of Offer; or

  b. under an employment contract for a fixed duration and has been in the employment of any company in the Group for such period as may be determined by the ESOS Committee; and

 (c) such employee falls within any other eligibility criteria that may be determined by the ESOS Committee from time to time at its sole discretion, whose decision shall be final and binding;

(ii) in respect of an eligible Director, the eligible Director must fulfil the following criteria as at the Date of Offer:

 (a) he / she is at least 18 years of age and he/she is not an undischarged bankrupt or subject to any bankruptcy proceedings;

 (b) he / she has been appointed as a director to the board of directors of any company of the Group which is not dormant; and

 (c) such director fulfils any other criteria as may be determined by the ESOS Committee from time to time at its sole discretion, whose decision shall be final and binding;

(iii) in respect to any person, who is a director or major shareholder or the chief executive of Divfex or holding company of Divfex or person connected to any of them (as defined in the Listing Requirements), the specific allocation of ESOS Options granted under the Scheme must have been approved by the Shareholders at a general meeting; and

(iv) if an employee is employed by a company which is acquired by the Group during the duration of the Scheme and becomes a subsidiary whether directly or indirectly held by the Company upon such acquisition, the employee will be eligible to participate in the Scheme if the said employee becomes an Eligible Person within the meaning of the By-Laws.

The Eligible Person must fulfil any other criteria and/or fall within such category / designation of employment as may be determined by the ESOS Committee from time to time at its sole discretion, whose decision shall be final and binding.

Eligibility under the Scheme does not confer upon the Eligible Person a claim or right to participate in or any rights whatsoever under the Scheme and an Eligible Person does not acquire or have any rights over or in connection with the New ESOS Options unless an Offer has been made by the ESOS Committee to the Eligible Person and the Eligible Person has accepted the Offer in accordance with the terms of the By-Laws.

3.2.4 Duration of the Proposed ESOS

The Scheme shall be in force for a duration of 5 years from the date on which the Scheme comes into force as provided in the By-Laws ("**Effective Date**") subject however to any extension of the Scheme as provided under the By-Laws ("**Option Period**").

On or before the expiry of such 5 years of the Scheme, the Board shall have the discretion, without having to obtain approval of the Shareholders, to extend the duration of the Scheme, provided that the initial period of the Scheme and such extension of the Scheme made pursuant to the By-Laws shall not in aggregate exceed a duration of 10 years from the Effective Date or such longer period as may be permitted by Bursa Securities or any other relevant authorities from time to time.

For the avoidance of doubt, no further sanction, approval, consent or authorisation of the Shareholders in a general meeting is required for any such extension. In the event the Scheme is extended in accordance with the provision of the new By-Laws, the ESOS Committee shall furnish a written notification to all Eligible Person who has accepted an Offer in the manner as provided in the By-Laws ("**Grantees**"), and the Company shall make the necessary announcements to Bursa Securities prior to such extension (if required).

The Scheme may be terminated by the ESOS Committee at any time before its expiry provided that the Company shall make an announcement immediately through Bursa Securities.

In the event of termination of the Scheme, the following provisions shall apply:

(i) no further Offer shall be made by the ESOS Committee from the effective date of termination of the Scheme ("**Termination Date**");

(ii) all Offers which have yet to be accepted by the Eligible Person(s) shall automatically lapse on the Termination Date; and

(iii) all outstanding new ESOS Options which have yet to be exercised by the Grantees and/or vested (if applicable) shall be automatically terminated on the Termination Date.

Pursuant to the By-Laws, approval or consent of shareholders by way of a resolution in a general meeting and written consent of the Grantees who have yet to exercise their ESOS Options are not required to effect the termination of the Scheme, unless otherwise required by the Listing Requirements and/or other applicable laws.

3.2.5 Exercise of ESOS Options

Subject to the By-Laws, a Grantee shall be allowed to exercise the ESOS Options granted to him / her either in whole or part in multiples of 100 Shares as the Grantee may be entitled under the ESOS Options at any time during the Option Period whilst he / she is in the employment of any company within the Group (which is not dormant).

There will be no restriction to the Grantee on the percentage of ESOS Options exercisable by him / her during the Option Period. Notwithstanding this, the ESOS Committee may from time to time at its own discretion decide on whether the ESOS Options are subject to any vesting period and if so, the vesting conditions and whether such vesting is subject to performance target.

3.2.6 Option Price

Subject to any adjustments that may be made in accordance with the By-Laws, the Option Price shall be based on a price to be determined by the Board upon recommendation of the ESOS Committee based on the 5D-VWAMP of the Shares immediately preceding the Date of Offer with a discount of not more than 10.0% or such other percentage of discount as may be permitted by Bursa Securities during the duration of the Scheme. The Option Price as determined by the ESOS Committee shall be conclusive and binding on the Grantees.

3.2.7 Rights and ranking of the new Shares to be issued pursuant to the exercise of the ESOS Options

The new Shares to be allotted arising from the exercise of the ESOS Options will be subject to the provisions of the Constitution of the Company and shall, upon allotment, rank pari passu in all respects with the then existing issued Shares, save and except that the holders of such new Shares shall not be entitled to any dividends, rights, allotments and/or other distributions that may be declared, made or paid to Shareholders, the entitlement date of which is prior to the date of allotment and issuance of such new Shares.

3.2.8 Retention period

The ESOS Committee shall be entitled to prescribe or impose, in relation to any Offer, any condition relating to any retention period or restriction on sale, transfer, assign or otherwise dispose of as it deems fit. The Grantees are encouraged to hold the Shares as an investment rather than for any speculative purposes and/or for the realisation of any immediate gain.

