THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

IF YOU ARE IN ANY DOUBT AS TO THE COURSE OF ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, SOLICITOR, ACCOUNTANT OR OTHER PROFESSIONAL ADVISERS IMMEDIATELY.

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HAP SENG

Creating Value Together

Hap Seng Consolidated Berhad (26877-W)

CIRCULAR TO SHAREHOLDERS

IN RELATION TO THE

PART A

(I) PROPOSED DISPOSAL OF 60,495,001 ORDINARY SHARES REPRESENTING 100% OF THE ISSUED SHARE CAPITAL OF HSC SYDNEY HOLDING LIMITED BY HSC INTERNATIONAL LIMITED, A WHOLLY-OWNED SUBSIDIARY OF HAP SENG CONSOLIDATED BERHAD ("HSCB" OR "COMPANY"), TO LEI SHING HONG CAPITAL LIMITED ("LSHCL") FOR A CASH CONSIDERATION OF USD196,500,000 (OR EQUIVALENT TO RM771,164,250) ("PROPOSED HSH DISPOSAL"); AND

(II) PROPOSED DISPOSAL OF 266,000,000 ORDINARY SHARES REPRESENTING 20% OF THE ISSUED SHARE CAPITAL OF HAP SENG CREDIT SDN BHD BY HSCB TO LSHCL FOR A CASH CONSIDERATION OF RM906,000,000 ("PROPOSED HSCSB DISPOSAL")

((I) AND (II), COLLECTIVELY REFERRED TO AS THE "PROPOSALS")

PART B

INDEPENDENT ADVICE LETTER FROM AFFIN HWANG INVESTMENT BANK BERHAD TO THE NON-INTERESTED SHAREHOLDERS OF THE COMPANY IN RELATION TO THE PROPOSALS

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

Principal Adviser	*Independent Adviser*
CIMB	AFFIN HWANG CAPITAL
CIMB Investment Bank Berhad (18417-M) (A Participating Organisation of Bursa Malaysia Securities Berhad)	**Affin Hwang Investment Bank Berhad (14389-U)** (A Participating Organisation of Bursa Malaysia Securities Berhad)

The notice convening the extraordinary general meeting ("**EGM**") of Hap Seng Consolidated Berhad to be held at the Kinabalu Room, Ground Floor, Menara Hap Seng, Jalan P. Ramlee, 50250 Kuala Lumpur on Wednesday, 30 May 2018 at 11 a.m., or immediately following the conclusion of the 42nd annual general meeting of the Company, which will be held at the same venue and on the same day at 10 a.m., whichever is later (or the adjournment thereof), is enclosed with this Circular.

A member entitled to attend and vote at the EGM is entitled to appoint a proxy or proxies to vote on his/her behalf. In such event, the completed proxy form must be lodged at the registered office of the Company at 21st Floor, Menara Hap Seng, Jalan P. Ramlee, 50250 Kuala Lumpur no later than 48 hours before the appointed time of the EGM (or the adjournment thereof). Accordingly, the last day and time for lodging of the proxy form is 28 May 2018 at 11 a.m. (or the adjournment thereof). However, lodging of the proxy form will not preclude you from attending and voting in person at the EGM should you subsequently wish to do so.

This Circular is dated 16 May 2018

SUMMARY OF CONTENTS

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PART A

CIRCULAR TO SHAREHOLDERS

IN RELATION TO THE

PROPOSALS

DEFINITIONS

Except where the context otherwise requires, the following definitions shall apply throughout Part A of this Circular and the appendices to it:

Act	:	Companies Act 2016
Affin Hwang IB or Independent Adviser	:	Affin Hwang Investment Bank Berhad (14389-U)
AGM	:	Annual general meeting of the Company
Akal Megah	:	Akal Megah Sdn Bhd (436594-W), a wholly-owned subsidiary of World Prosperity Developments Limited (678683), which in turn is a wholly-owned subsidiary of LSH
Announcement	:	The announcement dated 2 March 2018 made by CIMB on behalf of HSCB on Bursa Securities in relation to the Proposals
Board	:	Board of Directors of the Company
Bursa Securities	:	Bursa Malaysia Securities Berhad (635998-W)
Byorion	:	Byorion Sdn Bhd (675519-D), a wholly-owned subsidiary of Akal Megah, which in turn is a wholly-owned subsidiary of LSH
CIMB or Principal Adviser	:	CIMB Investment Bank Berhad (18417-M)
Circular	:	This circular issued by HSCB to its shareholders dated 16 May 2018
EGM	:	The extraordinary general meeting of the Company to be held on 30 May 2018, or the adjournment thereof, to consider and if thought fit, to approve the Proposals
EPS	:	Earnings per share
FYE	:	Financial year ended/ending, as the case may be
GDP	:	Gross domestic product
Gek Poh	:	Gek Poh (Holdings) Sdn Bhd (20706-X)
HCS	:	HS Credit (Sydney) Pty Ltd (609157913), a wholly-owned subsidiary of HSH
HCS Shares	:	Ordinary shares of HCS
HSCB or Company	:	Hap Seng Consolidated Berhad (26877-W)
HSCB Group or Group	:	HSCB and its subsidiaries, collectively
HSCB Shares or Shares	:	Ordinary shares of HSCB
HSCD	:	Hap Seng Commercial Development Sdn Bhd (206548-H), a wholly-owned subsidiary of HSCB
HSCD Disposal	:	Disposal of the HSCD Lands by HSCD to Zillion for the HSCD Disposal Consideration

HSCD Lands	:	All those forty-eight (48) contiguous parcels of vacant leasehold lands which lease is due to expire on 31 December 2895 situated at Mile 1, Jalan Kuhara, Tawau, State of Sabah
HSCD Disposal Consideration	:	The disposal consideration of RM175,276,000 paid by Zillion to HSCD for the HSCD Disposal
HSCD SPA	:	The sale and purchase agreement dated 14 August 2017 entered into between HSCB and Zillion in relation to the HSCD Disposal
HSCI	:	HSC International Limited (LL13985), a wholly-owned subsidiary of HSCB
HSCSB	:	Hap Seng Credit Sdn Bhd (88601-H), a wholly-owned subsidiary of HSCB
HSCSB Balance Sum	:	A sum of RM815,400,000 representing the balance of 90% of the HSCSB Sale Consideration payable by LSHCL to HSCB in relation to the Proposed HSCSB Disposal
HSCSB Completion	:	The completion of the HSCSB SSA which shall take place on a day which is a date no later than thirty (30) days from the date on which all the HSCSB Conditions Precedent are satisfied or such other date as may be agreed in writing between HSCB and LSHCL
HSCSB Completion Date	:	The date on which the HSCSB Completion takes place
HSCSB Conditions Precedent	:	The conditions precedent of the Proposed HSCSB Disposal as set out in Section 3.2.2 of Part A of this Circular
HSCSB Cut-off Date	:	The last day of the period of six (6) months from the date of the HSCSB SSA or such other date as may be agreed in writing between HSCB and LSHCL
HSCSB Deposit	:	A sum of RM90,600,000 representing 10% of the HSCSB Sale Consideration, payable within 7 days from the date of execution HSCSB SSA by LSHCL to HSCB
HSCSB Sale Consideration	:	The cash consideration of RM906,000,000 for the Proposed HSCSB Disposal
HSCSB Sale Shares	:	266,000,000 ordinary shares representing 20% of the issued share capital of HSCSB
HSCSB Shares	:	Ordinary shares of HSCSB
HSCSB SSA	:	The shares sale agreement dated 2 March 2018 entered into between the HSCB and LSHCL for the Proposed HSCSB Disposal
HSH	:	HSC Sydney Holding Limited (LL13997), a wholly-owned subsidiary of HSCI, which in turn is a wholly-owned subsidiary of HSCB
HSH Balance Sum	:	A sum of USD176,850,000 equivalent to RM694,047,825 representing the balance 90% of the HSH Sale Consideration payable by LSHCL to HSCI in relation to the Proposed HSH Disposal
HSH Completion	:	The completion of the HSH SSA which shall take place on or before the expiry of thirty (30) days from the date on which all the HSH Conditions Precedent are satisfied or such other date as may be agreed in writing between HSCI and LSHCL

HSH Completion Date	:	The date on which the HSH Completion takes place
HSH Conditions Precedent	:	The conditions precedent of the Proposed HSH Disposal as set out in Section 2.2.2 of Part A of this Circular
HSH Cut-off Date	:	The last day of the period of six (6) months from the date of the HSH SSA or such other date as may be agreed in writing between HSCI and LSHCL
HSH Deposit	:	A sum of USD19,650,000 equivalent to RM77,116,425 representing 10% of the HSH Sale Consideration, payable within 7 days from the date of execution of HSH SSA by LSHCL to HSCI
HSH Sale Consideration	:	The cash consideration of USD196,500,000 which is equivalent to RM771,164,250 (based on the exchange rate of USD1.00:RM3.9245 as at 5.00 p.m. on 1 March 2018) for the Proposed HSH Disposal
HSH Sale Shares	:	60,495,001 ordinary shares representing 100% of the issued share capital of HSH
HSH Shares	:	Ordinary shares of HSH
HSH SSA	:	The shares sale agreement dated 2 March 2018 entered into between the HSCI and LSHCL for the Proposed HSH Disposal
HSIS	:	Hap Seng Insurance Services Sdn Bhd (21774-X), a wholly-owned subsidiary of Gek Poh
HSLD	:	Hap Seng Land Development Sdn Bhd (94612-T), a wholly-owned subsidiary of Hap Seng Land Sdn Bhd (354071-T), which in turn is the wholly-owned subsidiary of HSCB
Independent Advice Letter	:	The independent advice letter by Affin Hwang IB as set out in Part B of this Circular
Interested Directors	:	The directors of the Company who are deemed interested in the Proposals, namely Datuk Edward Lee Ming Foo, Mr. Lee Wee Yong, Datuk Simon Shim Kong Yip and Mr. Ch'ng Kok Phan as disclosed in Section 11.2 of Part A of this Circular. Mr. Ch'ng Kok Phan was a director of HSCB at the time the HSH SSA and HSCSB SSA terms were agreed upon and entered into. He resigned as a director of HSCB on 31 March 2018
Interested Shareholders	:	The shareholders of the Company who are deemed interested in the Proposals, namely Tan Sri Lau, Gek Poh, HSIS, LSH, LSHCL and LSHI as disclosed in Section 11.1 of Part A of this Circular
Listing Requirements	:	Main Market Listing Requirements of Bursa Securities
LPD	:	30 April 2018, being the latest practicable date prior to the printing and despatch of this Circular
LSH	:	Lei Shing Hong Limited (28253), a company incorporated in Hong Kong
LSHCL	:	Lei Shing Hong Capital Limited (438542), a company incorporated in Hong Kong and a wholly-owned subsidiary of LSH
LSHI	:	Lei Shing Hong Investment Limited (91301), a company incorporated in Hong Kong and a wholly-owned subsidiary of LSHCL

LTD	:	1 March 2018, being the last trading day prior to the Announcement
Magic Principle	:	Magic Principle Assets Limited (274126)
MFRS 10	:	Malaysian Financial Reporting Standards 10 "Consolidated Financial Statements"
MMSB	:	Malaysian Mosaics Sdn Bhd (5371-V), a wholly-owned subsidiary of HSCB
MMSB Disposal	:	Disposal of the MMSB Land and Buildings by MMSB to Byorion for the MMSB Disposal Consideration
MMSB Disposal and Leaseback	:	Disposal and lease of the MMSB Land and Buildings
MMSB Disposal Consideration	:	The disposal consideration of RM97,500,000 paid by Byorion to MMSB for the MMSB Disposal
MMSB Land and Buildings	:	All that parcel of leasehold land held under H.S.(D) 43799, Lot No. PTD 53638 (New Lot No. 44876), Mukim and District of Kluang, State of Johor Darul Ta'zim, together with various buildings for the production and manufacturing of floor and wall tiles erected thereon
MMSB SPA	:	The sale and purchase agreement dated 23 October 2017 entered into between MMSB and Byorion in relation to the MMSB Disposal
NA	:	Net assets
Non-Interested Directors	:	The directors of the Company who are not interested in the Proposals
Non-Interested Shareholders	:	The shareholders of the Company who are not interested in the Proposals
PAT	:	Profit after tax
PATNCI	:	Profit after tax and non-controlling interest
PBR	:	Price-to-book ratio
PBT	:	Profit before tax
PER	:	Price earnings ratio
Proposed HSCSB Disposal	:	Proposed disposal by HSCB of the HSCSB Sale Shares to LSHCL for the HSCSB Sale Consideration
Proposed HSH Disposal	:	Proposed disposal by HSCI of the HSH Sale Shares to LSHCL for the HSH Sale Consideration
Registered Office	:	21st Floor, Menara Hap Seng, Jalan P. Ramlee, 50250 Kuala Lumpur, Malaysia
Tan Sri Lau	:	Tan Sri Datuk Seri Panglima Lau Cho Kun @ Lau Yu Chak
Zillion	:	Zillion Sunrise Sdn Bhd (1238126-U), a wholly-owned subsidiary of Akal Megah which in turn is a wholly-owned subsidiary of LSH

Currencies

AUD	:	Australia Dollar, the lawful currency of Australia
HKD	:	Hong Kong Dollar, the lawful currency of Hong Kong, Special Administrative Region of the People's Republic of China
RM and Sen	:	Ringgit Malaysia and Sen respectively, the lawful currency of Malaysia
USD	:	United States Dollar, the lawful currency of the United States of America

All references to the "**Company**" in this Circular are to HSCB and references to the "**Group**" are to the Company and its subsidiaries. All references to "**you**" in this Circular are to the shareholders of the Company.

Words denoting the singular shall, where applicable, include the plural and vice versa and words denoting the masculine shall, where applicable, include the feminine and/or neuter genders, and vice versa. References to persons shall include corporations, unless otherwise specified.

Any reference in this Circular to any enactment is a reference to that enactment as for the time being amended or re-enacted.

Any reference to time of day in this Circular shall be a reference to Malaysian time, unless otherwise specified.

Any discrepancy in the tables between the amounts listed and the totals in this Circular are due to rounding.

Certain statements in this Circular may be forward-looking in nature, which are subject to uncertainties and contingencies. Forward-looking statements may contain estimates and assumptions made by the Board after due inquiry, which are nevertheless subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from the anticipated results, performance or achievements expressed or implied in such forward-looking statements. In light of these and other uncertainties, the inclusion of a forward-looking statement in this Circular should not be regarded as a representation or warranty that the Group's plans and objectives will be achieved.

Unless otherwise stated, the exchange rate of USD1.00:RM3.9245, being the Bank Negara Malaysia's middle exchange rate as at 5.00 p.m. on 1 March 2018, being the market day preceding the date of the Announcement, is used throughout this Circular.

Any exchange rate translations in this Circular are provided solely for convenience of readers and should not be constituted as representative that the translated amounts stated in this Circular could have been or would have been converted into such other amounts or vice versa.

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PART A

LETTER FROM THE BOARD TO SHAREHOLDERS OF THE COMPANY IN RELATION TO THE PROPOSALS:

HAP SENG

Creating
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Hap Seng Consolidated Berhad (26877-W)

Registered office:
21st Floor, Menara Hap Seng
Jalan P. Ramlee
50250 Kuala Lumpur
Malaysia

16 May 2018

Board of Directors

Dato' Jorgen Bornhoft *(Independent Non-Executive Chairman)*
Datuk Edward Lee Ming Foo, JP *(Managing Director)*
Mr. Lee Wee Yong *(Executive Director)*
Ms. Cheah Yee Leng *(Executive Director)*
Datuk Simon Shim Kong Yip, JP *(Non-Independent Non-Executive Director)*
Lt. Gen. (R) Datuk Abdul Aziz Bin Hasan *(Independent Non-Executive Director)*
Dato' Mohammed Bin Haji Che Hussein *(Independent Non-Executive Director)*
Mr. Leow Ming Fong @ Leow Min Fong *(Independent Non-Executive Director)*
Dato' Wan Mohd Fadzmi Bin Che Wan Othman Fadzilah *(Independent Non-Executive Director)*

To: Shareholders of the Company

Dear Sir/Madam

(I) PROPOSED HSH DISPOSAL; AND
(II) PROPOSED HSCSB DISPOSAL

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1. INTRODUCTION

On 2 March 2018, CIMB on behalf of the Board, announced that the Company is proposing to undertake the following Proposals:

(i) Proposed disposal by HSCI of the HSH Sale Shares to LSHCL for the HSH Sale Consideration; and

(ii) Proposed disposal by HSCB of the HSCSB Sale Shares to LSHCL for the HSCSB Sale Consideration.

The Proposals are deemed related party transactions pursuant to Paragraph 10.08 of Chapter 10 of the Listing Requirements. Accordingly, the Company has on 2 March 2018 appointed Affin Hwang IB to act as the Independent Adviser to advise the Non-Interested Directors and Non-Interested Shareholders on the fairness and the reasonableness of the Proposals and whether the Proposals are detrimental to the Non-Interested Shareholders. The Independent Advice Letter from Affin Hwang IB in relation to the Proposals is set out in Part B of this Circular.

THE PURPOSE OF THIS CIRCULAR IS TO PROVIDE THE SHAREHOLDERS WITH DETAILS OF THE PROPOSALS AND TO SEEK SHAREHOLDERS' APPROVAL BY WAY OF POLL FOR THE RESOLUTIONS PERTAINING TO THE PROPOSALS TO BE TABLED AT THE FORTHCOMING EGM.

SHAREHOLDERS ARE ADVISED TO READ AND CAREFULLY CONSIDER THE CONTENTS OF THIS LETTER IN PART A OF THIS CIRCULAR AND THE INDEPENDENT ADVICE LETTER IN PART B OF THIS CIRCULAR TOGETHER WITH THE APPENDICES CONTAINED HEREIN BEFORE VOTING BY POLL ON THE RESOLUTIONS PERTAINING TO THE PROPOSALS TO BE TABLED AT THE FORTHCOMING EGM.

2. THE PROPOSED HSH DISPOSAL

2.1 Details of the Proposed HSH Disposal

On 2 March 2018, HSCI entered into the HSH SSA for the disposal of HSH Sale Shares, for a cash consideration of USD196,500,000, equivalent to RM771,164,250.

2.1.1 Information on HSH

HSH is a wholly-owned subsidiary of HSCI, which in turn a wholly-owned subsidiary of HSCB.

The details of HSH are set out in Appendix I of this Circular.

2.1.2 Information on HCS

HCS is a wholly-owned subsidiary of HSH.

The details of HCS are set out in Appendix II of this Circular.

2.2 Salient terms of the HSH SSA

The salient terms of the HSH SSA are summarised as follows:

2.2.1 HSH Sale Consideration and manner of payment

The HSH Sale Consideration for the HSH Sale Shares is USD196,500,000 and is payable by LSHCL to HSCI in the following manner:

(i) the HSH Deposit within 7 days from the date of execution of HSH SSA; and

(ii) the HSH Balance Sum on or before HSH Completion Date either in whole or in various batches to the account to be designated by HSCI in writing.

The HSH Deposit was paid by LSHCL to HSCI on 2 March 2018.

2.2.2 HSH Conditions Precedent

The Proposed HSH Disposal is conditional upon the following HSH Conditions Precedent being obtained on or before the HSH Cut-off Date:

(i) approval to be obtained from the shareholders of HSCB; and

(ii) all such approvals and consents as may be required from any other parties, governmental authorities and the relevant regulatory authorities (if applicable).

2.2.3 HSH Completion

The completion of the HSH SSA shall take place on the HSH Completion Date where:

(i) HSCI shall deliver the instrument of transfer of the HSH Sale Shares duly executed in favour of LSHCL and the relevant share certificates and such other documents as may be requested by LSHCL for the purpose of assessing stamp duty on the transfer of the HSH Sale Shares; and

(ii) HSCI shall procure and ensure the passing of the requisite resolutions of the board of directors of HSH:

(a) approving the registration of the share transfers referred to in Section 2.2.3(i) of Part A of this Circular subject only to it being duly stamped;

(b) appointing such persons as LSHCL may nominate as directors; and

(c) handing over to LSHCL copies of such resolutions, duly certified as true copies of the originals by the secretary of HSH.

(iii) LSHCL shall at completion of the sale and purchase of the HSH Sale Shares, settle or procure the settlement in full, free of all taxes of all liabilities and debts (including, any interest or other charges and whether due or not) owing by HCS to HSCB as at the HSH Completion Date.

As at the LPD, the amount owing by HCS to HSCB is AUD30,111,452 (or equivalent to RM93,116,443 based on the exchange rate of AUD1.00:RM3.0924). LSHCL is required to settle the amount owing by HCS to HSCB on the HSH Completion Date, including any interest or other charges whether it is due or otherwise.

2.2.4 HSH Termination

(i) HSCI's default

If, prior to the HSH Completion, HSCI is in default or breaches any of the terms and conditions applicable to it under the HSH SSA, LSHCL shall be entitled to give notice in writing to HSCI specifying such default or breach within 14 days from the date of such notice. If HSCI fails, neglects or refuses to remedy such default or breach within the said 14 days' period, LSHCL shall be entitled to:

(a) pursue an action for specific performance of the HSH SSA; or

(b) elect to terminate the HSH SSA in which event HSCI shall within 7 days from the date of termination, refund to LSHCL the HSH Deposit and all monies received free of interest and pay sum amounting to 10% of the HSH Sale Consideration to LSHCL as agreed liquidated damages failing which HSCI shall pay LSHCL interest at the rate of 8% per annum calculated on a daily basis on the amount outstanding from the expiry of the aforementioned period to the receipt of the aforementioned sum by LSHCL.

(ii) LSHCL's default

If, prior to HSH Completion, LSHCL is in default of or breaches any of the terms and conditions applicable to it under the HSH SSA, HSCI shall be entitled to give notice to LSHCL specifying such default or breach and requiring LSHCL to remedy or make good such default or breach within 14 days from the date of such notice. If LSHCL fails, neglects or refuses to remedy or make good such default or breach within 14 days' period, HSCI shall be entitled to:

(a) pursue an action for specific performance of the HSH SSA; or

(b) elect to terminate the HSH SSA in which event the HSH Deposit shall be forfeited to HSCI absolutely as agreed liquidated damages and HSCI shall, within 7 days from the date of termination refund all monies received (other than the HSH Deposit) to LSHCL free of interest.

2.3 Basis and justification for the HSH Sale Consideration

The HSH Sale Consideration was arrived at on a "willing-buyer willing-seller" basis after taking into consideration the following:

(i) the audited NA of HSH for the FYE 31 December 2017 of USD60.49 million (equivalent to RM245.51 million) and audited NA of HCS as at 31 December 2017 of AUD80.78 million (equivalent to RM255.88 million) and the proforma unaudited consolidated NA of HSH group as at 31 December 2017 of approximately USD63.14 million (equivalent to RM255.92 million)[(1)];

(ii) the audited PAT of HCS for the FYE 31 December 2017 of AUD0.95 million (equivalent to RM3.06 million)[(2)]; and

(iii) the rationale for the Proposed HSH Disposal which is set out in Section 5.1 of Part A of this Circular.

The HSH Sale Consideration translates into an implied PBR of 3.11 times based on the proforma unaudited consolidated NA of HSH group as at 31 December 2017 and PER of approximately 264 times based on the PAT of HCS[(2)] for the FYE 31 December 2017 as HSH was only incorporated on 18 August 2017.

As HSH is an investment holding company, the main business activity for HSH group is carried out by its wholly-owned subsidiary, HCS. Hence, for comparison purposes, the companies that are listed in Malaysia and Australia having similar principal activities in the provision of financial services are selected.

There are no companies listed on Bursa Securities and the Australian Securities Exchange which are identical or similar to HCS in terms of composition of business, scale of operations, track record and risk profile. However, for comparison purposes only, the following companies listed on Bursa Securities and other exchange which having similar principal activities as HCS that have been selected by the management of HSCB. A brief description of the comparable financing companies is set out in the table below:

Notes:

(1) The proforma unaudited consolidated NA of HSH group is derived by amalgamating HSH's NA and HCS's NA for the FYE 31 December 2017 and eliminating the investment in subsidiary by HSH. The translated NA as set out above is based on the year-end rate of USD1.00: RM4.0585 and AUD1.00:RM3.1675.

(2) HSH is a newly incorporated company. Hence, only audited PAT of HCS is being taken into account for the computation of PER. The translated PAT as set out above is cumulative PAT translated monthly based on the month-end exchange rates.

Comparable Companies	Principal Activities[1]
Aeon Credit Service (M) Berhad	Aeon Credit Service (M) Berhad provides consumer financing products. The company offers products such as easy payment, personal financing, and credit cards.
ELK-Desa Resources Berhad	ELK-Desa Resources Berhad is an investment holding company. The company provides purchase financing for used motor vehicles in Malaysia.
RCE Capital Berhad	RCE Capital Berhad is an investment holding company which provides management services. Through its subsidiaries, the company invests in property, provides information technology, financial administrative, loan financing, broadcasting and advertising media services. RCE Capital is also involved in general trading, licensing and merchandising activities.
Eclipx Group Limited	Eclipx Group Limited provides vehicle fleet leasing, fleet management, and diversified financial services. The company offers consumers and businesses access to funding solutions including fleet leasing, vehicle sales, commercial equipment finance, and consumer motor vehicle finance. Eclipx Group serves customers in Australia and New Zealand.
Scottish Pacific Group Limited	Scottish Pacific Group Limited provides financial services. The company offers working capital solutions with a range of debtor finance and trade finance facilities such as corporate credit line, invoice discounting, factoring, selective invoice finance, cash line, asset finance, and bad debt protection for small and medium enterprises worldwide.
Money3 Corp Limited	Money3 Corp Limited provides consumer lending services in Melbourne and Geelong Australia. The company offers loans, check cashing, and money gram services.
Axsesstoday Limited	Axsesstoday Limited provides equipment finance solutions. The company offers hospitality, catering, material handling, transportation, and logistics equipment leasing services. Axsesstoday serves customers in Australia.
Directmoney Limited	Directmoney Limited provides personal and business lending services. The company offers unsecured personal loans for various purposes, including debt consolidation, buying a new or used vehicle, home furnishings and renovations, travel, and wedding. DirectMoney serves customers in Australia.

The following table below illustrates the trading multiples of comparable financing companies vis-à-vis HSH based on the latest company financial information and their respective closing prices as at the LTD:

Name of companies	Country and stock exchange listing	Market capitalisation as at LTD[1][2]	Audited NA[3]	Audited PATNCI[3]	PBR[4]	PER[5]
		million	000	000	Times	Times
Aeon Credit Service (M) Berhad	Malaysia	RM3,399	RM954,987	RM265,027	3.56	12.82
ELK-Desa Resources Berhad	Malaysia	RM343	RM334,086	RM23,001	1.03	14.90
RCE Capital Berhad	Malaysia	RM496	RM441,361	RM78,949	1.12	6.28
Eclipx Group Limited	Australia	AUD1,185	AUD863,263	AUD54,210	1.37	21.86
Scottish Pacific Group Limited	Australia	AUD438	AUD196,794	AUD20,442	2.23	21.45
Money3 Corp Limited	Australia	AUD304	AUD182,059	AUD29,086	1.67	10.46
Axsesstoday Limited	Australia	AUD113	AUD33,283	AUD3,649	3.38	30.84
Directmoney Limited	Australia	AUD15	AUD9,202	(AUD5,432)	1.58	(2.68)[6]
Average					**1.99**	**16.95**
High					**3.56**	**30.84**
Low					**1.03**	**6.28**
Implied ratio of HSH based on audited financial statements as at 31 December 2017[7]					3.11	Approximately 264.00

Notes:

(1) The principal activities and the closing price of the respective comparable companies were extracted from Bloomberg as at the LTD.

(2) Computed based on the total issued share capital of the respective selected comparable companies which were extracted from Bloomberg as at the LTD multiplied by the closing price as at the LTD.

*(3) Based on the annual audited accounts of the comparable companies. Profit after tax and non-controlling interest is defined as (**"PATNCI"**).*

(4) Computed based on market capitalisation over the audited NA of the respective comparable companies.

(5) Computed based on market capitalisation over the PATNCI of the respective comparable companies.

(6) Outlier, excluded from the comparable computation.

(7) *Computed based on the sale consideration of USD196.50 million.*

Based on the table above, the HSH Sale Consideration translates into an implied PBR of 3.11 times based on the proforma unaudited consolidated NA of HSH group as at 31 December 2017and PER of approximately 264 times based on the audited financial statements of HCS for the FYE 31 December 2017. The HSH Sale Consideration is within the range of PBR of the comparable companies. In addition, HSH Sale Consideration is above the range PER of the comparable companies. This represents an attractive offer for HSCB.

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2.4 Contribution of HSH group to the audited financial results of HSCB Group

Based on the audited financial statements for the FYE 31 December 2017, the loss after tax and PAT of HSH and HCS was USD0.003 million and AUD0.947 million respectively. HSH and HCS contributed approximately a loss of RM0.011 million(1) and a PAT of RM3.062 million(1) to the HSCB Group's PAT of approximately RM1,182.45 million.

Note:

(1) The translated PAT is cumulative of the PAT translated monthly based on the month-end exchange rates.

2.5 Expected proforma gains from the Proposed HSH Disposal

Based on the audited consolidated financial statements of HSCB Group for the FYE 31 December 2017, the Proposed HSH Disposal is expected to give rise to a proforma gain of approximately RM506,838,000 to HSCB Group for the FYE 31 December 2017, after taking into consideration the HSH Sale Consideration of RM771,164,250 for the Proposed HSH Disposal.

The HSH Sale Consideration is translated to RM for illustrative purposes only based on the exchange rate as at 5.00 p.m. on 1 March 2018. The actual gain from the Proposed HSH Disposal can only be ascertained upon the completion of the Proposed HSH Disposal.

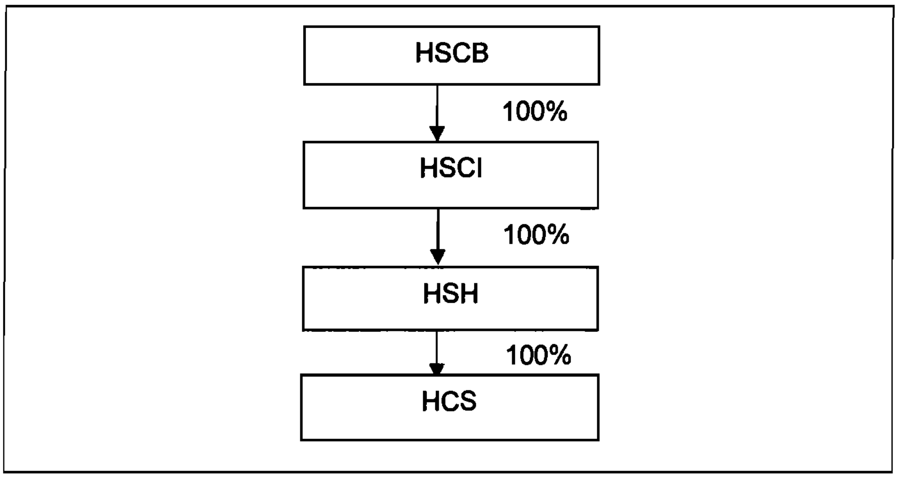
2.6 Manner of payment of the HSH Sale Consideration

The HSH Sale Consideration shall be fully satisfied in cash and the HSH Balance Sum will be paid by way of telegraphic transfer or other electronic means either in whole or in various batches to the designated account of HSCI on or before HSH Completion Date.

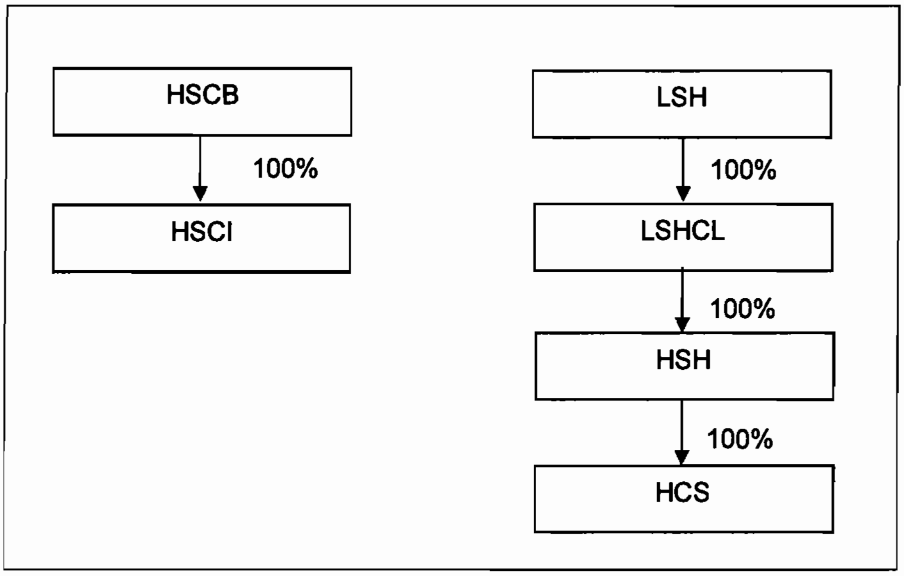
2.7 Corporate Structure

Please refer to the illustration below for the corporate structure of HSH before and after the Proposed HSH Disposal.

Before the Proposed HSH Disposal:



After the Proposed HSH Disposal:



2.8 Liabilities to be assumed by LSHCL

Save for the settlement of the amount owing by HCS to HSCB as stated in Section 2.2.3 (iii) of Part A of this Circular that shall be assumed by the LSHCL, there are no other liabilities, including contingent liabilities and guarantees, to be assumed by LSHCL pursuant to the Proposed HSH Disposal, other than those subsisting in HCS.

2.9 Date and original cost of investment in HSH

The original cost of investment in HSH by HSCI and the respective dates of investment are as follows:

Date of investment	No. of HSH Shares	Cost of investment (USD)
18 August 2017	1	1
23 November 2017	60,495,000	60,495,000
	60,495,001	**60,495,001**

2.10 Proposed Utilisation of the HSH Sale Consideration

HSCB intends to utilise the HSH Sale Consideration in the following manner:

Details of utilisation of the Proposed HSH Sale Consideration	Estimated timeframe for utilisation from HSH Completion Date	Amount	
		RM 000	**%**
Repayment of borrowings[(1)]	within 24 months	250,000	32.42
Working capital requirements[(2)]	within 24 months	380,664	49.36
Investments purposes[(3)]	within 24 months	140,000	18.15
Estimated expenses[(4)]	within 3 months	500	0.07
Total		**771,164**	**100.00**

Notes:

(1) *The total borrowings of HSCB Group as at 31 December 2017 are approximately RM4,478.88 million. HSCB Group intends to utilise part of the proceeds from the Proposed HSH Disposal to pare down RM250.00 million of HSCB Group's existing borrowings. Such repayment is expected to result in interest cost savings of approximately RM12.50 million per annum based on the interest rate of approximately 5% per annum.*

Notwithstanding the aforementioned, the borrowings to be repaid (including short-term borrowings of RM50.00 million) are only expected to be repaid over a period of up to 24 months from the HSH Completion Date after taking into consideration the due and maturity dates of the borrowings.

	Amount outstanding as at 31 December 2017 (RM 000)	***Proposed repayment (RM 000)***	***Post repayment (RM 000)***	***Assumed interest rate (% per annum)***	***Interest savings (RM 000)***
Total borrowings	*4,478,875*	*250,000*	*4,228,875*	*5*	*12,500*

(2) *HSCB intends to utilise the proceeds from the Proposed HSH Disposal to meet HSCB Group's working capital requirements in the following estimated proportions:*

(i) *to part finance the cost of the following property developments in Klang Valley:*

Projects	***RM 000***	***%***
Jalan Kia Peng Service Apartment	*100,000*	*26.27*
Menara Hap Seng 3	*200,000*	*52.54*
Total	***300,000***	***78.81***

; and

(ii) *for purchase of the following inventories:*

Inventories	***RM 000***	***%***
Automobile	*20,664*	*5.43*
Fertilisers	*30,000*	*7.88*
Building materials such as steel bars, wire mesh and cement	*30,000*	*7.88*
Total	***80,664***	***21.19***

Nevertheless, the percentage of the breakdown represents an estimation only and the actual utilisation by the HSCB Group in each category may differ subject to its operating requirements at the time of the utilisation of the HSH Sale Consideration.

(3) *HSCB intends to utilise part of the proceeds for its business expansion including but not limited to land bank acquisition and/or acquisition of commercial vehicles wholesale distribution business. Relevant announcement will be made by HSCB in accordance to Chapter 10 of the Listing Requirements, if required. In the meantime, HSCB intends to deposit such part of the proceeds with licensed financial institutions or short term money market instruments prior to its utilisation.*

(4) *The estimated expenses relating to the Proposed HSH Disposal are as follows:*

Estimated expenses	***RM 000***
Estimated professional fees	*450*
Other fees (including regulatory fees) and expenses incurred in connection with the Proposed HSH Disposal such as printing and advertising expenses	*36*
Miscellaneous expenses and contingencies	*14*
Total	***500***

Any variation (surplus/deficit) to the actual amount of the expenses for the Proposed HSH Disposal will be adjusted against the amount allocated for the working capital of the HSCB Group.

3. PROPOSED HSCSB DISPOSAL

3.1 Details of the Proposed HSCSB Disposal

On 2 March 2018, HSCB entered into the HSCSB SSA for the disposal of HSCSB Sale Shares, for a cash consideration of RM906,000,000.

The details of HSCSB is set out in Appendix III of this Circular.

3.2 Salient terms of the HSCSB SSA

The salient terms of the HSCSB SSA are summarised as follows:

3.2.1 HSCSB Sale Consideration and manner of payment

The HSCSB Sale Consideration for the HSCSB Sale Shares is RM906,000,000 and is payable by LSHCL to HSCB in the following manner:

(i) the HSCSB Deposit within 7 days from the date of execution of HSCSB SSA; and

(ii) the HSCSB Balance Sum on or before HSCSB Completion Date either in whole or in various batches to the account to be designated by HSCB in writing.

The HSCSB Deposit was paid by LSHCL to HSCB on 2 March 2018.

3.2.2 HSCSB Conditions Precedent

The Proposed HSCSB Disposal is conditional upon the following HSCSB Conditions Precedent being obtained on or before the HSCSB Cut-off Date:

(i) approval to be obtained from the shareholders of HSCB; and

(ii) all such approvals and consents as may be required from any other parties, governmental authorities and the relevant regulatory authorities (if applicable).

3.2.3 HSCSB Completion

The completion of the HSCSB SSA shall take place on the HSCSB Completion Date where:

(i) HSCB shall deliver the instrument of transfer of the HSCSB Sale Shares in favour of LSHCL and the relevant share certificates and such other documents as may be requested by LSHCL for the purpose of assessing stamp duty on the transfer of the HSCSB Sale Shares; and

(ii) HSCB shall procure and ensure the passing of the requisite resolutions of the board of directors of HSCSB:

(a) approving the registration of the share transfers referred to in Section 3.2.3(i) of Part A of this Circular subject only to it being duly stamped;

(b) appointing such persons as LSHCL may nominate as directors; and

(c) handing over to LSHCL copies of such resolutions, duly certified as true copies of the originals by the secretary of HSCSB.

3.2.4 HSCSB Termination

(i) HSCB's default

If, prior to the HSCSB Completion, HSCB is in default or breaches any of the terms and conditions applicable to it under the HSCSB SSA, LSHCL shall be entitled to give notice in writing to HSCB specifying such default or breach within 14 days from the date of such notice. If HSCB fails, neglects or refuses to remedy or make good such default or breach within the said period, LSHCL shall be entitled to:

(a) pursue an action for specific performance of the HSCSB SSA; or

elect to terminate the HSCSB SSA in which event HSCB shall within 7 days from the date of termination, refund to LSHCL, the HSCSB Deposit and all monies received free of interest and pay a sum amounting to 10% of the HSCSB Sale Consideration to LSHCL as agreed liquidated damages failing which HSCSB shall pay LSHCL interest at the rate of 8% per annum calculated on a daily basis on the amount outstanding from the expiry of the aforementioned period to the receipt of the aforementioned sum by LSHCL.

