HONG SENG CONSOLIDATED BERHAD

200101001581 (537337-M)
(Incorporated in Malaysia)

SUMMARY OF KEY MATTERS DISCUSSED AT THE TWENTY-THIRD ANNUAL GENERAL MEETING ("23RD AGM") OF HONG SENG CONSOLIDATED BERHAD ("HONG SENG" OR "THE COMPANY") HELD ON THURSDAY, 29 AUGUST 2024

REPLY TO QUESTIONS FROM THE MINORITY SHAREHOLDERS WATCH GROUP ("MSWG")

The questions received from the MSWG and the Company's responses to the MSWG were as follows:-

Operational & Financial Matters

1. **The Company and its subsidiaries' ("Group") financial services segment is primarily the provision of moneylending through its wholly-owned subsidiary, Hong Seng Capital Sdn Bhd. The moneylending business has extended RM97.18 million of loans to third party corporate and individual loan debtors in the ordinary course of its business as a licensed moneylender at the financial period end (Page 15 of Annual Report 2024 ("AR2024").**

   The abovementioned loans extended to third-party corporate and individual loan debtors were mainly for what purpose? What was the percentage of non-performing loans for the 18-months financial period ended 31 March 2024 ("FPE 2024")?

   The Company's reply:

   The third-party corporate and individual loan debtors obtained the loans mainly for investments and/or working capital purposes. There were no loans classified as non-performing loans during the FPE 2024 and the percentage of non-performing loans was 5.34% (where the loan was classified as non-performing during the 12-month financial year ended 30 September 2022).

2. **On 14 July 2023, the Company via off market acquired 402,057,900 ordinary shares in Classita Holdings Berhad ("Classita"), representing 32.61% equity interest in Classita for a total cash consideration of RM60,319,731, including incidental costs of the acquisition (Note 9.1, page 134 of AR2024).**

   (a) **Given that Classita is a loss-making company with audited loss after tax ("LAT") of RM13.33 million for the financial year ended 31 March 2021, its 15-months financial period ended 30 June 2022 recorded LAT of RM7.20 million and 9-months financial period ended 31 March 2023 recorded RM0.20 million of LAT (Bursa announcement dated 14 July 2023), what was the level of due diligence carried out by the Company for the investment in Classita?**

   The Company's reply:

   The Company made this investment after carefully evaluated Classita's financial standing following its right issue, which has strengthened its cash reserves. The Company's decision was based on an internal review of Classita's abridged prospectus in relation to the rights issue and audited reports. Although the Company did not conduct independent due diligence, the analysis led the Company to believe this investment supported its strategic goals. Please refer to Sections 3, 4 and 5 of the announcement dated 14 July 2023 and Section 2(b) of the additional announcement dated 27 July 2023 for the Company's rational and assessments on Classita's prospects and risks of the investment.

(b) What was the level of oversight provided by the independent directors in approving the acquisition of Classita?

The Company's reply:

The independent directors assessed the investment by considering its rationale, benefits, and risks. They reviewed the financial information and strategic alignment to ensure the investment was in the best interest of the Company and its shareholders. As disclosed in Section 9 of the announcement dated 14 July 2023, although Dato' Kang Chez Chiang was not deemed to be interested in the investment, he has, however voluntarily abstained and/or will continue to abstain from all Board deliberations and voting in relation to the investment.

(c) For FPE 2024 impairment loss on investment in Classita was RM20 million (Note 9.1, page 132 of AR2024) and Classita recorded a LAT of RM1.57 million for its 9-months unaudited 31 March 2024 results higher than the LAT of RM0.20 million in the corresponding year (Classita's Bursa announcement dated 27 May 2024).

Please explain to the stakeholders why the acquisition of Classita is in the best interest of the Company and its shareholders.

The Company's reply:

The acquisition of Classita was based on the justifications as mentioned in 2(a) above and the purchase consideration was given for the investment in a substantial block of shares which being the current largest shareholding in Classita (i.e., equivalent to 32.61% equity interest in Classita) and the purchase price per share of RM0.15 represented a discount of approximately 6.25% to the unaudited net assets per share of RM0.16 as disclosed in the announcement dated 14 July 2023.

Despite Classita recorded a LAT of RM1.57 million for the 9-month unaudited 31 March 2024, the unaudited net assets per share at 31 March 2024 for Classita was RM0.15 which was on par with the purchase price per share.

The Company has recognised an impairment loss on the investment in the associate due to its current loss-making position and the earnings potential, especially for the property development and construction business requires a longer gestation period prior to its realisation. However, it is important to note that the Company's share of Classita's unaudited net assets value as at 31 March 2024 based on its shareholding remained higher than the Company's audited carrying value of the investment in Classita as at 31 March 2024 after the impairment. The adjustment reflected a conservative approach while recognised the value of the investment, to account as well for the associate's state of performance.