Notwithstanding the above, pursuant to Rule 8.22 of the Listing Requirements, a Grantee who is a non-executive director of any company within the Group (excluding any dormant subsidiary) must not sell, transfer or assign his / her Shares obtained through the exercise of the ESOS Options offered to him / her pursuant to the Scheme within 1 year from the Date of Offer of such ESOS Options or such period as may be prescribed by Bursa Securities.

3.2.9 Alteration of share capital during the Option period

In the event of any alteration in the capital structure of the Company during the duration of the Scheme, whether by way of rights issue, bonus issue or other capitalisation issue consolidation or subdivision of Shares or reduction or any other alteration in the capital structure of the Company or otherwise howsoever, the ESOS Committee may, at its discretion, determine whether the Option Price and/or the number of unexercised Options shall be adjusted, and if so, the manner in which such adjustments should be made.

Such adjustments must be confirmed in writing by the external auditors of the Company or principal advisers (acting as experts and not as arbitrators), to be in their opinion, fair and reasonable.

3.2.10 Modification, variation and/or amendment to the Scheme

Subject to compliance with the Listing Requirements and any other relevant authorities, the ESOS Committee may at any time recommend to the Board any additions, modifications or amendments to or deletions of the By-Laws as it shall at its discretion think fit. Subject to the By-Laws, the approval of the Shareholders in a general meeting shall not be required in respect of the additions or modifications or amendments to or deletion of the By-Laws provided that no additions, modifications or amendments or deletions shall be made to the By-Laws which will:

(i) prejudice any rights which would have accrued to any Grantee without the prior consent or sanction of that Grantee; or

(ii) increase the number of Shares available under the Scheme beyond the maximum set out in Section 3.2.1 of this announcement; or

(iii) alter any matter which are required to be contained in the New By-Laws by virtue of the Listing Requirements to the advantage of the Eligible Person and/or Grantee.

3.2.11 Listing of Shares issued under the Scheme

An application will be made for the listing of and quotation for such new Shares to be issued pursuant to the Proposed ESOS, on the ACE Market of Bursa Securities.

4. UTILISATION OF PROCEEDS

4.1 Proposed Rights Issue with Warrants

The Proposed Rights Issue with Warrants is expected to raise proceeds of approximately RM26.1 million based on an indicative issue price of RM0.07 per Rights Share, which the Company proposes to utilise as follows:-

Details of utilisation	Notes	Expected time frame for utilisation from listing of Rights Shares	Amount (RM'000)
Repayment of bank borrowings	(i)	Within 1 month	6,500
Working capital for Divfex Group	(ii)	Within 12 months	12,000
Expansion of operations	(iii)	Within 24 months	6,200
Estimated expenses for the Proposed Regularisation Plan	(iv)	Within 1 month	1,401
Total gross proceeds			**26,101**

Notes:

(i) Repayment of bank borrowings

The Company intends to utilise approximately RM6.5 million to repay outstanding bank overdraft facilities of Diversified Gateway Berhad ("**DGB**"). The bank overdrafts were mainly utilised for to bridge the timing differences between the payment to suppliers and collections from customers, where lead times have increased from a range of 60 to 90 days, to a range of 150 to 180 days.

For illustrative purposes, the repayment of the bank overdrafts is expected to result in interest savings of RM0.55 million per annum assuming an interest rate of 8.45% per annum.

(ii) Working capital for Divfex Group

The Company proposes to utilise approximately RM8.0 million to supplement the working capital of the Divfex Group. Particularly the Divfex Group requires additional networking equipment inventory and receivables financing to prepare for potential information communication technology ("**ICT**") projects in the area of optical transmission and switching, data centre interconnect, IP core switching, campus networking and security being secured by DGB. DGB is presently still in the midst of negotiation for these multimillion major projects and anticipates that, amidst shipping disruption concerns that have been occurring, DGB will need to use internal funds and/or bank borrowings to begin incurring the aforementioned inventory and receivables financing by third quarter of 2022 ahead of the longer lead times in the market, as well as the nature of the telecommunication infrastructure supply business, where invoicing by certain telecommunication customers will only take place upon complete delivery of all project items. DGB is projecting a pipeline of RM30 million of supply contracts to a single major telecommunication customer for 2022, for which inventory and receivables financing of at least RM12 million is expected to be needed for up to 180 days.

(iii) Expansion of operations

Through acquisition of Excel and Finther, and together with DGB, Divfex is already positioned as a vertical solutions provider in Malaysia. As part of the acquisition, and as a group, Divfex would be better ready and equipped to undertake simultaneous horizontal expansion through presence in regional countries to duplicate the Group's product and service offerings in these markets to increase revenues and profitability. The regional expansion would also enhance relationships with product principals as well as targeting better volume discounts. For the next 2 financial years ending 30 June 2023 and 30 June 2024, Divfex Group plans to expand its office as well as hire new key personnel at its headquarters in Bukit Jalil, together with minimally a sales/marketing and a technical person each at three planned thin overseas offices using serviced office premises to keep lean and supported by the head office teams in Malaysia.

Currently, the planned overseas offices are for Singapore, Indonesia and Brunei. The opening of these offices are subject to the negotiation and signing of reseller agreements for key ICT products currently resold in Malaysia by the Group. The Group will proceed with office opening only if the plans would achieve adequate reseller agreements in these and alternate countries to meet targeted sales and profitability levels.

