

HAP SENG CONSOLIDATED BERHAD

(Company No. 26877-W)
(Incorporated in Malaysia)

**MINUTES OF THE FORTIETH ANNUAL GENERAL MEETING OF THE COMPANY
HELD AT THE KINABALU ROOM, GROUND FLOOR, MENARA HAP SENG, JALAN P.
RAMLEE, 50250 KUALA LUMPUR ON THURSDAY, 19 MAY 2016 AT 2PM**

Present:	DIRECTORS Dato' Jorgen Bornhoft (Non-Executive Chairman) Datuk Edward Lee Ming Foo (Managing Director) Mr Lee Wee Yong Ms Cheah Yee Leng Datuk Simon Shim Kong Yip Lt. Gen (R) Datuk Abdul Aziz Hasan Dato' Mohammed Hussein Mr Jimmy Leow Ming Fong
Absent with Apologies :	Mr Ch'ng Kok Phan
In attendance:	Ms Lim Guan Nee
Members:	160 members as per attendance sheet
Proxies:	61 proxies as per attendance sheet
Corporate representatives:	1 corporate representative as per attendance sheet
By invitation:	16 invitees as per attendance sheet

QUORUM

The chairman welcomed all members present at the meeting. Before calling the meeting to order, the chairman informed that Mr Ch'ng Kok Phan had sent his apologies for not being able to attend the meeting.

The requisite quorum being present pursuant to the Company's articles of association, the chairman declared the meeting duly convened.

NOTICE

The notice convening the meeting was taken as read.

The chairman informed the meeting that pursuant to the Malaysian Code on Corporate Governance 2012, shareholders or proxies were entitled to request that a resolution or resolutions be voted on by poll before or upon the declaration of result by show of hands.

The chairman further informed the meeting that he would read out the voting position of chairman as proxy for the business of this annual general meeting as well as the proxies and corporate representatives voting summary of each resolution before it was put to a vote.

1. TO TABLE THE AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 TOGETHER WITH THE REPORTS OF THE DIRECTORS AND AUDITORS

The chairman invited questions from the floor and all questions were adequately dealt with. A copy of the questions raised by the Minority Shareholder Watchdog Group (MSWG) with the answers thereto is enclosed herewith as Appendix A.

2. TO REAPPOINT DATO' JORGEN BORNHOFT AS DIRECTOR OF THE COMPANY IN ACCORDANCE WITH SECTION 129(6) OF THE COMPANIES ACT, 1965

Upon invitation of the chair, Datuk Edward Lee Ming Foo informed the meeting of the proxies and corporate representatives voting position of this resolution 1 as follows:-

For	Against	Discretion	Abstain
1,437,392,633	3,165,769	439,379	178,900

Thereafter, Datuk Edward Lee Ming Foo facilitated the passing of the following proposed resolution 1:-

“**THAT** Dato' Jorgen Bornhoft who is retiring in accordance with section 129(6) of the Companies Act, 1965, be and is hereby reappointed as director of the Company to hold office until the conclusion of the next annual general meeting of the Company.”

Mr Yap Chun Won proposed for the above resolution to be approved and the same was seconded by Mr Foo Soo Poh.

Datuk Edward Lee Ming Foo put the motion to a vote by show of hands and this resolution 1 was carried accordingly.

3. TO REAPPOINT LT. GEN. (R) DATUK ABDUL AZIZ BIN HASAN AS DIRECTOR OF THE COMPANY IN ACCORDANCE WITH SECTION 129(6) OF THE COMPANIES ACT, 1965

The chairman informed the meeting of the proxies and corporate representatives voting position of this ordinary resolution 2 as follows:-

For	Against	Discretion	Abstain
1,439,541,529	1,195,773	439,379	0

The chairman proceeded with the following proposed resolution 2:-

“**THAT** Lt. Gen. (R) Datuk Abdul Aziz Bin Hasan who is retiring in accordance with section 129(6) of the Companies Act, 1965, be and is hereby reappointed as director of the Company to hold office until the conclusion of the next annual general meeting of the Company.”