(ii) LSHCL's default

If, prior to HSCSB Completion, LSHCL is in default of or breaches any of the terms and conditions applicable to it under the HSCSB SSA, HSCB shall be entitled to give notice to LSHCL specifying such default or breach and requiring LSHCL to remedy or make good such default or breach within 14 days from the date of such notice. If LSHCL fails, neglects or refuses to remedy or make good such default or breach within 14 days' period, HSCB shall be entitled to:

(a) pursue an action for specific performance of the HSCSB SSA; or

(b) elect to terminate the HSCSB SSA in which event the HSCSB Deposit shall be forfeited to HSCB absolutely as agreed liquidated damages and HSCB shall refund all monies received (other than the HSCSB Deposit) to LSHCL free of interest.

3.3 Basis and justification for the HSCSB Sale Consideration

The HSCSB Sale Consideration was arrived at on a "willing-buyer willing-seller" basis after taking into consideration the following:

(i) The audited NA of HSCSB as at 31 December 2017 of RM1,510.52 million;

(ii) The audited NA of HSCSB as at 31 December 2016 of RM490.01 million;

(iii) The audited PAT of HSCSB for the FYE 31 December 2017 of RM68.97 million;

(iv) The audited PAT of HSCSB for the FYE 31 December 2016 of RM52.56 million; and

(v) The rationale for the Proposed HSCSB Disposal which is set out in Section 5.2 of part A of this Circular.

The HSCSB Sale Consideration translates into an implied PBR of 3.00 times and PER of 65.68 times based on the audited financial statements of HSCSB as at 31 December 2017.

There are no companies listed on Bursa Securities which are identical or similar to HSCSB in terms of composition of business, scale of operations, track record and risk profile. However, the following companies listed on Bursa Securities having similar principal activities as HSCSB that have been selected by the management of HSCB for comparison purposes only. A brief description of the comparable financing companies is set out in the table below:

(The rest of this page is intentionally left blank)

Name of companies	Country and stock exchange listing	Market capitalisation as at LTD[1][2]	Audited NA[3]	Audited PATNCI[3]	PBR[4]	PER[5]
		million	000	000	Times	Times
Aeon Credit Service (M) Berhad	Malaysia	RM3,399	RM954,987	RM265,027	3.56	12.82
ELK-Desa Resources Berhad	Malaysia	RM343	RM334,086	RM23,001	1.03	14.90
RCE Capital Berhad	Malaysia	RM496	RM441,361	RM78,949	1.12	6.28
Average					**1.90**	**11.34**
High					**3.56**	**14.90**
Low					**1.03**	**6.28**
Implied ratio of HSCSB based on audited financial statements as at 31 December 2017[6]					3.00	65.68

Notes:

(1) *The closing market price of the respective comparable companies was extracted from Bloomberg as at the LTD.*

(2) *Computed based on the total issued share capital of the respective comparable companies which were extracted from Bloomberg as at the LTD multiplied by the closing price as at the LTD.*

(3) *Based on the annual audited financial statements of the comparable companies.*

(4) *Computed based on market capitalisation over the audited NA of the respective comparable companies.*

(5) *Computed based on market capitalisation over the PATNCI of the respective comparable companies.*

(6) *Computed based on the sale consideration of RM906.00 million.*

Based on the table above, the HSCSB Sale Consideration translates into an implied PBR of 3.00 times and PER of 65.68 based on the audited financial statements of HSCSB as at 31 December 2017. The HSCSB Sale Consideration is within the range of PBR of the comparable companies. However, HSCSB Sale Consideration is above the range of PER of the comparable companies. This represents an attractive offer for HSCB.

3.4 Contribution of HSCSB to the audited financial results of HSCB Group

Based on the audited financial statements for the FYE 31 December 2017, HSCSB contributed PAT of RM68.97 million to the HSCB Group's PAT of RM1,182.45 million.

The Proposed HSCSB Disposal will result lower PAT of HSCSB being consolidated by RM13.80 million based on the audited financial statements for FYE 31 December 2017.

3.5 Expected proforma gains from the Proposed HSCSB Disposal

Upon completion of the Proposed HSCSB Disposal, HSCSB will be an 80%-owned subsidiary of HSCB. The Proposed HSCSB Disposal does not result in a loss of control and is therefore accounted for as an equity transaction in the statement of changes in equity instead of in the statement of comprehensive income in accordance with the MFRS 10. As such, there will be no gain or loss recorded in the consolidated statement of comprehensive income of HSCB Group and the financial effects arising from the changes in ownership interest in HSCSB will be recognised directly in equity.

The Proposed HSCSB Disposal is expected to give rise to an increase in the retained profits of HSCB Group by approximately RM603,641,000 for the FYE 31 December 2017, after taking into consideration the HSCSB Sale Consideration of RM906,000,000 for the Proposed HSCSB Disposal.

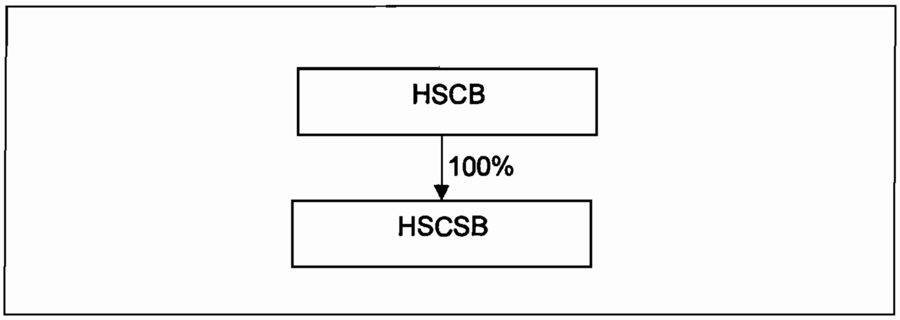
3.6 Manner of payment of the HSCSB Sale Consideration

The HSCSB Sale Consideration shall be fully satisfied in cash and the HSCSB Balance Sum will be paid by way of telegraphic transfer or other electronic means either in whole or in various batches to the designated account of HSCB on or before HSCSB Completion Date.

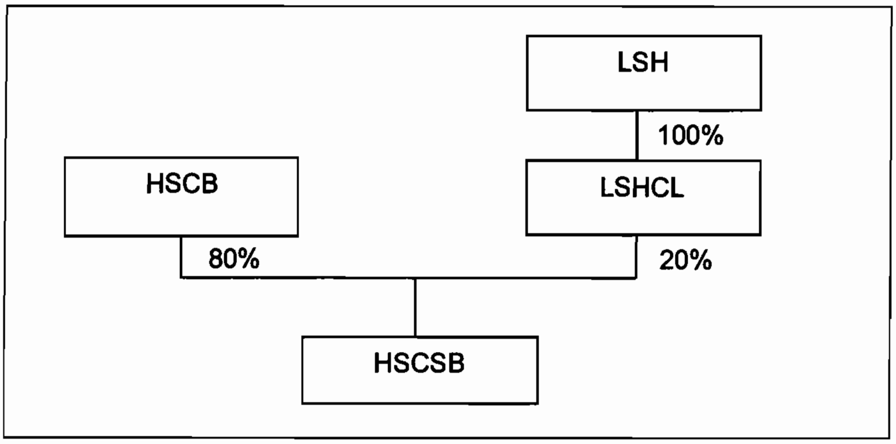
3.7 Corporate Structure

Please refer to the illustration below for the corporate structure of HSCSB before and after the Proposed HSCSB Disposal.

Before the Proposed HSCSB Disposal:



After the Proposed HSCSB Disposal:



3.8 Liabilities to be assumed by LSHCL

There are no liabilities, including contingent liabilities and guarantees, to be assumed by LSHCL pursuant to the Proposed HSCSB Disposal.

3.9 Date and original cost of investment in HSCSB

The original cost of investment in HSCSB by HSCB and the respective dates of investment are as follows:

Date of investment	**No. of HSCSB Shares**	**Cost of investment (RM)**
30 August 2003	10,000,000	27,300,000
31 August 2003	90,000,000	90,000,000
15 October 2004	150,000,000	150,000,000
29 November 2017	1,080,000,000	1,080,000,000
	1,330,000,000	**1,347,300,000**

3.10 Proposed Utilisation of the HSCSB Sale Consideration

HSCB intends to utilise the HSCSB Sale Consideration in the following manner:

Details of utilisation of the HSCSB Sale Consideration	**Estimated timeframe for utilisation from HSCSB Completion Date**	**Amount**	
		RM 000	**%**
Working capital requirements – for loan disbursements of HSCSB's credit financing division[(1)]	within 24 months	905,500	99.94
Estimated expenses[(2)]	within 3 months	500	0.06
Total		**906,000**	**100.00**

Notes:

(1) *The loan disbursements are expected to be made to the following sectors:*

Sectors	***RM 000***	***%***
Real estate	*350,000*	*38.65*
Manufacturing	*170,000*	*18.77*
Transportation	*170,000*	*18.77*
Construction	*120,000*	*13.25*
General commerce	*95,500*	*10.56*
Total	***905,500***	***100.00***

Nevertheless, the above quantum and percentage of the breakdown represents an estimation only and the actual utilisation by the HSCB Group in each category may differ subject to its operating requirements at the time of the utilisation of the HSCSB Sale Consideration.

(2) *The estimated expenses relating to the Proposed HSCSB Disposal are as follows:*

Estimated expenses	***RM 000***
Estimated professional fees	*450*
Other fees (including regulatory fees) and expenses incurred in connection with the Proposed HSCSB Disposal such as printing and advertising expenses	*36*
Miscellaneous expenses and contingencies	*14*
Total	***500***

Any variation (surplus/deficit) to the actual amount of the expenses for the Proposed HSCSB Disposal will be adjusted against the amount allocated for the working capital of the HSCB Group.

4. INFORMATION ON LSHCL

LSHCL is a limited liability company incorporated in Hong Kong under the Companies Ordinance of Hong Kong on 29 July 1993 with its registered office at 8/F New World Tower I, 18 Queen's Road Central, Hong Kong. LSHCL is principally involved in financial services. LSHCL is a wholly-owned subsidiary of LSH.

As at the LPD, the issued share capital of LSHCL is HKD5,000,000,000 comprising 500,000,000 ordinary shares.

As at the LPD, the directors of LSHCL are as follows:

Name	**Designation**	**Nationality**
Datuk Gan Khian Seng	Director	Malaysian
Madam Sim Siew Meng	Director	Malaysian
Mr. Lau Chor Lok	Director	Chinese
Ms. Lau Shun King, Susanna	Managing Director	Chinese

5. RATIONALE FOR THE PROPOSALS

5.1 Rationale for the Proposed HSH Disposal

HSCB had received an offer from LSHCL to acquire HSH at an attractive valuation of approximately 3.11 times of the PBR based on proforma unaudited consolidated financial statements of HSH group as at 31 December 2017. The Proposed HSH Disposal will enable HSCB to pare down part of its borrowings and channel part of the proceeds of the Proposed HSH Disposal towards HSCB Group's working capital requirements.

5.2 Rationale for the Proposed HSCSB Disposal

LSHCL is a wholly-owned subsidiary and part of a diversified group of LSH which is principally involved in the trading of motor vehicles, trading of machineries, property, trading of commodity-based products and credit financing.

The Proposed HSCSB Disposal is an opportunity for HSCB to bring in a strategic business partner with diversified business operations to enhance the expansion of HSCSB's credit financing business.

In addition, HSCB also intends to utilise the proceeds from the Proposed HSCSB Disposal for the purpose of increasing the funds available for HSCSB's expansion of its loan portfolio, which is expected to increase by approximately 32% based on the audited financial statements of HSCSB for the FYE 31 December 2017.

6. RISK FACTORS IN RELATION TO THE PROPOSALS

6.1 Non-completion of the Proposals

There is no assurance that all of the HSH Conditions Precedent and HSCSB Conditions Precedent will be fulfilled within the timeframe as set out in their respective share sale agreements. If any one (1) or more of the HSH Conditions Precedent and/or HSCSB Conditions Precedent is/are not fulfilled by either HSCI, HSCB or LSHCL, the Proposals might be delayed or terminated.

The management of HSCB will use its best endeavours to ensure the completion of the Proposals and will take all reasonable steps to ensure that the conditions precedents to the HSH SSA and HSCSB SSA are fulfilled in a timely manner, to avoid delays or termination and to facilitate the completion of the Proposals.

6.2 Loss of income from HSH

HSCB intends to utilise the HSH Sale Consideration in the manner set out in Section 2.9 of Part A of this Circular. There is no assurance that the manner in which HSCB proposes to utilise the HSH Sale Consideration will be able to generate a better return than if HSCB continues to grow the business of HSH.

6.3 Foreign exchange risk

For the Proposed HSH Disposal, there is a risk of the exchange rate changing between the date of the HSH SSA and the HSH Completion Date.

If the USD/RM exchange rate fluctuates from the date of the HSH SSA up to the HSH Completion Date, the intended utilisation of proceeds as set out in Section 2.10 of Part A of this Circular as well as the computed proforma gain on disposal of RM506.84 million in relation to the Proposed HSH Disposal as set out in Section 7.4 of Part A of this Circular may differ. Any depreciation of USD against the RM will reduce the total proceeds from the Proposed HSH Disposal in RM.

6.4 Loss of income from HSCSB

Upon completion of the Proposed HSCSB Disposal, HSCSB will become a 80%-owned subsidiary of HSCB. As a result, 20% of the future PAT of HSCSB will need to be attributed to LSHCL as the new owner of the 20% equity interest in HSCSB.

However, HSCB is expected to realise the benefits of the Proposed HSCSB Disposal via the utilisation of the HSCSB Sale Consideration in the manner set out in Section 3.9 of Part A of this Circular. Nonetheless, there is no assurance that the manner in which HSCB proposes to utilise the HSCSB Sale Consideration will be able to generate a better return than if HSCB continues to grow the financial services business of HSCSB without its new strategic business partner, LSHCL.

7. EFFECTS OF THE PROPOSALS

7.1 Share capital

The Proposals will not have any effect on the issued share capital of HSCB as it will be satisfied fully in cash.

7.2 Substantial shareholders' shareholdings

The Proposals do not have any effect on the substantial shareholders' shareholdings in HSCB as the Proposals do not involve any issuance of HSCB Shares and will be satisfied fully in cash.

7.3 NA, NA per share and gearing

The Proposed HSH Disposal and Proposed HSCSB Proposal are not conditional upon each other. Assuming that both the Proposals had been effected at the end of the year, based on the latest audited consolidated financial statements of HSCB Group for the FYE 31 December 2017, the proforma effects of the Proposals on the NA, NA per share and gearing are as follows:

	Audited as at 31 December 2017	Proforma (I) After the Proposed HSH Disposal	After Proforma (I) and the Proposed HSCSB Disposal
	RM 000	**RM 000**	**RM 000**
Share capital	3,519,554	3,519,554	3,519,554
Non-distributable reserve	69,814	78,216[(1)]	78,470[(2)]
Retained profit	2,175,002	2,681,340[(3)]	3,284,481[(3)]
Treasury shares	(54)	(54)	(54)
Shareholders' funds / NA	**5,764,316**	**6,279,056**	**6,882,451**
Number of shares in issue (000) [(4)]	2,489,676	2,489,676	2,489,676
NA per share (RM) [(5)]	2.32	2.52	2.76
Total borrowings	4,478,875	4,228,875[(6)]	4,228,875
Gearing (times) [(6)]	0.78	0.67	0.61
Net gearing (times)[(7)]	0.65	0.49	0.32

Notes:

(1) After taking into account the reclassification of foreign exchange reserves due to the disposal of HSH and HCS.

(2) After taking into account the derecognition of 20% of HSCSB's non-distributable reserve.

(3) *After taking into account the expected proforma gain from Proposed HSH Disposal and the increase in the retained profit for HSCB Group from the Proposed HSCSB Disposal of approximately RM506,838,000. and RM603,641,000 respectively and the estimated expenses for the Proposals of RM1,000,000.*

(4) *Computed based on shareholders' funds / NA over number of HSCB Shares, net of treasury shares.*

(5) *Computed based on total borrowings over shareholders' funds / NA.*

(6) *After taking into account the repayment of borrowings amounting to RM250,000,000.*

(7) *After deducting the money market deposits and cash bank balances of HSCB Group.*

7.4 Earnings and EPS

Based on the audited consolidated financial statements of HSCB Group for the FYE 31 December 2017 and the assumption that the Proposed HSH Disposal had been effected at the beginning of that financial year, the EPS of the HSCB Group is expected to increase from 44.34 sen to 64.10 sen as a result of the Proposed HSH Disposal.

The financial effects Proposed HSCSB Disposal will be recognised directly in the equity of HSCB Group instead of as a gain in the Statement of Comprehensive Income of HSCB Group in accordance with MFRS 10, as HSCSB remains as a subsidiary of HSCB post completion of the Proposed HSCSB Disposal.

	PATNCI	**EPS[1]**
	RM 000	**Sen**
PATNCI and EPS	1,103,902	44.34
Add:		
Expected proforma gain from the Proposed HSH Disposal	506,838	20.35
Less:		
LSHCL share of HSCSB PAT for FYE 31 December 2017	(13,794)	(0.55)
Estimated expenses for the Proposals	(1,000)	(0.04)
Proforma PATNCI and EPS for the FYE 31 December 2017	1,595,946	64.10

Note:

(1) *Based on the weighted average number of HSCB shares in issue of 2,489,679,000 for the FYE 31 December 2017.*

8. APPROVALS REQUIRED FOR THE PROPOSALS

The Proposals are subject to the following being obtained:

(i) the approval of the shareholders of HSCB at the forthcoming EGM to be convened; and

(ii) such other approvals from any other relevant parties/authorities, if required.

The Proposed HSH Disposal and the Proposed HSCSB Disposal are not inter-conditional with each other. The Proposals are not conditional upon any other corporate exercise/scheme undertaken or to be undertaken by HSCB, if any.

9. CORPORATE EXERCISES ANNOUNCED BUT PENDING COMPLETION

Save for the Proposals and the proposal as disclosed below, there are no other corporate exercises which have been announced but not yet completed prior to the printing of the Circular:

On 20 January 2016, HSLD acquired the entire issued and paid-up share capital of Golden Suncity Sdn Bhd ("**GSSB**") comprising 2 ordinary shares of RM1.00 each at a cash consideration of RM2.00. On 29 January 2016, HSLD entered into a shareholders' agreement ("**SHA**") with TTDI KL Metropolis Sdn Bhd ("**TTDI KL**"), a wholly-owned subsidiary of Naza TTDI Sdn Bhd, and GSSB to regulate their relationship inter-se as shareholders of GSSB based on a shareholding proportion of 70:30.

Simultaneous with the execution of the SHA, GSSB had entered into a development rights agreement ("**DRA**") with TTDI KL, pursuant to which TTDI KL as the registered and beneficial proprietor of all that parcel of a leasehold land held under PN52352, Lot 80928, Mukim Batu, Daerah Kuala Lumpur, Negeri Wilayah Persekutuan KL measuring 8.95 acres (approximately 389,862 square feet) ("**TTDI Land**") has agreed to grant to GSSB, the exclusive rights to develop the TTDI Land into a mixed property development comprising commercial and residential units at the consideration of RM467,834,400. Barring unforseen circumstances, the development is expected to commence in 2018 and to complete in 2028. Upon completion, the development is expected to generate a total gross development profit of approximately RM800 milllion.

On 29 January 2016, GSSB had paid TTDI KL the sum equivalent to ten per centum (10%) of the consideration sum amounting to RM46,783,440 as deposit payment upon signing of the DRA. The DRA is currently pending fulfilment of the condition precedent requiring TTDI KL to complete the construction of the main sewerage reticulation lines for GSSB to connect from the agreed tapping points to the Land. Notwithstanding the DRA not having been rendered unconditional, GSSB had, at the request of TTDI KL, paid a sum amounting to RM18,713,376.00 on 19 January 2017 and RM191,812,104.00 on 21 June 2017, which in aggregate is equivalent to forty five per centum (45%) of the consideration sum, subject to the condition that TTDI KL will undertake to fulfill the said condition precedent on or before 31 December 2018.

The DRA shall become unconditional on the date of the last of the conditions precedent being obtained or waived.

10. ESTIMATED TIMEFRAME FOR COMPLETION FOR THE PROPOSALS

Barring any unforeseen circumstances and subject to all required approvals being obtained, the Proposals are expected to be completed by second (2nd) quarter of 2018. The tentative timetable in relation to the Proposals is as follows:

Month	Events
30 May 2018	The forthcoming EGM
Early June 2018	Fulfilment of HSH Conditions Precedent and HSCSB Conditions Precedent
By end June 2018	Completion of the Proposals

11. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED WITH THEM

11.1 Interested Shareholders

As at the LPD, Tan Sri Lau is deemed to have a 50.10% shareholding in LSH and is a 56.00% major shareholder and director of Gek Poh. Gek Poh's aggregate shareholdings in HSCB is 60.83%, comprising 54.63% direct and 6.20% indirect shareholdings via HSIS. Furthermore, LHSI, a company incorporated in Hong Kong and a wholly-owned subsidiary of LSHCL, which in turn is the wholly-owned subsidiary of LSH, is a 13.08% major shareholder of HSCB. Hence, Tan Sri Lau, Gek Poh, HSIS, LSH, LSHCL and LSHI are the Interested Shareholders and deemed interested in the Proposals.

The direct and/or indirect interests of the Interested Shareholders of HSCB based on the register of substantial shareholders as at the LPD are as follows:

Interested Shareholders	Shareholdings in HSCB			
	No. of HSCB Shares			
	Direct	%#	Indirect	%#
Tan Sri Lau(1)	-	-	1,840,134,782 (2)	73.91
Gek Poh	1,360,094,542	54.63	154,364,580 (3)	6.20
HSIS	154,364,580	6.20	-	-
LSH	-	-	325,675,660 (4)	13.08
LSHCL	-	-	325,675,660 (5)	13.08
LSHI	325,675,660	13.08	-	-

Notes:

\# *For purpose of computing the percentage shareholdings above, the number of HSCB Shares used was 2,489,675,583 which was arrived at after deducting 6,000 treasury shares held by HSCB from its issued share capital of 2,489,681,583 as at the LPD.*

(1) *As at the LPD, Tan Sri Lau holds 56.00% direct shareholding in Gek Poh and 100.00% direct shareholding in Lead Star Business Limited ("**Lead Star**"). Lead Star holds 37.68% shareholding in LSH. Accordingly, pursuant to Section 8 of the Act, Tan Sri Lau is deemed to have an interest of 50.10% shareholding in LSH comprising 37.68% shareholding held via Lead Star and 12.42% shareholding held via Gek Poh.*

(2) Pursuant to Section 8 of the Act, Tan Sri Lau is deemed to have interest in 1,360,094,542 HSCB Shares constituting 54.63% shareholding in HSCB held by Gek Poh by virtue of his direct substantial interest in Gek Poh and 154,364,580 HSCB Shares constituting 6.20% shareholding in HSCB held by HSIS by virtue of his direct substantial interest in Gek Poh as HSIS is the wholly-owned subsidiary Gek Poh. Tan Sri Lau is also deemed to have interest in 325,675,660 HSCB Shares constituting 13.08% shareholding in HSCB held by LSHI by virtue of his deemed substantial interest in LSH, the holding company of LSHI.

(3) Pursuant to Section 8 of the Act, Gek Poh is deemed to have interest in 154,364,580 HSCB Shares constituting 6.20% shareholding in HSCB held by HSIS.

(4) Pursuant to Section 8 of the Act, LSH is deemed to have interest in 325,675,660 HSCB Shares constituting 13.08% shareholding in HSCB by virtue of LSHCL and LSHI.

(5) Pursuant to Section 8 of the Act, LSHCL is deemed to have interest in 325,675,660 HSCB Shares constituting 13.08% shareholding in HSCB held by LSHI.

The Interested Shareholders will abstain from voting in respect of their direct and/or indirect shareholdings in HSCB on the resolutions in relation to the Proposals to be tabled at the forthcoming EGM to be convened.

The Interested Shareholders have undertaken that they will also ensure that persons connected with them who have interests in the shares in HSCB will abstain from voting in respect of their direct and/or indirect shareholdings in HSCB on the resolutions in relation to the Proposals to be tabled at the forthcoming EGM to be convened.

11.2 Interested Directors

Datuk Edward Lee Ming Foo is the managing director of both HSCB and Gek Poh. Mr. Lee Wee Yong is an executive director of HSCB and a director of Gek Poh. As at the LPD, Gek Poh holds 12.42% equity interest in LSH and hence, is a major shareholder of LSH. LSHCL is a wholly-owned subsidiary of LSH. Premised on the above, Datuk Edward Lee Ming Foo and Mr. Lee Wee Yong are deemed interested in the Proposals. As such, they have abstained and will continue to abstain from all deliberations and voting at the relevant board of directors meetings and from voting in respect of their direct and/or indirect shareholdings in the Company on the resolutions in relation to the Proposals to be tabled at the forthcoming EGM. They have further undertaken to ensure that persons connected to them will abstain from voting on the resolutions pertaining to the Proposals at the forthcoming EGM.

Datuk Simon Shim Kong Yip is a non-independent non-executive director of HSCB and a non-executive director of LSH. Premised on Datuk Simon Shim Kong Yip's common directorship in HSCB and LSH, he is interested in the Proposals. As such, he has abstained and will continue to abstain from all deliberations and voting at the relevant Board and audit committee meetings and from voting in respect of his direct and/or indirect shareholdings in the Company and on the resolutions in relation to the Proposals to be tabled at the forthcoming EGM. He has further undertaken to ensure that persons connected to him will abstain from voting on the resolutions pertaining to the Proposals at the forthcoming EGM.

Mr. Ch'ng Kok Phan, an executive director of LSH, was also the non-independent non-executive director of HSCB on the date which the terms of the Proposals were agreed upon and entered into. As such, Mr. Ch'ng Kok Phan had abstained from all deliberations and voting at the relevant Board meetings in respect of the Proposals prior to his resignation as a director of HSCB on 31 March 2018 and will continue to abstain from voting in respect of his direct and/or indirect shareholdings in the Company and on the resolutions in relation to the Proposals to be tabled at the forthcoming EGM. He has further undertaken to ensure that persons connected to him will abstain from voting on the resolutions pertaining to the Proposals at the forthcoming EGM.

Hence, Datuk Edward Lee Ming Foo, Mr. Lee Wee Yong, Datuk Simon Shim Kong Yip and Mr Ch'ng Kok Phan are the Interested Directors and deemed interested in the Proposals.

The directors' shareholdings in HSCB based on the register of directors' shareholdings of the Company as at the LPD are as follows:

Directors	**Shareholdings in HSCB**			
	No. of HSCB Shares			
	Direct	**%#**	**Indirect**	**%#**
Dato' Jorgen Bornhoft	5,000	-*	-	-
Datuk Edward Lee Ming Foo	-	-	-	-
Mr. Lee Wee Yong	-	-	-	-
Ms. Cheah Yee Leng	-	-	-	-
Datuk Simon Shim Kong Yip	-	-	-	-
Lt. Gen. (R) Datuk Abdul Aziz bin Hasan	-	-	-	-
Dato' Mohammed Bin Haji Che Hussein	20,000	0.001	-	-
Mr. Leow Ming Fong @ Leow Min Fong	-	-	-	-
Dato' Wan Mohd Fadzmi Bin Che Wan Othman Fadzilah	-	-	-	-

Notes:

\# *For purposes of computing the percentage of shareholdings above, the number of HSCB Shares used was 2,489,675,583 which was arrived at after deducting 6,000 treasury shares held by HSCB from its total number of issued share capital of 2,489,681,583 as at the LPD.*

* *Negligible as the percentage of the shareholdings is low.*

Save as disclosed above, none of the other directors of HSCB and/or major shareholders and/or persons connected to them has any interests, direct or indirect, in the Proposals.

12. OTHER TRANSACTIONS WITH THE SAME RELATED PARTY AND PERCENTAGE RATIO APPLICABLE TO THE PROPOSALS PURSUANT TO PARAGRAPH 10.02(g) OF THE LISTING REQUIREMENTS

The amount of related party transactions with the same related party, namely Tan Sri Lau, for the preceding 12 months from the date of this Circular is RM272,776,000 (excluding the Proposals). The details are as follows:

Type of transactions(1)	**Transacting parties**	**Date of the transactions**	**Value**
			RM
HSCD Disposal (completed on 18 August 2017)	Zillion(2)	14 August 2017	175,276,000
MMSB Disposal (completed on 25 October 2017)	Byorion(2)	23 October 2017	97,500,000
Total			**272,776,000**

Notes:

(1) The expression "transactions" used herein excludes recurrent related party transactions entered into in the ordinary course of business of HSCB Group.

(2) Zillion and Byorion are indirect wholly-owned subsidiaries of LSH.

According to Paragraph 10.12(2)(a) of the Listing Requirements, by applying the rule of aggregation, the total amount of related party transactions entered into with the same related party, namely Tan Sri Lau for the preceding 12 months period from the date of this Circular is RM1,949,940,250 (including the Proposals) and the highest percentage ratio thereof pursuant to Paragraph 10.02(g) of the Listing Requirements is 35.51%.

In compliance with Paragraph 2.1(b) of Practice Note 14 of the Listing Requirements, please refer to Appendix VII(A) and Appendix VII(B) for further details of the HSCD Disposal and MMSB Disposal. The information contained in Appendix VII(A) and Appendix VII(B) is only for the information of the shareholders and no shareholders' approval is required in respect of the same.

13. DIRECTORS' STATEMENT

The Board (save for Datuk Edward Lee Ming Foo, Mr Lee Wee Yong and Datuk Simon Shim Kong Yip, who have abstained from deliberating and voting on the resolutions in relation to the Proposals due to their common directorships in HSCB and Gek Poh/LSH), having considered all aspects of the Proposals (including but not limited to the rationale and the financial effects of the Proposals) is of the opinion that the Proposals are in the best interests of HSCB.

Accordingly, the Board (save for Datuk Edward Lee Ming Foo, Mr Lee Wee Yong and Datuk Simon Shim Kong Yip) recommends that you vote in favour of the resolutions to give effect to the Proposals to be tabled at the forthcoming EGM.

14. AUDIT COMMITTEE'S STATEMENT

The Audit Committee of HSCB (save for Datuk Simon Shim Kong Yip who has abstained from deliberating and voting on the resolutions in relation to the Proposals due to his common directorship in both HSCB and LSH), after having considered all aspects of the Proposals (including but not limited to the rationale and financial effects of the Proposals) and the evaluation of the Independent Adviser (as set out in Section 15 below) on the fairness and reasonableness of the Proposals, is of the opinion that the terms of the Proposals are:

(i) in the best interests of the Company and the HSCB Group;

(ii) fair, reasonable and on normal commercial terms; and

(iii) not detrimental to the interest of the non-interested shareholders.

15. ADVISERS

CIMB has been appointed as the Principal Adviser in relation to the Proposals.

In view of the interests of the Interested Shareholders and Interested Directors as set out in Section 11 of Part A of this Circular, the Proposals are deemed related party transactions pursuant to Chapter 10 of the Listing Requirements.

As such, in accordance with paragraph 10.08(2)(c) of the Listing Requirements, Affin Hwang IB has been appointed on 2 March 2018 as the Independent Adviser to advise the Non-Interested Directors and the Non-Interested Shareholders of HSCB on the fairness and the reasonableness of the Proposals and whether the Proposals are detrimental to the Non-Interested Shareholders of the Company and to advise the Non-Interested Shareholders on whether they should vote in favour of the Proposals.

The Independent Advice Letter in relation to the Proposals is set out in Part B of this Circular.

The Non-Interested Shareholders are advised to read and consider the contents of the Independent Advice Letter carefully before voting on the resolutions in relation to the Proposals at the forthcoming EGM.

16. EGM

The Proposals will be subject to the approval of the shareholders at the forthcoming EGM. The EGM, the notice of which is enclosed with this Circular, is to be held at the Kinabalu Room, Ground Floor, Menara Hap Seng, Jalan P. Ramlee, 50250 Kuala Lumpur on 30 May 2018 at 11 a.m. or immediately following the conclusion of the 42^{nd} AGM, which will be held at the same venue and on the same day at 10 a.m., whichever is later (or the adjournment thereof).

If you are unable to attend and vote in person at the forthcoming EGM, you should complete the enclosed proxy form in accordance with the instructions thereon and to lodge the duly completed form at the Registered Office not less than 48 hours before the appointed time of the forthcoming EGM (or any adjournment thereof). However, the lodging of the proxy form will not preclude you from attending and voting in person at the forthcoming EGM should you subsequently wish to do so.

17. FURTHER INFORMATION

Shareholders are advised to refer to the attached appendices for further information.

Yours faithfully,
For and on behalf of the Board
HAP SENG CONSOLIDATED BERHAD

Dato' Jorgen Bornhoft
Independent Non-Executive Chairman

PART B

INDEPENDENT ADVICE LETTER FROM AFFIN HWANG INVESTMENT BANK BERHAD TO THE NON-INTERESTED SHAREHOLDERS OF THE COMPANY IN RELATION TO THE PROPOSALS

EXECUTIVE SUMMARY

Definitions or defined terms used in this Executive Summary have the same meaning as defined in the "Definitions" section of Part A of the Circular, except where the context requires otherwise or as otherwise defined.

All references to "we", "us" and "our" in this Executive Summary are to Affin Hwang IB, being the independent adviser for the Proposals.

This Executive Summary highlights the salient information of the Proposals. We advise all Non-Interested Shareholders to read and understand this Independent Advice Letter in its entirety, together with Part A of the Circular and the appendices thereto. Non-Interested Shareholders are not to rely solely on this Executive Summary before forming an opinion on the Proposals. You are also advised to consider carefully the recommendation contained herein before voting on the resolutions relating to the Proposals to be tabled at the forthcoming EGM. If you are in doubt as to the course of action to be taken, you should consult your stockbroker, solicitor, accountant, banker or other professional adviser immediately.

1. INTRODUCTION

On 2 March 2018, CIMB, on behalf of the Board, announced that the Company is proposing to undertake the Proposals, where:

(i) HSCI, the Company's wholly-owned subsidiary, had entered into the HSH SSA for the Proposed HSH Disposal; and

(ii) the Company had entered into the HSCSB SSA for the Proposed HSCSB Disposal.

The Proposals are deemed related party transactions under Paragraph 10.08 of the Listing Requirements in view of the interests of the Interested Shareholders and Interested Directors as set out in Section 11 of Part A of the Circular.

2. EVALUATION OF THE PROPOSALS

In evaluating the Proposals, we have taken into consideration the following:

Section in this Independent Advice Letter	Section of evaluation	Comments
6.1.1 and 6.2.1	Rationale for the Proposals	The Proposed HSH Disposal: (i) Is an opportunity for the Group to divest their credit business at an attractive valuation of 3.11 times of the PBR (based on proforma unaudited consolidated financial statements of HSH as at 31 December 2017); (ii) Provides cash for the repayment of borrowings; and (iii) Provides cash for the working capital requirements of the HSCB Group. The Proposed HSCSB Disposal: (i) Allows the entry of a business partner with diversified business segments; and (ii) Allows HSCB to increase the funds available for loan disbursement from the disposal proceeds.

Section in this Independent Advice Letter	Section of evaluation	Comments
6.1.2 and 6.2.2	Evaluation of the HSH Sale Consideration and HSCSB Sale Consideration	The Sale Consideration was arrived at on a "willing-buyer willing-seller" basis after taking into consideration the following: **The Proposed HSH Disposal:** (i) the audited NA of HSH as at 31 December 2017 of USD60.49 million and audited NA of HCS as at 31 December 2017 of AUD80.78 million and the proforma unaudited consolidated NA of HSH as at 31 December 2017 of approximately USD63.14 million; (ii) the audited PAT of HCS for the FYE 31 December 2017 of AUD0.95 million; and (iii) the rationale for the Proposed HSH Disposal as set out in Section 5.1 of Part A of the Circular. **The Proposed HSCSB Disposal:** (i) the audited NA of HSCSB for the FYE 31 December 2017 of RM1.51 billion; (ii) the audited NA of HSCSB for the FYE 31 December 2016 of RM490.01 million; (iii) the audited PAT of HSCSB for the FYE 31 December 2017 of RM68.97 million; (iv) the audited PAT of HSCSB for the FYE 31 December 2016 of RM52.56 million; and (v) the rationale for the Proposed HSCSB Disposal which is set out in Section 5.2 of part A of the Circular.
6.1.3 and 6.2.3	Salient terms of the HSH SSA and HSCSB SSA	The salient terms of the HSH SSA and HSCSB SSA including: (i) Sale Consideration and manner of payment; (ii) Conditions Precedent; (iii) Completion and completion obligations; and (iv) Termination.
6.1.4 and 6.2.4	Utilisation of proceeds from the Proposals	HSCB intends to utilise the HSH Sale Consideration and HSCSB Sale Consideration for the following: (i) Repayment of borrowings; (ii) Working capital requirements primarily to fund the day-to-day operations of the property investment and development and credit financing divisions;

Section in this Independent Advice Letter	Section of evaluation	Comments
		(iii) Investment purposes for HSCB's business expansion including but not limited to land bank acquisition; and (iv) Estimated expenses relating to the Proposals.
6.3	Risk factors in relation to the Proposals	The risk factors of the Proposals are: (i) Non-completion of the Proposals; (ii) Loss of income from HSH; (iii) Foreign currency risk; and (iv) Loss of income from HSCSB.
6.4	Effects of the Proposals	**<u>Share capital and substantial shareholders' shareholdings</u>** No effect. **<u>NA, NA per HSCB Share and gearing</u>** **Proposed HSH Disposal:** (i) Proforma NA is expected to increase by approximately RM514.74 million; (ii) Proforma NA per HSCB Share is expected to increase by approximately RM0.20; (iii) Proforma gearing is expected to decrease by approximately 0.11 times; and (iv) Proforma net gearing is expected to decrease by approximately 0.16 times. **Proposed HSCSB Disposal:** (i) Proforma NA is expected to increase by approximately RM603.40 million; (ii) Proforma NA per HSCB Share is expected to increase by approximately RM0.24; (iii) Proforma gearing is expected to decrease by approximately 0.06 times; and (iv) Proforma net gearing is expected to decrease by approximately 0.17 times.

Section in this Independent Advice Letter	Section of evaluation	Comments
		<u>Earnings and EPS</u> Earnings and EPS are expected to increase from RM1.10 billion (EPS of 44.34 sen) to RM1.60 billion (EPS of 64.10 sen) after the completion of the Proposals. The increase in earnings and EPS is largely due to the proforma gain from the Proposed HSH Disposal of approximately RM506.34 million (net of estimated expenses of RM0.50 million). On the other hand, the financial effects of the Proposed HSCSB Disposal will be recognised directly in the equity of HSCB Group instead of a gain in the Statement of Comprehensive Income of HSCB Group in accordance with MFRS 10, and would not have an impact to the earnings and EPS of the HSCB Group.

3. CONCLUSION AND RECOMMENDATION

We have assessed and evaluated the Proposals and have set out our evaluation in Section 6 of this Independent Advice Letter, which is summarised in Section 7 of this Independent Advice Letter. Non-Interested Shareholders should consider the merits and demerits of the Proposals carefully based on all relevant and pertinent factors including those and other considerations as set out in this Independent Advice Letter, Part A of the Circular and other publicly available information prior to making a decision to vote on the resolutions pertaining to the Proposals.

Premised on our overall assessment and evaluation of the Proposals based on the information available to us up to the LPD, we are of the view that the Proposals are **FAIR AND REASONABLE** and are **NOT DETRIMENTAL** to the Non-Interested Shareholders.

Accordingly, we recommend that you **VOTE IN FAVOUR** of the resolutions pertaining to the Proposals to be tabled at the forthcoming EGM.

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AFFIN HWANG CAPITAL

Out **think.** Out **perform.**

16 May 2018

To: The Non-Interested Shareholders of Hap Seng Consolidated Berhad

Dear Sir/Madam,

HAP SENG CONSOLIDATED BERHAD

INDEPENDENT ADVICE LETTER TO THE NON-INTERESTED SHAREHOLDERS OF THE COMPANY IN RELATION TO THE PROPOSALS

This Independent Advice Letter has been prepared to accompany Part A of the Circular. Definitions or defined terms used in this Independent Advice Letter have the same meaning as defined in the "Definitions" section of Part A of the Circular, except where the context requires otherwise or as otherwise defined.

All references to "we", "us" and "our" in this Independent Advice Letter are to Affin Hwang IB, being the independent adviser for the Proposals.