In line with positioning the Group positively with the product principals with regional expansion in mind, Divfex also intends to set up of a new technical training and support centre in part to enhance closer working relationships with the principals by providing better trained personnel, and pre- and post-sale support facilities at DGB's head office in Bukit Jalil, Kuala Lumpur.

The Company intends to utilise RM6.2 million for the total cost of the abovementioned office expansion for Divfex over the next 2 financial year ended 31 December ("**FYE**") 30 June 2023 and 2024, in the following manner:

Description	**Estimated cost (RM'000)**
The expansion comprising:	
- Overseas serviced office rental for 2 years at RM250,000 per office per year	1,500
- Demonstration hardware and related software licenses for the overseas offices, the details of which will depend upon the product principal	1,000
- Set up and fit out a new training centre at Bukit Jalil (head) office, comprising mainly renovation, rental, and fittings	660
- Manpower and associated costs, comprising 2 years salaries for:	
- Chief Technology Officer in Malaysia at RM400,000 per year	800
- Chief Operating Officer in Malaysia at RM400,000 per year	800
- 3 overseas technical staff at RM120,000 each staff member per year	720
- 3 overseas sales/marketing staff At RM120,000 each staff member per year	720
Total	**6,200**

(iv) Defray estimated expenses for the Proposed Regularisation Plan

The breakdown of estimated expenses for the Proposed Regularisation Plan is illustrated below:-

Details of utilisation	**RM'000**
Professional fees[(a)]	800
Underwriting commission	500
Fees to relevant authorities	50
Printing, despatch, meeting expenses, service tax and contingencies	51
Total	**1,401**

Note:

(a) Comprised of estimated professional fees payable to, amongst others, the Principal Adviser, Reporting Accountants, Solicitors, Independent Market Researcher, In Share Registrar and Company Secretary.

The proceeds to be raised from the Proposed Rights Issue with Warrants will be utilised in the following priority:

(i) defraying expenses for the Proposed Regularisation Plan;

(ii) repayment of bank borrowings;

(iii) expansion of operations; and

(iv) working capital of the Group.

Any variation in the actual proceeds raised and/or actual utilisation will be adjusted accordingly towards or against the allocation for the working capital of the Group.

Any further funding required beyond the amount of proceeds raised from the Proposed Rights Issue with Warrants is expected to be sourced from internally generated funds and/or bank borrowings, as well as vendor financing where permissible.

Pending the utilisation of proceeds from the Proposed Rights Issue with Warrants, the proceeds would be placed as deposits with licensed financial institutions or short-term money market instruments, as the Board deems fit. The Company proposes to utilise such interest/profits arising from the deposits/financial instruments for working capital purposes as stated in note (iii) above over a period of 24 months from the date of receipt of the proceeds.

4.2 Gross proceeds from exercise of Warrants

The quantum of proceeds that may be received by the Company upon the exercise of the Warrants would depend on the actual number of Warrants exercised. As such, the timeframe for utilisation of proceeds cannot be determined at this juncture.

The Company proposes to utilise the proceeds to be received from the exercise of the Warrants as and when received in the following manner:-

	Notes	**% of proceeds received**
Financing of projects	(i)	50%
Working capital	(ii)	50%

Notes:

(i) As the quantum to be received from the exercise of warrants is unable to be determined at this juncture, the Company is unable to allocate the proceeds to any specific project. The Group will evaluate the funding requirements of the projects as and when such proceeds are received and determine the allocation at the material time.

(ii) The proceeds received from the exercise of Warrants are to intended to be utilised as per the basis detailed in note (ii) of Section 4.1 above.

Pending the utilisation of proceeds from the exercise of Warrants, the proceeds would be placed as deposits with licensed financial institutions or short-term money market instruments, as the Board deems fit. The Company proposes to utilise such interest/profits arising from the deposits/financial instruments for working capital purposes as stated in note (ii) above over a period of 24 months from the date of receipt of the proceeds.

4.3 Proposed ESOS

The proceeds to be raised from the exercise of the ESOS Options will depend on, amongst others, the number of ESOS Options granted and exercised at the relevant point in time as well as the Option Price. As such, the actual amount of proceeds raised from the exercise of the ESOS Options as well as the timeframe for the utilisation of proceeds could not be determined at this juncture.

Nevertheless, the Company intends to utilise the proceeds raised from the exercise of the ESOS Options, if any, as capital expenditure and/or working capital for the Group which shall be commensurate with the business operations of the Group. The working capital raised from the exercise of the ESOS Options will be utilised to finance the Group's day-to-day operations, including the payment of staff salaries as well as defrayment of operational and administrative expenses (e.g. utilities, rental costs, transportation costs, marketing costs and other miscellaneous items).

5. FUNDRAISING EXERCISE UNDERTAKEN IN THE PAST 12 MONTHS

During the past 12 months immediately preceding the date of this announcement, there are no other fund-raising exercises undertaken by Divfex.

6. RATIONALE FOR THE PROPOSED REGULARISATION PLAN

Divfex has been evaluating several options to regularise its ALC condition, and to grow its business following major negative impact on its business and earlier plans arising from the COVID-19 pandemic. Divfex was affected by the slowdown in development projects in Malaysia following movement restrictions, hesitancy in business planning, and uncertainties arising from the change in the government of Malaysia in early 2020 coupled with economic uncertainties arising from the COVID-19 pandemic. The effects are the deferment of projects and delayed/slow rollout of projects due to the various stages of movement controls announced by the Government beginning on 18 March 2020 and staff quarantines; and slow import/export business development due to travel and quarantine restrictions. This had led to the termination of some of Divfex's proposed new business ventures which were undertaken throughout several months through late 2020 to 2022.