Mr Yap Chun Won proposed for the above resolution to be approved and the same was seconded by Mr Foo Soo Poh.

The chairman put the motion to a vote by show of hands and this resolution 2 was carried accordingly.

4. TO RE-ELECT DATUK SIMON SHIM KONG YIP WHO RETIRES AS DIRECTOR OF THE COMPANY PURSUANT TO ARTICLE 97 OF THE COMPANY'S ARTICLES OF ASSOCIATION

The chairman informed the meeting of the proxies and corporate representatives voting position of this resolution 3 as follows:-

For	Against	Discretion	Abstain
1,428,717,683	12,019,619	439,379	0

The chairman proceeded with the following proposed resolution 3:-

“**THAT** Datuk Simon Shim Kong Yip who is retiring as director pursuant to article 97 of the Company’s articles of association be hereby re-elected to serve on the board of directors of the Company.”

Mr Phang Ah Kow proposed for the above resolution to be approved and the same was seconded by Mr Foo Soo Poh.

The chairman put the motion to a vote by show of hands and this resolution 3 was carried accordingly.

5. TO RE-ELECT MR LEOW MING FONG @ LEOW MIN FONG WHO RETIRES AS DIRECTOR OF THE COMPANY PURSUANT TO ARTICLE 103 OF THE COMPANY'S ARTICLES OF ASSOCIATION

The chairman informed the meeting of the proxies and corporate representatives voting position of this resolution 4 as follows:-

For	Against	Discretion	Abstain
1,434,127,979	6,609,323	439,379	0

The chairman proceeded with the following proposed resolution 4:-

“**THAT** Mr Leow Ming Fong @ Leow Min Fong who is retiring as director pursuant to article 103 of the Company’s articles of association be hereby re-elected to serve on the board of directors of the Company.”

Mr Yap Chun Won proposed for the above resolution to be approved and the same was seconded by Mr Foo Soo Poh.

The chairman put the motion to a vote by show of hands and this resolution 4 was carried accordingly.

6. TO APPROVE THE PAYMENT OF DIRECTORS’ FEES OF THE COMPANY AMOUNTING TO RM682,500.00 FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

The chairman informed the meeting of the proxies and corporate representatives voting position of this resolution 5 as follows:-

For	Against	Discretion	Abstain
1,440,737,302	0	439,379	0

Thereafter, the chairman proceeded with the following proposed resolution 5:-

“**THAT** the payment of directors’ fees of the Company amounting to RM682,500.00 for the financial year ended 31 December 2015, be and is hereby approved.”

Mr Yap Chun Won proposed for the above resolution to be approved and the same was seconded by Mr Gan Hian Tat.

The chairman put the motion to a vote by show of hands and this resolution 5 was carried accordingly.

7. TO REAPPOINT MESSRS ERNST & YOUNG AS AUDITORS OF THE COMPANY TO HOLD OFFICE UNTIL THE CONCLUSION OF THE NEXT ANNUAL GENERAL MEETING AT A REMUNERATION TO BE DETERMINED BY THE DIRECTORS OF THE COMPANY

The chairman informed the meeting of the proxies and corporate representatives voting position of this resolution 6 as follows:-

For	Against	Discretion	Abstain
1,362,201,360	78,543,142	432,179	0

The chairman proceeded with the following proposed resolution 6:-

“**THAT** Messrs Ernst & Young be reappointed as auditors of the Company to hold office until the conclusion of the next annual general meeting **AND THAT** the directors be authorised to fix their remuneration.”

Mr Phang Ah Kow proposed for the above resolution to be approved and the same was seconded by Mr Foo Soo Poh.

The chairman put the motion to a vote by show of hands and this resolution 6 was carried accordingly.

