Sime Darby
Developing Sustainable Futures
Property

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18 June 2020

By E-mail

MINORITY SHAREHOLDERS WATCH GROUP (MSWG)
Tingkat 11, Bangunan KWSP
No.3 Changkat Raja Chulan
Off Jalan Raja Chulan
50200 Kuala Lumpur

Attention: **Mr. Devanesan Evanson**
Chief Executive Officer

Dear Sir,

RE: 47th Annual General Meeting of Sime Darby Property Berhad on 26 June 2020

We refer to your letter which was e-mailed to us on 02 June 2020 in relation to Sime Darby Property Berhad's ("Sime Darby Property") Annual General Meeting to be held on Friday, 26 June 2020.

Please find our responses to the following questions raised by MSWG in the interest of minority shareholders and all other stakeholders of the Group:

Strategic/Financial Matters

1) The Covid-19 pandemic has caused major disruption to all businesses. In the light of this,

(a) What would be the expected impact of Covid-19 pandemic to the Group's property development, property investment and leisure and hospitality segments?

Response:

The COVID-19 pandemic has adversely impacted various markets and industries on a global scale. Domestically, under the Movement Control Order ("MCO"), which all businesses were required to temporarily closed except for those involved in the provision of essential services. Although the Group is able to restart its businesses with the easing of the preventive measures in phases under Conditional Movement Control Order ("CMCO") and subsequently Recovery Movement Control Order

("RMCO"), the pandemic has nevertheless adversely impacted the Group's operations. Impacts to each business segments include:

1) Property Development

a) Registration of new sales were affected during MCO period as all our sales galleries were closed per the Government's regulations. However, we have had some uplift in sales from our online marketing campaign.
b) No development activities were carried out during the MCO period as on-site construction activities were halted.
c) Challenges in obtaining relevant development approvals from authorities on time as there were huge backlog approvals at the government offices.
d) Provision for liquidated and ascertained damages on the possible delay in delivery of projects. Sime Darby Property had requested from Kementerian Perumahan dan Kerajaan Tempatan ("KPKT") extension of time ("EOT") for on-going projects.
e) Although the development activities halted temporarily during MCO, expenditure such as borrowing and overheads costs continue to be incurred during that period. These unbudgeted expenditures will impact our profit and loss.
f) Provision of sales packages to meet market expectation and incentives under Home Ownership Campaign 2020 to boost sales.
g) Due to weak market sentiment and uncertainty, the Group has deferred some of the new launches to upon further market evaluations.
h) In line with the Government's incremental lifting of the MCO, as at 7 June 2020, the Group has managed to open approximately 60% of the construction sites whereby the construction works have resumed.

2) Property Investment

a) Operation of Melawati Mall was halted during the MCO period. It has a huge impact on both revenue and its profitability. Provision of rental discounts to the tenants was inevitable during the MCO period as well as post MCO period.
b) Potential delay in the opening of KL East Mall towards end of 2020 as the prospective tenants are largely affected by the MCO including progress of their fit-out work.
c) Rentals rebates were also given to other tenants of the property investments assets.

3) Leisure and Hospitality

a) Lower contribution due to the cancellation of events and functions following the pandemic and enforcement of MCO. All segment businesses were closed during the MCO period.

The Group foresees that the coming months in the current financial year will be adversely affected by the spillover effects of the pandemic on consumers' purchasing power thereby resulting in a moderation of property sales.

(b) Please explain how the Company has prepared itself to deal with the challenging times?

Response:

The Group has put in place a comprehensive plan to deal with the changes in market and working conditions due to COVID-19 pandemic. These include the following:

a. Resolving immediate challenges that COVID-19 presents to our employees, customers and business partners;
b. Addressing financial impact for FY2020, including scenario planning and near-term cash flow management; and
c. Re-aligning the Group's strategy by reprioritising and redefining our corporate priorities

a. Resolving Immediate Challenges that COVID-19 presents to our Employees, Customers and Business Partners

With regards to the Group's employees, on the office front, extra efforts have been made to ensure the prevention of the spread of COVID-19. The Group implemented the Resumption of Work Guideline that lists actions taken to ensure the workplace is safe for all employees. The premises are sanitised daily with focus on every entry points, lifts and common points of contact. Hand sanitisers and masks are provided for employees.

All employees and visitors are also required to register via online form / manual registration for ease of future contact tracing and also undergo temperature checks upon entry. Those that with symptoms shown are strictly not allowed to enter the office building. To minimise face to face interactions and facilitate social distancing norms, the workforce has been divided into groups with each taking turns to return to the workplace while others continue to work from home.

To ensure flexibility in virtual working arrangements, the Group's IT capabilities have been fortified to ensure that the employees are able to conduct virtual meetings and complete work with minimal physical interactions.