In anticipation of the recovery of the global and local economy post-pandemic, the Group decided to re-focus back to its core ICT business on the back of growth and refresh in networking infrastructure of telecommunication companies, government agencies and enterprises alongside the increasing demand for online and data services. This was the situation at the end of 2021 and early 2022 as the pandemic eased.

However, by February 2022, pre-pandemic delivery lead times for network equipment of 4 to 6 weeks have stretched progressively to 12 months into 2023. This is the current case for the ICT networking business of DGB, a wholly-owned subsidiary of Divfex. Unlike consumer networking equipment, the Group's ICT business is focused on high performance networking equipment and solutions, and this is the area most affected by semiconductor device shortages as wafer foundries prefer to focus on the more profitable high volume runs for consumer equipment as margins widen due to shortages.

In its efforts, the Group had completed interim proposals towards regularising its ALC condition, namely the Disposal, the Excel Acquisition and Finther Acquisition, to realign the Group's business direction towards its core digital infrastructure business with the provision of ICT solutions, to strengthen the financial condition and to improve the Group's financial performance by adding another revenue stream which is complementary in nature and would bring about synergistic benefits to the Group. The Excel Acquisition and Finther Acquisition are supported by profit guarantees given by the vendors, namely Thomas Lu Khin Phin, Faizal bin Bahadon and Chan Ming Chong, that the minimum profit after tax ("**PAT**") to be achieved by Excel and Finther is RM3.6 million and RM6.0 million respectively over FYE 31 December 2021 to FYE 31 December 2023 ("**Profit Guarantee**"). The Disposal represents the Board's strategic decision to divest its food manufacturing segment, after recognising the challenges faced by QBI and Makan Channel over the past 2 financial years due to the COVID-19 pandemic. Although the segment has good long term potential, it will have much a longer gestation period to reach a sustainable level of profitability due to the effects of the pandemic and the food manufacturing segment requires substantial future capital and working capital funding requirements to grow the business. For reference, the food manufacturing segment has incurred segmental losses of RM0.1 million to the Group for the 9 months financial period ended 31 March 2022. Given the ALC condition of Divfex, it would not be ideal to continue its investment in the food manufacturing segment. The Disposal was completed on 14 April 2022 and the Excel Acquisition and Finther Acquisition were completed on 17 May 2022.

Unlike DGB, Finther's business as an ICT solution provider is nearly all software and services driven. On the other hand, Excel is mainly an application and network services provider, where networking hardware makes up a small portion of their business and uses lower end equipment, and delivery lead times have not been impacted significantly. Therefore, the ongoing semiconductor hardware shortages has not and will not impact Finther's and Excel's businesses significantly.

Following the strategic direction taken by the Group as described above, the Group proposes the Proposed Regularisation Plan, which serves to elevate the level of operations of DGB, being the main operating subsidiary of the Company, to a sustainably profitable level, by expanding regional footprint and increasing capacities, capabilities as well as to supplement working capital with the prospects of fulfilling existing project deliveries being delayed by the pandemic and also to prepare the Group to undertake additional projects which are being secured. This is expected to be sufficient to regularise the financial condition of Divfex Group and uplift the ALC status of the Company. The Board believes that upon completion of the Proposed Regularisation Plan, the Group will be able to meet the criteria to uplift itself from being classified as an ALC. The Board believes that the Proposed Regularisation Plan will also bode well for the Group and provide confidence to its various stakeholders such as its shareholders, clients, financiers and employees of the Group moving forward.

6.1 Proposed Rights Issue with Warrants

The Proposed Rights Issue with Warrants will allow the Group to raise up to approximately RM26.1 million for purposes detailed in Section 4.1 and as explained above, where the Group has set out expansion plans for DGB, together with Excel and Finther's operations, which complement those of DGB. Thereafter, the Group is expected to turnaround its loss-making situation and address its ALC status.

The Proposed Rights Issue with Warrants also allow the shareholders of Divfex the opportunity to participate in the equity of Divfex at an attractive price.

After due consideration of the various options available, the Board is of the opinion that the Proposed Rights Issue with Warrants is the most suitable means of fund raising for the Company for the following:-

(i) the quantum of the proceeds to be raised;

(ii) it will involve the issuance of new Divfex Shares without diluting the Entitled Shareholders' shareholdings provided that they subscribe in full for their respective entitlements under the Proposed Rights Issue with Warrants and exercise their Warrants subsequently;

(iii) it provides an opportunity for the Entitled Shareholders to participate in the equity offering of the Company on a pro-rata basis; and

(iv) it will enable the Company to raise the requisite funds without incurring additional interest expense from bank borrowings, thereby minimising any potential cash outflow in respect of interest servicing costs.

The free Warrants which are attached to the Rights Shares are intended to provide an added incentive to the Entitled Shareholders to subscribe for the Rights Shares. In addition, the free Warrants will provide the Entitled Shareholders with an opportunity to increase their equity participation in the Company at a pre-determined exercise price during the tenure of the Warrants and will allow the Entitled Shareholders to further participate in the future growth of the Company as and when the Warrants are exercised. The exercise of the Warrants in the future will allow the Company to obtain additional funds without incurring additional interest expenses from borrowings.