1. INTRODUCTION

On 2 March 2018, CIMB, on behalf of the Board, announced that the Company is proposing to undertake the Proposals, where:

(i) HSCI, the Company's wholly-owned subsidiary, had entered into the HSH SSA for the Proposed HSH Disposal; and

(ii) the Company had entered into the HSCSB SSA for the Proposed HSCSB Disposal.

The Proposals are deemed related party transactions under Paragraph 10.08 of the Listing Requirements in view of the interests of the Interested Shareholders and Interested Directors as set out in Section 11 of Part A of the Circular.

In compliance with Paragraph 10.08(2)(c) of the Listing Requirements, Affin Hwang IB has been appointed by the Board (save for the Interested Directors) to act as the independent adviser to provide an independent evaluation of the Proposals to the Non-Interested Directors and Non-Interested Shareholders.

The purpose of this Independent Advice Letter is to:

(i) provide the Non-Interested Shareholders with an independent evaluation of the Proposals and to form an opinion as to whether the Proposals are fair and reasonable in so far as the Non-Interested Shareholders are concerned;

(ii) advise whether the Proposals are detrimental to the Non-Interested Shareholders; and

(iii) provide our recommendation in relation to the resolutions pertaining to the Proposals to be tabled at the Company's forthcoming EGM.

Further information on the Proposals is set out in Section 2 and Section 3 of Part A of the Circular.

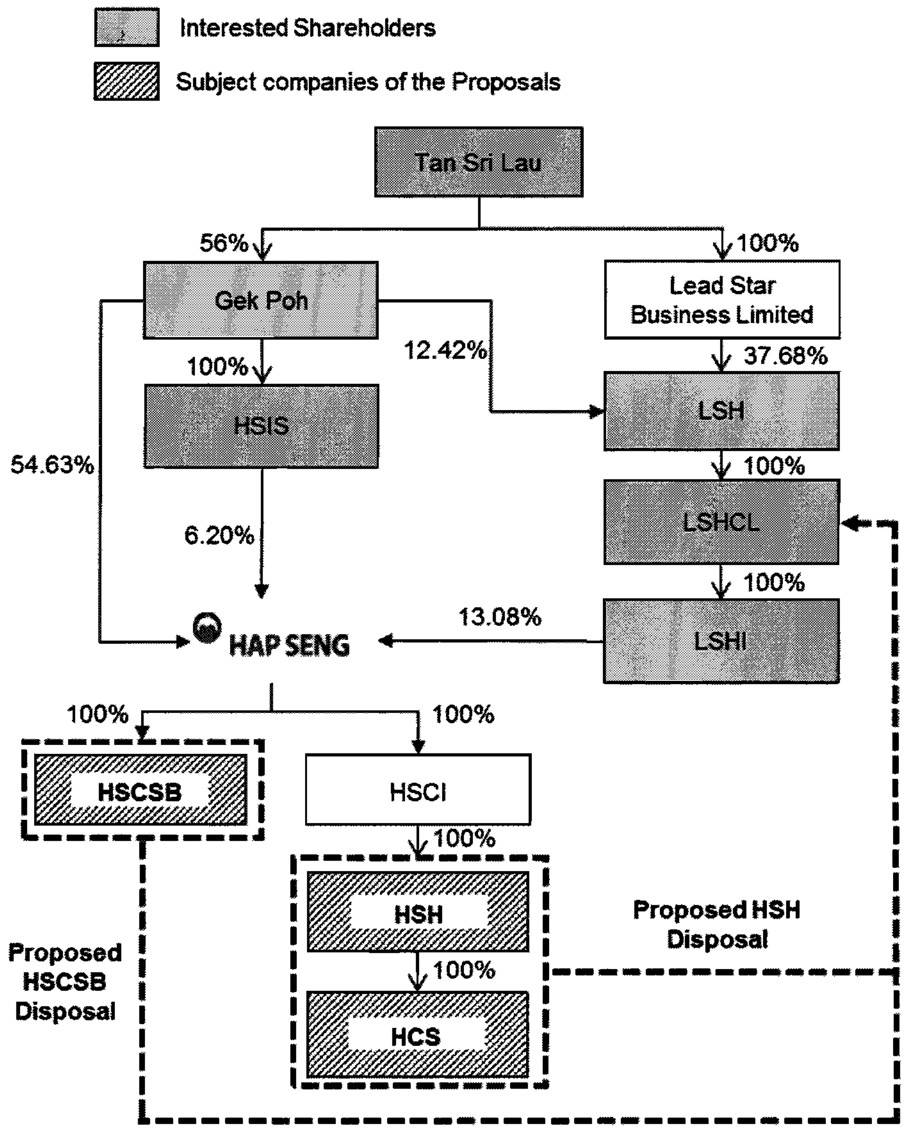
Affin Hwang Investment Bank Berhad (14389-U)
27th Floor, Menara Boustead, 69 Jalan Raja Chulan, 50200 Kuala Lumpur, Malaysia
www.affinhwang.com

YOU ARE ADVISED TO READ THIS INDEPENDENT ADVICE LETTER AND PART A OF THE CIRCULAR TOGETHER WITH THE APPENDICES AND CONSIDER CAREFULLY THE EVALUATION AND RECOMMENDATION CONTAINED IN THIS INDEPENDENT ADVICE LETTER BEFORE VOTING ON THE RESOLUTIONS PERTAINING TO THE PROPOSALS TO BE TABLED AT THE COMPANY'S FORTHCOMING EGM.

IF YOU ARE IN DOUBT AS TO THE COURSE OF ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKER, SOLICITOR, ACCOUNTANT, BANKER OR OTHER PROFESSIONAL ADVISER IMMEDIATELY.

2. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED WITH THEM

The parties to the Proposals and their shareholdings in the respective entities as at the LPD are set out in the diagram below:



The details of the Interested Shareholders and Interested Directors are set out in Section 11 of Part A of the Circular.

We note from Section 11.1 of Part A of the Circular that the Interested Shareholders comprise Tan Sri Lau, Gek Poh, HSIS, LSH, LSHCL and LSHI. The Interested Shareholders will abstain from voting in respect of their direct and/or indirect shareholdings in the Company on the resolutions in relation to the Proposals to be tabled at the forthcoming EGM. The Interested Shareholders have undertaken that they will also ensure that persons connected with them who have interests in the shares of the Company will also abstain from voting in respect of their direct and/or indirect shareholdings in the Company on the resolutions in relation to the Proposals to be tabled at the forthcoming EGM.

Section 11.2 of Part A of the Circular states that:

(i) Datuk Edward Lee Ming Foo is the managing director of both HSCB and Gek Poh; and

(ii) Mr. Lee Wee Yong is an executive director of HSCB and a director of Gek Poh.

As at the LPD, Gek Poh holds 12.42% equity interest in LSH and hence, is a major shareholder of LSH. LSHCL, being the purchaser for HSH and HSCSB, is a wholly-owned subsidiary of LSH.

Premised on the above, Datuk Edward Lee Ming Foo and Mr. Lee Wee Yong are deemed interested in the Proposals. As such, they have abstained and will continue to abstain from all deliberations and voting at the relevant Board meetings, and from voting in respect of their direct and/or indirect shareholdings in the Company on the resolutions in relation to the Proposals to be tabled at the forthcoming EGM. They have further undertaken to ensure that persons connected with them will abstain from voting in respect of their direct and/or indirect shareholdings in the Company on the resolutions in relation to the Proposals to be tabled at the forthcoming EGM.

In addition, we also note that:

(i) Datuk Simon Shim Kong Yip is a non-independent non-executive director of HSCB and a non-executive director of LSH; and

(ii) Mr. Ch'ng Kok Phan is an executive director of LSH and was also a non-independent non-executive director of HSCB. He was a director of HSCB on the date during which the terms of the Proposals were agreed upon but had resigned as a director of HSCB on 31 March 2018.

Premised on Datuk Simon Shim Kong Yip's and Mr. Ch'ng Kok Phan's common directorship in HSCB and LSH, they are interested in the Proposals. As such, they have abstained from all deliberations and voting at the relevant Board and audit committee (in the case of Datuk Simon Shim Kong Yip) meetings. They will continue to abstain from voting in respect of their direct and/or indirect shareholdings in the Company on the resolutions in relation to the Proposals to be tabled at the forthcoming EGM. They have further undertaken to ensure that persons connected with them will abstain from voting in respect of their direct and/or indirect shareholdings in the Company on the resolutions in relation to the Proposals to be tabled at the forthcoming EGM.

3. SCOPE AND LIMITATIONS OF OUR EVALUATION OF THE PROPOSALS

We have not been involved in the formulation, deliberation and negotiation of the terms of the Proposals. Our scope as independent adviser is limited to expressing an independent opinion on the Proposals based on information and documents provided to us or which are available to us, including the following:

(i) the information contained in Part A of the Circular and the appendices attached thereto;

(ii) the HSH SSA and HSCSB SSA;

(iii) other relevant information and documents furnished to us by the Directors and senior management of the HSCB Group ("**Management**") or obtained in or derived from our discussions with the Management; and

(iv) other publicly available information which we deem relevant.

We have relied on the Board and the Management to take due care to ensure that all the information, documents and representations in respect of the HSCB Group and the Proposals provided to us by them to facilitate our evaluation of the Proposals are accurate, complete and free from material omission. We have not undertaken any independent investigation into the business and affairs of the HSCB Group and all relevant parties involved in the Proposals. However, after making all reasonable enquiries and to the best of our knowledge and belief, we acknowledge that this Independent Advice Letter constitutes a full and true disclosure of all material facts concerning the Proposals, and we are satisfied that the information used is free from material omission and we have no reason to believe that the information used is unreasonable, inaccurate or incomplete as at the LPD. Our advice should be considered in the context of the entirety of this Independent Advice Letter.

In preparing this Independent Advice Letter, we have taken into consideration those factors that we believe are relevant and of general importance to the Non-Interested Shareholders for an assessment of the Proposals and which are of concern to the Non-Interested Shareholders as a whole.

Since our evaluation as set out in this Independent Advice Letter is rendered solely for the benefit of the Non-Interested Shareholders as a whole, we have not taken into consideration any specific investment objectives, financial and tax position, risk profiles, financial situation and particular needs of any individual shareholder or any specific group of shareholders.

If you are in doubt as to the action to be taken or requires specific advice in relation to the Proposals in the context of your individual investment objectives, financial and tax position, risk profiles, financial situation or particular needs, we recommend that you consult your stockbroker, solicitor, accountant, banker or other professional adviser immediately.

Our evaluation and opinion as set out in this Independent Advice Letter are based on prevailing equity capital market, economic, industry, regulatory, monetary, socio-political and other conditions (if applicable), and the information/documents made available to us as at the LPD. Such conditions may change significantly over a short period of time.

The members of the Board have seen and approved the contents of this Independent Advice Letter. The members of the Board collectively and individually accept full responsibility for the accuracy and completeness of all statements and/or information stated in this Independent Advice Letter and after having made all reasonable enquiries and to the best of the Board's knowledge and belief, the Board confirms all statements and/or information in this Independent Advice Letter are free from material omission and:

(a) no statement and/or information in this Independent Advice Letter is inaccurate or incomplete;

(b) there are no other facts and/or information, the omission of which would make any statement or information in this Independent Advice Letter unreasonable, inaccurate or incomplete; and

(c) all relevant material facts and/or information, including those required under the Listing Requirements, have been disclosed in this Independent Advice Letter.

The responsibility of the Board in respect of the independent advice and expression of opinion by Affin Hwang IB in relation to the Proposals as set out in this Independent Advice Letter, is to ensure that all information in relation to the HSCB Group and the Proposals that is relevant to Affin Hwang IB's evaluation of the Proposals has been accurately and completely disclosed to Affin Hwang IB and is free from material omission.

We will notify the Non-Interested Shareholders after the issuance of this Independent Advice Letter up to the date of the Company's forthcoming EGM, if we:

(1) become aware of a significant change affecting the information set out in this Independent Advice Letter;

(2) have reasonable grounds to believe that a material statement in this Independent Advice Letter is misleading or deceptive; or

(3) have reasonable grounds to believe that there is a material omission in this Independent Advice Letter.

If circumstances require, a supplementary Independent Advice Letter will be sent to the Non-Interested Shareholders. We will immediately notify the Non-Interested Shareholders of any material change in circumstances that would affect the consideration or the accuracy or the completeness of the information contained in this Independent Advice Letter.

4. DECLARATION OF CONFLICT OF INTEREST

Save for our role as the independent adviser for the Proposals and the past related party transactions set out below[(1)], Affin Hwang IB does not have any other professional relationship with HSCB in the past 2 years prior to the LTD. Further, Affin Hwang IB confirms that it is not aware of any conflict of interest that exists or is likely to exist in relation to our role as the independent adviser for the Proposals.

Note:
(1) Affin Hwang IB was appointed as the independent adviser for the following related party transactions for the past 2 years:

	Date of appointment	***Related party transaction***	***Completion date of the related party transaction***
(a)	*1 March 2016*	*Acquisition by HSCB of the entire issued share capital of Malaysian Mosaics Sdn Bhd from Gek Poh for a cash consideration of RM380 million, where our independent advice letter was issued on 5 May 2016*	*25 May 2016*
(b)	*1 March 2016*	*Disposal by Hap Seng Star Sdn Bhd ("**HSS**") (a wholly-owned subsidiary of Hap Seng Auto Sdn Bhd which in turn is a subsidiary of HSCB of 51% of the issued share capital of Hap Seng Commercial Vehicle Sdn Bhd ("**HSCV**") to Lei Shing Hong Commercial Vehicles Limited ("**LSHCV**") for a cash consideration of RM382.50 million ("**HSCV Disposal**"); and disposal by HSS of the balance of 49% or part thereof of the issued share capital of HSCV for a cash consideration of up to RM367.50 million pursuant to the exercise of the put option granted by LSHCV to HSS ("**HSCV Option Shares Disposal**"), where our independent advice letter was issued on 5 May 2016*	*The HSCV Disposal was completed on 25 May 2016 while the HSCV Option Shares Disposal was completed on 3 January 2017.*
(a)	*7 March 2017*	*HSL Disposal (as defined in Section 5(vii) of this Independent Advice Letter)*	*25 May 2017*

5. CREDENTIALS AND EXPERIENCE OF AFFIN HWANG IB

Affin Hwang IB is a participating organisation of Bursa Securities and provides a range of services including corporate finance advisory, debt capital markets services, structured lending and market trading and research. Our corporate finance advisory team provides a full range of corporate finance advisory services including mergers and acquisitions, corporate and debt restructuring, initial public offerings, equity fund raisings and independent advisory opinions.

Affin Hwang IB had, over the past 1 year prior to the date of execution of the HSH SSA and HSCSB SSA, issued 5 independent advice opinions in relation to related party transactions under the Listing Requirements that include acquisitions and disposals transactions undertaken by certain public listed companies as well as 2 take-over offers under the Rules on Take-Overs, Mergers and Compulsory Acquisitions, 2016 of the Securities Commission Malaysia, by certain public listed companies, with a total transaction value of approximately RM8.43 billion.

The details of our past experience are as follows:

(i) acquisition of a piece of freehold land measuring approximately 342.50 acres (or 14,919,300 sq ft) held under GRN 49395, Lot 1913, Mukim Semenyih, District of Ulu Langat, State of Selangor Darul Ehsan ("**Bangi Land**") by KL East Sdn Bhd from Seriemas Development Sdn Berhad ("**Seriemas**") for a cash consideration of RM447,579,900 and the profit sharing with Seriemas where Seriemas will be entitled to 20% of the audited profit before tax from the mixed development township which comprises residential and commercial components on the Bangi Land comprising sale of units and/or land parcels, subject to a maximum profit share amount of RM44,757,900. Our independent advice letter was issued on 25 October 2017;

(ii) acquisition of 1,000,000,000 ordinary shares in I&P Group Sdn Bhd ("**I&P**") representing the entire equity interest in I&P, for a cash consideration of RM3.65 billion, renounceable rights issue of new ordinary shares in S P Setia Berhad ("**S P Setia**") to raise gross proceeds of up to RM1.20 billion and renounceable rights issue of new class B Islamic redeemable convertible preference shares in S P Setia to raise gross proceeds of up to RM1.20 billion. Our independent advice letter was issued on 25 October 2017;

(iii) share subscription of 547,020,534 ordinary shares, representing 49.9% of the enlarged ordinary share capital in Proton Holdings Berhad by Zhejiang Geely Holding Group Co., Ltd. for a total subscription price of RM460.30 million, and divestment by Proton Holdings Berhad of 100% issued shares in Lotus Advance Technologies Sdn Bhd and 100% preference shares in Lotus Cars Limited to Zhejiang Geely Holdings Group Co., Ltd. and Etika Automotive Sdn Bhd for a total sale consideration of British Pound Sterling ("**GBP**") 100 million (approximately RM543.00 million based on the exchange rate of RM5.43:GBP1.00). Our independent advice letter was issued on 15 August 2017;

(iv) disposal by Salcon Development Berhad, a wholly-owned subsidiary of Salcon Berhad, of 80% equity interest in Eco World-Salcon Y1 PTY LTD (formerly known as Salcon Development (Australia) PTY LTD) to Fortune Quest Group Ltd, a wholly-owned subsidiary of Eco World International Berhad for a disposal consideration of AUD120,000 (approximately RM0.40 million). Our independent advice letter was issued on 14 August 2017;

(v) unconditional mandatory take-over offer by Anchorscape Sdn Bhd ("**ASB**") to acquire all the remaining ordinary shares in KUB Malaysia Berhad not already held by ASB, Temasek Padu Sdn Bhd and the persons acting-in-concert with them ("**KUB Offer Shares**") for a cash offer price of RM0.35 per KUB Offer Share amounting to approximately RM93.15 million. Our independent advice circular was issued on 10 July 2017;

(vi) unconditional mandatory take-over offer by Hengan (Malaysia) Investments Company Limited ("**Hengan Malaysia**") to acquire all the remaining ordinary shares in Wang-Zheng Berhad not already owned by Hengan Malaysia ("**Wang-Zheng Offer Shares**") for a cash offer price of RM1.14 per Wang-Zheng Offer Share amounting to approximately RM89.58 million. Our independent advice circular was issued on 10 July 2017; and

(vii) disposal by Hap Seng Consolidated Berhad ("**HSCB**") of 250,000,000 ordinary shares representing 100% of the equity interest in Hap Seng Logistics Sdn Bhd to LSH Logistics Limited for a cash consideration of RM750.00 million. Our independent advice letter was issued on 17 May 2017 ("**HSL Disposal**").

Based on the above, we are capable and competent in carrying out our role and responsibilities as the independent adviser to advise the Non-Interested Directors and Non-Interested Shareholders in relation to the Proposals.

6. EVALUATION OF THE PROPOSALS

In evaluating the Proposals, we have taken into consideration the following:

	Analysis	Section in this Independent Advice Letter
(i)	Rationale for the Proposed HSH Disposal	Section 6.1.1
(ii)	Evaluation of the HSH Sale Consideration	Section 6.1.2
(iii)	Salient terms of the HSH SSA	Section 6.1.3
(iv)	Utilisation of proceeds from the Proposed HSH Disposal	Section 6.1.4
(v)	Rationale for the Proposed HSCSB Disposal	Section 6.2.1
(vi)	Evaluation of the HSCSB Sale Consideration	Section 6.2.2
(vii)	Salient terms of the HSCSB SSA	Section 6.2.3
(viii)	Utilisation of proceeds from the Proposed HSCB Disposal	Section 6.2.4
(ix)	Risk factors in relation to the Proposals	Section 6.3
(x)	Effects of the Proposals	Section 6.4

6.1 THE PROPOSED HSH DISPOSAL

6.1.1 RATIONALE FOR THE PROPOSED HSH DISPOSAL

We note the rationale for the Proposed HSH Disposal as set out in Section 5.1 of Part A of the Circular as set out below:

(i) HSCB had received an offer from LSHCL to acquire HSH at an attractive valuation of approximately 3.11 times of the PBR based on proforma unaudited consolidated financial statements of HSH as at 31 December 2017.

Based on the audited consolidated financial statements of HSCB for the FYE 31 December 2017, HSCB Group is organised into business units according to their nature of activities. The Group has 6 reportable operating segments as follows:

(a) Plantation – Cultivation of palm oil and processing of fresh fruit bunches;

(b) Property – Property investment and property development;

(c) Credit financing – Provision of financial services;

(d) Automotive – Trading in motor vehicles, spare parts and servicing of motor vehicles;

(e) Fertilisers trading – Trading and distribution of fertilisers and agro-chemical; and

(f) Building materials – Operation of stone quarries and asphalt plants, manufacture of bricks and tiles, trading of general building materials and petroleum products.

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For the FYE 31 December 2017, the breakdown of HSCB Group's revenue based on the geographical location of their customers is set out below:

Geographical locations	Revenue (RM'000)	%
Malaysia	4,246,082	80.29
Asia (1)	981,762	18.56
Others	60,899	1.15
Total	**5,288,733**	**100**

Note:
(1) "Asia" comprises Singapore, Indonesia and China.

Based on the table above, the revenue of the HSCB Group has been largely derived from customers in Malaysia which accounted for 80.29% of its revenue for the FYE 31 December 2017.

The business of the HSH and its subsidiary ("**HSH Group**") is reported under the credit financing division of the Group. The credit financing division is one of the major contributors to the Group and contributed 15.22% to the Group's operating profit (before inter-segment eliminations), based on the audited consolidated financial statements of HSCB for the FYE 31 December 2017.

In terms of geographical segmentation, the business of the HSH Group is reported under "Others", which along with other countries, only contributed 1.15% to the HSCB Group's total revenue for the FYE 31 December 2017.

We note that HSH is a newly incorporated company (incorporated on 18 August 2017) and its wholly-owned subsidiary, HCS only commenced its operations on 4 April 2017*. In addition, the HSH Group's contribution to the revenue and earnings of the HSCB Group for the FYE 31 December 2017 was insignificant. HSH is an investment holding company and its sole subsidiary, HCS, only reported:

- Revenue of AUD2.20 million or approximately RM7.25 million^ for the FYE 31 December 2017, vis-à-vis the revenue of the HSCB Group of RM5.29 billion during the same financial year; and

- PAT of AUD0.95 million or approximately RM3.12 million^ for the FYE 31 December 2017, vis-à-vis the PATNCI of the HSCB Group of RM1.10 billion during the same financial year.

Note:
* *On 24 November 2017, HSCB announced the re-organisation of HSCB's group structure where HSCB transferred 80,000,000 ordinary shares representing the entire issued share capital of Hap Seng Credit (Australia) Pty Ltd (now known as HCS) to HSH.*
^ *For illustration only, based on the exchange rate of AUD1.00:RM3.2956 which is the average exchange rate for 2017 as extracted from Bloomberg.*

While there will be immaterial loss of earnings to the Group, the Group is expected to record a proforma gain of RM506.84 million arising from the Proposed HSH Disposal.

We wish to highlight that as the business operations of the HSH Group is at its infancy, where HCS only commenced operations on 4 April 2017, it has yet to generate adequate working capital to fund its operations. The business operations of HCS have mainly been funded by HSCB by way of equity and shareholders' advance. Accordingly, it is expected that HSH Group will require the financial support from the HSCB Group in the absence of the Proposed HSH Disposal until such time HCS has grown to a stage where it is able to sustain itself and not rely on the financial support of the HSCB Group.

Please refer to Section 6.1.2 of this Independent Advice Letter for our evaluation of the HSH Sale Consideration.

(ii) **The proceeds from the Proposed HSH Disposal will enable HSCB to pare down part of its borrowings and be channelled towards the working capital requirements of the HSCB Group.**

The proceeds from the Proposed HSH Disposal will be utilised as follows:

(a) repayment of HSCB Group's existing borrowings (32.42%);

(b) to fund the HSCB Group's working capital requirements (49.36%);

(c) for its business expansion including but not limited to land bank acquisition (18.15%); and

(d) to defray the expenses of the Proposed HSCSB Disposal (0.07%).

Please refer to Section 6.1.4 of this Independent Advice Letter for our analysis on the utilisation of proceeds from the Proposed HSH Disposal.

Premised on the above, we are of the view that the rationale for the Proposed HSH Disposal is reasonable.

6.1.2 EVALUATION OF THE HSH SALE CONSIDERATION

As stated in Section 2.3 of Part A of the Circular, the HSH Sale Consideration was arrived at on a "willing-buyer willing-seller" basis after taking into consideration the following:

(i) the audited NA of HSH for the FYE 31 December 2017 of USD60.49 million and audited NA of HCS as at 31 December 2017 of AUD80.78 million and the proforma unaudited consolidated NA of HSH as at 31 December 2017 of approximately USD63.14 million[(1)];

(ii) the audited PAT of HCS for the FYE 31 December 2017 of AUD0.95 million[(2)]; and

(iii) the rationale for the Proposed HSH Disposal which is set out in Section 5.1 of Part A of the Circular.

The HSH Sale Consideration translates into an implied PBR of 3.11 times based on the proforma unaudited consolidated NA of HSH as at 31 December 2017 and PER of approximately 264 times based on the PAT of HCS[(2)] for the FYE 31 December 2017.

Notes:

(1) The proforma unaudited consolidated NA of HSH is derived by amalgamating HSH's NA and HCS's NA for the FYE 31 December 2017, and eliminating the investment in subsidiary by HSH.

(2) HSH is a newly incorporated company. Hence, only the audited PAT of HCS is being taken into account for the computation of PER.

HSH is an investment holding company and the main business activity for the HSH Group is carried out by its wholly-owned subsidiary, HCS. HCS is principally involved in the provision of financial services predominantly in New South Wales, Australia comprising mainly loans to corporates in the property sector. We have undertaken a comparative analysis of the HSH Sale Consideration with comparable companies selected based on criteria that an investor would regard as similar to HSH Group. Accordingly, the comparable companies were selected based on the following criteria:

(i) listed on the Australian Securities Exchange; and

(ii) at least 70% of its revenue is derived from the provision of financial services (but excluding financial institutions such as banks).

(Defined as the "**HSH Comparable Companies**".)

We wish to highlight that the HSH Comparable Companies tabulated below are by no means exhaustive and may differ from HSH in terms of, *inter alia*, size/market capitalisation, marketability and liquidity of shares, size of the operations, composition of business activities, existing or other businesses, asset base, financial performance, operating and financial leverage, accounting and taxation policies, risk profile and future prospects.

Further information on the HSH Comparable Companies is summarised as follows:

HSH Comparable Companies	Market capitalisation as at the LTD(1) (AUD'000)	Principal activities
Scottish Pacific Group Ltd ("SPG")	438,454	SPG provides financial services. SPG offers working capital solutions with a range of debtor finance and trade finance facilities such as corporate credit line, invoice discounting, factoring, selective invoice finance, cash line, asset finance, and bad debt protection for small and medium enterprises worldwide.
Eclipx Group Ltd ("Eclipx")	1,172,247	Eclipx provides vehicle fleet leasing, fleet management, and diversified financial services. Eclipx offers consumers and businesses access to funding solutions including fleet leasing, vehicle sales, commercial equipment finance and consumer motor vehicle finance. Eclipx serves customers in Australia and New Zealand.
Money3 Corp Ltd ("Money3")	304,109	Money3 provides consumer lending services in Melbourne and Geelong, Australia. The Company offers loans, check cashing and money gram services.
Axsesstoday Ltd ("Axsesstoday")	112,526	Axsesstoday provides equipment finance solutions. Axsesstoday offers hospitality, catering, material handling, transportation and logistics equipment leasing services. Axsesstoday serves customers in Australia.
DirectMoney Ltd ("DirectMoney")	14,116	DirectMoney engages in the lending business in Australia. It offers personal loans with maturities of three to five years. DirectMoney also sells these loans to the institutional and wholesale investors, and DirectMoney Personal Loan Fund.

*(**Source:** Bloomberg, website of the Australian Securities Exchange and the latest annual reports of the HSH Comparable Companies available as at the LTD.)*

Note:

(1) Based on the last price multiplied by the number of shares outstanding (i.e. excluding treasury shares) of the respective companies as at the LTD.

Although HSH is a going-concern, we have not adopted an earnings-based methodologies (such as PER and the discounted cash flow method) in evaluating the HSH Sale Consideration due to the following reasons:

(i) HSH is a relatively new start-up company and was only incorporated on 18 August 2017. Its wholly-owned subsidiary, HCS, only commenced operations on 4 April 2017. Therefore, their earnings pattern have not yet been established for a meaningful earnings-based valuation analysis; and

(ii) the implied PER of the HSH Sale Consideration is approximately 264 times based on the PAT of HCS[(1)] for the FYE 31 December 2017. As the implied PER is substantially higher than the PER of the comparable companies as set out in Section 2.3 of Part A of the Circular, we are of the view that conducting a PER analysis would not be meaningful to evaluate the HSH Sale Consideration.

Note:

(1) HSH is a newly incorporated company. Hence, only the audited PAT of HCS is being taken into account for the computation of PER.

As the HSH Group is principally involved in the provision of financial services which is capital intensive in nature, we are of the view that the PBR (a method used to compare the company's market value to its historical book value i.e. NA) is the most appropriate valuation metric to evaluate the HSH Sale Consideration. Hence, we have only used PBR in our evaluation of the HSH Sale Consideration.

The HSH Sale Consideration translates into an implied PBR of approximately 3.11 times as set out below:

	Workings	**USD'000**
HSH Sale Consideration	(A)	196,500
Proforma unaudited consolidated NA of HSH as at 31 December 2017	(B)	[(a)] 63,136
PBR (times)	**(A)/(B)**	**3.11**

Note:

(a) The proforma unaudited consolidated NA of HSH is derived as follows:

	Workings	***USD'000***
Audited NA of HSH for the FYE 31 December 2017	*(I)*	*60,492*
Audited NA of HCS for the FYE 31 December 2017	*(II)*	*63,124*
Elimination of the investment in subsidiary by HSH	*(III)*	*60,480*
Proforma unaudited consolidated NA of HSH	***(I) + (II) - (III)***	***63,136***

The computation of the PBR of the HSH Comparable Companies is as set out below:

Comparable Companies	**Last price as at the LTD (AUD)**	**Audited**	
		NA per share (AUD)	**PBR (times)**
SPG	3.15	1.41	2.23
Eclipx	3.75	2.76	1.36
Money3	1.90	1.14	1.67
Axsesstoday	2.05	0.61	3.36
DirectMoney	0.03	0.02	1.50
		Simple average	2.02
		Median	1.67
		Minimum	1.36
		Maximum	3.36

*(**Source**: Bloomberg, the website of the Australian Securities Exchange and the latest audited consolidated financial statements of the HSH Comparable Companies available as at the LTD.)*

We are of the view that the HSH Sale Consideration is fair as the implied PBR based on the proforma unaudited consolidated NA of HSH as at 31 December 2017 of 3.11 times is above the average PBR of the HSH Comparable Companies of 2.02 times.

We also wish to highlight that despite HSH being an unlisted entity, the implied PBR of the HSH Sale Consideration is higher than the HSH Comparable Companies. Generally, unlisted companies tend to command a lower PBR vis-à-vis its comparable companies which are listed entities due to factors such as illiquidity and lack of marketability of the securities.

6.1.3 SALIENT TERMS OF THE HSH SSA

We wish to highlight the following salient terms of the HSH SSA as follows:

	Salient terms of the HSH SSA	**Affin Hwang IB's comments**
HSH Sale Consideration and manner of payment		
(1)	The HSH Sale Consideration for the HSH Sale Shares is USD196.50 million and is payable by LSHCL to HSCI in the following manner: (a) the HSH Deposit within 7 days from the date of execution of HSH SSA; and (b) the HSH Balance Sum on or before HSH Completion Date either in whole or in various batches to the account to be designated by HSCI in writing. The HSH Deposit was paid by LSHCL to HSCI on 2 March 2018.	The HSH Sale Consideration payable by LSHCL shall be USD as HSH was incorporated in Federal Territory of Labuan, which uses USD as its functional currency. The payment of deposit within 7 days is reasonable to facilitate the conversion of currency from HKD (LSHCL's country of domicile is Hong Kong) to USD. It is noted that the HSH Balance Sum may be settled by LSHCL on or before the HSH Completion Date.
HSH Conditions Precedent		
(2)	The Proposed HSH Disposal is conditional upon the following HSH Conditions Precedent being obtained on or before the HSH Cut-off Date: (i) approval to be obtained from the shareholders of HSCB; and (ii) all such approvals and consents as may be required from any other parties, governmental authorities and the relevant regulatory authorities (if applicable).	The HSH Cut-off Date, being a 6-month period to fulfil the HSH Conditions Precedent, has been agreed upon by the parties after taking into consideration the relevant approvals required for the Proposed HSH Disposal. We note that the only outstanding HSH Conditions Precedent as at the date of this Independent Advice Letter is the approval from the shareholders of HSCB to give effect to the Proposed HSH Disposal.
HSH Completion		
(3)	The completion of the HSH SSA shall take place on the HSH Completion Date where: (i) HSCI shall deliver the instrument of transfer of the HSH Sale Shares duly executed in favour of LSHCL and the relevant share certificates, and such other documents as may be requested by LSHCL for the purpose of assessing stamp duty on the transfer of the HSH Sale Shares; and	The HSH SSA is to be completed no later than 30 days from the date on which all the HSH Conditions Precedent are satisfied, which is a reasonable timeline. This clause sets out the respective roles of HSCI and LSHCL on the HSH Completion Date to give effect to the Proposed HSH Disposal. The delivery of the required documents by HSCI is necessary to facilitate the timely registration for the transfers of the HSH Sale Shares to effect the transfer of ownership after the payment of the HSH Balance Sum.

Salient terms of the HSH SSA		Affin Hwang IB's comments
	(ii) HSCI shall procure and ensure the passing of the requisite resolutions of the board of directors of HSH: (a) approving the registration of the share transfers referred to in Section 6.1.3(3)(i) above subject only to it being duly stamped; (b) appointing such persons as LSHCL may nominate as directors; and (c) handing over to LSHCL copies of such resolutions, duly certified as true copies of the originals by the secretary of HSH. (iii) LSHCL shall at completion of the sale and purchase of the HSH Sale Shares, settle or procure the settlement in full, free of all taxes of all liabilities and debts (including, any interest or other charges and whether due or not) owing by HCS to HSCB as at the HSH Completion Date.	The requirement for LSHCL to settle the amount owing by HCS to HSCB on the HSH Completion Date is appropriate as HCS will cease to be an indirect subsidiary of HSCB after the Proposed HSH Disposal. As at the LPD, the amount owing by HCS to HSCB is AUD30.11 million which is equivalent to RM93.11 million based on the exchange rate of AUD1.00:RM3.0924.
HSH Termination		
(4)	(i) HSCI's default If, prior to the HSH Completion, HSCI is in default or breaches any of the terms and conditions applicable to it under the HSH SSA, LSHCL shall be entitled to give notice in writing to HSCI specifying such default or breach within 14 days from the date of such notice. If HSCI fails, neglects or refuses to remedy such default or breach within 14 days' period, LSHCL shall be entitled to: (a) pursue an action for specific performance of the HSH SSA; or (b) elect to terminate the HSH SSA in which HSCI shall within 7 days from the date of termination: (1) refund to LSHCL the HSH Deposit and all monies received free of interest; and (2) pay sum amounting to 10% of the HSH Sale Consideration to LSHCL as agreed liquidated damages failing which HSCI shall pay LSHCL interest at the rate of 8% per annum calculated on daily basis on the amount outstanding from the expiry of the aforementioned period to the	The remedies to each party are parallel. The termination clauses protect the interest of each party. This term allows HSCI to rectify any breach under the HSH SSA within 14 days upon receiving a notice from LSHCL of such default or breach. If HSCI fails to remedy such default or breach, the HSH Deposit and all monies received will be refunded to LSHCL free of interest and the HSH SSA shall be terminated. In addition, HSCI will be required to pay 10% of the HSH Sale Consideration to LSHCL as agreed liquidated damages. LSHCL is also subject to a similar reciprocal clause, i.e. in the event of LSHCL's default or breach, HSCI can terminate the HSH SSA and HSCI shall forfeit the HSH Deposit as agreed liquidated damages which is in line with the commercial terms of other acquisition or disposal transactions. Interest of 8% per annum has imposed on any late payment to protect the interests of each party. The prescribed rate of 8% per annum is in line with common commercial terms of other acquisition or disposal transactions.

Salient terms of the HSH SSA	Affin Hwang IB's comments
receipt of the aforementioned sum by LSHCL. (ii) LSHCL's default If prior to HSH Completion, LSHCL is in default of or breaches any of the terms and conditions applicable to it under the HSH SSA, HSCI shall be entitled to give notice to LSHCL specifying such default or breach and requiring LSHCL to remedy or make good such default or breach within 14 days from the date of such notice. If LSHCL fails, neglects or refuses to remedy or make good such default or breach within the said 14 days' period, HSCI shall be entitled to: (a) pursue an action for specific performance of the HSH SSA; or (b) elect to terminate the HSH SSA in which event the HSH Deposit shall be forfeited to HSCI absolutely as agreed liquidated damages and HSCI shall, within 7 days from the date of termination refund all monies received (other than the HSH Deposit) to LSHCL free of interest.	We are of the view that this term is reasonable as HSCI is also subject to similar reciprocal clauses, as set out in Section 6.1.3(4)(i) of this Independent Advice Letter. Upon termination of the HSH SSA, the HSH Deposit shall be forfeited by HSCI as agreed liquidated damages which is in line with the commercial terms of other acquisition or disposal transactions.

Based on the salient terms of the HSH SSA and our comments as set out above, we are of the view that the salient terms of the HSH SSA are reasonable.

6.1.4 UTILISATION OF PROCEEDS FROM THE PROPOSED HSH DISPOSAL

We note from Section 2.10 of Part A of the Circular that HSCB intends to utilise the HSH Sale Consideration for the operations of the HSCB Group and to defray estimated expenses relating to the Proposed HSH Disposal in the following manner:

Purpose of utilisation	Estimated timeframe for utilisation from the HSH Completion Date	Amount (RM'000)	%
Repayment of borrowings	within 24 months	250,000	32.42
Working capital requirements	within 24 months	380,664	49.36
Investments purposes	within 24 months	140,000	18.15
Estimated expenses	within 3 months	500	0.07
	Total	**771,164**	**100**

HSCB intends to utilise RM250 million or approximately 32.42% of the HSH Sale Consideration to pare down its existing borrowings. As at 31 December 2017, the total borrowings of the HSCB Group was approximately RM4.48 billion. The repayment of borrowings is expected to improve the gearing level of the Group from 0.78 times as at 31 December 2017 to 0.67 times after the Proposed HSH Disposal. We note that the borrowings (including short-term borrowings of RM50.00 million) are expected to be repaid over a period of 24 months from the HSH Completion Date after taking into consideration the due and maturity dates of the borrowings. Assuming a repayment of borrowings prior to the due date, the HSCB Group is expected to realise interest cost savings of up to RM12.50 million per annum based on the interest rate of approximately 5% per annum. The proceeds from the Proposed HSH Disposal used for repayment of borrowings will also provide financial flexibility to the Group where funds allocated for repayment of borrowings can now be utilised for other business purposes.

In addition, HSCB will utilise 49.36% of the HSH Sale Consideration or approximately RM380.66 million to meet the Group's working capital requirements in the following estimated proportions:

Details of utilisation	Amount (RM'000)
Property development costs Part finance its property development projects in Klang Valley	300,000
Purchase of inventories Including purchase of automobiles, fertilisers and building materials such as steel bars, wire mesh and cement	80,664
Total	**380,664**

The utilisation of proceeds to finance the day-to-day operations of the HSCB Group is expected to improve its financial flexibility in managing the operating cashflow of the HSCB Group. Based on our discussions with Management, the property development projects in Klang Valley are as follows:

	Project	Brief description	[1] Amount (RM'000)
(i)	Jalan Kia Peng Service Apartment	Located along Jalan Kia Peng facing Grand Hyatt Kuala Lumpur, this 44-storey service residence comprises 348 units and is within walking distance to Suria KLCC, Pavilion Kuala Lumpur and 2 upcoming Mass Rapid Transit ("**MRT**") stations	100,000
(ii)	Menara Hap Seng 3	A green office building which will comprise 20 storeys of office space, 5-storey of retail podiums, a 6-level basement car park and is designed with an integrated state-of-the-art Mercedes-Benz dealership. It will be built next to Menara Hap Seng and Menara Hap Seng 2	200,000
Total			**300,000**

*(**Source**: Annual Report 2017 of HSCB)*

***Note**:*
(1) The actual utilisation by the HSCB Group in each category may differ subject to its operating requirements at the time of the utilisation of the HSH Sale Consideration.

