



# HONG SENG CONSOLIDATED BERHAD

200101001581 (537337-M)

(Incorporated in Malaysia)

## SUMMARY OF KEY MATTERS DISCUSSED AT THE TWENTY-SECOND ANNUAL GENERAL MEETING (“22<sup>ND</sup> AGM”) OF HONG SENG CONSOLIDATED BERHAD (“HONG SENG” OR “THE COMPANY”) HELD ON MONDAY, 27 FEBRUARY 2023

### 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:-

**Q1: HS Bio Sdn. Bhd. (“HS Bio”) had on 3 January 2022 entered into a shares sale agreement with Kuan Chee Sian and Joveen Neoh Wan Fen (who are also the Directors of HS Bio and are also the vendors for the acquisition) for the proposed acquisition of 80,000 ordinary shares in Neogenix Laboratoire Sdn. Bhd. (“Neogenix Lab”), representing 40% of the equity interest in Neogenix Lab, for a total cash purchase consideration of RM3.4 million. This acquisition was completed on 4 January 2022. (page 40 of AR2022)**

**(a) What was the revenue and profit contribution of Neogenix Lab to the Group for financial year ended 30 September 2022?**

**(b) Neogenix Lab was a 60% owned subsidiary of HS Bio which in turn is a 60% owned subsidiary of Hong Seng, its financial results are consolidated by the Group and Hong Seng has control over Neogenix Lab. What was the urgency to acquire the remaining 40% equity interest in Neogenix Lab by cash?**

**A1: (a)** The revenue and profit contribution of Neogenix Lab to the Group for the financial year ended 30 September 2022 (“FYE 2022”) were RM30.54 million and RM18.06 million, respectively (RM19.59 million and RM3.48 million, respectively for the 18-month financial period ended 30 September 2021 (“FPE 2021”)) in which the net profit attributable to the owners of the Company and non-controlling interests, respectively, is disclosed in Note 1(b) below.

**(b)** The acquisition of the remaining 40% equity interest in Neogenix Lab was to allow the Company to increase its stake in Neogenix Lab to gain full control in Neogenix Lab as well as to enable the Group to reap the benefits of additional profits derived from Neogenix Lab in view of its potential beyond the conventional laboratory services as it has the capabilities in offering genomics, precision medicine, food science research and development and other clinical pathology services. During the FYE 2022, Neogenix Lab’s net profit attributable to the owners of the Company has increased by RM15.65 million or 748.8% to RM17.74 million as compared to the FPE 2021 as per the table below:-

	<b>FYE 2022</b>	<b>FPE 2021</b>
	<b>RM’000</b>	<b>RM’000</b>
Neogenix Lab’s net profit attributable to:		
Owners of the Company	17,742	2,090
Non-controlling interests	318	1,393
<b>Profit contribution of Neogenix Lab to the Group</b>	<b>18,060</b>	<b>3,483</b>

**Q2: Inventories written down increased significantly to RM2.8 million (18-months FPE2021: RM0.79 million). (page 68 of AR2022).**

**What comprises these inventories that have been written down? Are these inventories written down still usable or salable?**

**A2:** The inventories written down were in respect of:-

	<b>FYE 2022 RM'000</b>	<b>FPE 2021 RM'000</b>
Medical supplies - test kits	350	789
Gloves	2,450	-
	<b>2,800</b>	<b>789</b>

The carrying amounts of the inventories were written down to their net realisable values. The inventories are still salable or usable.

**Q3: On 29 October 2021, a wholly-owned subsidiary company of the Company, Hong Seng Gloves Sdn. Bhd. (“HSGSB”) entered into a shares sale agreement with a third party for the acquisition of the entire equity interest in Hypercove Sdn. Bhd. (“Hypercove”) comprising 100,000 ordinary shares for a total cash consideration of RM2.2 million. (Note 6, page 100 of AR2022)**

**Given that Hypercove’s principal activity is ‘dormant’, why did the Group acquire a dormant company for RM2.2 million cash?**

**A3:** Hypercove was previously engaged in the business of provisioning glove manufacturing facilities equipment and machineries and other related services. The acquisition was to allow HSGSB to acquire Hypercove’s readily available business and assets (i.e., glove manufacturing facilities equipment and machineries) which are required by HSGSB for its gloves manufacturing business. The cash purchase consideration of RM2.2 million was arrived at after taken into consideration, amongst others, the assets value of Hypercove and the suitability of the types and specifications of the assets for the benefits of HSGSB’s business.

Subsequent to the acquisition, in order to streamline and achieve a greater efficiency in the production management processes, which including but not limited to centralise the control of the gloves manufacturing equipment and costing of products, the assets of Hypercove have been transferred to HSGSB on 1 June 2022. Thereafter, Hypercove has become a dormant company as its business operation is now under its immediate holding company, i.e., HSGSB.