6.2 Proposed ESOS

Following the implementation of the Proposed Regularisation Plan, the Group moving forward will comprise of the enlarged ICT business to be undertaken by DGB, Excel and Finther, for which the Group needs to attract talent as well as retain key personnel to ensure the continued success of the Group. In this view, the Proposed ESOS is established primarily to achieve the following objectives:-

(i) to drive and motivate the Eligible Persons to work towards achieving the Group's goals and objectives;

(ii) to reward the Eligible Persons in recognition of their accumulated contribution to the operations and continued growth of the Group;

(iii) to retain the Eligible Persons by giving the Eligible Persons a sense of ownership, loyalty and belonging to the Group by enabling them to participate directly in the equity of the Company and thereby provide an incentive for the Eligible Persons to participate in the future growth of the Group and motivate them towards better performance through greater productivity and loyalty;

(iv) to align the interests of the Eligible Persons, including management personnel of the Group, with the interests of the shareholders via direct participation in the equity of the Company; and

(v) to attract and retain high-calibre Eligible Persons.

The allocation of ESOS Options to non-executive Directors is to recognise the contributions and efforts made by the non-executive Directors as they play a constructive role in contributing towards the growth and performance of the Group. Their participation in the equity of the Company is expected to enhance their level of commitment and contribution as well as to enable the Company to attract and retain capable individuals to act as non-executive Directors of the Company who will assist in the overall strategic decision-making of the Group.

7. INDUSTRY OUTLOOK AND FUTURE PROSPECTS OF THE DIVFEX GROUP

7.1 Overview and outlook of the Malaysian economy

The Malaysian economy grew by 5.0% in the first quarter of 2022 (4Q 2021: 3.6%). Growth was supported mainly by higher domestic demand as economic activity continued to normalise with the easing of containment measures. The improvement also reflects the recovery in the labour market and continued policy support. In addition, strong external demand, amid the continued upcycle in global technology, provided a further lift to growth. In terms of economic activity, the services and manufacturing sectors continued to drive growth. On a quarter-on-quarter seasonally-adjusted basis, the economy registered an increase of 3.9% (4Q 2021: 4.6%).

Key economic sectors expanded in the first quarter of 2022. The services sector grew by 6.5% (4Q 2021: 3.2%). Consumer-related activities continued to recover amid the reopening of the economy. This was reflected in stronger growth in the retail and leisure-related subsectors. The strong expansion was also seen in business-related activities, including transport and storage, real estate, business services and private healthcare. Growth in the information and communication subsector provided further support amid greater coverage of 4G services as well as sustained demand for data communications services, particularly for e-commerce and e-payment activities.

Private investment turned around to register a positive growth of 0.4% (4Q 2021: -2.8%), supported by capital spending in the services and manufacturing sectors. Investments in ICT-related equipment and machinery for manufacturing remained robust, as firms continued to embrace automation and digitalisation. Structures investment registered a smaller contraction, mainly supported by the non-residential segment. This reflects the gradual ramp-up of investment projects amid the reopening of the economy.

(*Source: Bank Negara Malaysia Quarterly Bulletin 1Q 2022*)

7.2 Overview and prospects of the ICT Industry in Malaysia

In 2021, the services sector began showing signs of recovery with a sectoral growth of 1.9% (2020: -5.5%). The information and communication subsector also witnessed growth, as stronger demand for broadband data amid greater digitalisation in the economy supported growth in this subsector.

In the first quarter of 2022, the services sector was supported by growth in the information and communication subsector, amid greater coverage of 4G services as well as sustained demand for data communications services, particularly for e-commerce and e-payment activities. The services sector is projected to register a higher growth in 2022, led by the consumer and tourism-related subsectors. The information and communication subsector is expected to grow in 2022, as demand for data services mainly for e-commerce and e-payment activities drive growth.

Enterprise IT spending was initially affected in 2020 as a result of the COVID-19 pandemic as enterprises, particularly SMEs, opted to defer or minimise selected expenses as they focused on sustaining their cash flows. However, the COVID-19 pandemic has created a case for the adoption of technology to address work-from-home policies, managing changes in demand and uncertain supply chains. During the COVID-19 response, organisations relied on technology to sustain business operations through remote access, automated reporting, electronic data exchange, and real-time factory controls. This led to a growth in enterprise IT spending in 2021 (year-on-year growth rate of 18.6%) amidst the global COVID-19 pandemic landscape. Industry growth in 2021 was also driven by an increasing demand for IT system integration services given an increased penetration rate for IT systems used in enterprises and favourable government initiatives aimed at boosting the country's digital economy; and an increasing demand for IT consultancy services as well as system operations, maintenance and support services due to the rising number of end-users and growing complexity of enterprise IT systems. With these factors expected to continue to have an influence in the years ahead, the enterprise IT services industry in Malaysia is expected to grow from RM5.1 billion in 2021 to RM6.5 billion in 2025 at a CAGR of 6.3%.

(Source: Providence Strategic Partners Sdn Bhd)

7.3 Prospects of the Group

As set out in Sections 4.1 and Section 6.0, the completion of the Proposed Regularisation Plan is expected to put Divfex onto better financial standing to sustain its operations and ultimately improve its profitability following the difficult two years of the COVID-19 pandemic and which effects are still ongoing in 2022 by way the supply disruption delays in the high end networking equipment market. The rebuilding of its businesses is a top priority for Divfex. The Excel Acquisition and Finther Acquisition were an interim step for the Divfex Group to enhance its competitiveness by adding complementary vertical skills, products and market coverage, leading to the Proposed Regularisation Plan to regularise its financial condition.