HSCB will utilise 18.15% of the HSH Sale Consideration or approximately RM140 million for investments purposes including but not limited to land bank acquisition and/or acquisition of commercial vehicles wholesale distribution business. The allocation of RM140 million for future investments purposes will contribute to the cash coffer of the HSCB Group for investment opportunity as and when it arises.

We wish to highlight that from the above amounts, up to RM440 million has been ear-marked for the property investment and development division of the HSCB Group (i.e. RM300 million to meet working capital requirements and RM140 million for investments purposes). The property investment and development division is one of the major revenue contributors to the Group (17.45%)[(1)]. Allocation of the HSH Sale Consideration for the property division is reasonable as the growth of the HSCB Group will be partly contributed by the said division and such allocation will ease the cashflow requirement of the Group to expand the business operation of the said division.

Note:

(1) Computed based on external revenue derived by the property investment and development division divided by the total consolidated revenue of HSCB for the FYE 31 December 2017.

HSCB's property investment and development division focuses on property investment and development in Sabah and the Klang Valley with investment properties mainly in the central business districts of Kuala Lumpur and Kota Kinabalu.

For the FYE 2017, the property investment and development division recorded a revenue of RM938.4 million (FYE 2016: RM1,041.8 million) where a number of property development projects were at their early stage of development. Nonetheless, the division's operating profit increased to RM520 million (FYE 2016: RM361.7 million) due to the disposal of certain non-strategic lands while focussing its latest property developments within Klang Valley. Within Klang Valley, 2 of the notable on-going property development projects are Aria Luxury Residences in Kuala Lumpur and Akasa Cheras South in Selangor. These 2 property development projects have attracted strong interest from home buyers and recorded good take-up rates.

In Sabah, the Group continues to expand its development activities by launching new phases in developments such as:

(i) Kingfisher Inanam, Kota Kinabalu;

(ii) 2nd Phase of Kingfisher in Putatan, Kota Kinabalu;

(iii) Bandar Sri Indah, Tawau;

(iv) Ria Heights, Tawau;

(v) Bandar Sri Perdana, Lahad Datu; and

(vi) Astana Heights, Sandakan.

Based on the Property Market Report First Half 2017, although market activities recorded negative growth, the rate of contraction had reduced indicating that the property market is gradually adjusting to the changing market landscape. To counter the challenges in the overall property market, the HSCB Group intends to focus on property development projects in strategic locations in the Klang Valley and Sabah, in particular, locations with enhanced accessibility via the MRT lines and the proposed Pan Borneo Expressway respectively. In the long term, the division intends to achieve a well-balanced portfolio of development properties and investment properties.

Based on the above, the property investment and development division is expected to remain positive despite challenges in the overall property market.

HSCB intends to utilise RM0.50 million of the proceeds from the Proposed HSH Disposal to defray estimated expenses relating to the Proposed HSH Disposal. The breakdown of the estimated expenses in relation to the Proposed HSH Disposal is set out below:

	RM'000
Estimated professional fees	450
Other fees (including regulatory fees) and expenses incurred in connection with the Proposed HSH Disposal such as printing and advertising expenses	36
Miscellaneous expenses and contingencies	14
Total	**500**

We note that the use of the proceeds from the Proposed HSH Disposal are primarily for the HSCB Group's day-to-day operations and to support the growth of the property investment and development division where its prospects remain positive with the number of projects in hand, and hence is reasonable.

6.2 THE PROPOSED HSCSB DISPOSAL

6.2.1 RATIONALE FOR THE PROPOSED HSCSB DISPOSAL

We note the rationale for the Proposed HSCSB Disposal as set out in Section 5.2 of Part A of the Circular as extracted below:

(i) The Proposed HSCSB Disposal is an opportunity for HSCB to bring in a strategic business partner with diversified business operations to enhance the expansion of HSCSB's credit financing business.

The Proposed HSCSB Disposal will allow the entry of a business partner with diversified business segments, i.e. LSH, which is the holding company of LSHCL.

HSCSB is principally involved in the provision of financial services in Malaysia including licensed money lending, hire purchase and equipment leasing. It primarily provides term loans and industrial hire purchase to small and medium enterprises.

LSH and its subsidiaries ("**LSH Group**") are principally involved in the trading of motor vehicles, trading of machineries, property, trading of commodity-based products and credit financing.

Based on the annual report of LSH for the FYE 31 December 2016, we note the following:

- LSH and its subsidiaries ("**LSH Group**") have total assets of Hong Kong Dollars ("**HKD**") 107.73 billion and NA of HKD43.97 billion as at 31 December 2016 (equivalent to RM62.32 billion and RM25.44 billion, respectively)[(1)];
- The LSH Group operates its credit financing businesses primarily in Hong Kong and Singapore. The loan portfolio size of its credit financing segment was HKD5.9 billion and HKD2.3 billion in Hong Kong and Singapore respectively as at 31 December 2016 (equivalent to RM3.4 billion and RM1.3 billion, respectively)[(1)].

Note:

(1) Based on the exchange rate of HKD100:RM57.8488 (which is the 5:00 p.m. middle exchange rate extracted from the website of Bank Negara Malaysia as at 30 December 2016).

As the credit financing business is a capital intensive business, the entry of a business partner with strong financial strength such as the LSH Group bodes well for HSCSB's future expansion. HSCSB's future business expansion may be supported by way of equity and/or shareholders' advance from HSCB and LSHCL, based on the proportion of their respective shareholdings in HSCSB. We note the HSCB Group's on-going effort to expand its credit financing business may be able to leverage on the business network of the LSH Group.

(ii) HSCB also intends to utilise the proceeds from the Proposed HSCSB Disposal for the purpose of increasing the funds available for HSCSB's expansion of its loan portfolio.

In addition, the HSCSB Sale Consideration will be utilised for loan disbursements of HSCSB's credit financing division, is expected to increase the available funds to expand HSCSB's loan portfolio by approximately 32% based on the audited financial statements of HSCSB for the FYE 31 December 2017 (excluding LSHCL's proportionate contribution).

The proceeds from the Proposed HSCSB Disposal will be utilised as follows:

(a) to fund the HSCB Group's working capital requirements for loan disbursements of HSCSB's credit financing division (99.94%); and

(b) to defray the expenses of the Proposed HSCSB Disposal (0.06%).

The Proposed HSCSB Disposal is also expected to increase the funds available for HSCSB's expansion by way of equity or shareholders advances that LSH will provide in proportionate to its 20% equity interest in HSCSB.

The proceeds from the Proposed HSCSB Disposal are primarily for the day-to-day operations of the credit financing division. Please refer to Section 6.2.4 of this Independent Advice Letter for our analysis on the utilisation of proceeds from the Proposed HSCSB Disposal.

Premised on the above, we are of the view that the rationale for the Proposed HSCSB Disposal is reasonable.

6.2.2 EVALUATION OF THE HSCSB SALE CONSIDERATION

The HSCSB Sale Consideration was arrived at on a "willing-buyer willing-seller" basis after taking into consideration the following:

(i) the audited NA of HSCSB for the FYE 31 December 2017 of RM1.51 billion;

(ii) the audited NA of HSCSB for the FYE 31 December 2016 of RM490.01 million;

(iii) the audited PAT of HSCSB for the FYE 31 December 2017 of RM68.97 million;

(iv) the audited PAT of HSCSB for the FYE 31 December 2016 of RM52.56 million; and

(v) the rationale for the Proposed HSCSB Disposal which is set out in Section 5.2 of Part A of the Circular.

The HSCSB Sale Consideration translates into an implied PBR of 3.00 times and PER of 65.68 times based on the audited financial statements of HSCSB as at 31 December 2017.

HSCSB is principally involved in the provision of financial services in Malaysia including licensed money lending, hire purchase and equipment leasing. It primarily provides term loans and industrial hire purchase to small and medium enterprises. Therefore, we have undertaken a comparative analysis of the HSCSB Sale Consideration with comparable companies selected based on criteria that an investor would regard as similar to HSCSB. Accordingly, the comparable companies were selected based on the following criteria:

(i) listed on Bursa Securities; and

(ii) at least 70% of its revenue is derived from the provision of financial services (but excluding financial institutions such as banks).

(Defined as the "**HSCSB Comparable Companies**".)

We wish to highlight that the HSCSB Comparable Companies tabulated below are by no means exhaustive and may differ from HSCSB in terms of, *inter alia*, size/market capitalisation, marketability and liquidity of shares, size of the operations, composition of business activities, existing or other businesses, asset base, financial performance, operating and financial leverage, accounting and taxation policies, risk profile and future prospects.

Further information on the HSCSB Comparable Companies is summarised as follows:

HSCSB Comparable Companies	**Market capitalisation as at the LTD[(1)] (RM'000)**	**Principal activities**
Aeon Credit Service (M) Berhad ("Aeon Credit")	3,398,784	Aeon Credit provides consumer financing products. Aeon Credit offers products such as easy payment, personal financing and credit cards.
RCE Capital Berhad ("RCE")	495,917	RCE is an investment holding company which provides management services. Through its subsidiaries, RCE invests in property, provides information technology, financial administrative, loan financing, broadcasting and advertising media services. RCE is also involved in general trading, licensing and merchandising activities.
ELK-Desa Resources Berhad ("ELK-Desa")	342,705	ELK-Desa is an investment holding company. ELK-Desa provides hire-purchase financing services for used motor vehicles in Malaysia.

*(**Source**: Bloomberg, website of Bursa Securities and the latest annual reports of the HSCSB Comparable Companies available as at the LTD.)*

Note:

(1) Based on the last price multiplied by the number of shares outstanding (i.e. excluding treasury shares) of the respective companies as at the LTD.

We are of the view that the PBR is an appropriate valuation metric to evaluate the HSCSB Sale Consideration as the HSCSB Group is principally involved in the provision of financial services which is capital intensive in nature. PBR is a method used to compare the company's market value to its historical book value.

The HSCSB Sale Consideration translates into an implied PBR of approximately 3.00 times as set out below:

	Workings	**RM'000**
HSCSB Sale Consideration (for 20% equity interest in HSCSB)	(A)	906,000
Implied equity value for a 100% equity interest in HSCSB	B = (A)/20%	4,530,000
Audited NA of HSCSB as at 31 December 2017	(C)	1,510,525
PBR (times)	**(B)/(C)**	**3.00**

The computation of the PBR of the HSCSB Comparable Companies is as set out below:

HSCSB Comparable Companies	Last price as at LTD (RM)	Audited	
		NA per share (RM)	PBR (times)
Aeon Credit	13.68	3.84	3.56
RCE	1.45	1.29	1.12
ELK-Desa	1.20	1.17	1.03
		Simple average	1.90
		Median	1.12
		Minimum	1.03
		Maximum	3.56

*(**Source**: Bloomberg, the website of Bursa Securities and the latest audited consolidated financial statements of the HSCSB Comparable Companies available as at the LTD.)*

We are of the view that the HSCSB Sale Consideration is fair as the implied PBR based on the audited NA of HSCSB as at 31 December 2017 of 3.00 times is above the average PBR of the HSCSB Comparable Companies of 1.90 times and taking into account the following:

- **despite HSCSB being an unlisted entity, the implied PBR of the HSCSB Sale Consideration is higher than the HSCSB Comparable Companies. Generally, unlisted companies tend to command a lower PBR vis-à-vis its comparable companies which are listed entities due to factors such as illiquidity and lack of marketability of the securities; and**

- **LSHCL will not gain control of HSCSB as LSHCL's equity participation is only 20% upon completion of the Proposed HSCSB Disposal.**

6.2.3 SALIENT TERMS OF THE HSCSB SSA

We wish to highlight the following salient terms of the HSCSB SSA as follows:

	Salient terms of the HSCSB SSA	Affin Hwang IB's comments
HSCSB Sale Consideration and manner of payment		
(1)	The HSCSB Sale Consideration for the HSCSB Sale Shares is RM906.00 million and is payable by LSHCL to HSCB in the following manner: (i) the HSCSB Deposit within 7 days from the date of execution of the HSCSB SSA; and (ii) the HSCSB Balance Sum on or before HSCSB Completion Date either in whole or in various batches to the account designated by HSCB in writing. The HSCSB Deposit was paid by LSHCL to HSCB on 2 March 2018.	The payment of deposit within 7 days is reasonable to facilitate the conversion of currency from HKD (LSHCL's country of domicile is Hong Kong) to RM. It is noted that the HSCSB Balance Sum may be settled by LSHCL on or before the HSCSB Completion Date.

Salient terms of the HSCSB SSA		Affin Hwang IB's comments
HSCSB Conditions Precedent		
(2)	The Proposed HSCSB Disposal is conditional upon the following HSCSB Conditions Precedent being obtained on or before the HSCSB Cut-off Date: (i) approval to be obtained from the shareholders of HSCB; and (ii) all such approvals and consents as may be required from any other parties, governmental authorities and the relevant regulatory authorities (if applicable).	The HSCSB Cut-off Date, being a 6-month period to fulfil the Conditions Precedent, has been agreed upon by the parties after taking into consideration the relevant approvals required for the Proposed HSCSB Disposal. We note that the only outstanding HSCSB Conditions Precedent as at the date of this Independent Advice Letter is the approval from the shareholders of HSCB to give effect to the Proposed HSCSB Disposal.
HSCSB Completion		
(3)	The completion of the HSCSB SSA shall take place on the HSCSB Completion Date where: (i) HSCB shall deliver the instrument of transfer of the HSCSB Sale Shares in favour of LSHCL and the relevant share certificates, and such other documents as may be requested by LSHCL for the purpose of assessing stamp duty on the transfer of the HSCSB Sale Shares; and (ii) HSCB shall ensure the passing of the requisite resolutions of the board of directors of HSCSB: (a) approving the registration of the share transfers referred to in Section 6.2.3(3)(i) above subject only to it being duly stamped; (b) appointing such persons as LSHCL may nominate as directors; and (c) handing over to LSHCL copies of such resolutions, duly certified as true copies of the originals by the secretary of HSCSB.	The HSCSB SSA is to be completed no later than 30 days from the date on which all the HSCSB Conditions Precedent are satisfied, which is a reasonable timeline. This clause sets out the respective roles of HSCB and LSHCL on the HSCSB Completion Date to give effect to the Proposed HSCSB Disposal. The delivery of the required documents by HSCB is necessary to facilitate the timely registration for the transfers of the HSCSB Sale Shares to effect the transfer of ownership after the payment of the HSCSB Balance Sum.
HSCSB Termination		
(4)	(i) HSCB's default If, prior to the HSCSB Completion, HSCB is in default or breaches any of the terms and conditions applicable to it under the HSCSB SSA, LSHCL shall be entitled to give notice in writing to HSCB specifying such default or breach within 14 days from the date of such notice. If HSCB fails, neglects or refuses to remedy or make good such default or breach within the said period, LSHCL shall be entitled to: (a) pursue an action for specific performance of the HSCSB SSA; or	The remedies to each party are parallel. The termination clauses protect the interest of each party. This term allows HSCB to rectify any breach under the HSCSB SSA within 14 days upon receiving a notice from LSHCL of such default or breach.

Salient terms of the HSCSB SSA	Affin Hwang IB's comments
(b) elect to terminate the HSCSB SSA in which event, HSCB shall within 7 days from the date of termination: (1) refund to LSHCL, the HSCSB Deposit and all monies received free of interest; and (2) pay a sum amounting to 10% of the HSCSB Sale Consideration to LSHCL as agreed liquidated damages failing which HSCSB shall pay LSHCL interest at the rate of 8% per annum calculated on daily basis on the amount outstanding from the expiry of the aforementioned period to the receipt of the aforementioned sum by LSHCL.	If HSCB fails to remedy such default or breach, the HSCSB Deposit paid will be refunded to LSHCL and all monies received free of interest and the HSCSB SSA shall be terminated. In addition, HSCB will be required to pay 10% of the HSCSB Sale Consideration to LSHCL as agreed liquidated damages. LSHCL is also subject to a similar reciprocal clause, i.e. in the event of LSHCL's default or breach, HSCB can terminate the HSCSB SSA and HSCB shall forfeit the HSCSB Deposit as agreed liquidated damages which is in line with the commercial terms of other acquisition or disposal transactions. Interest of 8% per annum is imposed on any late payment is to protect the interests of each party. The prescribed rate of 8% per annum is in line with common commercial terms of other acquisition and disposal transactions.
(ii) LSHCL's default If prior to HSCSB Completion, LSHCL is in default of or breaches any of the terms and conditions applicable to it under the HSCSB SSA, HSCB shall be entitled to give notice to LSHCL specifying such default or breach and requiring LSHCL to remedy or make good such default or breach within 14 days from the date of such notice. If LSHCL fails, neglects or refuses to remedy or make good such default or breach within 14 days' period, HSCB shall be entitled to: (a) pursue an action for specific performance of the HSCSB SSA: or (b) elect to terminate the HSCSB SSA in which event the HSCSB Deposit shall be forfeited to HSCB absolutely as agreed liquidated damages and HSCB shall refund all monies received (other than the HSCSB Deposit) to LSHCL free of interest.	We are of the view that this term is reasonable as HSCB is also subject to similar reciprocal clauses, as set out in Section 6.2.3(4)(i) of this Independent Advice Letter. Upon termination of the HSCSB SSA, the Deposit shall be forfeited by HSCB as HSCSB agreed liquidated damages which is in line with the commercial terms of other acquisition or disposal transactions.

Based on the salient terms of the HSCSB SSA and our comments as set out above, we are of the view that the salient terms of the HSCSB SSA are reasonable.

6.2.4 UTILISATION OF PROCEEDS FROM THE PROPOSED HSCSB DISPOSAL

We note from Section 3.10 of Part A of the Circular, HSCB intends to utilise the HSCSB Sale Consideration for the operations of the Group and to defray estimated expenses relating to the Proposed HSCSB Disposal in the following manner:

Purpose of utilisation	Estimated timeframe for utilisation from the HSCSB Completion Date	Amount (RM'000)	%
Working capital requirements	within 24 months	905,500	99.94
Estimated expenses	within 3 months	500	0.06
	Total	**906,000**	**100**

HSCB intends to utilise RM905.50 million or approximately 99.94% of the HSCSB Sale Consideration for loan disbursements of HSCSB's credit financing division.

The credit financing division is one of the major contributors to the Group and contributed 15.22% to the Group's operating profit (before inter-segment eliminations) based on the audited consolidated financial statements of HSCB for the FYE 31 December 2017.

As at FYE 31 December 2017, the loan book of HSCSB amounts to RM2.84 billion with only RM20.25 million in cash and cash equivalents available for deployment. The HSCSB Sale Consideration which will be utilised for loan disbursements of HSCSB's credit financing division is expected to increase the available fund to expand HSCSB's loan portfolio by approximately 32% based on the audited financial statements of HSCSB for the FYE 31 December 2017 (excluding LSHCL's proportionate contribution). Accordingly, the proceeds from the Proposed HSCSB Disposal will enable the Group to grow its credit financing business and foster expansion.

The loan disbursements are expected to be made to the real estate, manufacturing, transportation, construction and general commerce sectors in the following estimated proportion:

Sectors	RM'000	%
Real estate	350,000	38.65
Manufacturing	170,000	18.77
Transportation	170,000	18.77
Construction	120,000	13.25
General commerce	95,500	10.56
Total	**905,500**	**100**

Nevertheless, the above quantum and percentage of the breakdown represents an estimation only and the actual utilisation by the HSCB Group in each category may differ subject to its operating requirements at the time of the utilisation of the HSCSB Sale Consideration.

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We also note that the historical growth of the loan book of HSCSB is positive with a compounded annual growth rate ("**CAGR**") of 14.10% per annum from 2013 to 2017. The historical loan book and year-on-year growth rate is as set out below:

FYE	Loan book (RM' 000)	Year-on-year growth rate (%)
2013	1,672,967	-
2014	1,785,213	6.71
2015	1,993,596	11.67
2016	2,208,855	10.80
2017	2,835,025	28.35
CAGR (%)		**14.10**

*(**Source**: Audited financial statements of HSCSB for the respective financial years)*

In general, the market demand for funding remains robust and the banking industry continues to be selective in granting loans. The Management is of the view that this provides an opportunity for HSCSB to market term loans as an alternative source of funding for businesses that require general working capital. They also expect HSCSB to benefit from public infrastructure development projects, which would result in the expansion of its construction loan portfolio. HSCSB is also expected to continue to leverage on the synergistic collaboration with the other core business divisions of the Group.

As stated in Section 6.2.1 of this Independent Advice Letter, LSH, the holding company of LSHCL, has diversified business operations. One of the LSH Group's core businesses is financial services. Based on the annual report of LSH for the FYE 31 December 2016, LSH Group has total assets of HKD107.73 billion and NA of HKD43.97 billion as at 31 December 2016 (equivalent to RM62.32 billion and RM25.44 billion, respectively)[(1)]. Given the financial strength of the LSH Group, HSCSB future expansion may be supported HSCB and LSHCL by way of equity and/or shareholders' advance from HSCB and LSHCL, based on the proportion of their respective shareholdings in HSCSB.

Note:
(1) *Based on the exchange rate of HKD100:RM57.8488 (which is the 5:00 p.m. middle exchange rate extracted from the website of Bank Negara Malaysia as at 30 December 2016).*

We also wish to highlight that based on BNM's Annual Report 2017, the amount of loan disbursements increased (2017: RM750.0 billion; 2016: RM706.2 billion) in tandem with the growth in domestic demand of the economy. The increase in loan disbursements was distributed across various sectors, particularly to the manufacturing, construction, wholesale and retail trade, restaurants and hotels, and primary agriculture sectors. Accordingly and based on the above, the credit financing division of the HSCB Group is expected to remain positive.

HSCB also intends to utilise RM0.50 million of the proceeds from the Proposed HSCSB Disposal to pay the estimated expenses relating to the Proposed HSCSB Disposal. The breakdown of the estimated expenses in relation to the Proposed HSCSB Disposal is set out below:

	RM'000
Estimated professional fees	450
Other fees (including regulatory fees) and expenses incurred in connection with the Proposed HSCSB Disposal such as printing and advertising expenses	36
Miscellaneous expenses and contingencies	14
Total	**500**

Based on the above, the utilisation of proceeds for the Proposed HSCSB Disposal is reasonable.

6.3 RISK FACTORS IN RELATION TO THE PROPOSALS

We have taken note of the risk factors associated with the Proposals as set out in Section 6 of Part A of the Circular:

(i) Non-completion of the Proposals

There is no assurance that all of the HSH Conditions Precedent and HSCSB Conditions Precedent will be fulfilled within the timeframe as set out in their respective share sale agreements. If any 1 or more of the HSH Conditions Precedent and/or HSCSB Conditions Precedent is/are not fulfilled by either HSCI, HSCB or LSHCL, the Proposals might be delayed or terminated.

The management of HSCB will use its best endeavours to ensure the completion of the Proposals and will take all reasonable steps to ensure that the conditions precedents to the HSH SSA and HSCSB SSA are fulfilled in a timely manner, to avoid delays or termination and to facilitate the completion of the Proposals.

As at the date of this Independent Advice Letter, we note that the only outstanding HSH Conditions Precedent and HSCSB Conditions Precedent is the approval of the shareholders of HSCB for the Proposals where HSCB will take all reasonable steps to ensure it is satisfied; failing which, the Proposed HSH Disposal and/or Proposed HSCSB Disposal will be terminated and/or HSCI/HSCB shall refund the HSH Deposit and HSCSB Deposit to LSHCL.

(ii) Loss of income from HSH

HSCB intends to utilise the HSH Sale Consideration in the manner set out in Section 2.10 of Part A of the Circular. There is no assurance that the manner in which HSCB proposes to utilise the HSH Sale Consideration will be able to generate a better return than if HSCB continues to grow the financial services business of HSH.

Upon completion of the Proposed HSH Disposal, HSH will cease to be a subsidiary of HSCB. Accordingly, HSH's result will not be consolidated into the financial performance of HSCB.

While there is no assurance that the utilisation of the HSH Sale Consideration will generate a better return than if HSCB continues to grow the business of HSH, we note that HSH is a relatively new company and was only incorporated on 18 August 2017. Its subsidiary, HCS, only started operations on 4 April 2017[(1)] and recorded a PAT of AUD0.95 million for the FYE 31 December 2017. On the other hand, the Proposed HSH Disposal represents an opportunity for HSCB to realise a proforma gain on disposal of RM506.34 million (net of estimated expenses of RM0.50 million) immediately.

Note:

(1) On 24 November 2017, HSCB announced the re-organisation of HSCB's group structure where HSCB transferred 80,000,000 ordinary shares representing the entire issued share capital of Hap Seng Credit (Australia) Pty Ltd (now known as HCS) to HSH.

(iii) Foreign exchange risk

For the Proposed HSH Disposal, there is a risk of the exchange rate changing between the date of the HSH SSA and the HSH Completion Date.

If the USD/RM exchange rate fluctuates from the date of the HSH SSA up to the HSH Completion Date, the intended utilisation of proceeds as set out in Section 2.10 of Part A of the Circular as well as the computed proforma gain on disposal of RM506.84 million in relation to the Proposed HSH Disposal as set out in Section 7.4 of Part A of the Circular may differ. Any depreciation of USD against the RM will reduce the total proceeds from the Proposed HSH Disposal in RM.

The foreign exchange risk for the Proposed HSH Disposal involves the risk of an exchange rate changing between the transaction date (i.e the date of the HSH SSA) up to the subsequent settlement date (i.e. the HSH Completion Date).

We note that the intended utilisation of proceeds (Section 2.10 of Part A of the Circular) as well as the computed proforma gain on disposal of RM506.84 million in relation to the Proposed HSH Disposal (Section 7.4 of Part A of the Circular) may differ should the USD/RM exchange rate fluctuate from the date of the HSH SSA up to the HSH Completion Date. Accordingly, any depreciation of USD against the RM will reduce the total proceeds from the Proposed HSH Disposal in RM.

(iv) Loss of income from HSCSB

Upon completion of the Proposed HSCSB Disposal, HSCSB will become a 80%-owned subsidiary of HSCB. As a result, 20% of the future PAT of HSCSB will need to be attributed to LSHCL as the new owner of the 20% equity interest in HSCSB.

However, HSCB is expected to realise the benefits of the Proposed HSCSB Disposal via the utilisation of the HSCSB Sale Consideration in the manner set out in Section 3.10 of Part A of the Circular. Nonetheless, there is no assurance that the manner in which HSCB proposes to utilise the HSCSB Sale Consideration will be able to generate a better return than if HSCB continues to grow the financial services business of HSCSB without its new strategic business partner, LSHCL.

Whilst 20% of the future PAT of HSCSB will need to be attributed to LSHCL as the new owner of the 20% equity interest in HSCSB, HSCB is expected to realise the benefits of the Proposed HSCSB Disposal via the utilisation of the HSCSB Sale Consideration. We note that there is no assurance that the manner in which HSCB proposes to utilise the HSCSB Sale Consideration will be able to generate a better return than if HSCB continues to grow the financial services business of HSCSB without its new strategic business partner, LSHCL.

We wish to highlight that although the HSCB Group will make the necessary efforts to mitigate the risks identified, no assurance can be given that the risks above will not occur.

Based on the above, we are of the view that the risk factors in relation to the Proposals are not detrimental to the Non-Interested Shareholders.

6.4 EFFECTS OF THE PROPOSALS

In evaluating the Proposals, we have taken note of the effects of the Proposals as set out Section 7 of Part A of the Circular.

(i) Share capital and substantial shareholders' shareholdings

The Proposals will not have any effect on the issued share capital and substantial shareholders' shareholdings of HSCB as the HSH Sale Consideration and HSCSB Sale Consideration will be satisfied fully in cash.

(ii) NA, NA per HSCB Share and gearing

Proposed HSH Disposal

Based on the latest audited consolidated statements of financial position of HSCB as at 31 December 2017, the proforma effects of the Proposed HSH Disposal on the NA, NA per HSCB Share and gearing are as set out below:

(a) Proforma NA is expected to increase by approximately RM514.74 million;

(b) Proforma NA per HSCB Share is expected to increase by approximately RM0.20;

(c) Proforma gearing is expected to decrease by approximately 0.11 times; and

(d) Proforma net gearing is expected to decrease by approximately 0.16 times.

The proforma effects above arises mainly from the proforma gain from the Proposed HSH Disposal of approximately RM506.34 million (net of estimated expenses of RM0.50 million).

Proposed HSCSB Disposal

Based on the latest audited consolidated statements of financial position of HSCB as at 31 December 2017, the proforma effects of the Proposed HSCSB Disposal after the Proposed HSH Disposal on the NA, NA per HSCB Share and gearing are as set out below:

(1) Proforma NA is expected to increase by approximately RM603.40 million;

(2) Proforma NA per HSCB Share is expected to increase by approximately RM0.24;

(3) Proforma gearing is expected to decrease by approximately 0.06 times; and

(4) Proforma net gearing is expected to decrease by approximately 0.17 times.

The proforma effects above arises mainly from the increase in equity of the HSCB Group in accordance with MFRS 10 of approximately RM603.14 million (net of estimated expenses of RM0.50 million).

(iii) Earnings and EPS

Earnings and EPS are expected to increase from RM1.10 billion (EPS of 44.34 sen) to RM1.60 billion (EPS of 64.10 sen) after the completion of the Proposals.

The increase in earning and EPS is largely due to the proforma gain from the Proposed HSH Disposal of approximately RM506.84 million. The EPS of the HSCB Group is expected to increase by 20.35 sen based on the weighted average number of HSCB Shares in issue of 2,489,679,000 for the FYE 31 December 2017.

On the other hand, the financial effects of the Proposed HSCSB Disposal will be recognised directly in the equity of HSCB Group instead of a gain in the Statement of Comprehensive Income of HSCB in accordance with MFRS 10, and would not have an impact to the earnings and EPS of the HSCB Group.

Upon completion of the Proposals, HSH and HCS will cease to be direct/indirect subsidiaries of HSCB. Therefore, the financial results of HSH and HCS will no longer be consolidated with the financial results of HSCB. In addition, 20% of the future PAT of HSCSB will also need to be attributed to LSHCL as the new owner of the 20% equity interest in HSCSB. In the Statement of Profit or Loss of HSCB, this will be reflected in the "profit attributable to non-controlling interests" line item. Based on Section 7.4 of Part A of the Circular, the reduction in PATNCI due to the recognition of LSHCL's share of HSCSB's PAT for the FYE 31 December 2017 is approximately RM13.79 million. This amount is relatively immaterial vis-à-vis the PATNCI of the HSCB Group for the FYE 31 December 2017 of RM1.10 billion.

Based on the above, we are of the view that the effects of the Proposals are not to the detriment of the Non-Interested Shareholders.

7 CONCLUSION AND RECOMMENDATION

We have assessed and evaluated the terms of the Proposals and have set out our evaluation in Section 6 of this Independent Advice Letter, as summarised in the table below. Non-Interested Shareholders should consider the merits and demerits of the Proposals carefully based on all relevant and pertinent factors including those set out below and other considerations as set out in this Independent Advice Letter, Part A of the Circular together with the appendices and other publicly available information prior to making a decision to vote on the resolutions pertaining to the Proposals.

Section in this Independent Advice Letter	Section of evaluation	Comments
6.1.1 and 6.2.2	Rationale for the Proposals	The Proposed HSH Disposal: (i) Is an opportunity for the Group to divest their credit business at an attractive valuation of 3.11 times of the PBR (based on proforma unaudited consolidated financial statements of HSH as at 31 December 2017); (ii) Provides cash for the repayment of borrowings; and (iii) Provides cash for the working capital requirements of the HSCB Group. The Proposed HSCSB Disposal: (i) Allows the entry of a business partner with diversified business segments within the region; (ii) Allows HSCB to increase the funds available for loan disbursement from the disposal proceeds. We are of the view that the rationale for the Proposals are reasonable.
6.1.2 and 6.2.2	Evaluation of the HSH Sale Consideration and HSCSB Sale Consideration	(i) The HSH Sale Consideration is fair as it represents an implied PBR which is above the average PBR of the HSH Comparable Companies. (ii) The HSCSB Sale Consideration is fair as it represents an implied PBR which is above the average PBR of the HSCSB Comparable Companies.
6.1.3 and 6.2.3	Salient terms of the HSH SSA and HSCSB SSA	After evaluating the salient terms of the HSH SSA and HSCSB SSA as set out in Section 6.1.3 and Section 6.2.3 of this Independent Advice Letter, we note that the terms of the HSH SSA and HSCSB SSA are reasonable.
6.1.4 and 6.2.4	Utilisation of proceeds from the Proposals	The HSH Sale Consideration is expected to be utilised for repayment of borrowings, working capital requirements, investment purposes and to defray the estimated expenses for the Proposed HSH Disposal. The HSCSB Sale Consideration is expected to be utilised for working capital requirements for loan disbursements of HSCSB's credit financing division and to defray the estimated expenses for the Proposed HSCSB Disposal.

Section in this Independent Advice Letter	Section of evaluation	Comments
		The utilisation of proceeds to finance the day-to-day operations of the HSCB Group is expected to improve its financial flexibility and operating cashflow of the HSCB Group.
6.3	Risk factors in relation to the Proposals	Although the Management will make the necessary efforts to mitigate the risks identified, no assurance can be given that the risks identified will not occur. We are of the view that the risk factors in relation to the Proposals are not detrimental to the Non-Interested Shareholders.
6.4	Effects of the Proposals	**<u>Share capital and substantial shareholders' shareholdings</u>** No effect. **<u>NA, NA per HSCB Share and gearing</u>** **Proposed HSH Disposal:** (i) Proforma NA is expected to increase by approximately RM514.74 million; (ii) Proforma NA per HSCB Share is expected to increase by approximately RM0.20; (iii) Proforma gearing is expected to decrease by approximately 0.11 times; and (iv) Proforma net gearing is expected to decrease by approximately 0.16 times. **Proposed HSCSB Disposal:** (i) Proforma NA is expected to increase by approximately RM603.40 million; (ii) Proforma NA per HSCB Share is expected to increase by approximately RM0.24; (iii) Proforma gearing is expected to decrease by approximately 0.06 times; (iv) Proforma net gearing is expected to decrease by approximately 0.17 times.

Section in this Independent Advice Letter	Section of evaluation	Comments
		Earnings and EPS Earnings and EPS are expected to increase from RM1.10 billion (EPS of 44.34 sen) to RM1.60 billion (EPS of 64.10 sen) after the completion of the Proposals. The increase in earnings and EPS is largely due to the proforma gain from the Proposed HSH Disposal of approximately RM506.34 million (net of estimated expenses of RM0.50 million). On the other hand, the financial effects of the Proposed HSCSB Disposal will be recognised directly in the equity of HSCB Group instead of a gain in the Statement of Comprehensive Income of HSCB Group in accordance with MFRS 10, and would not have an impact to the earnings and EPS of the HSCB Group.

After taking into consideration our overall assessment and evaluation of the Proposals based on the information available to us up to the LPD, we are of the view that the Proposals are **FAIR AND REASONABLE** and are **NOT DETRIMENTAL** to the Non-Interested Shareholders of HSCB.

Accordingly, we recommend that you **VOTE IN FAVOUR** of the resolutions pertaining to the Proposals to be tabled at the forthcoming EGM.

Yours faithfully
for and on behalf of
AFFIN HWANG INVESTMENT BANK BERHAD

JOHAN HASHIM
Head
Corporate Finance

STELLA CHOY
Director
Corporate Finance

1. DATE AND PLACE OF INCORPORATION

HSH was incorporated in the Federal Territory of Labuan, Malaysia on 18 August 2017 under the Labuan Companies Act 1990.

HSH is a wholly-owned subsidiary of HSCI, a wholly-owned subsidiary of HSCB.

2. ISSUED SHARE CAPITAL

As at LPD, the issued share capital of HSH is USD60,495,001 comprising 60,495,001 HSH Shares.

3. SUBSIDIARY

As at LPD, HSH has a wholly-owned subsidiary, HCS. HCS was incorporated on 6 November 2015. Previously, HCS was a wholly-owned subsidiary of HSCSB. On 1 June 2016, HCS was transferred to HSCB and HCS became a wholly-owned subsidiary of HSCB. On 24 November 2017, HCS was transferred to HSH from HSCB.

4. GENERAL NATURE OF BUSINESS CONDUCTED BY HSH AND ITS SUBSIDIARY

HSH is principally an investment holding company, while HCS being its sole subsidiary, is principally involved in the provision of financial services predominantly in New South Wales providing loans to corporates in the property sector. HCS started its operation on 4 April 2017. The details of HCS are set out in Appendix II of this Circular. Apart from its investment in HCS, HSH does not have any significant assets.

5. DETAILS OF MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES

As at the LPD, the directors of HSH are not aware of any material commitments and contingent liabilities incurred or known to be incurred which, upon becoming enforceable, may have an impact on the profits or NA of HSH.

6. DIRECTORS

As at the LPD, the directors of HSH are as follows and none of them hold any HSH Shares:

Name	Designation	Nationality
Datuk Edward Lee Ming Foo	Director	Malaysian
Ms. Cheah Yee Leng	Director	Malaysian

7. SUBSTANTIAL SHAREHOLDERS

As at the LPD, the substantial shareholders of HSH and their respective shareholdings in HSH are as follows:

Name	Country of Incorporation/ Nationality	Direct No. of HSH shares	Direct %	Indirect No. of HSH shares	Indirect %
HSCI	Malaysia	60,405,001	100	-	-
HSCB	Malaysia	-	-	60,405,001[(1)]	100
Gek Poh	Malaysia	-	-	60,405,001[(2)]	100
Tan Sri Lau	Malaysian	-	-	60,405,001[(3)]	100
Magic Principle	Cayman Islands	-	-	60,405,001[(4)]	100

Notes:

(1) Deemed interested by virtue of its shareholdings in HSCI pursuant to Section 8 of the Act.

(2) Deemed interested by virtue of its shareholdings in HSCB pursuant to Section 8 of the Act.

(3) Deemed interested by virtue of his shareholdings in HSCB, held via Gek Poh pursuant to Section 8 of the Act.

(4) Deemed interested by virtue of its shareholdings in HSCB, held via Gek Poh pursuant to Section 8 of the Act.

8. SUMMARY OF FINANCIAL INFORMATION

8.1 Set out below are the selected financial information of HSH based on the audited financial statements of HSH for the FYE 31 December 2017.

	Audited 31 December 2017 USD
Revenue	-
Other income – Interest income	-
Loss before tax	(2,787)
Loss after tax	(2,787)
Paid-up capital	60,495,001
Shareholders' funds / NA	60,492,214
Number of shares in issue	60,495,001
Weighted average number of shares in issue	17,347,832
Borrowings	-
Loss before tax per share (cent)[(1)]	(0.02)
Loss after tax per share (cent)[(2)]	(0.02)
NA per share (USD) [(3)]	1.00
Gearing (times)	Not applicable ("**N/A**")
Current ratio [(4)]	9.72

Notes:

(1) Computed based on Loss before tax over the weighted average number of shares in issue.

(2) Computed based on Loss after tax over the weighted average number shares in issue.

(3) Computed based on shareholders' funds / NA over number of shares in issue.

(4) Computed based on current assets over current liabilities.

8.2 Accounting Policies and audit qualification

There were no peculiar accounting policies adopted by HSH. Accounting policies adopted by HSH are consistent with the HSCB Group.

There have been no audit qualifications reported in the audited financial statements of HSH for the FYE 31 December 2017.

9. MATERIAL CONTRACTS

HSH has not entered into any material contract (not being contracts entered into in the ordinary course of its business) since its incorporation.

10. MATERIAL LITIGATION

As at the LPD, HSH is not involved in any material litigation, claims or arbitration, either as plaintiff or defendant, which has or would have a material and adverse effect on the financial position or business of HSH and, to the best of the knowledge and belief of the management of HSH, they are not aware of any proceeding pending or threatened or of any fact likely to give rise to any proceeding which might materially and adversely affect the financial position or business of HSH.

(The rest of this page is intentionally left blank)

1. DATE AND PLACE OF INCORPORATION

HCS was incorporated in Australia under the name of Hap Seng Credit (Australia) Pty Ltd on 6 November 2015 under the Corporations Act 2001 of Australia as a private company limited by shares. On 4 December 2017, HCS changed its name to its current name.

HCS is a wholly-owned subsidiary of HSH.

2. ISSUED SHARE CAPITAL

As at LPD, the issued share capital of HCS is AUD80,000,000 comprising 80,000,000 HCS Shares.