SPECIAL BUSINESS:-

8. AUTHORITY TO ALLOT AND ISSUE SHARES PURSUANT TO SECTION 132D OF THE COMPANIES ACT, 1965

The chairman explained that the special business for the meeting was to consider and if thought fit, to authorise the directors to allot and issue shares in the Company up to an amount not exceeding 10% of the issued share capital of the Company.

The chairman informed the meeting of the proxies and corporate representatives voting position of this resolution 7 as follows:-

For	Against	Discretion	Abstain
1,440,744,442	0	432,239	0

Thereafter, the chairman proceeded with the following proposed resolution 7:-

“**THAT** the directors of the Company be and are hereby empowered pursuant to section 132D of the Companies Act, 1965 to allot and issue shares in the Company up to an amount not exceeding 10% of the issued and paid-up share capital of the Company and such authority shall continue to be in force until the conclusion of the next annual general meeting of the Company.”

Mr Phang Ah Kow proposed for the above resolution to be approved and the same was seconded by Mr Foo Soo Poh.

The chairman put the motion to a vote by show of hands and this resolution 7 was carried accordingly.

9. CONTINUATION OF INDEPENDENT NON-EXECUTIVE CHAIRMAN

Upon invitation of the chair, Datuk Edward Lee Ming Foo informed the meeting that Dato' Jorgen Bornhoft has served as an independent non-executive director of the Company for a cumulative term of more than 9 years. The Malaysian Code on Corporate Governance 2012 recommends that shareholders' approval be sought in the event that the Company intends to retain a person who has served in that capacity for more than 9 years.

Datuk Edward Lee Ming Foo also informed the meeting that despite having served on the board as an independent director for more than 9 years, Dato' Jorgen Bornhoft has continued to execute his functions with impartiality and manifests a strong element of independence in the discharge of his fiduciary duties in the best interest of the Company. In addition, he is in compliance with all the criterion as set out in the Listing Requirements.

Datuk Edward Lee Ming Foo informed the meeting of the proxies and corporate representatives voting position of this resolution 8 as follows:-

For	Against	Discretion	Abstain
1,440,072,542	485,800	439,439	178,900

Thereafter, Datuk Edward Lee Ming Foo facilitated the passing of the following proposed resolution 8:-

“**THAT** Dato' Jorgen Bornhoft be and is hereby authorised to continue his office as the independent non-executive chairman of the Company until the conclusion of the next annual general meeting”

Mr Yap Chun Won proposed for the above resolution to be approved and the same was seconded by Mr Phang Ah Kow.

Datuk Edward Lee Ming Foo put the motion to a vote by show of hands and this resolution 8 was carried accordingly.

CONCLUSION

There being no other business, the meeting concluded at 3.50 pm with a vote of thanks to the chairman.



CHAIRMAN

Kuala Lumpur

Strategy / Financials

1. Q: As stated in the Review of Operations, the Company is optimistic that the demand for its property development would continue to be encouraging despite the weak consumers' sentiment and ongoing prudential lending policies.

(a) What was the unbilled sales amount as at 31 December 2015?

A: As at 31 December 2015, the unbilled sales and bookings stand at RM 397 million.

	RM' mil
East Malaysia	108
West Malaysia	289
Total	397

As at 30 April 2016, the unbilled sales & bookings stand at RM 496 million.

	RM' mil
East Malaysia	137
West Malaysia	359
Total	496

(b) Considering that most of the properties of the Company are high-end development, how confident is the Board that the demand would not be affected by weak consumers' sentiment and tighter bank lending policies?

A: The effects of Bank Negara's cooling measures have kicked in resulting in major changes in both the demand and supply sides of the business. We have seen buyers remaining cautious in property acquisitions due to concern over loan availability. However, there will always be buying interest from genuine property buyers with good financials, especially for properties that are well located, highly accessible and reasonably priced.