3. The Group's other investments comprised quoted shares in Malaysia of RM26.38 million (financial year ended 30 September 2022 ("FYE 2022") (Note 11, page 136 of AR2024).

(a) What were the quoted shares purchased by the Group? What is the rationale for investing RM26.38 million in quoted shares rather than utilising the cash for the Group's money-lending business?

The Company's reply:

The Group has invested in quoted shares in technology and industrial products and services sectors with growth potential as part of the Group's strategy to diversify and enhance returns. Quoted shares are generally more liquid as compared to investments in a money-lending business, where capital is expected to be tied up for a longer period. This liquidity allows the Group to respond more flexibly to market opportunities or financial needs and provides a more balanced approach to diversify resources for investments. For clarity, the fair value of the quoted shares of RM26.38 million comprised a fair value gain of RM8.65 million and its purchase cost of RM17.73 million.

(b) **How does the Board manage the risks associated with investing in quoted shares? Does the Board have an investment policy for investment in quoted shares?**

The Company's reply:

The Board understands the importance of managing risks in the investment decisions. While the Group doesn't have a formal policy in place, it takes a careful approach by researching and monitoring the quoted investments made. The Group focuses on companies with solid fundamentals and regularly reviews the portfolio to ensure it aligns with the Group's objectives. The Group is also considering the development of a formal policy to strengthen its approach in the future.

4. **On 20 May 2024, Hong Seng Industries Sdn Bhd ("HSI") had entered into a mutual termination agreement with the Northern Corridor Implementation Authority ("NCIA") to mutually agree to terminate the Sublease Agreement entered into on 25 June 2021 between the parties ("Sublease Agreement"). HSI had previously paid an advance of RM11,173,140 to NCIA pursuant to the Sublease Agreement ("Sublease Advance") which is disclosed in Note 15 to the Financial Statements. Upon the execution of the Alternate Land Sublease Agreement, the Alternate Land Sublease consideration will be offset against the previous Sublease Advance and the balance of RM6,634,188 will be refunded to HSI within 30 days from the date of execution of the Alternate Land Sublease Agreement (Note 36, page 165 of AR2024).**

To-date, what is the status of the abovementioned?

The Company's reply:

The Company has received a draft Alternate Land Sublease Agreement recently from NCIA and the Company's solicitors are in the process of reviewing the draft.

5. **The Group's consumption of diesel was 2,378 litres in FPE 2024, slightly higher than 1,300 litres of diesel consumed in 12-month FYE 2022 (page 35 of AR2024).**
With the Government's rationalisation of the diesel subsidy, to what extent will it impact the Group?

The Company's reply:

The rationalisation of the diesel subsidy has a relatively minor impact on the Group, considering that the diesel is only used for forklifts. The estimated increase in the cost of diesel if based on the usage for FPE 2024 is around RM2,900 for the 18-month period.

6. **Mr. Leong Seng Wui ("Mr. Francis Leong"), the Executive Director of Hong Seng is also the Executive Director of Revenue Group Berhad (Page 9 of AR2024).**

As the Executive Director of the Company, Mr. Francis Leong is expected to devote his full-time commitment to Hong Seng, as he is receiving salary, bonus and other benefits under his contract of service with the Company.

Please explain how Mr. Francis Leong manages his time commitment to the Company vis-à-vis his position as the Revenue Group Berhad, Executive Director, given that all two (2) are highly demanding executive positions requiring a fulltime commitment.

The Company's reply:

Mr. Francis Leong, collectively with other Executive Directors of the Company, is responsible for and leads the Management of the Company in making and implementing the day-to-day decisions on the business operations, managing resources and risks in pursuing the corporate objectives of the Group. The Executive Directors are supported by a team of management who is equipped with respective skills and roles to execute tasks entrusted. The Executive Directors will bring and update the Board with material and/or relevant matters at least on a quarterly basis.

The Board is of the opinion that Mr. Francis Leong is able to discharge his duties and responsibilities effectively irrespective of another executive role.

7. **In relation to the Group's Board diversity, the Board currently has one (1) woman Independent Non-Executive Director, representing 14.3% of the Board composition (Page 51 of AR2024). What benefits has the Board experienced from gender diversity among its members? How has the Board's performance been impacted with these benefits?**

The Company's reply:

As stated on page 51 of AR2024, the Board currently has one (1) woman Executive Director. The presence of a woman Executive Director, representing 14.3% of the Board, has brought valuable benefits, including diverse perspectives and improved decision-making. This gender diversity has enriched discussions, led to more balanced decisions, and better aligned the Board with stakeholders' expectations, enhancing overall performance and effectiveness.