3. SUBSIDIARY

As at LPD, HCS has no subsidiary.

4. BRIEF HISTORY OF HCS SINCE THE DATE OF INCORPORATION AND THE GENERAL NATURE OF BUSINESS CONDUCTED BY HCS

HCS is principally involved in the provision of financial services predominantly in New South Wales providing loans to corporates in the property sector. HCS started its operation on 4 April 2017. Prior to that, HCS was a dormant company.

Based on the audited financial statements of HCS for the FYE 31 December 2017, HCS does not own any significant assets other than loan receivables amounting to AUD47.70 million (translated to RM151.10 million) and cash of AUD41.93 million (translated to RM132.80 million). The business operations of HCS have been funded by HSCB by way of equity and shareholder's advances.

5. DETAILS OF MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES

As at the LPD, the directors of HCS are not aware of any material commitments and contingent liabilities incurred or known to be incurred which, upon becoming enforceable, may have an impact on the profits or NA of HCS.

6. DIRECTORS

As at LPD, the directors of HCS are as follows and none of them hold any HCS Shares:

Name	Designation	Nationality
Mr. Paul Gregory Betar	Director	Australian
Mr. Nicholas Rodney Quince	Director	Australian
Ms. Cheah Yee Leng	Director	Malaysian
Mr. Thai Chong Yim	Director	Malaysian

7. SUBSTANTIAL SHAREHOLDERS

As at the LPD, the substantial shareholders of HCS and their respective shareholdings in HSH are as follows:

		Direct		Indirect	
Name	**Country of Incorporation/ Nationality**	**No. of HCS shares**	**%**	**No. of HCS shares**	**%**
HSH	Malaysia	80,000,000	100	-	-
HSCI	Malaysia	-	-	80,000,000[(1)]	100
HSCB	Malaysia	-	-	80,000,000[(2)]	100
Gek Poh	Malaysia	-	-	80,000,000[(3)]	100
Tan Sri Lau	Malaysian	-	-	80,000,000[(4)]	100
Magic Principle	Cayman Islands	-	-	80,000,000[(5)]	100

Notes:

(1) Deemed interested by virtue of its shareholdings in HSH pursuant to Section 8 of the Act.

(2) Deemed interested by virtue of its shareholdings in HSCI pursuant to Section 8 of the Act.

(3) Deemed interested by virtue of its shareholdings in HSCB pursuant to Section 8 of the Act.

(4) Deemed interested by virtue of his shareholdings in HSCB, held via Gek Poh pursuant to Section 8 of the Act.

(5) Deemed interested by virtue of its shareholdings in HSCB, held via Gek Poh pursuant to Section 8 of the Act.

8. SUMMARY OF FINANCIAL DATA

8.1 Set out below are the selected financial information of HCS based on the unaudited financial statements of HCS from the inception date of 6 November 2015 for the FYE 31 December 2016 and the audited financial statements for the FYE 31 December 2017.

	Unaudited[1] 31 December 2016	Audited 31 December 2017
	AUD' 000	AUD' 000
Interest income	-	2,195
Other income	28	1,098
Profit before tax	(165)	1,387
PAT	(165)	947
Paid-up capital	25,000	80,000
Shareholders' funds / NA	24,835	80,782
Number of shares in issue ('000)	25,000	80,000
Weighted average number of shares in issue ('000)	2,070	78,644
Borrowings	-	-
Gross EPS / (Loss before tax per share) (cent)[2]	(7.97)	1.76
EPS / (Loss per share) (cent)[3]	(7.97)	1.20
NA per share (AUD)[4]	0.99	1.01
Gearing (times)	N/A	N/A
Current ratio[5]	460.07	3.00

Notes:

(1) Based on the Australian Securities & Investment Commission Regulatory Guide 58.34, HCS does not fall within the requirement to have its financial statements for the FYE 31 December 2016 to be audited.

(2) Computed based on Profit / (Loss) before tax over the weighted average number of shares in issue.

(3) Computed based on PAT over the weighted average number of shares in issue.

(4) Computed based on shareholders' funds / NA over number of shares in issue.

(5) Computed based on current assets and current liabilities.

8.2 Commentaries on the financial performance for FYE 31 December 2017

The interest income of HCS for the FYE 31 December 2017 was from its operations as a financial services company with effect from April 2017. Prior to that HCS was a dormant company. The other income for the FYE 31 December 2016 was earned from the capital injection into HCS during the year.

8.3 Accounting Policies and audit qualification

There were no peculiar accounting policies adopted by HCS. Accounting policies adopted by HCS are consistent with the HSCB Group.

There have been no audit qualifications reported in the audited financial statements of HCS for the FYE 31 December 2017.

9. MATERIAL CONTRACTS

HCS has not entered into any material contract (not being contracts entered into in the ordinary course of its business within the past two (2) years immediately preceding the date of this Circular.

10. MATERIAL LITIGATION

As at the LPD, HCS is not involved in any material litigation, claims or arbitration, either as plaintiff or defendant, which has or would have a material and adverse effect on the financial position or business of HCS and, to the best of the knowledge and belief of the management of HCS, they are not aware of any proceeding pending or threatened or of any fact likely to give rise to any proceeding which might materially and adversely affect the financial position or business of HCS.

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1. DATE AND PLACE OF INCORPORATION

HSCSB was incorporated in Malaysia under the name of Ski Leasing Sdn Bhd on 13 August 1982 under the Companies Act 1965 and is deemed registered under the Act. On 26 August 1997, HSCSB changed its name to MMB Credit Corporation Sdn Bhd and assumed its present name on 18 September 2003. HSCSB is principally involved in the provision of financial services. HSCSB is a wholly-owned subsidiary of HSCB.

2. ISSUED SHARE CAPITAL

As at LPD, the issued share capital of HSCSB is RM1,330,000,000 comprising 1,330,000,000 HSCSB Shares.

3. SUBSIDIARY

As at LPD, HSCSB has no subsidiary.

4. GENERAL NATURE OF BUSINESS CONDUCTED BY HSCSB

HSCSB is principally involved in the provision of financial services including licensed money lending, hire purchase and equipment leasing.

5. BUSINESS OVERVIEW

HSCSB's main activity is the provision of term loans and industrial hire purchase, primarily to small and medium enterprises. HSCSB has a network of 10 branches nationwide, 5 in Peninsular Malaysia, 3 in Sabah and 2 in Sarawak.

In recent years, HSCSB has strategically built up its secured term loan portfolio progressively. The increasing weightage towards secured term loans helped to improve yields which are floating rate loans as opposed to fixed rate lending under industrial hire purchase. In 2017, HSCSB intensified its efforts in expanding its secured term loan portfolio to improve yields while maintaining sizeable portfolio of industrial hire purchase business.

Notwithstanding, HSCSB continues to be active in procurement of industrial hire purchase business. HSCSB's focus on pre-selected sectors including real estate, manufacturing, transportation and general commerce continues to be robust. Stringent cost management for both direct funding cost as well as administrative expenses were continuously practiced throughout the financial year.

The operating profit was 15% higher at RM161.6 million (2016: RM140.8 million). The loan base expanded to RM2.9 billion (2016: RM2.3 billion). Return on average asset was higher at 2.63% (2016: 2.40%). Gross non-performing loans (NPL) ratio is at 1.45% (2016: 1.89%) as compared to banking industry average of 1.53%.

(Source: HSCB 2017 Annual Report and the management of HSCB)

6. DETAILS OF MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES

As at the LPD, the directors of HSCSB are not aware of any material commitments and contingent liabilities incurred or known to be incurred which, upon becoming enforceable, may have an impact on the profits or NA of HSCSB.

7. DIRECTORS

As at LPD, the directors of HSCSB are as follows and none of them hold any HSCSB Shares:

Name	Designation	Nationality
Datuk Edward Lee Ming Foo	Director	Malaysian
Mr. Lee Wee Yong	Director	Malaysian
Mr. Thai Chong Yim	Director	Malaysian
Mr. Heng Chin Tung	Director	Malaysian
Mr. Puan Chen Keck	Director	Malaysian

8. SUBSTANTIAL SHAREHOLDERS

As at LPD, the substantial shareholders of HSCSB and their respective shareholdings in HSCSB are as follows:

		Direct		Indirect	
Name	Country of Incorporation/ Nationality	No. of HSCSB shares	%	No. of HSCSB shares	%
HSCB	Malaysia	1,330,000,000	100	-	-
Gek Poh	Malaysia	-	-	1,330,000,000[(1)]	100
Tan Sri Lau	Malaysian	-	-	1,330,000,000[(2)]	100
Magic Principle	Cayman Islands	-	-	1,330,000,000[(3)]	100

Notes:

(1) Deemed interested by virtue of its shareholdings in HSCB pursuant to Section 8 of the Act.

(2) Deemed interested by virtue of his shareholdings in HSCB, held via Gek Poh pursuant to Section 8 of the Act.

(3) Deemed interested by virtue of its shareholdings in HSCB, held via Gek Poh pursuant to Section 8 of the Act.

9. SUMMARY OF FINANCIAL DATA

9.1 Set out below are the selected financial information of HSCSB based on the audited financial statements of HSCSB for the FYE 31 December 2015 to FYE 31 December 2017.

	Audited FYE 2015	Audited FYE 2016	Audited FYE 2017
	RM	RM	RM
Interest Income	160,103,350	177,274,562	192,616,260
Profit before tax	62,445,355	71,855,399	91,098,444
PAT	45,429,153	52,555,399	68,968,012
Paid-up capital	250,100,000	250,100,000	1,330,100,000
Shareholders' funds / NA	467,854,934	490,010,618	1,510,524,583
Number of shares in issue	250,000,000	250,000,000	1,330,000,000
Weighted average number of shares in issue	250,000,000	250,000,000	347,643,835
Borrowings (RM)	1,636,425,714	1,591,657,380	1,409,594,945
Gross EPS (sen)(1)	24.98	28.74	26.20
EPS (sen) (2)	18.17	21.02	19.84
NA per share (RM)(3)	1.87	1.96	1.14
Gearing (times)	3.50	3.25	0.93
Current ratio(4)	0.66	0.50	0.66

Notes:

(1) Computed based on PBT over the weighted average number of shares in issue.

(2) Computed based on PAT over the weighted average number of shares in issue.

(3) Computed based on shareholders' funds / NA over number of shares in issue.

(4) Computed based on current assets and current liabilities.

9.2 Commentaries on the financial performance for FYE 31 December 2015

Notwithstanding that the Malaysian economy reflected a lower GDP growth of 5% in 2015, HSCSB continued to enjoy a double digit growth. With its efforts on expanding its higher yield floating rate term loan portfolio, this strategy enabled HSCSB's loan base surpassing RM2.0 billion, ending the year at RM2.1 billion compared to RM1.8 billion in 2014. The larger loan base enabled HSCSB to achieve a 21% increase in interest income to RM160.1 million from RM132.6 million in the previous financial year whilst profit before tax improved by 30% to RM62.4 million in FYE 31 December 2015.The improved results were also contributed by the higher weightage in higher yield term loans as well as its efficient cost management.

9.3 Commentaries on the financial performance for FYE 31 December 2016

HSCSB continued to grow its term loan portfolio in 2016 as part of its longer term business strategy. As a result, HSCSB's loan base grew by 10% to RM2.3 billion by December 2016, HSCSB further improved its term loans weightage to 64% of the total loan assets against 53% in 2015. HSCSB's interest income of RM177.3 million in 2016 was 11% higher, in tandem with the growth in loan base. Profit before tax of RM71.9 million was 15% higher contributed by the higher weightage of higher yielding term loan portfolio and continued good cost control measures.

9.4 Commentaries on the financial performance for FYE 31 December 2017

The Malaysian economy expanded by 5.9% in 2017. Against this backdrop, HSCSB continued its strategy to expand its term loan portfolio as well as sustain its industrial hire purchase portfolio. As a result, interest income for FYE 31 December 2017 grew by 9% to RM192.6 million whilst profit before tax increased by 27% to RM91.1 million. The higher profits in 2017 were attributed to higher interest income arising from increase in loan base, good management of direct costs and overheads as well as improved asset quality.

9.5 Accounting Policies and audit qualification

There were no peculiar accounting policies adopted by HSCSB. Accounting policies adopted by HSCSB are consistent with the HSCB Group.

There have been no audit qualifications reported in the audited financial statements of HCS for the FYE 31 December 2015, FYE 31 December 2016 and FYE 31 December 2017.

10. MATERIAL CONTRACTS

HSCSB has not entered into any material contract (not being contracts entered into in the ordinary course of its business within the past two (2) years immediately preceding the date of this Circular.

11. MATERIAL LITIGATION

As at the LPD, save as disclosed below, HSCSB is not involved in any material litigation, claims or arbitration, either as plaintiff or defendant, which has or would have a material and adverse effect on the financial position or business of HSCSB and, to the best of the knowledge and belief of the management of HCS, they are not aware of any proceeding pending or threatened or of any fact likely to give rise to any proceeding which might materially and adversely affect the financial position or business of HSCSB:

(i) On 19 May 2015, HSCSB filed a writ of summons against a borrower, JBS Development Sdn Bhd, and its guarantors, Kan Siak Hoong and Wong Ket Lin, for recovery of a sum of RM3,495,649.60 pursuant to a short-term loan of RM3,000,000.00, which was secured by a charge created over a piece of land in favour of HSCSB. A judgment was obtained by HSCSB on 23 July 2015 against the borrower and the guarantors with a judgement sum of RM3,495,649.60 as at 25 April 2015 together with interest and cost. On 6 January 2016, the Borrower was wound up. On 18 April 2016, Kan Siak Hoong was adjudged bankrupt by Al Rahji Bank. On 24 August 2016, an adjudication order and receiving order was obtained against Wong Ket Lin.

HSCSB filed a Form 16G (Application by Chargee for Order for Sale) at the Manjung Land Office. On 13 April 2017 and 19 May 2017, no bids were received at the first and second auctions. On 14 July 2017, the land was sold to a successful bidder at RM3,348,500.00. HSCSB received the 10% deposit amounting to RM334,800.00 on 17 July 2017 but the purchaser failed to settle the balance of the purchase price. Subsequently, HSCSB filed an originating summons at Ipoh High Court. Another auction has been fixed on 17 April 2018 with the reserve price of RM3,348,000.00 at Ipoh High Court. Auction was unsuccessful as there was no bidder.

HSCSB then filed an application for new auction date at the reserved price of RM3,013,200.00. The said application is now fixed for hearing on 31 May 2018.

(ii) On 10 August 2015, HSCSB filed a writ of summons against a borrower, Kumaresan A/L Veerappan, and his guarantors, Sivakamy A/P Tewagudam and Vision Stone & Builders Sdn Bhd, for recovery of a sum of RM4,139,448.10 pursuant to a term loan facility of RM4,000,000.00, which was secured by a charge created over a building erected on a leasehold land in favour of HSCSB. Judgment in default of defence was obtained against the borrower and his guarantors with a judgment sum of RM4,139,448.10 as at 15 July 2015 together with interest and cost. On 22 February 2017, Vision Stone & Builders Sdn Bhd was wound up by Malayan Banking Berhad. Sivakamy A/P Tewagudam and Kumaresan A/L Veerappan were adjudged bankrupt by Malayan Banking Berhad on 1 March 2017 and 14 March 2017 respectively.

In respect of the foreclosure proceedings, an originating summons was filed by HSCSB at Shah Alam High Court. An order for sale was given by Shah Alam High Court on 17 March 2016. No bids were received for the first five auctions held on 21 July 2016, 29 December 2016, 5 July 2017, 30 November 2017 and 30 March 2018. HSCSB then filed an application for new auction date at the reserve price of RM3,888,000.00. The said application is now fixed for hearing on 21 May 2018 at Shah Alam High Court.

(iii) On 10 March 2016, HSCSB filed a writ of summons against a borrower, Lokasi Unggul Sdn Bhd ("**Lokasi Unggul**"), and its guarantor, Dato' Lim Chee Tat, for recovery of a sum of RM17,895,442.22 pursuant to a term loan of RM17,000,000.00, which was secured by a charge created over 3 parcels of vacant land in favour of HSCSB. A summary judgment was obtained against the borrower and its guarantors on 23 August 2016. On 29 August 2016, Dato' Lim Chee Tat was adjudged bankrupt. On 30 November 2016, Lokasi Unggul was wound up by ISE Air Cond & Engineering Sdn Bhd.

The first auction at a reserve price of RM32,445,000.00 was fixed by the senior assistant registrar on 7 August 2017. The liquidator applied for stay of auction proceedings and appealed against the reserve price set by the court. Lokasi Canggih Sdn Bhd filed an intervener's application against the order for sale. On 24 October 2017, the court dismissed the intervener's application and fixed another hearing date on 8 December 2017 to decide on the reserve price. On 5 January 2018, the High Court judge dismissed the liquidator's appeal and affirmed the senior assistant registrar's decision.

HSCSB then filed a fresh application to fix an auction date via notice of application on 29 January 2018. On 30 January 2018, the liquidator filed a notice of appeal against the decision made by the High Court on 5 January 2018 and filed an application for stay of auction proceedings via notice of application dated 9 February 2018. There were a series of hearings fixed on 19 February 2018, 8 March 2018, 13 March 2018, 6 April 2018, 9 April 2018 and 20 April 2018 in relation to the appeal against the decision of the High Court and a series of hearings were fixed on 26 February 2018, 13 March 2018, 6 April 2018 and 19 April 2018 in relation to the stay of proceedings. The first and second case management took place on 7 March 2018 and 5 April 2018 at the Court of Appeal. The third case management was fixed on 10 May 2018 pending the High Court's grounds of order and notes of proceedings for the decision by the High Court on 5 January 2018.

On 27 April 2018, the application for a stay of auction proceedings was granted by the Court. Another hearing on the appeal against the High Court decision was fixed on 2 May 2017 and a case management has been fixed at the Court of Appeal on 17 May 2018 for the parties to update the Court on the progress of the appeal.

On 10 May 2018, the third case management at the Court of Appeal was vacated as it was declared as a public holiday. On 14 May 2018, the Court of Appeal informed that a letter will be issued by the Court to inform the solicitors in charge on the next Court date.

(iv) On, 22 April 2016, HSCSB filed a writ of summons against a borrower, GT Link Sdn Bhd and its guarantors, Teo Tang Seng and STT Logistics Sdn Bhd, for recovery of a sum of RM3,451,791.90 pursuant to a term loan of RM4,500,000, which was secured by a charge created over a piece of land in favour of HSCSB. A judgment in default of appearance was obtained by HSCSB on 20 July 2016 against the borrower and its guarantors with a judgment sum of RM3,451,791.90 as at 12 April 2016 together with interest and costs.

On 8 September 2017, GT Link Sdn Bhd was wound up and joint liquidators were appointed pursuant to the winding up order. A tender of RM8.3 million was received by the liquidator for the sale of the land which was charged to HSCSB. On 7 December 2017, the creditors of the GT Link Sdn Bhd agreed at their meeting to sell the charged land at RM8.3 million. On 29 December 2017, a higher tender of RM8.8 million was received. The foreclosure proceedings are withheld pending finalisation of the sale of the charged land by the liquidators. A bankruptcy notice was filed against Teo Tang Seng at Johor Bahru High Court. The bankruptcy proceedings were withdrawn with liberty to file afresh on 19 March 2018 pending disposal of the charged lands by the liquidators.

(v) On 9 November 2017, HSCSB filed a writ of summons against a borrower, Versatile Summit Sdn Bhd and its guarantors, Yap Seng Maw, Yap Sing Lee and Yap Brothers Consolidated Sdn Bhd for recovery of a sum of RM5,209,692.98 pursuant to a term loan of RM6,500,000.00, which was secured by a charge created over a piece of land in favour of HSCSB. A consent judgment was entered into between HSCSB, the borrower and its guarantors on 19 March 2018 for the sum of RM5,625,849.30. The borrower had since made payments of RM3,200,000.00 on 30 March 2018 and RM280,000.00 on 27 April 2018 as per the terms of the consent judgement. A balance payment of RM2,100,186.74 was made by the borrower on 7 May 2018.

The final settlement sum was recalculated as the Consent Judgement sum of RM5,625,849.30 was computed with interest charged up to 31 May 2018 and on the assumption that the payment of RM3,200,000.00 and RM280,000.00 are not paid. Since the borrower has paid such sums and settled the final balance sum on 7 May 2018, the interest chargeable were reduced accordingly.

(vi) On 22 November 2017, HSCSB filed a writ of summons against a borrower, Richallenge Corporation Sdn Bhd ("**First Defendant**"), and its guarantors, Chen Sheau Yang ("**Second Defendant**") and Wan Kamrol Hisham Bin Wan Mahadi ("**Third Defendant**") for recovery of a sum of RM19,498,441.60pursuant to a term loan of RM18,670,000.00, which was secured by a charge created over 6 parcels of vacant land in favour of HSCSB. Memoranda of appearance were entered by the First Defendant, Second Defendant and Third Defendant through their solicitors on 8 December 2017. As no statements of defence were filed by the First Defendant, Second Defendant and Third Defendant, judgment in default of defence was obtained and entered against the First Defendant, Second Defendant and Third Defendant on 12 February 2018. A winding-up petition was presented by Lembaga Hasil Dalam Negeri Malaysia ("**LHDN**") against the First Defendant and the petition was heard on 26 February 2018. On 26 February 2018, at the petition hearing, LHDN requested for the withdrawal of the winding up petition however it was rejected by 2 interested parties/ creditors and the judge directed that application/ affidavit in support to be filed. The hearing for the winding-up petition which was scheduled to be heard on 28 March 2018 has now been adjourned to 19th April 2018. The winding-up petition filed by LHDN was struck out by the court on 19 April 2018.

Further, HSCSB has vide its solicitors issued a statutory notice/ demand pursuant to Section 466 of the Act and the same was personally served to the First Defendant on 29 March 2018. Solicitors have been instructed to file the winding-up petition upon expiry of the statutory notice/demand. In satisfaction of the pre-requisite conditions for the commencement of bankruptcy action against the Second Defendant and the Third Defendant, HSCSB is required to initiate judgment debtor summons, seizure and sale, garnishment and winding-up proceedings against the First Defendant. Solicitors have been instructed to proceed with filing of the judgment debtor summons and conducting of the property/ asset searches for the First Defendant. The Judgement Debtor Summons ("**JDS**") against the Second Defendant, Chen Sheau Yang was filed to the Court on 6 April 2018 and the hearing for the JDS has been fixed on 18 May 2018.

In respect of the foreclosure proceeding, Schedule H (Notice by Chargee in Case of Default) dated 29 January 2018 was personally served to the chargor, Richallenge Corporation Sdn Bhd on 7th February 2018. HSCSB filed the Schedule I (Application by Chargee For Sale of Land) to the Department of Land and Survey in Tawau for an order of sale on 5 April 2018. The matter has now been fixed for Schedule J hearing on 22 May 2018.

(vii) HSCSB filed 7 writ of summons against Khoo Mean Sheng and other parties for recovery of an aggregate sum of RM4,280,992.11 pursuant to 7 separate term loan facilities. Khoo Mean Sheng and Kwong Yak Hong Sdn Bhd are either borrower, chargor and/or guarantor in each of the legal proceedings. The details of each of the legal proceedings are set out below:

(a) On 15 March 2018, HSCSB filed a writ of summons against the borrowers/chargors, Khoo Theng Theng, Khoo Lee Lee and Khoo Pei Pei and their guarantors, Khoo Mean Sheng and Kwong Yak Hong Sdn Bhd for recovery of a sum of RM114,507.96 pursuant to a term loan of RM215,000.00, which was secured by a charge created over a piece of land in favour of HSCSB. The borrowers have paid 5 months instalments to HSCSB and HSCSB intends to withdraw the writ of summons on 15 May 2018;

(b) On 11 April 2018, HSCSB filed a writ of summons against the borrower/chargor, Khoo Mean Sheng and his guarantor, Kwong Yak Hong Sdn Bhd for recovery of a sum of RM715,648.01 pursuant to a term loan of RM1,400,000.00, which was secured by a charge created over 2 pieces of lands in favour of HSCSB. On 17 April 2018, HSCSB issued a Form 16D to the chargor. HSCSB intends to apply to the court for leave to enter judgment in default against the borrower and guarantor before the case management which has been fixed on 15 May 2018;

(c) On 5 April 2018, HSCSB filed a writ of summons against the borrower/chargor, Khoo Mean Sheng and his guarantor, Kwong Yak Hong Sdn Bhd for recovery of a sum of RM542,347.92 pursuant to a term loan of RM600,000.00, which was secured by a charge created over a piece of land in favour of HSCSB. On 17 April 2018, HSCSB issued a Form 16D to the chargor. HSCSB intends to apply to the court for leave to enter judgment in default against the borrower and guarantor before the case management which has been fixed on 23 May 2018;

(d) On 5 April 2018, HSCSB filed a writ of summons against the borrower, Kwong Yak Hong Sdn Bhd, the chargors, Khoo Pi Chiang and Khoo Pi Fong, the guarantors, Khoo Mean Sheng, Khoo Pi Fong Khoo Pi Chiang and K.Y.H. Sawit Sdn Bhd for recovery of a sum of RM1,344,546.19 pursuant to a term loan of RM1,700,000.00, which was secured by a charge created over a piece of land in favour of HSCSB. On 17 April 2018, HSCSB issued a Form 16D to the chargors. HSCSB intends to apply to the court for leave to enter judgment in default against the borrower, chargor and guarantors before the case management which has been fixed on 16 May 2018;

(e) On 11 April 2018, HSCSB filed a writ of summons against the borrower/chargor, Ringgit Merdeka Sdn Bhd, its guarantors, Kwong Yak Hong Sdn Bhd, Khoo Mean Sheng, Khoo Pi Fong and Khoo Pi Chiang for recovery of a sum of RM663,449.66 pursuant to a term loan of RM1,500,000.00 million, which were secured by a specific deed of debenture and a charge created over 4 pieces of lands in favour of HSCSB. On 2 May 2018, HSCSB issued a Form 16D to the borrower/chargor. HSCSB intends to apply to the court for leave to enter judgment in default against the borrower and guarantors after the first case management which has been fixed on 15 May 2018 if no appearance is filed by the borrower and guarantors;

(f) On 20 March 2018, HSCSB filed a writ of summons against the borrower/chargor, Ringgit Merdeka Sdn Bhd and its guarantor, Kwong Yak Hong Sdn Bhd, Khoo Mean Sheng, Khoo Pi Fong and Khoo Pi Chiang for recovery of a sum of RM673,848.21 pursuant to a term loan of RM1,200,000.00 million, which was secured by a charge created over a piece of land in favour of HSCSB. On 19 April 2018, HSCSB issued a Form 16D to the borrower/chargor. The court fixed 23 April 2018 for first case management for the borrower and guarantors to file their appearance and 15 May 2018 for second case management for HSCSB to file application for leave to enter judgement in default. On 4 May 2018, HSCSB applied to the court for leave to enter judgment in default against the borrower and guarantors and the application has not been extracted yet; and

(g) On 11 April 2018, HSCSB filed a writ of summons against the borrower/chargor, Ringgit Merdeka Sdn Bhd, and its guarantors Kwong Yak Hong Sdn Bhd, Khoo Mean Sheng, Khoo Pi Fong and Khoo Pi Chiang for recovery of a sum of RM226,644.16 pursuant to a term loan of RM1,580,000.00 million, which were secured by 2 charges created over 5 pieces of lands in favour of HSCSB. On 19 April 2018, HSCSB issued a Form 16D to the borrower/chargor. HSCSB intends to apply to the court for leave to enter judgment in default against the borrower and guarantors after the first case management which has been fixed on 15 May 2018 if no appearance is filed by the borrower and guarantors.

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HSC SYDNEY HOLDING LIMITED
(LL13997)
(Incorporated in the Federal Territory of Labuan)

Statement by Directors and Audited Financial Statements
31 December 2017

Company No: LL13997
HSC Sydney Holding Limited
(Incorporated in the Federal Territory of Labuan, Malaysia)

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Statement by directors

We, **Datuk Edward Lee Ming Foo, JP** and **Cheah Yee Leng**, being two of the directors of **HSC Sydney Holding Limited**, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 6 to 22 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Labuan Companies Act 1990 so as to give a true and fair view of the financial position of the Company as at 31 December 2017 and of its financial performance and cash flows for the period then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 13 APR 2018

Datuk Edward Lee Ming Foo, JP

Cheah Yee Leng

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LL13997

Independent auditors' report to the member of
HSC Sydney Holding Limited
(Incorporated in the Federal Territory of Labuan, Malaysia)

Report on the audit of the financial statements

We have audited the financial statements of HSC Sydney Holding Limited, which comprise the statement of financial position as at 31 December 2017 and statement of comprehensive income, statement of changes in equity and statement of cash flows for the period then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 6 to 22.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017 and of its financial performance and cash flows for the period then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence and other ethical responsibilities

We are independent of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

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Independent auditors' report to the member of
HSC Sydney Holding Limited (cont'd.)
(Incorporated in the Federal Territory of Labuan, Malaysia)

Information other than the financial statements and auditors' report thereon

Our opinion on the financial statements of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors of the Company are responsible for the preparation of financial statements of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Company, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Company's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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Independent auditors' report to the member of
HSC Sydney Holding Limited (cont'd.)
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Auditors' responsibilities for the audit of the financial statements (cont'd.)

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Company, including the disclosures, and whether the financial statements of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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Independent auditors' report to the member of
HSC Sydney Holding Limited (cont'd.)
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Other matters

This report is made solely to the members of the Company, as a body, in accordance with Section 117 of the Labuan Companies Act 1990 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young
AAL 0001
Chartered Accountants

Teoh Soo Hock
No. 02477/10/2019 J
Chartered Accountant

Federal Territory of Labuan, Malaysia
13 April 2018

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Company No: LL13997
HSC Sydney Holding Limited
(Incorporated in the Federal Territory of Labuan, Malaysia)

Statement of financial position
As at 31 December 2017

	Note	2017 USD
Non-current asset		
Investment in a subsidiary	3	60,480,000
Current asset		
Cash and bank balances	4	13,614
Total assets		60,493,614
Equity attributable to owner of the Company		
Share capital	5	60,495,001
Accumulated loss		(2,787)
Total equity		60,492,214
Current liability		
Sundry payables	6	1,400
Total equity and liability		60,493,614

The accompanying notes form an integral part of these financial statements.

Company No: LL13997
HSC Sydney Holding Limited
(Incorporated in the Federal Territory of Labuan, Malaysia)

Statement of comprehensive income
For the period ended 31 December 2017

	Note	18.8.2017 to 31.12.2017 USD
Administrative expenses		(2,787)
Loss before tax	7	(2,787)
Tax expense	8	-
Loss for the period, representing total comprehensive expense for the period		(2,787)

The accompanying notes form an integral part of these financial statements.

Company No: LL13997
HSC Sydney Holding Limited
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Statement of changes in equity
For the period ended 31 December 2017

	Share capital USD	Accumulated loss USD	Total USD
At date of incorporation	1	-	1
Issuance of ordinary shares (Note 5)	60,495,000	-	60,495,000
Total comprehensive expense for the period	-	(2,787)	(2,787)
At 31 December 2017	60,495,001	(2,787)	60,492,214

The accompanying notes form an integral part of these financial statements.

Company No: LL13997
HSC Sydney Holding Limited
(Incorporated in the Federal Territory of Labuan, Malaysia)

Statement of cash flows
For the period ended 31 December 2017

	18.8.2017 to 31.12.2017 USD
Cash flows from operating activities	
Loss before tax	(2,787)
Changes in working capital:	
Sundry payables	1,400
Net cash flows used in operating activities	(1,387)
Cash flows from investing activity	
Acquisition of subsidiary, representing net cash flows used in investing activity	(60,480,000)
Cash flows from financing activity	
Proceed from issuance of ordinary shares, representing net cash flows generated from financing activity	60,495,000
Net increase in cash and cash equivalents	13,613
Cash and cash equivalents at date of incorporation	1
Cash and cash equivalents at end of period (Note 4)	13,614

The accompanying notes form an integral part of these financial statements.

Company No: LL13997
HSC Sydney Holding Limited
(Incorporated in the Federal Territory of Labuan, Malaysia)

Notes to the financial statements
For the financial period ended 31 December 2017

1. Corporate information

The Company is a private limited liability company incorporated and domiciled in the Federal Territory of Labuan, Malaysia. The registered office of the Company is located at Brumby Centre, Lot 42, Jalan Muhibbah, 87000 Labuan F.T., Malaysia.

The Company is principally engaged in carrying on the business of investment holding. The principal activity of the subsidiary is set out in Note 3 to the financial statements. The Company has commenced its operation during the financial period. There have been no significant changes in the nature of the principal activities during the financial period.

The immediate holding company is HSC International Limited, a company incorporated and domiciled in Federal Territory of Labuan. The intermediate and ultimate holding company are Hap Seng Consolidated Berhad and Gek Poh (Holdings) Sdn. Bhd. respectively. All of these companies are incorporated in Malaysia.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 13 April 2018.

2. Significant accounting policies

(a) Basis of preparation

The financial statements of the Company have been prepared under the historical cost convention unless otherwise indicated in the accounting policies below and comply with Malaysian Financial Reporting Standards ("MFRSs") as issued by Malaysian Accounting Standards Board ("MASB"), International Financial Reporting Standards ("IFRS") and the requirements of the Labuan Companies Act, 1990 in Malaysia.

The financial statements are presented in United States Dollar ("USD"), which is also the Company's functional currency.

These financial statements, for the period ended 31 December 2017, are the first financial statements of the Company that has been prepared since its incorporation and is prepared in accordance with MFRS.

The Company is a wholly-owned subsidiary of HSC International Limited, a company incorporated in Federal Territory of Labuan and produces consolidated financial statements that comply with Malaysian Financial Reporting Standards. Copies of the consolidated financial statements of HSC International Limited can be obtained at its registered office at Brumby Centre, Lot 42, Jalan Muhibbah, 87000 Labuan F.T., Malaysia. Accordingly and by virtue of the exemption in paragraph 4(a) of MFRS 10, Consolidated Financial Statements, the Company has not prepared consolidated financial statements.

Company No: LL13997
HSC Sydney Holding Limited
(Incorporated in the Federal Territory of Labuan, Malaysia)

2. Significant accounting policies (cont'd.)

(b) Standards issued but not yet effective

The directors expect that the new MFRS, Amendments to MFRS and IC Interpretations which are issued but not yet effective for the financial period ended 31 December 2017 will not have a material impact on the financial performance or position of the Company in the period of initial application as discussed below:

MFRS 9 Financial Instruments

MFRS 9 introduces new requirements for classification and measurement, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

During the financial period ended 31 December 2017, the Company has performed an assessment of all three aspects of MFRS 9.

Based on the analysis of the financial assets and liabilities as at 31 December 2017 on the basis of facts and circumstances that exist at that date, the directors of the Company have assessed the impact of MFRS 9 to the financial statements as follows:

(i) Classification and measurement

The Company does not expect a significant impact on its financial position or equity on applying the classification and measurement requirements of MFRS 9.

(ii) Impairment

MFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and receivables, either on a twelve month or lifetime basis. The Company will apply the simplied approach and record lifetime expected losses on all trade receivables. As at the date of this report, the Company does not have any trade receivables and therefore there will be no impact to the financial statements.

(iii) Hedge accounting

The Company does not engage in hedging activities and therefore there will be no impact to the financial statements.

Company No: LL13997
HSC Sydney Holding Limited
(Incorporated in the Federal Territory of Labuan, Malaysia)

2. Significant accounting policies (cont'd.)

(b) Standards issued but not yet effective (cont'd.)

MFRS 15 Revenue from Contracts with Customers

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118 Revenue, MFRS 111 Construction Contracts and the related interpretations when it becomes effective.

The core principle of MFRS 15 is that an entity should recognise revenue which depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The adoption of MFRS 15 will not have any impact on the Company's financial statements.

(c) Investment in subsidiary

A subsidiary is an entity over which the Company has all the following:

(i) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
(ii) Exposure, or rights, to variable returns from its investment with the investee; and
(iii) The ability to use its power over the investee to affect its returns.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses.

(d) Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Company makes an estimate of the asset's recoverable amount.

Company No: LL13997
HSC Sydney Holding Limited
(Incorporated in the Federal Territory of Labuan, Malaysia)

2. Significant accounting policies (cont'd.)

(d) Impairment of non-financial assets (con't.d)

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units ["CGU"]).

In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated to reduce the carrying amount of the assets in the unit or groups of units on a pro-rata basis.

Impairment losses are recognised in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss.

(e) Financial assets

Financial assets are recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the financial instrument. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Company determines the classification of its financial assets at initial recognition. The financial assets of the Company are classified as loans and receivables.

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

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(Incorporated in the Federal Territory of Labuan, Malaysia)

2. Significant accounting policies (cont'd.)

(e) Financial assets (cont'd.)

Loans and receivables are classified as current assets, except for those having maturity dates later than 12 months after the reporting date which are classified as non-current.

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in profit or loss.

(f) Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset is impaired.

Receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in the economic conditions.

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of receivables is reduced through the use of an allowance account. When a receivable becomes uncollectible, it is written off against the allowance account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

(g) Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, within the scope of MFRS 139, are recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the financial instrument. The financial liabilities of the Company are classified as other financial liabilities that include payables.

Company No: LL13997
HSC Sydney Holding Limited
(Incorporated in the Federal Territory of Labuan, Malaysia)

2. Significant accounting policies (cont'd.)

(g) Financial liabilities (cont'd.)

Payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, and deposits with licensed banks with maturity of three months or less which are subject to an insignificant risk of changes in value.

(i) Income tax

(i) Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

(ii) Deferred tax

Deferred tax is provided using the liability method, on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Company No: LL13997
HSC Sydney Holding Limited
(Incorporated in the Federal Territory of Labuan, Malaysia)

2. Significant accounting policies (cont'd.)

(i) Income tax (cont'd.)

(ii) Deferred tax (cont'd.)

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(j) Share capital and share issuance expenses

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Ordinary shares are equity instruments.

Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

Company No: LL13997
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2. Significant accounting policies (cont'd.)

(k) Current versus non-current classification

The Company presents assets and liabilities in statement of financial position based on current/non-current classification.

An asset is current when it is:

(i) expected to be realised or intended to sold or consumed in normal operating cycle;
(ii) held primarily for the purpose of trading;
(iii) expected to be realised within twelve months after the reporting period; or
(iv) cash or cash equivalent unless restricted from being exchanged or used to settle a liability for a least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

(i) it is expected to be settled in normal operating cycle;
(ii) it is held primarily for the purpose of trading;
(iii) it is due to be settled within twelve months after the reporting period; or
(iv) there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

(l) Fair value measurement

Fair value related disclosures for financial instruments that are measured at fair value or where fair values are disclosed, are summarised in Note 9.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Company and the fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Company No: LL13997
HSC Sydney Holding Limited
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2. Significant accounting policies (cont'd.)

(l) Fair value measurement (cont'd.)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

(i) Level 1 : Quoted (unadjusted) market prices in active markets for identical assets or liabilities
(ii) Level 2 : Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
(iii) Level 3 : Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting year.

(m) Significant accounting judgements and estimates

There were no critical judgements made by the management in the process of applying the Company's accounting policies that has a significant effect on the amounts recognised in the financial statements. There were no key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

3. Investment in a subsidiary

	2017 **USD**
At cost	
Unquoted shares	60,480,000

Details of the subsidiary are as follows:

Name of subsidiary	**Principal activities**	**Country of incorporation**	**Equity interest held (%) 2017**
HS Credit (Sydney) Pty Ltd *(formerly known as Hap Seng Credit (Australia) Pty Ltd)*	Provision of financial services	Australia	100

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4. Cash and bank balances

	2017 USD
Cash on hand and at banks, representing cash and cash equivalents	13,614

5. Share capital

	Number of ordinary shares 2017	Amount 2017 USD
Issued and fully paid:		
At date of incorporation	1	1
Issued during the period	60,495,000	60,495,000
At 31 December 2017	60,495,001	60,495,001

At the date of incorporation, the Company issued 1 ordinary share for cash as subscriber's share.

During the financial period, the Company increased its issued share capital from USD1 to USD60,495,001 by the issuance of additional 60,495,000 ordinary shares at an issue price of USD1.00 each for cash for working capital purposes.

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions and rank equally with regard to the Company's residual assets.