We believe that Malaysia property market continues to be driven by population growth, new household formation, continued urbanisation, attractive mortgage rates and stable employment conditions. In addition, weakening of Ringgit is attracting foreign interests to purchase properties in Malaysia. This is evident in the good take up rate in our Andana Condominium and Villa, Horizon Residence and Nadi Bangsar.

Furthermore, household wealth is estimated to have risen by a compounded annual growth rate of about 11% over the past five years as more households look to investments in properties to help finance children's education, provide some financial security for the next generation and prepare for retirement including medical costs.

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(c) **With a few launches scheduled for FY2016 in both East and West Malaysia as highlighted in the Annual Report, what would be the expected sales for FY2016 and the take up rate for these launches?**

A: We expect averagely 30% take up rate in most of our new projects in FY 2016. The expected sales are estimated to be RM 700 million.

	RM' mil
Aria Luxury Residences	300
Balakong Mixed Development	150
Upscale D'Alpinia Business Park	27
Sabah projects	200
Total	677

2. **Q: Despite that the Group revenue for FY2015 increased by 17% compared with last financial year, the profit before tax (excluding the Gain from disposal of subsidiaries) dropped by 40% due to increase in expenses.**

(a) **What were the major increased expense items for FY2015?**

RM'million

A: The major increase in expenses for FY2015 were mainly attributable to:

(i) Distribution costs for the Group increased by **RM65.2 million** to RM165.3 million from last year of RM100.1 million mainly due to:

- Consolidation of the newly acquired subsidiary in Singapore, Hafary's 10 month distribution costs; 51.9
- Increase in Automotive Division's distribution costs due to higher employment cost, higher sales or broker commission as well as higher marketing and promotion expenses in tandem with the higher sales of vehicles in 2015. 7.9

59.8

(ii) Administrative expenses increased by **RM48.6 million** to RM247.5 million from last year of RM198.9 million mainly due to:

- Consolidation of Hafary's 10 month administrative expenses; 17.9
- Increase in Group's employment expenses (excluding Hafary) mainly due to annual increments, additional manpower and related EPF contribution; 16.1
- Increase in allowance of impairment mainly attributable to Credit Financing Division, Fertilizers Trading Division and Building Materials Trading Division. 7.2

41.2

(b) What would be the expected impact from the new minimum wages that would take effect from July 2016 on the bottom line of the Group?

A: The minimal wage rate per month will be raised from RM900 to RM1,000 for West Malaysia, and from RM800 to RM920 for East Malaysia with effect from 1 July 2016. The impact of the new minimum wage on the Group is estimated at RM7.0 million p.a. (RM6.6 million p.a. for plantation and other divisions RM0.4 million p.a.).

(c) What measures have been taken to curb escalating cost and to improve cost efficiency?

A: The Group has always been mindful of the escalating cost in the course of doing business and is constantly managing the Group's cost in various aspects, among others:

- (i) Constantly reviewing existing contracts with service providers eg. transporters, hiring of equipment and motor vehicles
- (ii) Reviewing processes within the operating units to improve efficiencies and reduce wastages
- (iii) Looking into mechanization in the plantation to reduce labour costs

However, despite the increase in Group revenue by 17% from RM3.77 billion in 2014 to RM4.39 billion in 2015, Group profit before tax (excluding the Gain from disposal of subsidiaries) of RM611 million was lower by 40% (RM413.6 million) as compared to RM1.025 billion in 2014. This was mainly attributable to:

	RM'million
(i) Higher gains on sale of non-strategic properties in 2014 (2015: RM196.1million; 2014: RM382.2 million)	186.1
(ii) Higher fair value adjustment of investment properties in 2014 (2015: RM22.7 million; 2014: RM189.4 million)	166.7
(iii) Gain on disposal of PPE (warehouses) in 2014. None in 2015	55.1
	<hr/> 407.9 <hr/>
(iv) Gross profit impacted by:	
• Plantation Division – mainly affected by volume and selling price variance of palm products	60.5
• Quarry and Building Material Division – margin compression mainly due to lower average selling price of aggregates	3.7
• Fertilizers Trading Division – lower average margins in Malaysian operations due to higher cost of fertilizers arising from the weaker Ringgit Malaysia vis-à-vis the US Dollar	8.5