With regards to Customers, the Group has redirected some of its sales and marketing efforts online. The Sales and Marketing team conducts live sessions on Facebook every weekend to share our township projects, with special guest speakers and industry experts.

In addition, the Group has converted the sales process from sales pitches to bookings, to be fully digitalised. Therefore, our customers do not need to be physically present at any of our sales galleries to secure a unit. The Group implemented this effort during the recent EG3A preview in Elmina and secured a significant number of bookings.

All recommended safety guidelines have been implemented and stringently followed at our sales galleries. In addition to the guidelines, all staff members at our sales galleries have been tested for COVID-19 to ensure safety of our customers. So far, our staff members have all tested negative for coronavirus.

The Group has also reached out to communities via the #KitaCare initiative, a collaborative effort by our employees to raise funds for the less-fortunate and front-liners during this trying time.

With regards to the Group's business operations and business partners, Sime Darby Property's Environment, Safety and Health (ESH) department has deployed various safety precautions to ensure the sustainability of the business. The Group has enforced the "Pandemic Management Prevention of COVID-19 Infection for Construction Activities" guideline for contractors, supervisors and employees to adhere at construction sites. The guideline aims to prevent potential infection of COVID-19 at Sime Darby Property project sites inclusive of handing over and Defect Liability Period (DLP).

b. <u>Addressing Financial Impact in FY20, with a Focus on Scenario Planning and Near Term Cash Flow Management</u>

The Group conducted an assessment on the impact of the pandemic and has identified measures to minimise the effects. A financial impact assessment coupled with a comprehensive scenario planning analysis, involving senior management and operations have been conducted for this purpose. All aspects of the business from Property Development, to Property Investment, and Leisure were covered, with the impact to the business quantified.

Post impact quantification, the Group embarked on the next phase of the scenario planning effort to minimise the impact, with particular focus on cost and cash flow management. This will be a continuous effort for this financial year.

c. <u>Reprioritising and Redefining our Corporate Priorities</u>

Based on the financial impact assessments and 'New Normal' conditions, the Group is re-defining its priorities and deriving a sustainable working model capable of adapting to the challenging market.

Key initiatives are already in place to tackle the challenges and position the Group to be more competitive, including active marketing and sales campaigns, planning of new launches, inventory management, working capital and cash flow management as well as cost rationalization.

The recent re-introduction of Home Ownership Campaign by the Government effective from 1 June 2020 to 31 May 2021 is expected to cushion the impacts brought by the pandemic and to boost the consumer sentiment amid the challenging market environment. The Group welcomes this Campaign that will provide a much-needed boost for residential property sales in the second half of FY2020.

The Group's focus this year will be to strengthen our resilience against the global and domestic macroeconomic headwinds and market uncertainties brought by the unprecedented pandemic.

In the longer term, the Group will adopt strategies that will ensure the sustainability of our core business in Property Development, as well as to continue strengthening other business segments. Segments that display strong potential such as Industrial and Logistics will certainly be one of the focuses.

2) **One of the main priorities in FY2020 is to embark on catalytic partnerships with healthcare providers, aged-care facilities and pharmaceutical clusters across the Group's townships. (page 39 of the Annual Report).**

   (a) **Where are the locations of the healthcare services, aged-care facilities and pharmaceutical clusters?**

   Response:

   We have identified the following healthcare assets as key catalysts for our townships whereby we aim to have these implemented across our townships in Klang Valley – namely City of Elmina, Bandar Bukit Raja and Nilai Impian over the next 5 years.

   (b) **What are the business models of the healthcare, aged-care and pharmaceutical services that the Group is embarking on?**

   Response:

   The Group will explore three business models:

   - Land Sale model – whereby the land is monetised to a third-party who will develop the land to build hospital, assisted living etc.;
   - Build to Lease model – whereby the Group will build the healthcare facilities according to the requirement/specification of the operator, who will then lease the completed facilities from us; and
   - JV model – where the Group collaborates with a third-party operator to either build or own the healthcare assets with operations managed by the third party

   (c) **When will the first healthcare, aged-cared facility and pharmaceutical cluster commence businesses and what will be the capital expenditure for each service?**

   Response:

   In February 2020, the Group accepted an offer from a prospective buyer to sell 5 acres of its commercial land in City of Elmina. Subject to the relevant approvals and the completion of the land sale, the prospective buyer intends to build a university hospital and a hospital-related building on the land.

   Besides that, the planned Residents' Clubhouse at City of Elmina intends to provide value added aged-care services to the residents of City of Elmina.

   This will be the Group's maiden project in the provision of aged-care services within our township and it is expected to complete in year 2023. Details are tentative for other future projects as they are at the initial stages of planning, assessment and negotiation.