6. Sundry payables

	2017 USD
Accrued expenses, representing total financial liabilities carried at amortised cost	1,400

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7. Loss before tax

	18.8.2017 to 31.12.2017 USD
Loss before tax is arrived at after charging:	
Auditor's remuneration	1,000

8. Tax expense

There is no provision for taxation for the Company in current financial period as the Company has no taxable income.

A reconciliation of income tax expense applicable to loss before tax at the statutory income tax rate to income tax expense at the effective income tax rate of the Company is as follows:

	18.8.2017 to 31.12.2017 USD
Loss before tax	(2,787)
Taxation at Malaysian statutory tax rate of 3%	(84)
Expenses not deductible for tax purposes	84
Total tax expense	-

9. Fair value of financial instruments

The carrying amounts of the Company's cash and cash equivalents and short term financial liabilities are reasonable approximation of their fair values due to the relatively short term nature of these financial instruments.

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HSC Sydney Holding Limited
(Incorporated in the Federal Territory of Labuan, Malaysia)

10. Financial risk management objectives and policies

The Company's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Company's businesses whilst managing its liquidity risk. The Company operates within clearly defined guidelines and it is the Company's policy not to engage in speculative transactions.

(a) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Company monitors and maintains a level of cash and bank balances deemed adequate by the management to finance the Company's operations and mitigate the effects of fluctuations in cash flows.

Maturity analysis

The table below summarises the maturity profile of the Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

	Carrying amount USD	Contractual interest rate %	Contractual cash flows USD	On demand or within 1 year USD
2017				
Sundry payables	1,400	-	1,400	1,400

11. Key management personnel compensation

Key management personnel comprise all the directors of the Company having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. There was no compensation paid by the Company to the key management personnel during the financial period.

12. Comparative

There are no comparative figures as this is the first set of financial statements of the Company since the date of incorporation on 18 August 2017.

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13. Capital management

The primary objective of the Company's capital management is to ensure that it maintains an adequate capital structure in order to support its business and maximise shareholder value. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Company monitors capital through the amount of shareholders' funds. The Company believes that the level of shareholder's funds as at the reporting date is sufficient to support the Company's existing and expected level of business operations. No changes were made in the objectives, policies or processes during the current financial period other than the new ordinary shares issued in the current financial period. The Company is not subject to any externally imposed capital requirement.

14. Subsequent event

On 19 March 2018, the Company received an interim dividend from its subsidiary, HS Credit (Sydney) Pty Ltd *(formerly known as Hap Seng Credit (Australia) Pty Ltd)* of *AUD0.00782 per ordinary share amounted to AUD625,600.

On 30 March 2018, the Company paid an interim tax exempt dividend of USD200,000 for the financial year ending 31 December 2018.

** AUD - Australian Dollar*

HS Credit (Sydney) Pty Ltd

(Formerly known as Hap Seng Credit (Australia) Pty Ltd)

ABN 99 609 157 913

Financial Statements for the year ended 31 December 2017

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Contents

Directors' Report

Your Directors present their report on HS Credit (Sydney) Pty Ltd (formerly known as Hap Seng Credit (Australia) Pty Ltd) ('the Company') for the financial year ended 31 December 2017 and the comparative period from the date of incorporation on 6 November 2015 to 31 December 2016.

Directors

The names of the Directors in office at any time during or since the end of the year are:

- Mr Paul Gregory Betar
- Ms Cheah Yee Leng
- Mr Nicholas Rodney Quince
- Mr Thai Chong Yim

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Review of operations and financial results

A review of the operations of the Company during the financial year and the results of those operations found that the changes in market demand and competition have seen an increase in revenue of 11,661% to $3.293 million. The profit of the Company for the financial year after providing for income tax amounted to $947,000 (2016: loss of $165,000).

Significant changes in state of affairs

No significant changes in the Company's state of affairs occurred during the financial year.

Principal activities

The principal activities of the Company during the financial year were the provision of:

- short (1-2 years) and medium (up to 7 years) term loans for business finance or property investment needs.
- construction loans for construction and development funding.

There have been no significant changes in the nature of these activities during the year.

Events arising since the end of the reporting period

An interim dividend of A$0.00782 amounting to A$625,600 was declared and paid on 19 March 2018.

No other matters or circumstances have arisen since the end of the financial year, which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

Future development, prospects and business strategies

The prospects of the Company remains good as reflected in the results after several months of business operations. The loan products offered and the interest rates pricing are acceptable by the market as evidenced by strong flow of new businesses in the pipeline. Our strategy is to intensify business development activities, improvement to loan processes and to build up capacity.

Environmental issues

The Company's operations are not regulated by any significant environmental regulations under a law of the Commonwealth or of a state or territory of Australia.

Dividends paid or recommended

There were no dividends that were paid or declared since the start of the financial year.

Options

No options over issued shares or interests in the Company were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

Indemnities given to, and insurance premiums paid for, auditors and officers

The Directors and Officers of the Company are covered by Directors and Officers liability insurance which is maintained on a group basis by the penultimate holding company, Hap Seng Consolidated Berhad in respect of liabilities arising from acts committed in their respective capacity as, inter alia, Directors and Officers of the group of companies subject to the terms of the policy.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Company, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else to cause detriment to the Company.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify any current or former officer of the Company against a liability incurred as such by an officer.

Proceedings on behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4 and forms part of this Directors' Report.

Rounding of amounts

HS Credit (Sydney) Pty Ltd (formerly known as Hap Seng Credit (Australia) Pty Ltd) is a type of Company referred to in the Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and therefore the amounts contained in this report and in the financial report have been rounded to the nearest $1,000, or in certain cases, to the nearest dollar.

Signed in accordance with a resolution of the Board of Directors.

Mr Thai Chong Yim
Director
13 April 2018

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GrantThornton

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Auditor's Independence Declaration
To the Directors of HS Credit (Sydney) Pty Ltd

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of HS Credit (Sydney) Pty Ltd for the year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

M R Leivesley
Partner - Audit & Assurance

Sydney, 13 April 2018

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Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	Notes	2017 $000	Period from 6 November 2015 to 31 December 2016 $000
Interest revenue	2	2,195	-
Other income	2	1,098	28
		3,293	28
Finance costs		(94)	-
Employee benefits expense		(921)	(101)
Depreciation expense		(5)	-
Impairment expense		(178)	-
Administrative expense		(708)	(92)
Profit/(loss) before income tax		1,387	(165)
Income tax expense	3	(440)	-
Profit/(loss) for the year		**947**	**(165)**
Other comprehensive income/(loss)		-	-
Total comprehensive income/(loss) for the year		**947**	**(165)**

This statement should be read in conjunction with the notes to the financial statements.

Statement of Financial Position

As at 31 December 2017

	Notes	2017 $000	2016 $000
Current assets			
Cash and cash equivalents	5	41,925	24,697
Loan receivables	6	28,648	-
Other debtors	7	21,956	147
Total current assets		92,529	24,844
Non-current assets			
Loan receivables	6	19,055	-
Plant and equipment	8	25	45
Total non-current assets		19,080	45
Total assets		**111,609**	**24,889**
Current liabilities			
Other payables	9	387	54
Provision for taxation	10	440	-
Financial liabilities	11	30,000	-
Total current liabilities		30,827	54
Total liabilities		**30,827**	**54**
Net assets		**80,782**	**24,835**
Equity			
Contributed equity	14	80,000	25,000
Retained earnings / (Accumulated loss)		782	(165)
Total equity		**80,782**	**24,835**

This statement should be read in conjunction with the notes to the financial statements.

Statement of Changes in Equity

For year ended 31 December 2017

	Contributed equity $000	(Accumulated loss) / Retained earnings $000	Total $000
Balance at 6 November 2015	-	-	-
Loss for the period	-	(165)	**(165)**
Other comprehensive income	-	-	**-**
Total comprehensive loss for the year	**-**	**(165)**	**(165)**
Transactions with owners in their capacity as owners:			
• contributions of equity	25,000	-	**25,000**
• dividends paid or provided for	-	-	**-**
Sub-total	**25,000**	**-**	**25,000**
Balance at 31 December 2016	**25,000**	(165)	**24,835**
Profit for the year	-	947	**947**
Other comprehensive income	-	-	**-**
Total comprehensive income for the year	**-**	**947**	**947**
Transactions with owners in their capacity as owners:			
• contributions of equity	55,000	-	**55,000**
• dividends paid or provided for	-	-	**-**
Sub-total	**55,000**	**-**	**55,000**
Balance at 31 December 2017	**80,000**	**782**	**80,782**

This statement should be read in conjunction with the notes to the financial statements.

Statement of Cash Flows

For year ended 31 December 2017

	Notes	2017 $000	Period from 6 November 2015 to 31 December 2016 $000
Cash flows from operating activities			
Receipts from customers		4,209	-
Disbursement of term loan to customers		(71,525)	-
Payments to suppliers and employees		(1,445)	(284)
Interest received		1,098	26
Finance costs		(94)	-
Net cash provided by operating activities	15	**(67,757)**	**(258)**
Cash flows from investing activities			
Purchase of plant and equipment		(15)	(45)
Net cash (used in) investing activities		**(15)**	**(45)**
Cash flows from financing activities			
Loans from related parties		30,000	-
Proceeds from contributed equity		55,000	25,000
Net cash generated from financing activities		**85,000**	**25,000**
Net change in cash and cash equivalents held		**17,228**	**24,697**
Cash and cash equivalents at beginning of financial year		**24,697**	**-**
Cash and cash equivalents at end of financial year	5	**41,925**	**24,697**

This statement should be read in conjunction with the notes to the financial statements.

Notes to the Financial Statements

1 Statement of significant accounting policies

The Directors' have prepared the financial statements on the basis that the Company is a non-reporting entity because there are no users dependent on a general purpose financial report. The financial report is therefore a special purpose financial report that has been prepared in order to meet the requirements of the *Corporations Act 2001*.

These financial statements have been prepared in accordance with the recognition and measurement requirements specified by the Australian Accounting Standards and Interpretations and the disclosure requirements of AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, and AASB 1054 *Australian Additional Disclosures*.

HS Credit (Sydney) Pty Ltd is a Company limited by shares, incorporated and domiciled in Australia. HS Credit (Sydney) Pty Ltd is a for-profit entity for the purpose of preparing financial statements under Australian Accounting Standards.

1.1 Basis of preparation

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets and financial instruments for which the fair value basis of accounting has been applied.

1.2 New and amended standards adopted by the Company

The Company has adopted all the amendments to Australian Accounting Standards issued by the Australian Accounting Standards Board, which are relevant to and effective for the Company's financial statements for the annual period beginning 1 January 2017.

None of the amendments have had a significant impact on the Company.

The following is a summary of the material accounting policies adopted by the Company in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

1 Statement of significant accounting policies (continued)

1.3 Significant accounting policies

Income tax

The income tax expense for the year comprises current income tax expense and deferred tax expense. Current and deferred income tax expense is charged or credited directly to other comprehensive income instead of the profit or loss when the tax relates to items that are credited or charged directly to other comprehensive income.

Current tax

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities / (assets) are therefore measured at the amounts expected to be paid to / (recovered from) the relevant taxation authority.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur.

Plant and equipment

Each class of plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment are measured at cost less depreciation and impairment losses.

The cost of fixed assets constructed within the Company includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight line basis over their useful lives to the Company commencing from the time the asset is held ready for use. Leased assets and leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the assets.

The depreciation rates used for each class of depreciable assets are:

Class of fixed asset	*Useful life*
Furniture & fittings:	6 – 7 years
Computers & office equipment:	4 – 7 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period date.

1 Statement of significant accounting policies (continued)

1.3 Significant accounting policies (continued)

Plant and equipment (continued)

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the statement of profit or loss and other comprehensive income.

When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained eamings.

Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the Company are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

Financial Instruments

Initial recognition and measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss.

Transaction costs related to instrument classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

1 Statement of significant accounting policies (continued)

1.3 Significant accounting policies (continued)

Financial Instruments (continued)

Effective interest rate method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets 'at fair value through profit or loss'.

Classification and subsequent measurement

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant or prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the statement of profit or loss and other comprehensive income.

The carrying amount of financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

De-recognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset.

1 Statement of significant accounting policies (continued)

1.3 Significant accounting policies (continued)

De-recognition (continued)

Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed is recognised in profit or loss.

Impairment of non-financial assets

At each reporting date, the Company reviews the carrying values of its tangible assets to determine whether there is any indication that those assets have been impaired.
If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of profit or loss and other comprehensive income.

Impairment testing is performed annually for intangible assets with indefinite lives and intangible assets not yet available for use. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Provisions

Provisions are recognised when the Company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of amounts required to settle the obligation at the end of the reporting period.

Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable.

1 Statement of significant accounting policies (continued)

1.3 Significant accounting policies (continued)

Revenue (continued)

Interest income

Interest income is recognised using the effective interest method.

Loan receivables

Interest income on term loans is accounted for on an accrual basis by reference to rest periods as stipulated in the loan agreements, which are either daily or monthly.

Where the repayment of an account is in arrears for three months or more, the uncollected interest from that account is suspended until it is realised on a cash basis.

All revenue is stated net of the amount of Goods and Services Tax (GST).

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

Significant management judgement in applying accounting policies

The following are significant management judgements in applying the accounting policies of the Company that have the most significant effect on the financial statements. Critical estimation uncertainties are described in Note 1.4.

Rounding of amounts

The Company is a type of Company referred to in the Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and therefore the amounts contained in this report and in the financial report have been rounded to the nearest $1,000, or in certain cases, to the nearest dollar.

1.4 Estimation uncertainty

When preparing the financial statements management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses.

The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

1 Statement of significant accounting policies (continued)

1.4 Estimation uncertainty (continued)

Information about significant judgements, estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below.

Provision for impairment of loan receivables

The provision for impairment of loan receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account recent loan repayments, the number of days the loan is in arrears, historical collection rates and specific knowledge of the individual borrower's financial position.

Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets to the Company. Actual results, however, may vary due to technical obsolescence, particularly relating to software and IT equipment.

2 Revenue

	2017 $000	2016 $000
Operating activities		
Loan interest income	1,219	-
Fee income	976	-
Total revenue	**2,195**	**-**

	2017 $000	2016 $000
Gain on realised foreign exchange	-	2
Fixed deposit interest income	1,098	26
Total other income	**1,098**	**28**

3 Income tax expense

	2017 $000	2016 $000
The components of income tax expense comprise:		
• current tax	440	-
	440	**-**

4 Auditor's remuneration

	2017 $000	2016 $000
Remuneration of the auditor of Company, Grant Thornton Australia Ltd for:		
• auditing the financial statements	40	-
	40	**-**

5 Cash and cash equivalents

	2017 $000	2016 $000
Cash at bank and in hand	26,925	24,697
Short-term bank deposits	15,000	-
	41,925	**24,697**

6 Loan receivables

	2017 $000	2016 $000
Current		
Term loan debtors	28,755	-
Provision for loan impairment	(107)	-
Total current	28,648	-
Non-current		
Term loan debtors	19,126	-
Provision for loan impairment	(71)	-
Total non-current	19,055	-
	47,703	**-**

7 Other debtors

	2017 $000	2016 $000
Current		
Other debtors	21,956	147
	21,956	**147**

8 Plant and equipment

	2017 $000	2016 $000
Furniture & Fittings		
• at cost	3	-
• accumulated depreciation	-	-
Total furniture & fittings	3	-
Computers & Office Equipment		
• at cost	27	14
• accumulated depreciation	5	-
Total computers & office equipment	22	14
Capital work in process	-	31
	25	**45**

9 Other payables

	2017 $000	2016 $000
Current		
• Unearned income	98	-
• Accrued expenses	181	54
• Other payables	14	-
• Intercompany interest payable	94	-
	387	**54**

10 Provision for taxation

	2017 $000	2016 $000
Current provision for tax	440	-
	440	**-**

11 Financial liabilities

	2017 $000	2016 $000
Intercompany loan	30,000	-
	30,000	**-**

12 Leasing commitments

	2017 $'000	2016 $'000
Operating lease commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable – minimum lease payments:		
• not later than twelve months	120	120
• between twelve months and five years	232	353
• greater than five (5) years	-	-
	352	**473**

13 Contingent assets and contingent liabilities

The Company has no contingent assets or liabilities.

14 Contributed equity

	2017 $'000	2016 $'000
Contributed equity from the ultimate parent	80,000	25,000
	80,000	**25,000**

15 Cash flow information

	2017 $'000	2016 $'000
Reconciliation of cash flow from operations with profit / (loss) after income tax		
Profit / (loss) after income tax	947	(165)
Non-cash flows in profit:		
• depreciation and amortisation	5	-
• adjustment on plant and equipment	30	-
Changes in assets and liabilities:		
• (increase) in trade and other receivables	(69,512)	(147)
• increase in trade and other payables	333	54
• increase in income taxes payable	440	-
Net cash provided by operating activities	**(67,757)**	**(258)**

16 Events after the reporting date

An interim dividend of A$0.00782 amounting to A$625,600 was declared and paid on 19 March 2018.

No other matters or circumstances have arisen since the end of the financial year, which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

17 Company details

The registered office of the Company is:

Level 17, 383 Kent Street
Sydney NSW 2000

The principal place of business is:

HS Credit (Sydney) Pty Ltd
Level 30, 9 Castlereagh Street
Sydney NSW 2000

Directors' Declaration

The Directors have determined that the Company is not a reporting entity and that this special purpose financial report should be prepared in accordance with the accounting policies described in Note 1 to the financial statements.

The Directors of the Company declare that:

1 The financial statements and notes, as set out on pages 5 to 18, are in accordance with the *Corporations Act 2001*:

   a Comply with Accounting Standards as described in Note 1 to the financial statements, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   b Give a true and fair view of the financial position as at 31 December 2017 and of the performance for the year ended on that date of the Company in accordance with the accounting policies described in Note 1 to the financial statements; and

2 There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Mr Thai Chong Yim
Director

13 April 2018

GrantThornton

Level 17, 383 Kent Street
Sydney NSW 2000

Correspondence to:
Locked Bag Q800
QVB Post Office
Sydney NSW 1230

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W www.grantthornton.com.au

Independent Auditor's Report to the Members of HS Credit (Sydney) Pty Ltd

Report on the audit of the financial report

Opinion

We have audited the financial report of HS Credit (Sydney) Pty Ltd (the Company), which comprises the statement of financial position as at 31 December 2017, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Company is in accordance with the *Corporations Act 2001*, including:

a Giving a true and fair view of the Company's financial position as at 31 December 2017 and of its performance for the year ended on that date in accordance with the accounting policies described in Note 1; and

b Complying with Australian Accounting Standards to the extent described in Note 1 and complying with the *Corporations Regulations 2001.*

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Grant Thornton Audit Pty Ltd ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

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GrantThornton

Emphasis of Matter – Basis of Accounting
We draw attention to Note 1 of the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the Directors' financial reporting responsibilities under the *Corporations Act 2001*. As a result, the financial report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Responsibilities of the Directors' for the Financial Report
The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view and have determined that the basis of preparation described in Note 1 to the financial report is appropriate to meet the requirements of the *Corporations Act 2001* and is appropriate to meet the needs of the Members. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report
Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

M R Leivesley
Partner - Audit & Assurance

Sydney, 13 April 2018

Hap Seng Credit Sdn. Bhd.

(Company No. 88601-H)
(Incorporated in Malaysia)

Financial statements for the year ended 31 December 2017

Hap Seng Credit Sdn. Bhd.

(Company No. 88601-H)
(Incorporated in Malaysia)

Directors' report for the year ended 31 December 2017

The Directors have pleasure in submitting their report and the audited financial statements of the Company for the financial year ended 31 December 2017.

Principal activity

The Company is principally engaged in the provision of financial services including licensed money lending, hire purchase and equipment leasing. There has been no significant change in the nature of this activity during the financial year.

Holding companies

The immediate holding company is Hap Seng Consolidated Berhad and the ultimate holding company is Gek Poh (Holdings) Sdn. Bhd., both are incorporated in Malaysia.

Results

	RM
Profit for the year	68,968,012

Reserves and provisions

There were no material transfers to or from reserves and provisions during the financial year under review.

Dividend

Since the end of the previous financial year, an interim dividend of 12.00 sen per ordinary share under the single tier system totalling RM30,000,000 was declared and paid by the Company on 13 November 2017.

The Directors do not recommend any final dividend to be paid for the current financial year under review.

Directors of the Company

Directors who served during the financial year until the date of this report are:

Datuk Edward Lee Ming Foo, JP
Lee Wee Yong
Puan Chen Keck
Thai Chong Yim
Heng Chin Tung

Company No. 88601-H

Directors' interests

None of the Directors holding office at 31 December 2017 had any interest in the ordinary shares of the Company during the financial year. The interests and deemed interests in the shares of the Company and of its related corporations of those who were Directors at financial year end (including the interests of the spouses or children of the Directors who themselves are not Directors of the Company) as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares			
	At 1.1.2017	**Bought**	**Sold**	**At 31.12.2017**
Hap Seng Plantations Holdings Berhad, a related company				
Puan Chen Keck	32,500	-	-	32,500
Heng Chin Tung	50,000	-	-	50,000

None of the other Directors holding office at 31 December 2017 held or dealt in any of the shares of the Company's related corporations during the financial year.

Directors' benefits

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by the Directors as shown in the financial statements or the fixed salary of a full-time employee of the Company or of related corporation) by reason of a contract made by the Company or a related corporation with a Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

There were no arrangements during and at the end of the financial year, which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Issue of shares

During the financial year, the Company redeemed 100,000 redeemable preference shares at RM1,000 each out of profits available for dividend and the premium on redemption was provided by the share premium account.

The Company also increased its issued share capital from RM250,000,000 to RM1,330,000,000 by issuance of additional 1,080,000,000 ordinary shares at an issue price of RM1.00 each by cash of RM260,000,000 and capitalisation of amount due to Hap Seng Consolidated Berhad, the holding company of the Company, of RM820,000,000 for working capital purposes.

Save for the aforesaid, there were no other changes in the issued share capital of the Company during the financial year.

Options granted over unissued shares

No options were granted to any person to take up unissued shares of the Company during the financial year.

Indemnity and insurance costs

The Directors and Officers of the Company are covered by Directors and Officers liability insurance which is maintained on a group basis by the immediate holding company in respect of liabilities arising from acts committed in their respective capacity as, inter alia, Directors and Officers of the group subject to the terms of the policy. The total amount of Directors and Officers Liability Insurance effected for the Directors and Officers of the group during the year was RM40 million whilst the total amount of premium paid by immediate holding company was RM72,123.

Other statutory information

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that:

i) all known bad debts have been written off and adequate provision made for doubtful debts, and

ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts, in the Company inadequate to any substantial extent, or

ii) that would render the value attributed to the current assets in the financial statements of the Company misleading, or

iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate, or

iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Company misleading.

At the date of this report, there does not exist:

i) any charge on the assets of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or

ii) any contingent liability in respect of the Company that has arisen since the end of the financial year.

Other statutory information (continued)

No contingent liability or other liability of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet its obligations as and when they fall due.

In the opinion of the Directors, the financial performance of the Company for the financial year ended 31 December 2017 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Company No. 88601-H

Auditors

The auditors, KPMG PLT have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in note 13 to the financial statements.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

....

Lee Wee Yong
Director

....

Puan Chen Keck
Director

Kuala Lumpur,

Date: 13 APR 2018

Hap Seng Credit Sdn. Bhd.
(Company No. 88601-H)
(Incorporated in Malaysia)

Statement of financial position as at 31 December 2017

	Note	2017 RM	2016 RM
Assets			
Plant and equipment	3	2,779,988	3,688,216
Deferred tax assets	4	1,296,000	1,296,000
Loans and advances to customers	5	2,090,431,186	1,437,694,346
Other financial assets	6	18,012,000	18,012,000
Derivative financial assets	7	-	6,113,465
Total non-current assets		2,112,519,174	1,466,804,027
Loans and advances to customers	5	744,594,108	771,160,992
Deposits and other receivables	8	97,976,663	2,127,522
Prepayments		63,712	25,693
Derivative financial assets	7	-	42,037,519
Cash and cash equivalents	9	20,254,811	1,740,377
Total current assets		862,889,294	817,092,103
Total assets		2,975,408,468	2,283,896,130
Equity			
Share capital	10	1,330,100,000	250,100,000
Share premium	10	-	99,900,000
Cash flow hedge reserve	10	(1,270,604)	(2,816,557)
Retained earnings	10	181,695,187	142,827,175
Total equity attributable to the owners of the Company		1,510,524,583	490,010,618
Liabilities			
Borrowings	11	150,000,000	161,083,931
Deposits from lessees		281,500	833,416
Total non-current liabilities		150,281,500	161,917,347
Trade and other payables	12	41,226,505	200,409,593
Borrowings	11	1,259,594,945	1,430,573,449
Derivative financial liabilities	7	11,158,444	-
Current tax liabilities		2,622,491	985,123
Total current liabilities		1,314,602,385	1,631,968,165
Total liabilities		1,464,883,885	1,793,885,512
Total equity and liabilities		2,975,408,468	2,283,896,130

The notes on pages 12 to 50 are an integral part of these financial statements.

Hap Seng Credit Sdn. Bhd.

(Company No. 88601-H)
(Incorporated in Malaysia)

Statement of profit or loss for the year ended 31 December 2017

	Note	2017 RM	2016 RM
Interest income		192,616,260	177,274,562
Interest expense		(70,729,287)	(68,977,144)
Gross profit		121,886,973	108,297,418
Administrative expenses		(36,151,362)	(42,152,959)
Other income		4,969,295	5,684,123
Results from operating activities		90,704,906	71,828,582
Other interest income		393,538	26,817
Profit before tax	13	91,098,444	71,855,399
Tax expense	15	(22,130,432)	(19,300,000)
Profit for the year		68,968,012	52,555,399

The notes on pages 12 to 50 are an integral part of these financial statements.

Hap Seng Credit Sdn. Bhd.

(Company No. 88601-H)
(Incorporated in Malaysia)

Statement of comprehensive income for the year ended 31 December 2017

	2017 RM	2016 RM
Profit for the year	68,968,012	52,555,399
Other comprehensive income/(expense) for the year, net of tax:		
Item that will be reclassified subsequently to profit or loss		
Change in fair value of cash flow hedge	1,545,953	(399,715)
Total comprehensive income for the year	70,513,965	52,155,684

The notes on pages 12 to 50 are an integral part of these financial statements.

Hap Seng Credit Sdn. Bhd.

(Company No. 88601-H)
(Incorporated in Malaysia)

Statement of changes in equity for the year ended 31 December 2017

	Note	/---------- Non-distributable		----------/	Distributable	
		Share capital RM	Share Premium RM	Cash flow hedge reserve RM	Retained earnings RM	Total equity RM
At 1 January 2016		250,100,000	99,900,000	(2,416,842)	120,271,776	467,854,934
Profit for the year		-	-	-	52,555,399	52,555,399
Other comprehensive expense for the year		-	-	(399,715)	-	(399,715)
Total comprehensive income for the year		-	-	(399,715)	52,555,399	52,155,684
Dividend to the owners of the Company		-	-	-	(30,000,000)	(30,000,000)
At 31 December 2016/1 January 2017		250,100,000	99,900,000	(2,816,557)	142,827,175	490,010,618
Transition to no-par value regime under the Companies Act 2016		99,900,000	(99,900,000)	-	-	-
Redemption of redeemable share premium		(100,000,000)	-	-	-	(100,000,000)
Transfer from retained earnings upon redemption of RPS		100,000	-	-	(100,000)	-
Issue of ordinary shares		1,080,000,000	-	-	-	1,080,000,000
Profit for the year		-	-	-	68,968,012	68,968,012
Other comprehensive income for the year		-	-	1,545,953	-	1,545,953
Total comprehensive income for the year		-	-	1,545,953	68,968,012	70,513,965
Dividend to the owners of the Company	16	-	-	-	(30,000,000)	(30,000,000)
At 31 December 2017		1,330,100,000	-	(1,270,604)	181,695,187	1,510,524,583
		Note 10	Note 10	Note 10	Note 10	

The notes on pages 12 to 50 are an integral part of these financial statements.

Hap Seng Credit Sdn. Bhd.
(Company No. 88601-H)
(Incorporated in Malaysia)

Statement of cash flows for the year ended 31 December 2017

	Note	2017 RM	2016 RM
Cash flows from operating activities			
Profit before tax		91,098,444	71,855,399
Adjustments for:			
Depreciation of plant and equipment	3	1,038,222	840,493
Plant and equipment written off	13	50,203	175,652
Gain on disposal of plant and equipment	13	-	(20,362)
Interest income from short term deposits	13	(393,538)	(26,817)
Operating profit before changes in working capital		91,793,331	72,824,365
Changes in working capital:			
Loans and advances to customers		(498,256,236)	276,848,651
Loans and advances to related companies		(127,913,720)	(492,108,355)
Deposits and other receivables		(95,849,141)	27,987,527
Prepayments		(38,019)	16,920
Deposits from lessees		(1,443,300)	(1,670,300)
Trade and other payables		20,929,453	1,041,958
Amount due to related companies		640,778,843	180,216,983
Cash generated from operations		30,001,211	65,157,749
Interest income from short term deposits		393,538	26,817
Income tax refunded		1,000,000	173,574
Income tax paid		(21,493,064)	(19,765,371)
Net cash generated from operating activities		9,901,685	45,592,769
Cash flows from investing activities			
Acquisition of plant and equipment		(180,197)	(1,476,875)
Proceeds from disposal of other financial assets		-	12,000,312
Proceeds from disposal of plant and equipment		-	21,980
Net cash (used in)/generated from investing activities		(180,197)	10,545,417
Cash flows from financing activities			
Repayment of borrowings	11.4	(121,207,054)	(30,912,102)
Dividend paid		(30,000,000)	(30,000,000)
Redemption of redeemable preference shares		(100,000,000)	-
Proceeds from issuance of ordinary shares		260,000,000	-
Net cash generated from/(used in) financing activities		8,792,946	(60,912,102)
Net increase/(decrease) in cash and cash equivalents		18,514,434	(4,773,916)
Cash and cash equivalents at 1 January		1,740,377	6,514,293
Cash and cash equivalents at 31 December		20,254,811	1,740,377

Company No. 88601-H

Statement of cash flows for the year ended 31 December 2017 (continued)

Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position amounts:

	Note	2017 RM	2016 RM
Cash and bank balances	9	19,296,182	1,148,544
Short term deposits in licensed banks	9	958,629	591,833
		20,254,811	1,740,377

The notes on pages 12 to 50 are an integral part of these financial statements.

Hap Seng Credit Sdn. Bhd.

(Company No. 88601-H)
(Incorporated in Malaysia)

Notes to the financial statements

Hap Seng Credit Sdn. Bhd. is a private limited liability company, incorporated and domiciled in Malaysia. The addresses of its principal place of business and registered office are as follows:

Principal place of business
18th Floor, Menara Hap Seng
Jalan P. Ramlee
50250 Kuala Lumpur

Registered office
21st Floor, Menara Hap Seng
Jalan P. Ramlee
50250 Kuala Lumpur

The Company is principally engaged in the provision of financial services including licensed money lending, hire purchase and equipment leasing.

The Company is a wholly-owned subsidiary of Hap Seng Consolidated Berhad and its ultimate holding company is Gek Poh (Holdings) Sdn. Bhd., both are incorporated in Malaysia.

These financial statements were authorised for issue by the Board of Directors on 13 April 2018.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Company:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 4, *Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018 (continued)

- Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 140, *Investment Property – Transfers of Investment Property*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 119, *Employee Benefits – Plan Amendment Curtailment or Settlement*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- MFRS 17, *Insurance Contracts*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements and MFRS 128, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Company plans to apply the abovementioned accounting standards, amendments and interpretations:

- from the annual period beginning on 1 January 2018 for those accounting standards, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2018, except for amendments to MFRS 2, MFRS 4, MFRS 128 and MFRS 140 and interpretation of IC Interpretation 22 which are not applicable to the Company.

- from the annual period beginning on 1 January 2019 for the accounting standard, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2019, except for amendments to MFRS 3, MFRS 11 and MFRS 128 which are not applicable to the Company.

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

The Company does not plan to apply MFRS 17, *Insurance Contracts* that is effective for annual periods beginning on 1 January 2021 as it is not applicable to the Company.

The initial application of the accounting standards, amendments or interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of the Company except as mentioned below:

(i) MFRS 9, *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ("OCI"). The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset.

MFRS 9 retains most of the MFRS 139 requirements for liabilities. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main changes is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in OCI rather than in profit or loss, unless this creates an accounting mismatch.

MFRS 9 introduces an expected credit loss model on impairment for all financial assets that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

The initial adoption of MFRS 9 is not expected to have any material financial impact to the financial statements of the Company.

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

(ii) MFRS 16, *Leases*

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard which continues to be classified as finance or operating lease.

The Company is currently assessing the financial impact that may arise from the adoption of MFRS 16.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis. As at 31 December 2017, the Company's current liabilities exceeded the current assets by RM451,713,091.

Hap Seng Consolidated Berhad, the holding company, will continue to provide continuing financial support to the Company in order for the Company to meet its liabilities as and when they fall due.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the Company's functional currency.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than as described on Note 2(e) on impairment losses on loans and advances to customers.

2. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, unless otherwise stated.

(a) Financial instruments

(i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

(ii) Financial instrument categories and subsequent measurement

The Company categorises financial instruments as follows:

Financial assets

(a) Loans and receivables

Loans and receivables category comprises loans and advances to customers, other receivables and cash and cash equivalents. Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method. All financial assets are subject to review for impairment (see Note 2(e)(i)).

(b) Available-for-sale financial assets

Available-for-sale category comprises investment in equity that is not held for trading. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less impairment loss.

Financial liabilities

The Company's financial liabilities comprise borrowings and trade and other payables. All financial liabilities are subsequently measured at amortised cost.

2. Significant accounting policies (continued)

(a) Financial instruments (continued)

(iii) Hedge accounting

Cash flow hedge

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect the profit or loss. In a cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and the ineffective portion is recognised in profit or loss.

Subsequently, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss in the same period or periods during which the hedged forecast cash flows affect profit or loss. If the hedge item is a non-financial asset or liability, the associated gain or loss recognised in other comprehensive income is removed from equity and included in the initial amount of the asset or liability. However, loss recognised in other comprehensive income that will not be recovered in one or more future periods is reclassified from equity into profit or loss.

Cash flow hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, the hedge is no longer highly effective, the forecast transaction is no longer expected to occur or the hedge designation is revoked. If the hedge is for a forecast transaction, the cumulative gain or loss on the hedging instrument remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, any related cumulative gain or loss recognised in other comprehensive income on the hedging instrument is reclassified from equity into profit or loss.

2. Significant accounting policies (continued)

(a) Financial instruments (continued)

(iv) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or control of the asset is not retained or substantially all risks and rewards of ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the differences between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(b) Plant and equipment

(i) Recognition and measurement

Items of plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

2. Significant accounting policies (continued)

(b) Plant and equipment (continued)

(i) Recognition and measurement (continued)

When significant component of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

Gain and loss on disposal of an item of plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of plant and equipment and is recognised in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of plant and equipment. Plant and equipment under construction are not depreciated until the assets are ready for their intended use.

The estimated useful lives for the current and comparative years are as follows:

• motor vehicles	5 years
• office equipment	4 - 7 years
• renovation, fixtures and fittings	6 - 7 years

Depreciation methods, useful lives and residual values are reviewed at the end of the reporting period and adjusted as appropriate.

2. Significant accounting policies (continued)

(c) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date, except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss.

(d) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks which have an insignificant risk of changes in fair value with original maturities of three (3) months or less, and are used by the Company in the management of their short term commitments. For the purpose of statement of cash flows, cash and cash equivalents are presented net of bank overdrafts.

(e) Impairment

(i) Financial assets

All financial assets are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised.

The Company assesses individually whether objective evidence of impairment exists individually for all loans and advances to customers. If it is determined that no objective evidence of impairment exists for an individually assessed loan, the loan is then included in a group of loans with similar credit risk characteristics and collectively assessed for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the loan's carrying amount and the present value of the estimated future cash flows.

2. Significant accounting policies (continued)

(e) Impairment (continued)

(i) Financial assets (continued)

For loans which are collectively assessed, the Company has applied the net flow rate method. Impairment of loans and advances to customers are made with regard to specific risks and relate to those loans and advances to customers that have been individually reviewed and specifically identified as sub-standard, doubtful or bad. Where a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts previously written off are recognised in the profit or loss.

An impairment loss in respect of available-for-sale for unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale is not reversed through profit or loss.

(ii) Other assets

The carrying amounts of other assets (except for deferred tax assets) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

2. Significant accounting policies (continued)

(e) Impairment (continued)

(ii) Other assets (continued)

Impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

(f) Equity instruments

Instruments classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

(i) Ordinary shares

Ordinary shares are classified as equity.

(ii) Issue expenses

Costs directly attributable to issue of instruments classified as equity are recognised as a deduction from equity.

(iii) Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or is redeemable but only at the Company's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity.

Preference share capital is classified as financial liability if it is redeemable on a specific date or at the option of the equity holders, or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in profit or loss as accrued.

(g) Employee benefits

Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

2. Significant accounting policies (continued)

(g) Employee benefits (continued)

The Company's contributions to Employees' Provident Fund are charged to profit or loss in the year to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

(h) Revenue recognition

Interest income

Interest income is recognised in the profit or loss for all interest-bearing assets on an accrual basis. Interest income on term loan is accounted for on an accrual basis by reference to rest periods as stipulated in the loan agreements, which are either daily or monthly. Interest income on hire purchase and leasing business is recognised using the "effective interest rate" method. Where the repayment of an account is in arrears for three (3) months or more, the uncollected interest from that account is suspended until it is realised on a cash basis.

(i) Borrowing costs

Borrowing costs are recognised in profit or loss using the effective interest method.

(j) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using the tax rates enacted or substantially enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

2. Significant accounting policies (continued)

(j) Income tax (continued)

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(k) Fair value measurements

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3: unobservable inputs for the asset or liability.

The Company recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

Company No. 88601-H

3. Plant and equipment

	Motor vehicles RM	Office equipment RM	Fixtures and fittings RM	Renovation RM	Capital work in progress RM	Total RM
Cost						
At 1 January 2016	40,000	3,188,744	3,001,571	2,537,496	-	8,767,811
Additions	-	1,382,937	20,925	53,013	20,000	1,476,875
Disposals	(40,000)	-	(1,822)	-	-	(41,822)
Write off	-	(126,423)	-	(261,020)	-	(387,443)
At 31 December 2016/1 January 2017	-	4,445,258	3,020,674	2,329,489	20,000	9,815,421
Additions	-	153,421	26,776	-	-	180,197
Write off	-	(72,191)	(13,230)	(121,860)	-	(207,281)
At 31 December 2017	-	4,526,488	3,034,220	2,207,629	20,000	9,788,337

Company No. 88601-H

3. Plant and equipment (continued)

	Motor vehicles RM	Office equipment RM	Fixtures and fittings RM	Renovation RM	Capital work in progress RM	Total RM
Depreciation						
At 1 January 2016	39,999	2,429,174	2,566,866	502,668	-	5,538,707
Depreciation for the year	-	364,888	117,951	357,654	-	840,493
Disposals	(39,999)	-	(205)	-	-	(40,204)
Write off	-	(123,717)	-	(88,074)	-	(211,791)
At 31 December 2016/1 January 2017	-	2,670,345	2,684,612	772,248	-	6,127,205
Depreciation for the year	-	574,963	115,358	347,901	-	1,038,222
Write off	-	(72,172)	(13,227)	(71,679)	-	(157,078)
At 31 December 2017	-	3,173,136	2,786,743	1,048,470	-	7,008,349
Carrying amounts						
At 1 January 2016	1	759,570	434,705	2,034,828	-	3,229,104
At 31 December 2016/1 January 2017	-	1,774,913	336,062	1,557,241	20,000	3,688,216
At 31 December 2017	-	1,353,352	247,477	1,159,159	20,000	2,779,988

4. Deferred tax assets

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
	RM	**RM**	**RM**	**RM**	**RM**	**RM**
Plant and equipment	-	-	(1,234,000)	(1,234,000)	(1,234,000)	(1,234,000)
Lease assets	-	1,446,000	-	-	-	1,446,000
Provisions	2,530,000	1,084,000	-	-	2,530,000	1,084,000
Tax assets/ (liabilities)	2,530,000	2,530,000	(1,234,000)	(1,234,000)	1,296,000	1,296,000
Set-off of tax	(1,234,000)	(1,234,000)	1,234,000	1,234,000	-	-
Net tax assets	1,296,000	1,296,000	-	-	1,296,000	1,296,000

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items (stated at gross):

	2017	**2016**
	RM	**RM**
Unabsorbed capital allowances	7,847,886	9,365,289
Other deductible temporary differences	5,095,776	6,180,444
	12,943,662	15,545,733

Deferred tax assets have not been fully recognised in respect of these items and will subject to there being sufficient future taxable lease income against which most of these deferred tax assets can be recovered.