The future outlook and viability of the enlarged Divfex Group looks promising in tandem with the expected growth seen for the ICT industry. The enlarged Divfex Group intends to capitalise on the positive trends driving the industry, and together with Excel and Finther have the following future plans and strategies by executing both vertical and horizontal expansion strategies.

Moving forward, the management of Divfex together with Excel and Finther anticipate the global demand for ICT services will continue be driven by the growth and major investments in an already technological age for human civilisation. However, the growth and demand for services is neither linear nor across the entire technology spectrum. Supply chain disruption and technological obsolescence are ever present threats to players in the ICT business. Therefore continued investment, speedily adaptation to changes and good execution with adequate funding are key to survival and success of the players.

The Board is of the view that the prospects of the Group are favourable to Divfex as the Group will be better equipped to weather through the prolonged impact of the pandemic which had resulted in the current delays in shipping of high end networking equipment and longer lead times, before generating revenue. The Group believes that the current supply chain disruption will normalise by the first half of 2023 due to softening in the consumer electronics market releasing capacity to the industrial markets. Through its expansion plans beginning with the setting up of thin DGB offices regionally and also increased marketing efforts, the Group expects to add additional revenue and income streams in future, which will ultimately improve the financial performance and financial position of Divfex moving forward.

8. RISK FACTORS

8.1 Risk of further operational delays

The Group has been experiencing prolonged delays in shipping of equipment which has deferred its projects' completion, and in turn, its generating of revenue. As at LPD, it is anticipated that with the additional financing and proceeds raised from the Proposed Rights Issue with Warrants, the Group will be able to bridge the timing difference between the delivery of equipment up to the collection from customers.

However, any further delay or disruption in such delivery may materially and adversely affect the Group's business operations and financial performance should the Group be unable to sustain its operations, notwithstanding its strengthened financial standing after the completion of the Proposed Regularisation Plan.

8.2 Competition risk

The advertising industry is competitive with rapidly changing advertising trends and new products and services. Divfex Group faces competition from existing players and possible new entrants in the future. In addition, Divfex Group may also face competition from other advertising channels, such as social media platforms. These players may vary in size, scope and types of advertising products and services offered.

To better compete in the industry, Divfex Group completed the Excel Acquisition and Finther Acquisition and is planning to penetrate new regions as well as expand its capacity of offerings. While Divfex Group strives to provide its customers with competitive products and services, there is no assurance that it will be able to maintain its customers and competitiveness against current and future competitors. If it fails to remain competitive against these competitors, its business operations and financial performance may be adversely affected.

8.3 Absence of long-term agreements with customers

Divfex Group does not enter into long term agreements with its customers where the majority of its deliveries are short term, within the span of a year. As such, it relies on the quality of its products and services to attract and retain its customers. There can be no assurance that it will be able to maintain the working relationship with its customers. If Divfex Group fails to attract and/or retain a substantial number of its customers, its business operations and financial performance may be materially and adversely affected.

8.4 Delays in implementation or non-completion of the Proposed Regularisation Plan

The regularisation of the Divfex Group is, to a large extent, dependent on the effective and timely implementation of the Proposed Regularisation Plan. The successful implementation of the Proposed Regularisation Plan is further subject to the approvals of the relevant authorities as well as the shareholders of Divfex at an EGM to be convened. In the event that such approvals are not obtained, the Proposed Regularisation Plan may be delayed or terminated.

The management of Divfex will endeavour to take all reasonable steps to comply with all the requirements and satisfaction of conditions precedent under the SSA and to ensure timely implementation of and compliance with the proposals.

8.5 Dependency on key management

The continuing success of Divfex Group is to a certain extent dependent on the continued effort of its key management personnel who are directly responsible for the strategic direction, leadership, business planning and development, and management of its business operations. The loss of any such key management personnel, and subsequent inability to recruit suitable replacement personnel in a timely manner, may adversely affect the business operations and financial performance of Divfex Group as well as its continuing ability to compete effectively in the industry. While Divfex Group endeavours to incentivise its key management with more competitive remuneration package and job development opportunities, and particularly aims to employ 2 key personnel i.e. Chief Operating Offiice and Chief Technology Officer for the purposes of its expansion, there can be no assurance that the Divfex Group will be able to recruit, develop and retain adequate number of skilled and motivated employees.

9. EFFECTS OF THE PROPOSED REGULARISATION PLAN

9.1 Issued share capital

The Proposed ESOS will not has an immediate effect on the share capital of Divfex until such time when the Warrants and ESOS Options are exercised. The share capital of Divfex will increase progressively as and when new Divfex Shares are issued arising from the exercise of Warrants and ESOS Option.

The pro forma effects of the Proposed Regularisation Plan on the issued share capital of the Company are set out below:

	No. of Divfex Shares	RM
Issued share capital as at LPD	745,730,961	60,053,793
Rights Shares to be issued pursuant to the Proposed Rights Issue with Warrants	372,865,480	26,100,584
	1,118,596,441	**86,154,377**
Shares to be issued assuming full exercise of the Warrants	372,865,480	26,100,584
Shares to be issued pursuant to the full exercise of all the ESOS Options that may be granted under the Proposed ESOS	(1)167,789,500	(2)11,745,265
Enlarged issued share capital	**1,659,251,421**	**124,000,225**

Notes:

(1) Computed based on 15% of the total number of issued share capital of Divfex after the completion of the Proposed Rights Issue with Warrants.