3) **The Group has impaired a long outstanding amount due from a joint venture of the Group amounting to RM14.9 million. (page 54 of the Annual Report).**

(a) **What is the reason for the impairment of the RM14.9 million?**

Response:

The Group performed an impairment assessment on the amount due from a joint venture in the current financial year ("FY2019"), in accordance with MFRS 136 "Impairment of Assets". This is in view of the continued losses incurred by the joint venture (i.e. an impairment indicator).

In determining the recoverable amount as required by MFRS 136, the Group had also considered the market value of the joint venture's assets, in addition to the cash flows expected to be generated by the joint venture. Given that the joint venture is unlikely to be able to realise its assets above their carrying value within the foreseeable future, an impairment of RM14.9 million, being the difference between the amount outstanding and the recoverable amount, was recognised in FY2019.

(b) **How long has the debt been outstanding and what is the potential of recovery from the joint venture partner?**

Response:

Pursuant to the joint venture agreement, it was the intention of the joint venture partner and the Group to provide the required financing to the joint venture in proportionate to their respective shareholding in the joint venture.

The outstanding balance as at 31 December 2019 of RM93.5 million includes shareholders' loans which were granted to the joint venture since 2016 to finance its property development projects.

To improve the financial performance, the joint venture company is undertaking aggressive and targeted sales and marketing initiatives to clear the unsold stocks within these 2 years. This include among others, rent-to-own scheme, enhancing digital platform usage and focusing on the young business owners and entrepreneurs. The initiatives will also be enhanced with the completion of place making attraction centre such as sports arena to create vibrancy and public attraction to the area.

4) **The Group has made a provision of RM65.8 million in relation to an undertaking arrangement entered on the disposal of a property with a purchaser in prior years. (page 54 of the Annual Report).**

(a) **What was the reason for the provision of RM65.8 million?**

Response:

In financial year ended 30 June 2017 ("FY2017"), the Group had disposed a leasehold property located in Singapore ("Disposal") to a joint venture of the Group ("Owner"). The Housing and Development Board in Singapore had designated the said leasehold property as an owner-occupation building, which requires most of the gross floor area ("GFA") to be occupied by the Owner, with the consent of the JTC Corporation, to lease to the Owner's related companies. As part and parcel of the Disposal transaction, the Group provided an undertaking to secure tenancies from entities within the Group.

The provision of RM65.8 million recognised was in respect of the shortfall in the rental guarantee undertaking provided.

(b) How is the property, that was not disposed, currently being used?

Response:

The property had been disposed and lease back by the Group. The lease-back area of the property is being used as a motor workshop, storage, ancillary offices and showroom.

(c) What is the Company's plan for the unsold property?

Response:

The Group completed the disposal of this asset in FY2017.

(d) Who is the defaulting purchaser?

Response:

Not applicable as there is no defaulting purchaser.

5) Sime Darby Brunsfield Holding Sdn Bhd ("SDBH") recorded higher revenue of RM85.0 million but a higher loss of RM58.34 million in FY2019 as compared to a revenue of RM51.2 million and profit of RM21.6 million in FY2018. (page 310 of the Annual Report).

(a) What are the reasons for the higher revenue and the resulting loss in FY2019?

Response:

The higher revenue recorded was mainly attributable to the full 12 months contribution as compared to 6 months in the comparative period, as well as the higher take up rates coupled with the more advanced stage of completion in respect of the Senada project.

The resulting loss in FY2019 was mainly attributed to the impairment of inventories and receivables amounting to RM43.2 million, coupled with the higher finance cost and lower share of profit from the joint venture.

(b) What are the measures taken to mitigate SDBH's loss in the future?

Response:

SDBH Group is adopting aggressive marketing and sale plans for the on-going projects and completed inventories, including repricing the products by giving additional sales incentives/discount to improve the overall results of SDBH Group.

SDBH Group will also take proactive steps to ensure all future projects will be planned and developed with cost efficiency design and aligned to market demands to increase its product competitiveness in the market.

(c) What is the financial outlook of SDBH in FY2020?

Response:

Prospect of SDBH group is impacted by the uncertain market environment brought by the COVID-19 pandemic.

Apart from adopting aggressive marketing plans to improve the results, the COVID-19 pandemic is expected to impact the results of SDBH Group adversely in FY2020. However, the management of SDBH Group is proactively monitoring the situation and will take appropriate and timely measures to minimise the effects to SDBH Group's results.

Thank you.

Yours faithfully,

for and on behalf of
SIME DARBY PROPERTY BERHAD

Dato' Azmir Merican
Group Managing Director

Copy to : YBhg Tan Sri Dr. Zeti Akhtar Aziz
Chairman, Sime Darby Property Berhad

Madam Betty Lau Sui Hing
Group Chief Financial Officer, Sime Darby Property Berhad