5. Loans and advances to customers

	Note	**2017**	**2016**
		RM	**RM**
Trade			
Lease receivables		3,609,413	6,556,480
Hire purchase receivables	5.1	1,135,793,915	911,194,133
Less: Unearned interest		(108,652,968)	(79,911,591)
		1,030,750,360	837,839,022
Loan receivables	5.1	1,922,674,400	1,472,726,002
		2,953,424,760	2,310,565,024
Less: Interest in suspense		(10,408,308)	(12,531,688)
Advances received		(89,476,319)	(69,776,394)
Impairment of loans and advances to customers		(18,514,839)	(19,401,604)
	5.2	2,835,025,294	2,208,855,338

5. Loans and advances to customers (continued)

Note 5.1

Included in loans and advances to customers are hire purchase and loan receivables from related companies amounting to RM2,612,347 (net balance after unearned interest) (2016: RM4,662,885) and RM702,359,695 (2016: RM572,395,437) respectively. The balances are subject to normal trade terms.

Note 5.2

	2017 RM	2016 RM
Loans and advances to customers		
Amount receivable maturing within one year	744,594,108	771,160,992
Amount receivable maturing after one year	2,090,431,186	1,437,694,346
	2,835,025,294	2,208,855,338

The maturity structure of lease and hire purchase receivables are as follows:

	Gross receivables RM	Unearned interest RM	Net receivables RM
2017			
Maturing within one year	491,120,428	(58,769,744)	432,350,684
Between one to five years	648,282,900	(49,883,224)	598,399,676
	1,139,403,328	(108,652,968)	1,030,750,360
2016			
Maturing within one year	437,463,216	(45,694,200)	391,769,016
Between one to five years	480,287,397	(34,217,391)	446,070,006
	917,750,613	(79,911,591)	837,839,022

6. Other financial assets

	2017 RM	2016 RM
Non-current		
Available-for-sale financial assets		
- Unquoted shares	18,012,000	18,012,000

7. Derivative financial assets/(liabilities)

	Note	2017 Nominal value RM	2017 Derivative assets / (liabilities) RM	2016 Nominal value RM	2016 Derivative assets / (liabilities) RM
Derivatives used for hedging					
Non-current					
- Cross currency interest rate swap	7.1	-	-	105,900,000	6,113,465
Current					
- Cross currency interest rate swap	7.1	180,900,000	(6,493,340)	227,392,000	42,037,519
- Forward currency contracts	7.2	166,300,000	(4,665,104)	-	-
		347,200,000	(11,158,444)	227,392,000	42,037,519
		347,200,000	(11,158,444)	333,292,000	48,150,984

Note 7.1

The Company entered into and designated cross currency interest rate swaps as hedging instruments in a cash flow hedge of the borrowings denominated in United States Dollar ("USD") and bearing interest at floating rates. These contracts are entered into for periods consistent with the foreign currency and floating interest rate exposures. As a result, the Company pays a fixed rate of interest for the borrowings. Hedges of foreign currency risk which meet the criteria for hedge accounting have been accounted for as a cash flow hedge. The terms of the cross currency interest rate swaps match the terms of the borrowings and the cash flow hedge have been assessed as effective.

Note 7.2

The Company used forward currency contracts to manage the foreign currency exposures arising from its borrowings denominated in USD for which existed at the reporting date, extending to June 2018. Hedges of foreign currency risk which meet the criteria for hedge accounting have been accounted for as a cash flow hedge.

8. Deposits and other receivables

	Note	2017 RM	2016 RM
Non-trade			
Deposits		260,240	270,638
Other receivables		2,658,835	1,854,152
Amount due from related companies	8.1	95,057,588	2,732
		97,976,663	2,127,522

8. Deposits and other receivables (continued)

Note 8.1

The amount due from related companies are a combination of interest bearing and non-interest bearing, unsecured and repayable on demand. All the outstanding amount are interest free except for an amount due from a related company of RM95,048,290 (2016: nil) bears interest at 4% (2016: nil %).

9. Cash and cash equivalents

	2017 RM	2016 RM
Cash and bank balances	19,296,182	1,148,544
Short term deposits in licensed banks	958,629	591,833
	20,254,811	1,740,377

10. Capital and reserves

10.1 Share capital

	Amount 2017 RM	Number of shares 2017	Amount 2016 RM	Number of shares 2016
Issued and fully paid:				
Ordinary shares				
At 1 January	250,000,000	250,000,000	250,000,000	250,000,000
Transfer from retained earnings upon redemption of RPS	100,000	-	-	-
Issued during the year	1,080,000,000	1,080,000,000	-	-
At 31 December	1,330,100,000	1,330,000,000	250,000,000	250,000,000
Redeemable preference shares				
At 1 January	100,000	100,000	100,000	100,000
Transition to no-par value regime under the Companies Act 2016	99,900,000	-	-	-
Redeemed during the year	(100,000,000)	(100,000)	-	-
At 31 December	-	-	100,000	100,000
Total	1,330,100,000	1,330,000,000	250,100,000	250,100,000

10. Capital and reserves (continued)

10.1 Share capital (continued)

The new Companies Act 2016 ("the Act") which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital. Persuant to Section 74 of the Act, all shares issued before or upon the commencement of the Act shall have no par or nominal value.

There is no impact on the number of ordinary shares in issue or entitlement of the members as a result of this transition.

Persuant to Section 618 of Companies Act 2016, any amount standing to the credit of the Company's share premium account has become part of the Company's share capital. The Company has utilised the credit to redeem its RPS during the year.

Ordinary shares

During the financial year, the Company redeemed 100,000 redeemable preference shares at RM1,000 each out of profits available for dividend and the premium on redemption was provided by the share premium account.

The Company also increased its issued share capital from RM250,000,000 to RM1,330,000,000 by issuance of additional 1,080,000,000 ordinary shares at an issue price of RM1.00 each by cash of RM260,000,000 and capitalisation of amount due to Hap Seng Consolidated Berhad, the holding company of the Company, of RM820,000,000 for working capital purposes.

Save for the aforesaid, there were no other changes in the issued share capital of the Company during the financial year.

Redeemable preference shares

The salient features of the RPS issued by the Company are as follows:

(i) In a distribution of capital in a winding up of the Company, the RPS holders shall be entitled to repayment of the capital paid up in respect of such RPS and all accrued but unpaid dividends in priority to any repayment of capital to any other member.

(ii) The holding of the RPS shall entitle the holders to participate in the surplus assets and profits of the Company.

10. Capital and reserves (continued)

10.1 Share capital (continued)

Redeemable preference shares (continued)

(iii) A holder of RPS shall be entitled to the same rights as a holder of an ordinary share in relation to receiving notices, reports and audited accounts, and attending meetings but shall not be entitled to vote at the said meetings unless the meeting is convened for the purpose of:

(a) reducing the share capital of the Company;
(b) winding up the Company;
(c) sanctioning a sale of the principle undertakings or business of the Company;
(d) where the proposition to be submitted to the meeting directly affects the rights of the holders of the RPS; or
(e) as otherwise stipulated in the provision of the Companies Act 2016.

(iv) The RPS are not convertible into ordinary shares of the Company.

(v) The RPS are redeemable at RM1,000 (RPS issued before the commencement of Section 74 of Companies Act 2016 are redeemable at RM1,000 comprising par value of RM1 and premium of RM999 per share) per RPS at the discretion of the Company.

(vi) The RPS shall rank equally with each other, are transferable and will not be listed on any stock exchange.

10.2 Reserves

10.2.1 Share premium

Share premium related to premium paid on subscription of shares in the Company over and above the par value of the shares in the past. There is nil balance standing to the credit of the Company's share premium account upon transfer of premium according to Companies Act 2016.

10.2.2 Cash flow hedge reserve

The cash flow hedge reverse comprises the effective portion of the cumulative net change in the fair value of cash flow hedge related to hedged transactions that have not yet occurred.

10.2.3 Retained earnings

The Company may distribute dividends out of its entire retained earnings as at 31 December 2017 under the single-tier system.

11. Borrowings

	Note	2017 RM	2016 RM
Non-current			
Unsecured term loans:			
- Licensed banks	11.1	150,000,000	113,377,158
- Other institutions and corporations	11.2	-	47,706,773
		150,000,000	161,083,931
Current			
Unsecured term loans:			
- Licensed banks	11.1	175,911,408	371,519,883
- Other institutions and corporations	11.2	47,715,337	23,926,066
Unsecured revolving credits	11.3	1,035,968,200	1,035,127,500
		1,259,594,945	1,430,573,449
Total borrowings	17.1,18	1,409,594,945	1,591,657,380

Note 11.1

The unsecured term loans denominated in USD of RM175,911,408 (2016: RM334,897,040) which are repayable within two (2) years to three (3) years from the date of drawdown respectively, are guaranteed by the immediate holding company. Interest is charged at a fixed rate ranging from 3.95% to 4.75% (2016: 3.97% to 4.75%) per annum respectively.

The unsecured term loan denominated in RM of RM150,000,000 (2016: RM150,000,000) which is repayable within two (2) years from the date of drawdown, is guaranteed by the immediate holding company. Interest is charged at a fixed rate of 5.00% (2016: 4.75%) per annum.

Note 11.2

The unsecured loans of RM47,715,337 (2016: RM71,632,839) relates to proceeds received from hire purchase and lease loans sold to Cagamas Berhad with recourse to the Company and immediate holding company. Under the agreement, the Company undertakes to administer the loans on behalf of Cagamas Berhad and to buy back any loans which are regarded as defective based on predetermined and agreed-upon prudential criteria.

The loans are subject to fixed interest rates of 4.70% (2016: 4.70%) per annum.

11. Borrowings (continued)

Note 11.3

The unsecured revolving credits is guaranteed by the immediate holding company. Included in unsecured revolving credits is an amount of RM161,468,200 (2016: RM183,927,500) denominated in USD.

Interest is charged at the following rates:

Revolving credits	0.5% to 1.00% (2016: 0.5% to 1.00%) above cost of funds of the lenders per annum

Note 11.4 Reconciliation of movement of liabilities to cash flows arising from financing activities

	At 1.1.2017 RM	Net changes from financing cash flows RM	Other changes RM	At 31.12.2017 RM
Unsecured term loans:				
- Licensed banks	484,897,040	(98,130,251)	(60,855,381)	325,911,408
- Other institution and corporations	71,632,840	(23,917,503)	-	47,715,337
Unsecured revolving credits	1,035,127,500	840,700	-	1,035,968,200
	1,591,657,380	(121,207,054)	(60,855,381)	1,409,594,945

12. Trade and other payables

	Note	2017 RM	2016 RM
Trade			
Deposits from lessees		2,534,235	3,425,619
Payables and accrued expenses		26,016,870	6,194,692
		28,551,105	9,620,311
Non-trade			
Payables and accrued expenses		10,763,547	9,656,272
Amount due to related companies	12.1	1,911,853	181,133,010
		12,675,400	190,789,282
		41,226,505	200,409,593

Note 12.1

Amounts due to related companies are unsecured and repayable on demand. All the outstanding amounts are interest free except for an amount due to a related company in the previous financial year of RM178,901,799 bears interest at 4.32%.

13. Profit before tax

	Note	2017 RM	2016 RM
Profit before tax is arrived at after charging:			
Auditors' remuneration			
- Current year		45,000	40,000
- Under provision in prior year		5,000	-
Depreciation of plant and equipment	3	1,038,222	840,493
Personnel expenses (including key management personnel)			
- Contributions to Employees Provident Fund		2,065,328	1,829,624
- Salary, wages and others		18,830,498	16,716,062
Plant and equipment written off		50,203	175,652
Office rental		2,134,704	1,960,457
Rental of motor vehicles		2,306,940	1,943,056
Interest expense paid to a related company		14,519,153	14,298,741
Management fees paid to a related company		3,261,028	2,937,577
Net allowance for impairment of loan and advances to customers	17.4	257,970	7,269,170
and after crediting:			
Bad debts recovered		659,418	1,279,725
Interest income from			
- short term deposits		393,538	26,817
- related companies		41,078,593	28,682,660
Preferential dividend from other financial asset		720,000	800,110
Gain on disposal of plant and equipment		-	20,362
Rental income		31,224	21,539

14. Key management personnel compensation

The key management personnel compensations are as follows:

	2017 RM	2016 RM
Remuneration		
- Directors of the Company	3,740,362	3,458,421
- Other key managements	3,887,415	3,578,781
Other short-term employee benefits (including estimated monetary value of benefits-in-kind)		
- Directors of the Company	72,941	60,013
- Other key managements	95,629	93,390
	7,796,347	7,190,605

Other key management personnel comprises persons other than the Directors of Company, having authority and responsibility for planning, directing and controlling the activities of the entity either directly or indirectly.

15. Tax expense

Recognised in the statement of comprehensive income

	2017 RM	2016 RM
Current tax expense		
Current year	22,800,000	19,442,630
Over provision in prior year	(669,568)	(142,630)
	22,130,432	19,300,000

Reconciliation of effective tax expense

	2017 RM	2016 RM
Profit before tax	91,098,444	71,855,399
Tax calculated using Malaysian tax rate of 24% (2016: 24%)	21,863,626	17,245,296
Non-deductible expenses	350,985	314,659
Temporary differences for which no deferred tax asset was recognised	-	1,232,484
Recognition of previously unrecognised deferred tax assets	(624,497)	-
Other items	1,209,886	650,191
	22,800,000	19,442,630
Over provision in prior year	(669,568)	(142,630)
	22,130,432	19,300,000

16. Dividend

Dividend recognised by the company was:

	Sen per share	Total Amount RM	Date of payment
2017			
Interim 2017 ordinary (single tier)	12.00	30,000,000	13 November 2017
2016			
Interim 2016 ordinary (single tier)	12.00	30,000,000	16 December 2016

17. Financial instruments

17.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

(a) Loans and receivables (L&R);
(b) Available-for-sale (AFS);
(c) Derivatives used for hedging; and
(d) Other liabilities (OL).

	Note	Carrying amounts 2017 RM	2016 RM
Financial assets categorised as L&R			
Loan and advances to customers	5	2,835,025,294	2,208,855,338
Cash and cash equivalents	9	20,254,811	1,740,377
Deposits and other receivables	8	97,976,663	2,127,522
		2,953,256,768	2,212,723,237
Financial assets categorised as AFS			
Other financial assets	6	18,012,000	18,012,000
Financial assets categorised as derivatives used for hedging			
Derivative financial assets	7	-	48,150,984
Financial liabilities categorised as derivatives used for hedging			
Derivative financial liabilities	7	(11,158,444)	-
Financial liabilities categorised as OL			
Trade and other payables (exclude deposits from lessees)	12	(38,692,270)	(196,983,974)
Borrowings	11	(1,409,594,945)	(1,591,657,380)
		(1,448,287,215)	(1,788,641,354)

17.2 Net gains and losses arising from financial instruments

	2017 RM	2016 RM
Net gains/(losses) arising on:		
Loans and receivables	193,009,798	177,301,379
Available-for-sale	720,000	800,110
Other liabilities	(70,729,287)	(68,977,144)
	123,000,511	109,124,345

17. Financial instruments (continued)

17.3 Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

17.4 Credit risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's exposure to credit risk arises principally from its loans and advances to customers and amount due from related companies.

Receivables

Risk management objectives, policies and processes for managing the risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Normally financial guarantees of banks, shareholders or directors of customers are obtained, and credit evaluations are performed on all customers.

Under the Company's credit approval framework, the required approval level is linked to the size of exposure. Exposure above a certain level requires approval from Credit Committee.

Credit concentration limits for various industries, products, and countries are set by the Credit Committee. Risk concentration by industries are monitored closely to avoid undue concentration in any particular industries, which can be adversely affected by any unforeseen economic development.

17. Financial instruments (continued)

17.4 Credit risk (continued)

Receivables (continued)

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amounts below summarised by geographic region and products:

	Loans receivables (net of unearned interest) RM	Lease RM	Hire purchase RM	Term loan RM
2017				
West Malaysia	2,308,781,890	3,079,211	841,773,502	1,463,929,177
East Malaysia	644,642,870	495,887	185,401,760	458,745,223
	2,953,424,760	3,575,098	1,027,175,262	1,922,674,400
2016				
West Malaysia	1,893,392,126	5,820,169	704,453,987	1,183,117,970
East Malaysia	417,172,898	610,720	126,954,146	289,608,032
	2,310,565,024	6,430,889	831,408,133	1,472,726,002

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are measured at their realisable values. The Company uses ageing analysis to monitor the credit quality of the receivables.

Depending on the nature of transaction and the customer's risk profile, the Company may require upfront deposits on collateral. An uncollectible loan or portion of loan is being written off after taking into consideration the realisable value of collateral, if any, when in the opinion of management, there is no prospect of recovery. More than 80% (2016: 62%) of the term loan receivables are secured by collateral (2017: RM1,530,293,551; 2016: RM913,764,506).

At 31 December 2017, the Company does not have any significant exposure to any individual customer or counterparty, nor does it have any major concentration of credit risk related to any financial instruments.

17. Financial instruments (continued)

17.4 Credit risk (continued)

Receivables (continued)

Impairment losses

The ageing of loans and advances to customers as at the end of the reporting period was:

	Loan receivables (net of unearned interest) RM	Individual impairment RM	Collective impairment RM	Net RM
2017				
Not past due	2,518,714,475	-	(2,222,512)	2,516,491,963
Past due 1 - 30 days	214,302,449	-	(1,932,663)	212,369,786
Past due 31 - 60 days	85,179,766	-	(1,619,465)	83,560,301
Past due 61 - 90 days	91,154,010	-	(1,355,360)	89,798,650
Past due more than 90 days	44,074,060	(11,384,839)	-	32,689,221
	2,953,424,760	(11,384,839)	(7,130,000)	2,934,909,921
2016				
Not past due	1,889,028,142	-	(1,525,609)	1,887,502,533
Past due 1 - 30 days	212,302,173	-	(1,991,296)	210,310,877
Past due 31 - 60 days	85,392,289	-	(2,038,980)	83,353,309
Past due 61 - 90 days	79,729,092	-	(1,574,115)	78,154,977
Past due more than 90 days	44,113,328	(12,271,604)	-	31,841,724
	2,310,565,024	(12,271,604)	(7,130,000)	2,291,163,420

The above loans and advances to customers are included in a group of loans with similar risk characteristics and collectively assessed for impairment. The allowance account in respect of receivables is used to record impairment losses. Unless the Company is satisfied that recovery of the amount is possible, the amount considered irrecoverable is written off against the receivable directly.

17. Financial instruments (continued)

17.4 Credit risk (continued)

Receivables (continued)

Impairment losses (continued)

The movements in the allowance for impairment losses of receivables are as follows:

	2017 RM	2016 RM
At 1 January	19,401,604	15,292,697
Impairment loss recognised *	6,259,763	10,976,647
Impairment loss reversed *	(6,001,793)	(3,707,477)
Impairment loss written off	(1,144,735)	(3,160,263)
At 31 December	18,514,839	19,401,604

* Net allowance for impairment of loans and advances to customers during the current year is RM257,970 (2016: RM7,269,170).

Inter-company loans and advances

Risk management objectives, policies and processes for managing the risk

The Company provides unsecured loans and advances to related companies and monitors the results of the related companies regularly.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

Impairment losses

As at the end of the reporting period, there was no indication that the loans and advances to the related companies are not recoverable.

17.5 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's exposure to liquidity risk arises principally from its various payables and borrowings.

The Company maintains a level of cash and cash equivalents and well diversified bank facilities deemed adequate by the management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

17. Financial instruments (continued)

17.5 Liquidity risk (continued)

17.5.1 *Maturity analysis*

The table below summarises the maturity profile Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

2017	Carrying amount RM	Contractual interest rate %	Contractual cash flows RM	Under 1 year RM	1 - 3 years RM
Non-derivative financial liabilities					
Unsecured term loans	373,626,745	3.95 to 5.00	396,224,238	238,724,238	157,500,000
Unsecured revolving credits	1,035,968,200	3.81 to 4.50	1,047,211,163	1,047,211,163	-
Amount due to related companies	1,911,853	-	1,911,853	1,911,853	-
Trade and other payables	36,780,417	-	36,780,417	36,780,417	-
	1,448,287,215		1,482,127,671	1,324,627,671	157,500,000
Derivative financial liabilities					
Designated as hedging instruments cash flow hedges	11,158,444	-	11,158,444	11,158,444	-
	1,459,445,659		1,493,286,115	1,335,786,115	157,500,000
2016					
Non-derivative financial liabilities					
Unsecured term loans	556,529,880	3.97 to 4.75	582,536,573	417,687,972	164,848,601
Unsecured revolving credits	1,035,127,500	3.72 to 4.38	1,045,276,903	1,045,276,903	-
Amount due to related companies	181,133,010	4.32	188,826,109	188,826,109	-
Trade and other payables	15,850,964	-	15,850,964	15,850,964	-
	1,788,641,354		1,832,490,549	1,667,641,948	164,848,601

17. Financial instruments (continued)

17.6 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other prices will affect the Company's financial position or cash flows.

17.6.1 Currency risk

The Company is not exposed to any foreign currency risk as all the transactions are denominated in Ringgit Malaysia except for the unsecured term loans and revolving credits denominated in USD, which exposure to foreign currency risk has been adequately mitigated by hedge instruments managed by the bank.

17.6.2 Interest rate risk

The Company's hire purchase, lease and its fixed rate borrowings in term loans are exposed to a risk of change in their fair value due to changes in interest rates. The Company's term loans, amount due to a related company and variable rate borrowings in revolving credits are exposed to a risk of change in cash flows due to changes in interest rates.

Risk management objectives, policies and processes for managing the risk

The Company manages its interest rate risk by having a combination of borrowings with fixed and floating rates. The exposure to interest rate risk is minimised through competitive pricing and effective funding including internal source of funds.

Interest charged on the non-trade balance due from/to a related company is based on average cost of borrowing and hence, exposure to interest rate risk is minimal. The Company also uses its overdraft and revolving credit facilities to finance its operations and exposure to interest rate risk is monitored and managed on an ongoing basis.

17. Financial instruments (continued)

17.6 Market risk (continued)

17.6.2 Interest rate risk (continued)

17.6.2.1 Exposure to interest rate risk

The interest rate profile of the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	2017 RM	2016 RM
Fixed rate instruments		
Financial assets	1,126,757,279	838,430,855
Financial liabilities	(197,715,337)	(400,534,638)
	929,041,942	437,896,217
Floating rate instruments		
Financial assets	1,922,674,400	1,472,726,002
Financial liabilities	(874,500,000)	(851,200,000)
	1,048,174,400	621,526,002

17.6.2.2 Interest rate risk sensitivity analysis

(a) Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

(b) Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points ("bp") in interest rates at the end of the reporting period would have increased/(decreased) post-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remained constant.

	Profit or Loss	
	100 bp increase RM	100 bp decrease RM
2017		
Floating rate instruments	7,966,125	(7,966,125)
2016		
Floating rate instruments	4,723,598	(4,723,598)

17. Financial instruments (continued)

17.7 Hedging Activities

17.7.1 Cash flow hedge

The Company has entered into various cross currency interest rate swap in order to hedge the cash flow risk in relation to the USD borrowings of RM180,900,000 (2016: RM333,292,000). The cross currency interest rate swap has different nominal values and are settled as per schedule, consistent with the interest repayment schedule of the loans.

The Company also has entered into forward currency contracts in order to hedge the cash flow risk in relation to the USD borrowings of RM166,300,000 during the year.

The following table indicates the periods in which the cash flows associated with the cross currency interest rate swap and forward currency contracts:

	Carrying amount RM	Expected cash flow RM	Under 1 year RM	1 - 3 years RM
2017				
Cross currency interest rate swap	(6,493,340)	(6,493,340)	(6,493,340)	-
Forward currency contracts	(4,665,104)	(4,665,104)	(4,665,104)	-
	(11,158,444)	(11,158,444)	(11,158,444)	-
2016				
Cross currency interest rate swap	48,150,984	48,150,984	42,037,519	6,113,465

During the financial year, a profit of RM1,545,953 (2016: loss of RM399,715) was recognised in other comprehensive expense.

17.8 Fair values of financial instruments

The carrying amounts of cash and cash equivalents, short term receivables and payables, and short term borrowings, approximate fair values due to the relatively short term nature of these financial instruments.

It was not practicable to estimate the fair value of the Company's investment in unquoted shares due to the lack of comparable quoted prices in an active market and the fair value cannot be reliably measured.

17. Financial instruments (continued)

17.8 Fair values of financial instruments (continued)

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position.

	Fair value of financial instruments carried at fair value Level 2 RM	Fair value of financial instruments not carried at fair value Level 3 RM	Total fair value RM	Carrying amount RM
2017				
Financial assets				
Hire purchase receivables	-	1,012,636,315	1,012,636,315	1,027,175,262
Lease receivables	-	3,609,413	3,609,413	3,575,098
Term loan receivables	-	1,922,674,400	1,922,674,400	1,922,674,400
	-	2,938,920,128	2,938,920,128	2,953,424,760
Financial liabilities				
Cross currency interest rate swap	(6,493,340)	-	(6,493,340)	(6,493,340)
Forward currency contracts	(4,665,104)	-	(4,665,104)	(4,665,104)
Unsecured term loans	-	(373,626,745)	(373,626,745)	(373,626,745)
	(11,158,444)	(373,626,745)	(384,785,189)	(384,785,189)

17. Financial instruments (continued)

17.8 Fair values of financial instruments (continued)

	Fair value of financial instruments carried at fair value Level 2 RM	Fair value of financial instruments not carried at fair value Level 3 RM	Total fair value RM	Carrying amount RM
2016				
Financial assets				
Hire purchase receivables	-	820,302,315	820,302,315	831,408,133
Lease receivables	-	6,556,480	6,556,480	6,430,889
Term loan receivables	-	1,472,726,002	1,472,726,002	1,472,726,002
Cross currency interest rate swap	48,150,984	-	48,150,984	48,150,984
	48,150,984	2,299,584,797	2,347,735,781	2,358,716,008
Financial liabilities				
Unsecured term loans	-	(556,529,880)	(556,529,880)	(556,529,880)

17. Financial instruments (continued)

17.8 Fair values of financial instruments (continued)

Level 2 fair value

Derivatives

The fair value of cross currency interest rate swap is estimated using valuation techniques with observable inputs, which uses present value calculations, incorporate various input including foreign exchange spot and interest rate curves.

Transfers between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and 2 fair values during the financial year (2016: no transfer in either directions).

Level 3 fair value

The net carrying amounts of lease, hire purchase and loan receivables, which are based on principal amounts outstanding representing approximately the cash flow receivables discounted at their effective yields, closely approximate their fair values.

The carrying values of borrowings which bear fixed and floating interest rates are expected to approximate fair values and would not be significantly different from the values that would eventually be settled.

18. Capital management

The Company's objectives when managing capital is to maintain a strong capital base and safeguard the Company's ability to continue as a going concern, so as to sustain future development of the business. The Directors monitor and are determined to maintain an optimal debt-to-equity ratio that complies with debt covenants and regulatory requirements.

The debt-to-equity ratios were as follows:

	Note	2017 RM	2016 RM
Total borrowings	11	1,409,594,945	1,591,657,380
Less: Cash and cash equivalents	9	(20,254,811)	(1,740,377)
Net debt		1,389,340,134	1,589,917,003
Total equity		1,510,524,583	490,010,618
Debt-to-equity ratios		0.92	3.24

There were no changes in the Company's approach to capital management during the financial year.

19. Related parties

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. The key management personnel includes all the Directors and certain members of senior management of the Company.

The Company has related party relationship with its related companies and key management personnel.

19. Related parties (continued)

Significant related party transactions

Related party transactions have been entered into in the normal course of business and have been established under negotiated terms. The significant related party transactions of the Company, other than key management personnel compensation (Note 14), are shown below. The balances related to the below transactions are expected to be settled with cash.

	2017		2016	
	Transaction amount RM	**Balance outstanding RM**	**Transaction amount RM**	**Balance outstanding RM**
Related companies				
Purchase of insurance	(241,724)	(61,281)	(152,489)	(65,317)
Handling fees income	287,146	-	232,508	14,812
Commission income	829,006	4,766	778,955	(1,350,273)
Interest income	41,078,593	192,144	28,682,660	6,098
Interest expense	(14,519,153)	-	(14,298,741)	(820,799)
Rental income	14,124	2,414	21,539	2,414
Rental expenses	(4,047,078)	(710,321)	(3,473,955)	-
Management fees	(3,261,028)	(1,015,079)	(2,937,577)	(836,493)
Maintenance charges	(1,391)	-	(770)	(38)
Valuation expenses	(1,000)	-	-	-

	2017		2016	
	Transaction amount RM	**Balance outstanding RM**	**Transaction amount RM**	**Balance outstanding RM**
Companies connected to Tan Sri Datuk Seri Panglima Lau Cho Kun @ Lau Yu Chak, a major shareholder of the immediate holding company:				
Lei Shing Hong Limited Group				
Commission income	42,000	-	-	-
Rental income	17,100	(1,590)	2,100	(318)
Rental deposit	4,000	-	-	-
Management fee income	1,184,000	-	1,776,000	-

Related companies in these financial statements refers to Gek Poh (Holdings) Sdn. Bhd., group of companies.

Tan Sri Datuk Seri Panglima Lau Cho Kun @ Lau Yu Chak is a major shareholder of Hap Seng Consolidated Berhad, the immediate holding company by virtue of his substantial shareholding in Gek Poh (Holdings) Sdn. Bhd., the ultimate holding company of the Company.

Hap Seng Credit Sdn. Bhd.

(Company No. 88601-H)
(Incorporated in Malaysia)

Statement by Directors pursuant to Section 251(2) of the Companies Act 2016

In the opinion of the Directors, the financial statements set out on pages 6 to 50 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Company as of 31 December 2017 and of its financial performance and cash flows for the financial year then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

....

Lee Wee Yong
Director

....

Puan Chen Keck
Director

Kuala Lumpur,

Date: 13 APR 2018

Hap Seng Credit Sdn. Bhd.

(Company No. 88601-H)
(Incorporated in Malaysia)

Statutory declaration pursuant to Section 251(1)(b) of the Companies Act 2016

I, **Raymond Khoo Teck Cheng**, the Officer primarily responsible for the financial management of Hap Seng Credit Sdn. Bhd., do solemnly and sincerely declare that the financial statements set out on pages 6 to 50 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act 1960.

Subscribed and solemnly declared by the abovenamed Raymond Khoo Teck Cheng, MIA CA6561, at Kuala Lumpur in Wilayah Persekutuan on 13 APR 2018.

....
Raymond Khoo Teck Cheng

Before me:

PESURUHJAYA SUMPAH
W 465
KAPT (B) JASNI BIN YUSOFF
1 JAN 2018 - 31 DIS 2018
MALAYSIA

Commissioner for Oaths
Wilayah Persekutuan

Lot 1.08, Tingkat 1
Bangunan KWSP, Jln Raja Laut
50350 Kuala Lumpur
Tel: 019 6680745

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants
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INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF HAP SENG CREDIT SDN. BHD.

(Company No. 88601-H)
(Incorporated in Malaysia)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Hap Seng Credit Sdn. Bhd., which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 6 to 50.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Company in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the Directors' Report, but does not include the financial statements of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Company does not cover the Directors' Report and we do not express any form of assurance conclusion thereon.

KPMG PLT, a limited liability partnership established under Malaysian law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Information Other than the Financial Statements and Auditors' Report Thereon (continued)

In connection with our audit of the financial statements of the Company, our responsibility is to read the Directors' Report and, in doing so, consider whether the Directors' Report is materially inconsistent with the financial statements of the Company or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Directors' Report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Company, the Directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Company, including the disclosures, and whether the financial statements of the Company represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Matter

This report is made solely to the member of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG PLT	**Chua See Guan**
(LLP0010081-LCA & AF 0758)	Approval Number: 03169/02/2019 J
Chartered Accountants	Chartered Accountant

Date: 13 April 2018

Petaling Jaya, Selangor

1. INTRODUCTION

HSCB had on 14 August 2017 announced that its wholly-owned subsidiary, HSCD had on even date entered into a sale and purchase agreement with Zillion pursuant to which HSCD disposed all those forty-eight (48) contiguous parcels of vacant leasehold lands, which lease is due to expire on 31 December 2895 situated at Mile 1, Jalan Kuhara, Tawau, Sabah to Zillion for a cash consideration of RM175,276,000 ("**HSCD Disposal**") ("**HSCD SPA**").

Zillion is a wholly-owned subsidiary of Akal Megah which in turn is a wholly-owned subsidiary of LSH.

The HSCD Disposal was deemed a related party transaction pursuant to Paragraph 10.08 of Chapter 10 of the Listing Requirements.

2. DETAILS OF THE HSCD DISPOSAL

As announced on 14 August 2017, the terms of the HSCD Disposal were agreed upon on even date with the execution of the HSCD SPA.

2.1 DETAILS OF THE HSCD LANDS

Details of the HSCD Lands :

No.	Title No.	No.	Title No.	No.	Title No.
1.	TL 107510298	17.	CL 105341151	33.	TL 107510216
2.	CL 105243105	18.	CL 105341160	34.	TL 107510207
3.	CL 105341213	19.	CL 105341179	35.	TL 107510289
4.	CL 105341026	20.	CL 105341188	36.	TL 107510172
5.	CL 105341035	21.	CL 105341197	37.	TL 107517868
6.	CL 105341044	22.	TL 107510323	38.	TL 107510243
7.	CL 105341053	23.	TL 107510225	39.	TL 107510181
8.	CL 105341062	24.	TL 107514303	40.	TL 107517877
9.	CL 105341071	25.	TL 107514296	41.	TL 107510234
10.	CL 105341080	26.	TL 107517608	42.	TL 107514312
11.	CL 105341099	27.	TL 107517591	43.	TL 107517886
12.	CL 105341106	28.	TL 107510261	44.	TL 107510190
13.	CL 105341115	29.	TL 107510252	45.	TL 107510270
14.	CL 105341124	30.	TL 107510314	46.	CL 105341204
15.	CL 105341133	31.	TL 107510305	47.	CL 105341222
16.	CL 105341142	32.	CL 105359993	48.	CL 105341231

Beneficial owner	:	HSCD
Locality	:	Situated at Mile 1, Jalan Kuhara, Tawau, Sabah
Leasehold tenure	:	999 years leasehold interest expiring on 31 December 2895 (with an unexpired term of about 879 years)
Brief description	:	Vacant leasehold lands
Land size	:	Approximately 438,221.72 square feet
Net book value as at 31 December 2016	:	RM27,889,000
Market value	:	RM175,276,000
Date of valuation	:	8 August 2017
Encumbrances	:	Nil

3. DISPOSAL CONSIDERATION

The HSCD Disposal Consideration was RM175,276,000.

3.1 Basis and justification for the HSCD Disposal Consideration

The HSCD Disposal Consideration was based on the selling price of approximately RM400 per square foot. It was arrived at on a willing-buyer and willing-seller basis after taking into consideration VPC Alliance (Sabah) Sdn Bhd's (an independent firm of registered professional valuers) valuation of the HSCD Lands at RM175,276,000, using Comparison Method as set out in their valuation report dated 10 August 2017.

3.2 The manner in which the HSCD Disposal Consideration was satisfied

The HSCD Disposal Consideration was paid in cash by Zillion to HSCD within one (1) month from the date of the HSCD SPA.

4. FINANCIAL INFORMATION OF THE HSCD LANDS

4.1 Net profits attributable to the HSCD Lands

Not applicable as there was no business activity carried out on the HSCD Lands.

4.2 NA or net book value of the HSCD Lands

The net book value of the HSCD Lands as at 31 December 2016 was RM27,889,000, including deferred development expenditure.

5. EFFECTS OF THE HSCD DISPOSAL

5.1 EPS

Based on the audited consolidated financial statements of HSCB Group for the FYE 31 December 2016 and assuming that the HSCD Disposal had been effected at the beginning of the financial year, the EPS of HSCB Group would have increased by approximately 4.74 sen.

5.2 NA per share

Based on the audited consolidated financial statements of HSCB Group for the FYE 31 December 2016 and assuming that the HSCD Disposal had been effected at the end of the financial year, the NA per share of HSCB Group would have increased by approximately 4 sen.

5.3 Gearing

Based on the audited consolidated financial statements of HSCB Group for the FYE 31 December 2016 and assuming that the HSCD Disposal had been effected at the end of the financial year, the net gearing* of HSCB Group would have decreased from 0.62 times to 0.57 times.

Note:

* *Net gearing ratio is computed after deducting money market deposits and cash and bank balances.*

5.4 Share capital and substantial shareholders' shareholdings of HSCB

As the HSCD Disposal did not involve issuance of new shares by HSCB, the HSCD Disposal did not have any effect on the issued share capital of HSCB and the substantial shareholders' shareholdings in HSCB.

6. DETAILS OF THE HSCD DISPOSAL

6.1 Gains from the HSCD Disposal

The HSCD Disposal gave rise to a net gain of approximately RM111,931,000 to HSCB Group for the FYE 31 December 2017.

6.2 Utilisation of proceeds from the HSCD Disposal

The HSCD Disposal Consideration was utilised to reduce the HSCB Group's borrowings and used as working capital of the HSCB Group as follows:

Details of Utilisation of the HSCD Disposal Consideration	RM 000	%
Repayment of borrowings	159,400	90.94
Working capital	15,876	9.06
Total	**175,276**	**100.00**

6.3 Information on Zillion, Akal Megah and LSH

(i) Information on Zillion

Zillion is a private limited company incorporated in Malaysia on 10 July 2017 with its registered office at 18th Floor, Menara Hap Seng, No. 1 & 3, Jalan P. Ramlee, 50250 Kuala Lumpur. Zillion has an issued share capital of RM1.00 comprising one (1) ordinary share. Zillion is principally involved in property development.

(ii) Information on Akal Megah

Akal Megah is a private limited company incorporated in Malaysia on 25 June 1997 with its registered office at 18th Floor, Menara Hap Seng, No. 1 & 3, Jalan P. Ramlee, 50250 Kuala Lumpur. Akal Megah has an issued share capital of RM1,903,500 comprising 1,500,000 ordinary shares and 403,500 redeemable preference shares. Akal Megah is principally involved in investment holding and property investment.

(iii) Information on LSH

LSH is a limited liability company incorporated in Hong Kong on 13 June 1972 with its registered office at 8/F, New World Tower I, 18 Queen's Road Central, Hong Kong. LSH has an issued share capital of HKD5,075,074,066 comprising 1,189,824,288 ordinary shares. LSH is principally involved in investment holding.

6.4 Liabilities assumed by Zillion

There were no liabilities (including contingent liabilities and guarantees) assumed by Zillion arising from the HSCD Disposal.

6.5 Date and original cost of investment of the HSCD Lands

The date and original cost of investment of the HSCD Lands are as follows:

Date of Investment	Total Original Cost of Investment
31 January 1986 to 8 August 2017	RM26,124,000

7. APPROVALS REQUIRED FOR THE HSCD DISPOSAL

The HSCD Disposal was not subject to the approval of the shareholders of HSCB and/or the relevant authorities.

8. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED WITH THEM

As at the date of the announcement of the HSCD Disposal on 14 August 2017:

Tan Sri Lau is a 50.10% deemed major shareholder of LSH. He is also a director and a 56.00% major shareholder of Gek Poh. Gek Poh holds 12.42% shares of LSH and Gek Poh is also the holding company of HSCB with an aggregate shareholding of 60.83%, comprising 54.63% direct shareholding and 6.20% indirect shareholding via HSIS. LSHI, a wholly-owned subsidiary of LSHCL, which in turn is a wholly-owned subsidiary of LSH, is a 13.08% major shareholder of HSCB. Hence, Tan Sri Lau, Gek Poh, HSIS, LSH, LSHCL and LSHI are deemed interested in the HSCD Disposal.