(2) Based on an illustrative Option Price of RM0.07 per ESOS Option (calculated based on 20.6% discount to the 5D-VWAMP of the Shares up to and including the LPD of RM0.088 and rounded up to the nearest Sen.

9.2 NA and gearing

The Proposed ESOS is not expected to have an immediate effect on the NA per Share and gearing of the Group until such time when the ESOS Options are exercised. The effects on the NA per Share and gearing of the Group will depend on, among others, the exercise price of the ESOS Options, the number of new Shares to be issued arising from the exercise of the ESOS Options and the potential impact arising from the adoption of the Malaysian Financial Reporting Standard No. 2 on Share-Based Payment ("**MFRS 2**").

For illustration purposes only, upon exercise of the ESOS Options, the NA per Divfex Share is expected to:

(i) increase if the Option Price of the ESOS Options is higher than the NA per Divfex Share; or

(ii) decrease if the Option Price of the ESOS Options is lower than the NA per Divfex Share,

at such point of exercise.

For illustrative purposes, the pro forma effects of the Proposed Regularisation Plan on the NA and gearing of Divfex Group based on latest audited financial statements of Divfex as at 30 June 2021 are as follows:-

		(I)	**(II)**	**(III)**
	Audited as at 30 June 2021	**After subsequent events[(i)]**	**After (I) and the Proposed Rights Issue with Warrants**	**After II and assuming full exercise of Warrants**
	(RM'000)	**(RM'000)**	**(RM'000)**	**(RM'000)**
Share capital	60,054	60,054	86,154	112,255
Reserve acquisition reserve	(131,013)	(131,013)	(131,013)	(131,013)
Exchange translation reserve	(3,488)	(3,488)	(3,488)	(3,488)
Warrants reserve	-	-	[(ii)]8,576	-
Retained earnings	99,472	[(i)]100,833	[(ii)(iii)]90,858	[(iii)]99,034
Total equity attributable to owners of the parent	**25,025**	**26,386**	**51,088**	**77,188**
Non-controlling interest	537	2,242	2,242	2,242
Total equity	**25,562**	26,386	52,930	79,030
Number of Divfex Shares ('000)	745,731	745,731	1,118,596	1,491,462

	Audited as at 30 June 2021 (RM'000)	(I) After subsequent events[(i)] (RM'000)	(II) After (I) and the Proposed Rights Issue with Warrants (RM'000)	(III) After II and assuming full exercise of Warrants (RM'000)
NA per Divfex Share (RM)	0.03	0.04	0.05	0.05
Interest bearing borrowings (RM'000)	5,042	8,898	8,898	8,898
Gearing (times)	0.20	0.34	0.17	0.11

Notes:

(i) After accounting for the Disposal, Excel Acquisition and Finther Acquisition completed on 14 April 2022 and 17 May 2022 respectively.

(ii) A reserve of RM8.6 million is provided for the issuance of 372,865,480 Warrants at a fair value of RM0.04 each, calculated using the Black-Scholes valuation model.

(iii) After deducting estimated expenses of RM1.4 million in relation to Proposed Regularisation Plan.

9.3 Substantial shareholders' shareholdings

The proforma effects of the Proposed Regularisation Plan on the shareholdings of the substantial shareholders of Divfex based on the Register of Substantial Shareholders as at LPD are as follows:-

	As at LPD				(I) After the Proposed Rights Issue with Warrants				(II) After (I) and assuming full exercise of ESOS Options and Warrants[1]			
	Direct		Indirect		Direct		Indirect		Direct		Indirect	
Substantial shareholders	**No. of Shares**	**[2]%**	**No. of Shares**	**[2]%**	**No. of Shares**	**[3]%**	**No. of Shares**	**[3]%**	**No. of Shares**	**[4]%**	**No. of Shares**	**()%**
ITB	195,415,600	26.2	-	-	293,123,400	26.2	-	-	293,123,400	17.7	-	-
Insas Berhad ("**Insas**")	-	-	195,415,600[5]	26.2	-	-	293,123,400	26.2	-	-	293,123,400	17.7
Dato Sri' Thong Kok Khee	-	-	195,415,600[6]	26.2	-	-	293,123,400	26.2	-	-	293,123,400	17.7
Liau Kim Keong	17,450,700	2.3	19,970,000[7]	2.7	26,176,050	2.3	29,955,000	2.7	26,176,050	1.6	29,955,000	1.8

Notes:

(1) Computed based on 15% of the total number of issued share capital of Divfex after the completion of the Proposed Rights Issue with Warrants.

(2) Based on the existing share capital of 745,730,961 as at the LPD.

(3) Based on the enlarged share capital of 1,118,596,441 after the Proposed Rights Issue with Warrants.

(4) Based on the enlarged share capital of 1,659,251,421 assuming full exercise of ESOS Options and Warrants.

(5) Deemed interest pursuant to its substantial shareholdings in ITB pursuant to Section 8(4) of the Act.

(6) Deemed interest pursuant to his substantial shareholdings in Insas pursuant to Section 8(4) of the Act.

(7) Deemed interest by virtue of his spouse' interest.

9.4 Earnings and Earnings Per Share ("EPS")

The Proposed Rights Issue with Warrants, which is expected to be completed in the last quarter of 2022, is not expected to have any material effect on the earnings and EPS of the Group for the FYE 30 June 2023. However, the EPS of the Group may be diluted upon the issuance of the Rights Shares and the new Divfex Shares arising from the exercise of the Warrants. Notwithstanding that, the Proposed Rights Issue with Warrants is expected to contribute positively to the future earnings of the Group in the ensuing financial years via the utilisation of the proceeds.