**Q4: Impairment loss on trade receivables increased significantly to RM6.6 million (18-months FPE2021: RM0.4 million). The Group’s impairment loss on trade receivables written off amounted to RM8.1 million (18-months FPE2021: Nil) (Note 11, page 113 of AR2022).**

**(a) What is the reason for the substantial increase in impairment loss on trade receivables? To-date, how much of the RM6.6 million impaired trade receivables have been collected?**

**(b) What comprises the trade receivables that have been written off? What were the measures taken to recover the RM8.1 million prior to being written-off?**

- A4:** (a) The reason for the substantial increase in impairment loss on trade receivables of RM6.63 million was mainly due to an amount owing by a loan debtor of RM5.19 million was individual impaired during the FYE 2022 as a result of the loan debtor default in making payment for loan interest since January 2022 and the loan tenure has expired in July 2022. No collection from the loan debtor as of to-date and the Group is still negotiating with the loan debtor for various possible ways in collecting the debts. Legal action will be taken upon the Group exhausts with all possible alternative measures.

In addition, a collective impairment of RM1.44 million was made in the FYE 2022 for the estimated credit losses of the Group's trade receivables analysed based on the Group's historical observed default rates with forward-looking estimates. Out of this collective impairment, RM0.46 million was collected subsequent to the FYE 2022 up to 20 February 2023.

- (b) The impairment loss on trade receivables "written off" of RM8.12 million as disclosed in Note 11 of page 113 of AR2022 was indeed the impairment loss de-consolidated following the disposal of 75% equity interest in Panpages Group by CBSA Bizhub, a wholly owned subsidiary of Hong Seng (as disclosed Note 6.5 (c), page 106 of AR2022).

To clarify, the impairment loss of RM8.12 million was remained in Panpages Group up to the point of its de-consolidation, it should be worded as "derecognition upon disposal of subsidiary companies" instead of "written off".

- Q5: Employees' remuneration in relation to salaries, allowances and bonuses increased significantly to RM12.4 million (18-months FPE2021: RM4.3 million) (Note 27, page 126 of AR2022)**

**What is the reason for the significant increase in employees' remuneration?**

- A5:** The increase of employees' remuneration by RM10.72 million from RM6.02 million in the FPE 2021 to RM16.74 million in the FYE 2022 was mainly due to the increase in employees' remuneration in Gloves segment by RM8.15 million from RM1.49 million in the FPE 2021 to RM9.64 million in the FYE 2022. The increase of employees' remuneration in Gloves segment was mainly due to the commencement of gloves' production in October 2021. The average number of staff in Gloves segment has increased from 50 in the FPE 2021 to 306 in the FYE 2022.

- Q6: On 29 August 2022, HS Bio acquire 2 units of shop offices located at 3 Two Square, Petaling Jaya for a total purchase consideration of RM2,220,000. The acquisition of these properties has been completed on 21 December 2022 (Note 33e, page 142 AR2022). On 29 August 2022, HS Bio acquire shop offices located at Plaza Glomac, Petaling Jaya for a total purchase consideration of RM2,613,700. The acquisition of these properties has not been completed as of the date of approval of the financial statements (Note 33f, page 143 of AR2022).**

- (a) **What were the basis and justification for arriving at the respective purchase consideration?**
- (b) **How many units of shop offices is HS Bio acquiring at Plaza Glomac? What are the sizes of the shop offices?**

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*Summary of Key Matters discussed at the 22<sup>nd</sup> AGM of the Company held on Monday, 27 February 2023..... cont'd*

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**(c) What is the rationale for acquiring these shop offices? What are the Group's plans for these shop offices?**

**A6:** (a) The purchase consideration for the respective shop offices was arrived at based on direct negotiation between HS Bio and the vendor on a willing-buyer willing-seller basis and agreed upon after taken into consideration:-

	<b>Shop offices at Plaza Glomac</b>	<b>Shop offices at 3 Two Square</b>
Basis and justification	<ul style="list-style-type: none"> <li>• Rationale as disclosed in Note 6(c) below.</li> <li>• Based on the internal assessment on the market values of these properties.</li> </ul>	<ul style="list-style-type: none"> <li>• Rationale as disclosed in Note 6(c) below.</li> <li>• The expected return of investment of around 5.3% per annum deriving from rental income.</li> </ul>

(b) It is a 3-storey shop lot comprises 8 units of shop offices with a built-up area ranges from 1,276 square feet to 1,570 square feet per unit. Total built up area for the 8 units of shop offices is 11,572 square feet.

(c) The rationale of acquiring and usage of respective shop offices are as follows:-

	<b>Shop offices at Plaza Glomac</b>	<b>Shop offices at 3 Two Square</b>
Rationale and usage	For own use as corporate, finance and operations office for the Group and to allow the Group to consolidate its operations for better management purpose and to increase the business operation efficiency.	For investment purposes with intention to rent out for rental income and/or capital gain.  The offices are currently rented out for rental income.