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Mitigated by:

• Credit Financing - Higher operating profit in tandem with higher loan portfolio and better net interest margin	(25.8)
• Automotive – Higher operating profit attributable to increase in passenger vehicles sales and better margins from both vehicles and after sales services	(13.6)
• Hafary – consolidation of 10 months results	(37.9)
	<hr/>
	(4.6)
(v) Others	<hr/>
	10.3
	<hr/>
	413.6
	<hr/>

3. Q: Note 15 to the Financial Statements on inventories shown a substantial increase in Properties held for sale and finished goods which was one of the major contributors to the negative cash flow from operating activities.

What was the reason for the high inventories level as at 31 December 2015?

A: The reason for the high properties held for sale as at 31 December 2015 is largely due to the completion of projects in Tawau, namely, Phase 5B, 5C, 5D, 5E and 5F of Bandar Sri Indah. These phases comprise of 870 residential units which were launched in 2013 and 75% sold as at 31 December 2015.

For the four months ended in 2016, the division has sold RM34 million of properties held for sale, which represents 18.6% of RM 182.9 million as at December 2015. The division is confident that majority of these remaining units will be absorbed by the market due to its affordability below RM500,000.00.

Finished goods as at 31 December 2015 was RM672.8 million, an increase of RM289.5 million

	31.12.2015	31.12.2014
	RM'million	RM'million
(i) Finished goods – at cost	580.9	290.1
(ii) Finished goods – at net realizable value	91.9	93.2
	<hr/>	<hr/>
	672.8	383.3
	<hr/>	<hr/>
Increase by	289.5	
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The increase in finished goods was mainly due to:

	RM'million
(i) Hafary's inventories – consolidation for the the first time	142.6
(ii) Automotive Division - increase in passenger cars and commercial vehicles stocks.	84.2
- passenger cars pending deliveries to customers due to higher sales orders in 2015	
- delivery of 136 units new heavy commercial vehicles in December 2015 by the principal	
(iii) Fertilizers Trading Division – mainly due to higher Potash and Rock Phosphate stocks to fulfil committed sales to be delivered in early 2016	48.5
(iv) Quarry and Building Materials Division – mainly due to higher aggregates stocks	12.2
(v) Trading Division	2.0
Total Increase	<u>289.5</u>

4. Q: What is the cost-income ratio for the Credit Financing Division?

A: The cost-income ratio for the Credit Financing Division for 2015 was 31.22%, an improvement as compared to 2014 of 33.83%.

The 2015 statistics by Asset Financing and Leasing Association of Malaysia (AFLAM) has not been released yet. If we base on the 2014 of Financing Division's cost-income ratio of 33.83%, it was lower as compared to BMW Lease (51.00%), ORIX Leasing (51.00%) and PAC Lease (49.28%).

5. Q: How would the recent disposal of 51% equity interest in Hap Seng Commercial Vehicle Sdn Bhd be expected to affect the operating profit of the Automotive Division for FY2016?

A: The disposal of 51% equity interest in Hap Seng Commercial Vehicle Sdn Bhd ("HSCV") is not expected to affect significantly the operating profit of the Automotive Division for FY2016 as in 2016, it is in its initial phase of building up its market share.

Corporate Governance

(a) Q: The recent amendments to Chapter 9, Paragraph 9.21(2) of the Main market Listing Requirements requires companies to publish the summary of key matters discussed at the AGMs onto the companies' website for AGMs held on or after 1 July 2016. In line with this, we hope the Board would publish the summary of proceedings for this AGM on the Company's website.

A: The Company will, as soon as practicable, comply with the recent amendments to the Main Market Listing Requirements by publishing the summary of the key matters in the Company's website.