Datuk Edward Lee Ming Foo is the managing director of both HSCB and Gek Poh. Mr. Lee Wee Yong is an executive director of HSCB and a director of Gek Poh. As at the date of the announcement of the HSCD Disposal on 14 August 2017, Gek Poh holds 12.42% equity interest in LSH and hence, is a major shareholder of LSH. Zillion is a wholly-owned subsidiary of Akal Megah, which in turn a wholly-owned subsidiary of LSH. Premised on Datuk Edward Lee Ming Foo and Mr. Lee Wee Yong's common directorships in HSCB and Gek Poh, they are deemed interested in the HSCD Disposal. As such, they have abstained from all board deliberations and voting in respect of the HSCD Disposal.

Datuk Simon Shim Kong Yip is a non-independent non-executive director of HSCB and a non-executive director of LSH and a director in Akal Megah. Mr. Ch'ng Kok Phan is a non-independent non-executive director of HSCB and an executive director of LSH. Premised on Datuk Simon Shim Kong Yip's common directorships in HSCB, LSH and Akal Megah and Mr. Ch'ng Kok Phan's common directorships in HSCB and LSH, they are interested in the HSCD Disposal. As such, Datuk Simon Shim Kong Yip and Mr. Ch'ng Kok Phan have abstained from all board deliberations and voting in respect of the HSCD Disposal.

9. RATIONALE FOR THE HSCD DISPOSAL

The HSCD Disposal is in line with the Group's strategy of selling non-strategic lands to reposition its property developments in the prime locations of the Klang Valley. The HSCD Disposal enables HSCD to realise an attractive gain and the proceeds were used to reduce bank borrowings and/or to contribute to the working capital of HSCB Group.

10. SALIENT TERMS OF THE HSCD SPA

(a) The HSCD SPA shall be deemed completed upon full payment of the HSCD Disposal Consideration by Zillion to HSCD. In the event Zillion was unable to pay the HSCD Disposal Consideration to HSCD within the completion period, HSCD shall grant to Zillion a further grace period of one (1) month to pay the HSCD Disposal Consideration, with late payment interest at the rate of eight per centum (8%) per annum on the HSCD Disposal Consideration calculated on a day to day basis until the date of full settlement.

(b) Upon completion of full payment of the HSCD Disposal Consideration, HSCD shall at its own cost and expense and as expeditiously as possible apply for the amalgamation of the HSCD Lands and upon amalgamation and subject to the receipt by HSCD of the new issue document of title to the HSCD Lands, HSCD shall forthwith deliver a valid and registrable Memorandum of Transfer ("Transfer") to Zillion together with the original issue document of title to the HSCD Lands and all other relevant documents for adjudication as to the stamp duty chargeable thereon and thereafter for Zillion to effect the registration of the Transfer at the Central Land Registry, Kota Kinabalu.

(c) Pending completion of the amalgamation and issuance of the new issue document of title to the HSCD Lands, HSCD shall execute a power of attorney and all other instruments deemed necessary in favour of Zillion or its nominees in such terms as to enable Zillion to deal with the HSCD Lands as if Zillion was the registered owner thereof including but not limited to the power to sell, transfer, lease, charge and sign all other documents in relation to the HSCD Lands and shall deliver without delay the power of attorney to Zillion to hold the same in its custody with irrevocable instructions from HSCD to cause the same to be stamped and noted upon full payment of the HSCD Disposal Consideration by Zillion to HSCD.

(d) If without any fault or breach on the part of Zillion, HSCD shall fail, neglect or refuse to complete the transfer of the HSCD Lands to Zillion in accordance with the provisions therein contained, Zillion shall be entitled at the cost and expense of HSCD to terminate the HSCD SPA and claim for refund of the HSCD Disposal Consideration and damages against HSCD and reimbursement of all payment of all legal fees, costs and expenses incurred by Zillion arising thereof and incidental thereto.

(e) Vacant possession of the HSCD Lands shall be deemed delivered to Zillion upon payment in full of the said HSCD Disposal Consideration to HSCD.

11. DIRECTORS' STATEMENT

The Board of Directors (save for the interested directors stated in Section 8 of this Appendix VII(A)) had considered all aspects of the HSCD Disposal (including but not limited to the rationale and financial effects), was of the view that the HSCD Disposal was in the best interest of the Company.

12. ESTIMATED TIME FRAME TO COMPLETE THE HSCD DISPOSAL

Barring unforseen circumstances, the HSCD Disposal was expected to be completed within one (1) month from the date of the HSCD SPA. The HSCD Disposal was completed on 18 August 2017.

13. THE HIGHEST PERCENTAGE RATIO APPLICABLE TO THE HSCD DISPOSAL PURSUANT TO PARAGRAPH 10.02(G) OF THE LISTING REQUIREMENTS

Pursuant to paragraph 10.02(g) of the Listing Requirements, the highest percentage ratio applicable to the HSCD Disposal was 3.19%.

14. STATEMENT BY AUDIT COMMITTEE

The audit committee of HSCB (save for Datuk Simon Shim Kong Yip who had abstained from deliberating and voting on the resolutions in relation to the HSCD Disposal on 14 August 2017 due to his common directorships in HSCB, LSH and Akal Megah), having considered all aspects of the HSCD Disposal (including but not limited to the rationale and the financial effects of the HSCD Disposal), was of the opinion that the HSCD Disposal was:

(a) in the best interest of the Company and the HSCB Group;

(b) fair, reasonable and on normal commercial terms; and

(c) not detrimental to the interest of the minority shareholders.

15. OTHER TRANSACTIONS WITH THE SAME RELATED PARTY

The total amount of related party transactions with the same related party, Tan Sri Lau, for the preceding 12 months from the date of the announcement of the HSCD Disposal on 14 August 2017 are as follows:-.

Type of transaction[1]	Transacting Parties	Date of transaction	Value (RM)	% Ratio
Disposal of a parcel of vacant leasehold land held under PL106149633 measuring approximately 24.88 acres situated at Jalan Sin Onn, District of Tawau, State of Sabah by Hap Seng Properties Development Sdn Bhd ("**HSPD**") to Supergreen Development Sdn Bhd ("**Supergreen**") ("**HSPD Disposal**") HSPD Disposal was completed on 30 September 2016	Supergreen[2]	26 September 2016	54,188,640.00	1.28%
Disposal of a parcel of vacant leasehold land held under CL 015483806 measuring approximately 53.72 acres situated at Mile 13, Tuaran Road, District of Kota Kinabalu, State of Sabah by Hap Seng Land Development (Jesselton Hill) Sdn Bhd ("**Jesselton Hill**") to Primary Goldennet Sdn Bhd ("**Primary Goldennet**") ("**Jesselton Hill Disposal**") Jesselton Hill Disposal was completed on 30 September 2016	Primary Goldennet[2]	26 September 2016	60,841,123.20	1.43%
Disposal of Lot 1 and Lot 4 forming part of CL 105420666 measuring approximately 52.57 acres, situated at Mile 10, Apas Road, District of Tawau, State of Sabah by HSPD to Goldcoin Ventures Sdn Bhd ("**Goldcoin**") ("**Lot 1 & 4 Disposals**") Lot 1 & 4 Disposals were completed on 23 January 2017	Goldcoin[2]	13 January 2017	91,000,000.00	Lot 1: 1.11% Lot 4: 1.04%

Type of transaction[1]	Transacting Parties	Date of transaction	Value (RM)	% Ratio
Disposal of 250,000,000 ordinary shares representing 100% of the equity interest in Hap Seng Logistics Sdn Bhd to LSH Logistics Limited ("**LSHL**") ("**HSL Disposal**") HSL Disposal was completed on 1 June 2017	LSHL[2]	7 March 2017	750,000,000.00	17.68%

By applying the rule of aggregation pursuant to Paragraph 10.12(2)(a) of Listing Requirements, HSCB had at the EGM held on 31 May 2017, obtained its shareholders' approval for the HSL Disposal.

In compliance with Paragraph 2.1(b) of the Practice Note 14 of the Listing Requirements, the information on HSPD Disposal, Jesselton Hill Disposal and Lot 1 & 4 Disposals were contained in the circular to the shareholders dated 17 May 2017 is only for the information of the shareholders and no shareholders' approval is required in respect of the same.

Notes:

(1) The expression "transaction" used herein excludes recurrent related party transactions entered into in the ordinary course of business of HSCB Group.

(2) Supergreen, Primary Goldennet and Goldcoin are indirect wholly-owned subsidiaries of LSH and LSHL is a wholly-owned subsidiary of LSH.

1. INTRODUCTION

HSCB had on 23 October 2017 announced that its wholly-owned subsidiary, MMSB had on even date entered into a sale and purchase agreement with Byorion pursuant to which MMSB disposed all that parcel of 60-year leasehold land which lease is due to expire on 3 April 2060 (with an unexpired term of 43 years) with a provisional titled land area of approximately 12.1406 hectares and actual surveyed area of 12.06 hectares held under H.S.(D) 43799, Lot No. PTD 53638 (New Lot No. 44876), Mukim and District of Kluang, State of Johor Darul Ta'zim ("**MMSB Land**") together with various buildings for the production and manufacturing of floor and wall tiles ("**Buildings**") erected thereon (collectively, the "**MMSB Land and Buildings**") to Byorion for a cash consideration of RM97,500,000 ("**MMSB Disposal**") ("**MMSB SPA**").

Simultaneous with the execution of the MMSB SPA, MMSB entered into a lease agreement with Byorion whereby MMSB as the lessee shall lease back from Byorion, the lessor, the Buildings for an initial period of 10 years ("**Initial Period**") at a monthly rental of RM337,949 with an option to renew for a further term of 10 years subject to the terms contained therein ("**Lease Agreement**") which Initial Period shall commence upon completion of the MMSB SPA (the "**Proposed Leaseback**").

(The MMSB Disposal and the Proposed Leaseback shall collectively be referred to as the "**MMSB Disposal and Leaseback**").

Byorion is the wholly-owned subsidiary of Akal Megah which in turn a wholly-owned subsidiary of LSH.

The MMSB Disposal and Leaseback was deemed a related party transaction pursuant to Paragraph 10.08 of Chapter 10 of the Listing Requirements.

2. DETAILS OF THE MMSB DISPOSAL AND LEASEBACK

As announced on 23 October 2017, the terms of the MMSB Disposal and Leaseback were agreed upon on even date with the execution of the MMSB SPA and Lease Agreement.

2.1 DETAILS OF THE PROPERTY

Title details	:	H.S.(D) 43799, Lot No. PTD 53638 (New Lot No. 44876), Mukim and District of Kluang, State of Johor Darul Ta'zim
Registered proprietor	:	MMSB
Beneficial owner	:	MMSB
Postal Address	:	PLO 1, Kawasan Perindustrian Mengkibol, Off Jalan Batu Pahat, 86000 Kluang, Johor
Tenure	:	60-year leasehold interest expiring on 3 April 2060 (with an unexpired term of about 43 years)
Title Land area		Provisional titled land area of 12.1406 hectares (1,306,803 square feet) and actual surveyed area of 12.06 hectares (1,298,170 square feet)

Build-up area of the Buildings	:	695,898 square feet
Brief description of the Buildings	:	(a) Single storey administrative building housing the canteen block; (b) Single storey production building; (c) Single storey raw material bunker; (d) Single storey main warehouse; (e) 2 units of single storey satellite warehouses; (f) 2 units of single stores and ancillary buildings; (g) 2 units of single storey warehouses; (h) Ancillary buildings housing the waste disposal, TNB, sub-station, water tanks are also found within the premises.
Age of the Buildings	:	Approximately 12 years
Net book value as at 31 December 2016	:	RM78,527,000
Market value	:	RM97,500,000
Date of valuation	:	10 July 2017
Encumbrances	:	Nil

3. DISPOSAL CONSIDERATION

The MMSB Disposal Consideration was RM97,500,000.

3.1 Basis and justification for the MMSB Disposal Consideration

The MMSB Disposal Consideration was based on the following selling price:-

(i) RM74.61 per square foot based on provisional titled land area of 12.1406 hectares; and

(ii) RM75.11 per square foot based on actual surveyed area of 12.06 hectares.

It was arrived at on a willing-buyer and willing-seller basis after taking into consideration VPC Alliance (Kajang) Sdn Bhd's (an independent firm of registered professional valuers) valuation of the Property at RM97,500,000, using Cost Approach Method as set out in their valuation report dated 10 July 2017.

3.2 The manner in which the MMSB Disposal Consideration was satisfied

The MMSB Disposal Consideration shall be paid by the Byorion in the following manner:

(i) A deposit of RM9,750,000 equivalent to 10% of the MMSB Disposal Consideration shall be paid to MMSB upon the execution of the MMSB SPA ("**MMSB Deposit**"); and

(ii) the balance sum of RM87,750,000 equivalent to 90% of the MMSB Disposal Consideration shall be paid to MMSB within 1 month from the date of the MMSB SPA ("**MMSB Completion Period**").

4. FINANCIAL INFORMATION OF THE MMSB LAND AND BUILDINGS

4.1 Net profits attributable to the MMSB Land and Buildings

Not applicable as the Buildings are being used for production operations of MMSB.

4.2 NA or net book value of the MMSB Land and Buildings

The net book value of the said Property as at 31 December 2016 was RM78,527,000.

5. EFFECTS OF THE MMSB DISPOSAL

5.1 EPS

Based on the audited consolidated financial statements of HSCB Group for the financial year ended 31 December 2016 and assuming that the MMSB Disposal had been effected at the beginning of the financial year, the EPS of HSCB Group would have increased by approximately 1.14 sen.

5.2 NA per share

Based on the audited consolidated financial statements of HSCB Group for the FYE 31 December 2016 and assuming that the MMSB Disposal had been effected at the end of the financial year, the NA per share of HSCB Group would have increased by approximately 1 sen.

5.3 Gearing

Based on the audited consolidated financial statements of HSCB Group for the FYE 31 December 2016 and assuming that the MMSB Disposal had been effected at the end of the financial year, the net gearing* of HSCB Group would have decreased from 0.62 times to 0.60 times.

Note:

* *Net gearing ratio is computed after deducting money market deposits and cash and bank balances.*

5.4 Share capital and substantial shareholders' shareholdings of HSCB

As the MMSB Disposal did not involve issuance of new shares by HSCB, the MMSB Disposal did not have any effect on the issued share capital of HSCB and the substantial shareholders' shareholdings in HSCB.

6. DETAILS OF THE MMSB DISPOSAL

6.1 Gains from the MMSB Disposal

The MMSB Disposal gave rise to a net gain of approximately RM26,292,000 to HSCB Group for the FYE 31 December 2017.

6.2 Utilisation of proceeds from the MMSB Disposal

The MMSB Disposal Consideration was utilised to reduce the HSCB Group's borrowings and used as working capital of the HSCB Group as follows:

Details of Utilisation of the MMSB Disposal Consideration	**RM 000**	**%**
Repayment of borrowings	94,000	96.41
Working capital	3,500	3.59
Total	**97,500**	**100.00**

6.3 Information on Byorion, Akal Megah and LSH

(i) Information on Byorion

Byorion is a private limited company incorporated in Malaysia on 16 December 2004 with its registered office at 18th Floor, Menara Hap Seng, No. 1 & 3, Jalan P. Ramlee, 50250 Kuala Lumpur. Byorion has an issued share capital of RM14,002 comprising 2 ordinary shares and 14,000 redeemable preference shares ("**RPS**"). Byorion is principally involved in property investment.

(ii) Information on Akal Megah

Akal Megah is a private limited company incorporated in Malaysia on 25 June 1997 with its registered office at 18th Floor, Menara Hap Seng, No. 1 & 3, Jalan P. Ramlee, 50250 Kuala Lumpur. Akal Megah has an issued share capital of RM1,903,500 comprising 1,500,000 ordinary shares and 403,500 RPS. Akal Megah is principally involved in investment holding and property investment.

(iii) Information on LSH

LSH is a limited liability company incorporated in Hong Kong on 13 June 1972 with its registered office at 8/F, New World Tower I, 18 Queen's Road Central, Hong Kong. LSH has an issued share capital of HKD5,075,074,066 comprising 1,189,824,288 ordinary shares. LSH is principally involved in investment holding.

6.4 Liabilities assumed by Byorion

There were no liabilities (including contingent liabilities and guarantees) assumed by Byorion arising from the MMSB Disposal.

6.5 Date and original cost of investment of the MMSB Land and Buildings

The original cost of investment of the MMSB Land and Buildings are as follows:

Date of Investment	**Original Cost of Investment**
May 2004	RM36,209,223

7. APPROVALS REQUIRED FOR THE MMSB DISPOSAL AND LEASEBACK

The MMSB Disposal and Leaseback were not subject to the approval of the shareholders of HSCB. The written approval of the state authority for the sale and transfer of the MMSB Land in favour of Byorion was obtained on 2 October 2017.

8. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED WITH THEM

As at the date of the announcement of the MMSB Disposal and Leaseback on 23 October 2017:

Tan Sri Lau is a 50.10% deemed major shareholder of LSH. He is also a director and a 56.00% major shareholder of Gek Poh. Gek Poh holds 12.42% shares of LSH and Gek Poh is also the holding company of HSCB with an aggregate shareholding of 60.83%, comprising 54.63% direct shareholding and 6.20% indirect shareholding via HSIS. LSHI, a wholly-owned subsidiary of LSHCL, which in turn is a wholly-owned subsidiary of LSH, is a 13.08% major shareholder of HSCB. Hence, Tan Sri Lau, Gek Poh, HSIS, LSH, LSHCL and LSHI are deemed interested in the MMSB Disposal and Leaseback.

Datuk Edward Lee Ming Foo is the managing director of both HSCB and Gek Poh. Mr. Lee Wee Yong is an executive director of HSCB and a director of Gek Poh. As at the date of the announcement of the MMSB Disposal and Leaseback on 23 October 2017, Gek Poh holds 12.42% equity interest in LSH and hence, is a major shareholder of LSH. Byorion is the wholly-owned subsidiary of LSH. Premised on Datuk Edward Lee Ming Foo and Mr. Lee Wee Yong's common directorships in HSCB and Gek Poh, they are deemed interested in the MMSB Disposal and Leaseback. As such, they have abstained from all board deliberations and voting in respect of the MMSB Disposal and Leaseback.

Datuk Simon Shim Kong Yip is a non-independent non-executive director of HSCB and a non-executive director of LSH and a director of Byorion. Mr Ch'ng Kok Phan is a non-independent non-executive director of HSCB and an executive director of LSH. Premised on Datuk Simon Shim Kong Yip's common directorship in HSCB, LSH and Byorion and Mr Ch'ng Kok Phan's common directorships in HSCB and LSH, they are interested in the MMSB Disposal and Leaseback. As such, Datuk Simon Shim Kong Yip and Mr Ch'ng Kok Phan have abstained from all board deliberations and voting in respect of the MMSB Disposal and Leaseback.

9. RATIONALE FOR THE MMSB DISPOSAL AND LEASEBACK

The MMSB Disposal enabled MMSB to reduce its investment in fixed assets and utilise the MMSB Disposal Consideration to expand MMSB's trading business in OEM (original equipment manufacturer) tiles in the local and regional markets.

The Proposed Leaseback would ensure no interruption to the existing production operations of MMSB at the Buildings.

10. SALIENT TERMS OF THE MMSB SPA and Lease Agreement

10.1 Salient terms of the MMSB SPA

(a) Simultaneous with the execution of the MMSB SPA, the parties have entered into the Lease Agreement whereby MMSB shall lease back from Byorion the MMSB Land and Buildings upon and subject to the terms and conditions contained therein which lease shall commence upon completion of the MMSB SPA.

(b) MMSB has obtained the written approval of the Johor Land and Mines office (Pejabat Pengarah Tanah dan Galian Johor) dated 2 October 2017 for the sale and transfer of the MMSB Land in favour of Byorion.

(c) The MMSB SPA shall be deemed completed upon full payment of the MMSB Disposal Consideration by Byorion to MMSB. In the event Byorion was unable to pay the MMSB Disposal Consideration to MMSB within the MMSB Completion Period, MMSB shall be deemed to have automatically granted to Byorion an extension of 10 business days to pay the MMSB Disposal Consideration ("**Extended Completion Period**"), with late payment interest at the rate of eight per centum (8%) per annum on the MMSB Disposal Consideration until the date of full settlement.

(d) On completion of the MMSB SPA:

(i) MMSB shall deliver a power of attorney ("**MMSB Power of Attorney**") in favour of Byorion to enable Byorion to deal with the MMSB Land pending the adjudication and registration of the memorandum of transfer ("**MMSB Transfer**") as if Byorion was the registered owner thereof including but not limited to the power to sell, transfer, lease, charge and sign all other documents in relation to the MMSB Land with irrevocable instructions from MMSB to cause the power of attorney to be stamped and noted at the appropriate land office; and

(ii) MMSB shall deliver a valid and registered MMSB Transfer to Byorion together with the original issue document of title to the MMSB Land and all other relevant documents necessary for adjudication as to the stamp duty chargeable thereon and thereafter for Byorion to effect the registration of the MMSB Transfer at the appropriate land office.

(e) In the event Byorion was unable to pay the MMSB Disposal Consideration within the MMSB Completion Period, MMSB shall be entitled at MMSB's absolute discretion to pursue an action for specific performance of the MMSB SPA together with all other reliefs flowing therefrom or to terminate the MMSB SPA by notice in writing to Byorion, in which event the MMSB Deposit and all interest accrued thereon (if any) shall be forfeited in favour of MMSB as agreed liquidated damages.

(f) In the event MMSB was unable to complete the sale and purchase in accordance with the terms and conditions of the MMSB SPA or shall be in material breach of any of the provisions of the MMSB SPA, Byorion shall be entitled to pursue an action for specific performance of the MMSB SPA together with all other reliefs flowing therefrom or alternately to terminate the MMSB SPA in which event MMSB shall refund to Byorion all the sums paid by Byorion under the MMSB SPA and further pay to Byorion a sum equivalent to the MMSB Deposit as agreed liquidated damages.

(g) The MMSB Land and Buildings shall be sold in its present state and condition and Byorion shall be deemed to have inspected the MMSB Land and Buildings and is satisfied by examination and inspection as to the MMSB Land and Buildings in every aspect and Byorion shall be deemed to have full knowledge of the nature and effect thereof and Byorion shall be deemed to have purchased the MMSB Land and Buildings in its present state and condition on an "as is where is" basis as at the date of the MMSB SPA and not upon or pursuant to any representation, statement, warranty, condition whatsoever made to Byorion in respect of the MMSB Land and Buildings and Byorion shall not be entitled to rescind the purchase or to claim any compensation or damages nor any reduction in the MMSB Disposal Consideration in respect of the condition, measurement, area and state of the MMSB Land and Buildings.

10.2 Salient terms of the Lease Agreement

(a) The Initial Period of the lease shall commence upon completion of the MMSB SPA for an initial period of 10 years with an option to renew for another 10 years.

(b) MMSB under the Lease Agreement shall pay monthly rent in the sum of RM337,949 for the Initial Period.

(c) A sum of RM675,898 being the security deposit and the sum of RM168,974 being the utilities deposit shall be paid to Byorion on or before the commencement of the Lease Agreement.

(d) MMSB shall be responsible for the entire upkeep, maintenance, repairs, replacement (whether arising from routine maintenance and/or normal wear and tear) of the MMSB Land and Buildings including but not limited to procuring all required licenses, Bomba certificates, quit rent and assessment an all other outgoings attributable to the MMSB Land and Buildings without any recourse nor contribution from Byorion for the whole duration of the Lease Agreement.

(e) Byorion shall be responsible for all premiums, levy and all other costs to be incurred for the purposes of extending the tenure of the leasehold period of the MMSB Land.

(f) MMSB shall be responsible to ensure that there are approved plans for all buildings and structures erected on the MMSB Land (including approvals for all non-permissible buildings or structures having been obtained), being issued with the relevant certificate of fitness/certificate of completion and compliance.

(g) Upon Byorion's receipt of a written request from MMSB for renewal of the lease not less than 1 month before the expiration of the Initial Period, Byorion shall grant to MMSB a lease of the MMSB Land and Buildings for a further term of 10 years from the date immediately after the expiry of the lease at the revised rental rate based on the market rental rate then prevailing and as may be agreed between the parties in writing but otherwise containing the same terms and conditions therein contained except the provision for renewal.

11. DIRECTORS' STATEMENT

The Board of Directors (save for the interested directors stated in Section 8 of this Appendix VII(B)) had considered all aspects of the MMSB Disposal and Leaseback (including but not limited to the rationale and financial effects), was of the view that the MMSB Disposal and Leaseback was in the best interest of the Company.

12. ESTIMATED TIME FRAME TO COMPLETE THE MMSB DISPOSAL AND LEASEBACK

Barring unforseen circumstances, the MMSB Disposal was expected to be completed within one (1) month from the date of the MMSB SPA. The MMSB Disposal was completed on 25 October 2017 and accordingly, the Proposed Leaseback had become effective on the same day.

13. THE HIGHEST PERCENTAGE RATIO APPLICABLE TO THE MMSB DISPOSAL PURSUANT TO PARAGRAPH 10.02(G) OF THE LISTING REQUIREMENTS

Pursuant to paragraph 10.02(g) of the Listing Requirements, the highest percentage ratio applicable to the MMSB Disposal was 1.78%.

14. STATEMENT BY AUDIT COMMITTEE

The audit committee of HSCB (save for Datuk Simon Shim Kong Yip who had abstained from deliberating and voting on the resolutions in relation to the Proposed Disposal and Leaseback on 23 October 2017 due to his common directorships in HSCB, LSH and Byorion), having considered all aspects of the Proposed Disposal and Leaseback (including but not limited to the rationale and the financial effects of the Proposed Disposal and Leaseback), was of the opinion that the Proposed Disposal and Leaseback was:

(a) in the best interest of the Company and the HSCB Group;

(b) fair, reasonable and on normal commercial terms; and

(c) not detrimental to the interest of the minority shareholders.

15. OTHER TRANSACTIONS WITH THE SAME RELATED PARTY

The total amount of related party transactions with the same related party, Tan Sri Lau, for the preceding 12 months from the date of the announcement dated 23 October 2017 are as follows:

Type of transaction[1]	Transacting Parties	Date of transaction	Value (RM)	% Ratio
Disposal of Lot 1 and Lot 4 forming part of CL 105420666 measuring approximately 52.57 acres, situated at Mile 10, Apas Road, District of Tawau, State of Sabah by Hap Seng Properties Development Sdn Bhd ("**HSPD**") to Goldcoin Ventures Sdn Bhd ("**Goldcoin**") ("**HSPD Disposals**") HSPD Disposals were completed on 23 January 2017	Goldcoin[2]	13 January 2017	91,000,000	Lot 1: 1.11% Lot 4: 1.04%
Disposal of 250,000,000 ordinary shares representing 100% of the equity interest in Hap Seng Logistics Sdn Bhd ("**HSL**") to LSH Logistics Limited ("**LSHL**") ("**HSL Disposal**") HSL Disposal was completed on 1 June 2017	LSHL[2]	7 March 2017	750,000,000	17.68%
Disposal of all those forty-eight (48) contiguous parcels of vacant land situated at Mile 1, Jalan Kuhara, Tawau, Sabah by HSCD to Zillion ("**HSCD Disposal**") HSCD Disposal was completed on 18 August 2017	Zillion[2]	14 August 2017	175,276,000	3.19%

By applying the rule of aggregation pursuant to Paragraph 10.12(2)(a) of the Listing Requirements, HSCB had at the EGM held on 31 May 2017, obtained its shareholders' approval for the HSL Disposal.

In compliance with Paragraph 2.1 (b) of the Practice Note 14 of the Listing Requirements, the information on HSPD Disposal was contained in the circular to the shareholders dated 17 May 2017 is only for the information of the shareholders and no shareholders' approval is required in respect of the same.

Notes:

(1) The expression "transaction" used herein excludes recurrent related party transactions entered into in the ordinary course of business.

(2) Goldcoin, Zillion are indirect wholly-owned subsidiaries of LSH and LSHL is a wholly-owned subsidiary of LSH.

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1. Directors' responsibility statement

This Circular has been seen and approved by the Board and they collectively and individually, accept full responsibility for the accuracy of the information contained in this Circular and confirm that, after making all reasonable enquiries and to the best of their knowledge and belief, there are no false or misleading statements or other facts, the omission of which would make any statement herein false or misleading.

Information pertaining to LSHCL was extracted from publicly available information and information provided by the management and/or directors of LSHCL. Therefore, the responsibility of the Board is restricted to the accurate reproduction of the said information.

2. Consents

CIMB and Affin Hwang IB have given and have not subsequently withdrawn their written consents to the inclusion in this Circular of their names, letters and reports (where applicable) and all references thereto in the form and context in which they appear in this Circular.

3. Declarations of conflict of interest

3.1 CIMB

CIMB, being the Principal Adviser for the Proposals, has given and has not withdrawn its written consent to the inclusion in this Circular of its name and all references thereto in the form and context in which it appears in this Circular.

CIMB, its related and associated companies, as well as its holding company, CIMB Group Holdings Berhad and the subsidiaries and associated companies of its holding company (the "**CIMB Group**") form a diversified financial group and are engaged in a wide range of investment and commercial banking, brokerage, securities trading, asset and funds management and credit transaction service businesses. The CIMB Group has engaged and may in the future, engage in transactions with and perform services for the Group. In addition, in the ordinary course of business, any member of the CIMB Group may at any time offer or provide its services to or engage in any transactions (on its own account or otherwise) with our Company and/or any other person(s), hold long or short positions in securities issued by us and/or our affiliates, make investment recommendations and/or publish or express independent research views on such securities, and may trade or otherwise effect transactions for its own account or the account of its other customers in debt or equity securities or senior loans of our Company and/or our affiliates. This is a result of the businesses of CIMB Group generally acting independently of each other and accordingly, there may be situations where parts of the CIMB Group and/or its customers now have or in the future, may have interest or take actions that may conflict with the interests of the Group.

CIMB Bank Berhad has in the ordinary course of its banking business, extended credit facilities to the Group. As at the LPD, the outstanding amount is RM182.34 million.

CIMB has confirmed that the abovementioned extension of credit facilities does not result in conflict of interest situation in respect of its role as the Principal Adviser for the Proposals due to the following:

(i) CIMB Bank Berhad is a licensed commercial bank and the extension of credit facilities to the Company arose in the ordinary course of business of the CIMB Bank Berhad; and

(ii) the total credit facilities granted by CIMB Bank Berhad are not material when compared to the audited NA of the CIMB Group as at 31 December 2017.

3.2 Affin Hwang IB

Affin Hwang IB, being the Independent Adviser for the Proposals, has given its written confirmation that it is not aware of any conflict of interest which exists or is likely to exist in its capacity as the independent adviser in respect of the Proposals.

4. Material commitments

Save as disclosed below, as at 31 December 2017, the Group is not aware of any commitment incurred or known to be incurred by the Company or its subsidiaries which upon becoming enforceable may have a material impact on the financial position of the Group:

Capital expenditure	**Group**
	RM 000
Contracted but not provided for	50,533
Authorised but not contracted for	108,210
Total	**158,743**

5. Contingent liabilities

As at LPD, the Group is not aware of any contingent liability which upon becoming enforceable may have a material impact on the financial position of the Group.

6. Documents available for inspection

The following documents are available for inspection at HSCB's Registered Office at 21st Floor, Menara Hap Seng, Jalan P. Ramlee, 50250 Kuala Lumpur, Malaysia during normal office hours from Mondays to Fridays (excluding public holidays) from the date of this Circular up to the date of the EGM:

(i) the memorandum and articles of association of HSCB, HSH and HSCSB;

(ii) the audited financial statements for the FYE 31 December 2016 and the FYE 31 December 2017 for HSCB and HSCSB;

(iii) the audited financial statements for FYE 31 December 2017 for HSH and HCS;

(iv) the HSH SSA and HSCSB SSA;

(v) letters of consent referred to in Section 2 of Appendix VIII of this Circular; and

(vi) cause papers for HSCSB's material litigation; and

(vii) valuation reports referred to in Appendix VII(A) and Appendix VII(B).

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NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting ("**EGM**") of Hap Seng Consolidated Berhad ("**HSCB**" or the "**Company**") will be held at the Kinabalu Room, Ground Floor, Menara Hap Seng, Jalan P. Ramlee, 50250 Kuala Lumpur on Wednesday, 30 May 2018 at 11 a.m. or immediately following the conclusion of 42nd annual general meeting of the Company, which will be held at the same venue and on the same day at 10 a.m., whichever is later (or the adjournment thereof), to consider and if thought fit, to approve the following ordinary resolutions:

ORDINARY RESOLUTION 1

PROPOSED DISPOSAL OF 60,495,001 ORDINARY SHARES REPRESENTING 100% OF THE ISSUED SHARE CAPITAL OF HSC SYDNEY HOLDING LIMITED ("HSH") BY HSC INTERNATIONAL LIMITED ("HSCI"), A WHOLLY-OWNED SUBSIDIARY OF HAP SENG CONSOLIDATED BERHAD ("HSCB" OR THE "COMPANY"), TO LEI SHING HONG CAPITAL LIMITED ("LSHCL") FOR A CASH CONSIDERATION OF USD196,500,000

"**THAT**, subject always the approvals and consent of all relevant regulatory authorities or parties being obtained (if required), approval be and is hereby given to HSCI to dispose 60,495,001 ordinary shares representing 100% of the issued share capital of HSH to LSHCL for a cash consideration of United States Dollar ("**USD**") 196,500,000 details of which are set out in Part A of the Circular to Shareholders dated 16 May 2018, in accordance with the terms and conditions of the Shares Sale Agreement dated 2 March 2018 entered into between HSCI and LSHCL ("**Proposed HSH Disposal**").

AND THAT the Board of Directors of HSCB ("**Board**") be and is hereby authorised to give full effect to the Proposed HSH Disposal with full powers to assent to any terms, conditions, modifications, variations and/or amendments in any manner as may be required by the relevant authorities or as the Board may deem necessary or expedient in the best interests of the Company and to do all acts, deeds and things and to execute, sign and deliver for and on behalf of the Company all such documents as may be necessary and/or expedient in the best interests of the Company."

ORDINARY RESOLUTION 2

PROPOSED DISPOSAL OF 266,000,000 ORDINARY SHARES REPRESENTING 20% OF THE ISSUED SHARE CAPITAL OF HAP SENG CREDIT SDN BHD ("HSCSB") BY HAP SENG CONSOLIDATED BERHAD ("HSCB" OR THE "COMPANY") TO LEI SHING HONG CAPITAL LIMITED ("LSHCL") FOR A CASH CONSIDERATION OF RM906,000,000

"**THAT**, subject always the approvals and consent of all relevant regulatory authorities or parties being obtained (if required), approval be and is hereby given to the Company to dispose 266,000,000 ordinary shares representing 20% of the issued share capital of HSCSB to LSHCL for a cash consideration of Ringgit Malaysia ("**RM**") 906,000,000, details of which are set out in Part A of the Circular to Shareholders dated 16 May 2018, in accordance with the terms and conditions of the Shares Sale Agreement dated 2 March 2018 entered into between the Company and LSHCL ("**Proposed HSCSB Disposal**").

AND THAT the Board of Directors of HSCB **("Board")** be and is hereby authorised to give full effect to the Proposed HSCSB Disposal with full powers to assent to any terms, conditions, modifications, variations and/or amendments in any manner as may be required by the relevant authorities or as the Board may deem necessary or expedient in the best interests of the Company and to do all acts, deeds and things and to execute, sign and deliver for and on behalf of the Company all such documents as may be necessary and/or expedient in the best interests of the Company."

BY ORDER OF THE BOARD

Lim Guan Nee (MAICSA 7009321)
Quan Sheet Mei (MIA 6742)
Company Secretaries

Kuala Lumpur
Dated: 16 May 2018

Notes:

1. *A depositor shall not be regarded as a member entitled to attend the EGM to speak and vote thereat unless his/her name appears in the register of members and/or record of depositors as at 22 May 2018.*

2. *Subject to note 3 below, a member entitled to attend and vote at the EGM is entitled to appoint a proxy or proxies to attend and vote in his/her stead. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he/she specifies the proportion of his/her holdings to be represented by each proxy. The proxy or proxies need not be a member of the Company and there shall be no restriction as to the qualification of the proxy or proxies.*

3. *Where a member is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account ("**Omnibus Account**") as defined under the Securities Industry (Central Depositories) Act, 1991, there is no limit on the number of proxies which the exempt authorised nominee may appoint in respect of each Omnibus Account it holds.*

4. *The instrument appointing a proxy shall be in writing under the hand of the appointor or his/her attorney duly authorised in writing, or if the appointor is a corporation, either under the seal or under the hand of an officer or attorney duly authorised, and such duly executed instrument appointing a proxy must be deposited at the registered office of the Company at 21st Floor, Menara Hap Seng, Jalan P. Ramlee, 50250 Kuala Lumpur not less than forty-eight (48) hours before the time appointed for holding the EGM or any adjournment thereof.*

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PROXY FORM

No. of Shares	CDS Account No.

I/We ....NRIC No./Company No ....
(FULL NAME IN BLOCK LETTERS)

of ....
(FULL ADDRESS)

Tel No. ....being a member/members of **Hap Seng Consolidated Berhad** (the "**Company**"), do hereby

appoint .... NRIC No. / Company No...
(FULL NAME OF PROXY IN BLOCK LETTERS)

of .... Tel. No. ....
(FULL ADDRESS)

or failing him/her, the CHAIRMAN OF THE MEETING as my/our proxy to vote for me/us on my/our behalf at the extraordinary general meeting ("**EGM**") of the Company to be held at the Kinabalu Room, Ground Floor, Menara Hap Seng, Jalan P. Ramlee, 50250 Kuala Lumpur on Wednesday, 30 May 2018 at 11 a.m. or immediately following the conclusion of the 42nd annual general meeting of the Company, which will be held at the same venue and on the same day at 10 a.m., whichever is later (or the adjournment thereof) in the following manner:

RESOLUTIONS	FOR	AGAINST
ORDINARY RESOLUTION 1 – PROPOSED DISPOSAL OF 60,495,001 ORDINARY SHARES REPRESENTING 100% OF THE ISSUED SHARE CAPITAL OF HSC SYDNEY HOLDING LIMITED BY HSC INTERNATIONAL LIMITED, A WHOLLY-OWNED SUBSIDIARY OF THE COMPANY, FOR A CASH CONSIDERATION OF USD196,500,000		
ORDINARY RESOLUTION 2 – PROPOSED DISPOSAL OF 266,000,000 ORDINARY SHARES REPRESENTING 20% OF THE ISSUED SHARE CAPITAL OF HAP SENG CREDIT SDN BHD, FOR A CASH CONSIDERATION OF RM906,000,000		

Please indicate with a check mark ("✓") in the appropriate box against resolutions how you wish your proxy to vote. In the absence of specific instructions, the proxy will vote or abstain at his/her discretion.

Signed this _________ day of _______________, 2018

....
Signature(s) / Common Seal of Shareholder(s)

Notes:

1. *A depositor shall not be regarded as a member entitled to attend the EGM, to speak and vote thereat unless his/her name appears in the register of members and/or record of depositors as at 22 May 2018.*

2. *Subject to note 3 below, a member entitled to attend and vote at the EGM is entitled to appoint a proxy or proxies to attend and vote in his/her stead. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless he/she specifies the proportion of his/her holdings to be represented by each proxy. The proxy or proxies need not be a member of the Company and there shall be no restriction as to the qualification of the proxy or proxies.*

3. *Where a member is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account ("**Omnibus Account**") as defined under the Securities Industry (Central Depositories) Act, 1991, there is no limit on the number of proxies which the exempt authorised nominee may appoint in respect of each Omnibus Account it holds.*

4. *The instrument appointing a proxy shall be in writing under the hand of the appointor or his/her attorney, duly authorised in writing, or if the appointor is a corporation, either under the seal or under the hand of an officer or attorney duly authorised, and such duly executed instrument appointing a proxy must be deposited at the registered office of the Company at 21st Floor, Menara Hap Seng, Jalan P. Ramlee, 50250 Kuala Lumpur not less than forty-eight (48) hours before the time appointed for holding the EGM or any adjournment thereof.*

Fold this flap for sealing

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AFFIX
STAMP

THE COMPANY SECRETARY
HAP SENG CONSOLIDATED BERHAD (26877-W)
21st Floor, Menara Hap Seng
Jalan P. Ramlee,
50250 Kuala Lumpur
MALAYSIA

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