The Proposed ESOS is not expected to have any material effect on the earnings and EPS of the Group until such time when the ESOS Options are granted. Any potential effect on the EPS of Group in the future would depend on the number of ESOS Options granted and exercised, and the Option Price payable upon exercise of the ESOS Options, as well as the impact of MFRS 2.

Under MFRS 2, the potential cost arising from the issuance of the ESOS Options is measured by the fair value of each ESOS Option, which are expected to vest at each Date of Offer and is recognised as an expense in the statement of comprehensive income, thereby reducing the earnings of Group. The fair value of the ESOS Option is determined after taking into consideration, amongst others, the historical volatility of Shares, the risk-free rate, the Option Price payable upon exercise of the ESOS Options and the time to maturity of the ESOS Options from the vesting date. As such, the impact of the granting of the ESOS Options on the earnings and EPS of the Group and recognition of the expense cannot be determined at this juncture.

It should be noted that such potential costs arising from the granting of the ESOS Options does not represent a cash outflow but only an accounting treatment. The Board has taken note of the potential impact of MFRS 2 on the Group's future earnings and shall take into consideration of such impact in the allocation and granting of the ESOS Options to Eligible Persons.

The EPS of the Group will however be proportionately diluted as a result of the increase in the number of Shares after the exercise of the ESOS Options.

9.5 Convertible Securities

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

10. APPROVALS REQUIRED

The Proposed Regularisation Plan is subject to the following approvals being obtained:-

(a) Bursa Securities, for the:

  (i) Proposed Regularisation Plan; and

  (ii) listing of and quotation for the:

    a. Rights Shares to be issued pursuant to the Proposed Rights Issue of Warrants

    b. new Shares to be issued pursuant to the exercise of the Warrants; and

c. such number of new Shares, representing up to 30.0% of the total number of issued shares of the Company (excluding treasury shares, if any), to be issued pursuant to the Proposed ESOS,

on the ACE Market of Bursa Securities; and

(iii) admission of the Warrants to the Official List of Bursa Securities and listing and quotation of the Warrants to be issued pursuant to the Proposed Rights Issue with Warrants on the ACE Market of Bursa Securities;

(b) shareholders of Divfex for the Proposed Regularisation Plan at an EGM to be convened; and

(c) any other relevant authorities/parties, if required.

11. INTER-CONDITIONALITY

The proposals comprising the Proposed Regularisation Plan are inter-conditional upon each other. However, the Proposed ESOS is expected to be implemented after the completion of the Proposed Rights Issue with Warrants.

The Proposed Regularisation Plan is not conditional upon any other corporate proposals to be implemented by the Company.

12. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS, CHIEF EXECUTIVE AND/OR PERSONS CONNECTED WITH THEM

None of the Directors, major shareholders, chief executive of Divfex and/or persons connected with them have any interest, direct or indirect, in the Proposed Regularisation Plan, except for the following:

(i) their respective entitlements as shareholders of the Company under the Proposed Rights Issue with Warrants including the right to apply for additional Rights Shares under the excess Rights Shares application, which are also available to all existing shareholders of the Company. In this regard, ITB has given its undertaking to subscribe for at least its entitlement of Rights Shares in full; and

(ii) All the Directors are deemed interested in respect of their respective allocation and the allocations to persons connected with them, if any, under the Proposed ESOS. As such, such interested Directors have abstained and will continue to abstain from deliberating on their respective allocations and the allocations to any persons connected to them under the Proposed ESOS at the relevant Board meetings.

The interested Directors and interested major shareholders, where relevant, will abstain from voting and ensure that persons connected with them will also abstain from voting in respect of their direct and/or indirect shareholdings in the Company on the resolutions pertaining to their respective allocations as well as allocations to persons connected with them (if any) under the Proposed ESOS at the EGM to be convened.

Any proposed allocation of ESOS Options to interested Directors, chief executive and persons connected to them is subject to the approval of the shareholders of the Company.

13. DIRECTORS' STATEMENT

The Board of Divfex is of the opinion that the Proposed Regularisation Plan is in the best interest of the Company and its shareholders, after considering all their aspects, including but not limited to the prospects, rationale and effects of the Proposed Regularisation Plan.

14. APPLICATION TO THE RELEVANT AUTHORITIES

The Company will on even date submit an extension of time application to Bursa Securities for an extension of time of 6 months up to 6 January 2023 to submit its regularisation plan. The Company will make the relevant announcement on Bursa Securities' decision on the said application in due course. Subject to Bursa Securities' approval of the aforementioned application for extension of time, the Proposed Regularisation Plan will be submitted to Bursa Securities 6 January 2023, or such other date as approved by Bursa Securities.

15. PRINCIPAL ADVISER

M & A Securities has been appointed as the Principal Adviser for the Proposed Regularisation Plan.

16. ESTIMATED TIMEFRAME FOR COMPLETION

If the Proposed Regularisation Plan is approved by Bursa Securities and the shareholders of Divfex, the Company expects to complete the implementation of the Proposed Regularisation Plan within 6 months from the date of approval of Bursa Securities.

17. EGM

The notice to convene the EGM together with the circular setting out the details of the Proposed Regularisation Plan will be dispatched to the shareholders of the Company in due course.

This announcement is dated 5 July 2022.