Appendix 2

Sime Darby Property

Developing Sustainable Futures

Sime Darby Property Berhad (15631-P)

T +(603) 7849-5000
F +(603) 7849-5690
W www.simedarbyproperty.com
Toll Free : 1 800 88 1118

Level 10, Block G
No. 2, Jalan PJU 1A/7A
Ara Damansara, PJU 1A
47301 Petaling Jaya
Selangor Darul Ehsan
Malaysia

25 October 2018

By Fax / By Hand

**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 : 45th Annual General Meeting of Sime Darby Property Berhad on 31 October 2018**

We refer to your letter which was faxed to us on 19 October 2018 in relation to Sime Darby Property Berhad's ("Sime Darby Property") Annual General Meeting ("AGM") to be held on Wednesday, 31 October 2018.

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

**Strategic / Financial Matters**

**1) Battersea Power Station ("BPS") Project**

i) In January 2018, Permodalan Nasional Berhad ("PNB") and the Employees Provident Fund ("EPF") signed a Heads of Terms ("HoT") with the Battersea Phase 2 Holding Company Limited to initiate preliminary negotiations to purchase commercial assets within the Power Station building ("Proposed Transaction"). The exclusivity period to conclude the Proposed Transaction shall expire on the earlier of 30 April 2018 or such other date as may be mutually agreed and the execution of the definitive and binding agreements to formalise the Proposed Transaction.

Subsequent to the execution of the HoT, the exclusivity period was extended several times, the latest being 31 December 2018, as announced on 5 October 2018.

What are the reasons for the extensions of the exclusivity period from 30 April 2018 to 31 December 2018? Are there any anticipated hurdles to completing the Proposed Transaction by 31 December 2018?

***Response:***

The Buyers and Battersea Power Station ("BPS") have made significant progress towards finalising the transaction and BPS anticipates entering into the proposed transaction in the 4th quarter of 2018. If this is achieved, the transaction is expected to complete during Q1 of 2019.

The transaction has been particularly complex given the size of the asset, the current stage of construction and leasing of the Power Station, the mixed use nature of the building and the number of parties involved. With legal terms agreed and documented and due diligence completed, the key steps now relate to obtaining the necessary consents and approvals and negotiating with Lenders.

ii) As reported on page 77 of the Annual Report, 92 percent of residential units in Phase 2 of the BPS project have been sold.

When will these units be completed and handed-over to purchasers? What is the estimated revenue to be recognised and the years when the revenue will be recognised?

***Response:***

The residential units in Phase 2 consist of 255 units (with a total gross development value of approximately £700 million) of which 230 units have been exchanged. The last of these units are expected to be completed by end 2020 and handed over in early 2021.

In accordance with the terms and conditions of the Sale and Purchase Agreement, the disposal will be recognised upon completion of the units and hand-over to the buyers.

**2) Malaysia Vision Valley ("MVV")**

i) With the lapse of Memorandum of Understanding ("MOU") between Sime Darby Property, Brunsfield Development Sdn Bhd and Kumpulan Wang Amanah Pencen ("KWAP") in November 2017, it was recently reported that Sime Darby Property has decided to undertake the development project by itself.

a) What factors have the Board taken into consideration in arriving at the decision to take up the project without any partners?

b) What are the challenges for the Company to undertake the MVV development projects without any partners?

ii) How will the deferment of the Kuala Lumpur-Singapore High Speed Rail ("HSR") affect the development plan of the MVV project?

***Response:***

MVV is a corridor development project that aims to spur new investment and economic activities and growth in Negeri Sembilan. The project is expected to attract significant investment value over 30 years and creating numerous new jobs and business opportunities. Sime Darby Property Group currently owns 2,838 acres of land within MVV and has the option to acquire another 8,796 acres from Sime Darby Berhad.

i) What factors have the Board taken into consideration in arriving at the decision to take up the project without any partners?

Following the lapse of the MoU with KWAP and Brunsfield, Sime Darby Property has reviewed the development strategy and will undertake this project as a **Master Developer**. Being a Master Developer for a project of this magnitude also has its advantages, as it would allow Sime Darby Property to extract and enhance the value of the MVV land-bank, as well as enable other developers to concurrently develop parcels of land in MVV to expedite and mitigate overall development risks. Sime Darby Property has also been approached by both local and foreign investors, who have expressed interest to participate in the MVV development.

Sime Darby Property plans to implement the development of MVV in stages. The first stage of MVV implementation is about mobilising MVV by building the right foundation, generating potential leads and building good rapport and relationship with stakeholders. Sime Darby Property has been actively engaging with both Federal and state governments, as well as local stakeholders to take this development forward.

The initial development area of 2,838 acres has been identified as the first heartbeat project to be activated. This development will leverage on the following:

- Its proximity to the existing ecosystem from Nilai to Seremban.
- The existing connectivity to North-South Expressway ("NSE").
- The existing Keretapi Tanah Melayu ("KTM") railway connectivity; and
- The upcoming Nilai-Labu-Enstek ("NLE") road, which will traverse Hamilton and Labu estates, due for completion in 2021.

ii) What are the challenges for the Company to undertake the MVV development projects without any partners?

We agree that a project of this magnitude comes with challenges, whether it is done via partnership or as the Master Developer. KWAP had reiterated that it may consider investing in MVV project, not as a consortium member but on a project by project basis, as MVV in its entirety is a massive project.

The key challenges to undertaking the MVV development, would include, among others, as follows:

- High capital outlay requirement to kick-start the project.

  In this regard, Sime Darby Property has put in place funding strategies to optimize the requirement for capital. Additionally, the implementation of MVV would be by phases, resulting in a sustainable development programme.

- Ability to attract investors into MVV.

  To manage this, Sime Darby Property has established a dedicated Division to manage MVV implementation, and invested in resources and talents who have in depth experience and network in creating the right B2B sources and channels.

The collaborative model being implemented is such that Sime Darby Property collaborates closely with the relevant agencies, such as MIDA, MVV Secretariat, Negeri Sembilan Investment Centre ("NSIC") and various agencies and departments in both the Federal and State Governments to ensure seamless delivery.

iii) How will the deferment of the Kuala Lumpur-Singapore HSR affect the development plan of the MVV project?

***Response:***

MVV remains attractive despite the deferment of the Kuala Lumpur-Singapore HSR, though HSR has been a value add feature to this development. The development enjoys comprehensive mobility and connectivity from the surrounding road and rail infrastructure that is currently available and the new infrastructure that is being constructed.

MVV is strategically located adjacent to south of Greater Kuala Lumpur region. Its proximity to Greater KL region provides a distinct advantage due to connection to major economic centers. MVV is also linked to the international arena through the Kuala Lumpur International Airport ("KLIA"), which is 30 minutes away. The North-South highway, KTM commuter rail (via Labu and Batang Benar with double tracking), LEKAS, and ELITE highway and the soon-to-be completed Nilai-Labu-Enstek toll free highway serve to provide enhanced connectivity and mobility for both supply of labour and capital.

3) As disclosed in Note 26 to the Financial Statements, the completed development units in the inventories as at 30 June 2018 increased by RM36.2 million to RM835.5 million. As stated in the Group Financial Review, on page 56 of the Annual Report 2018, these inventories largely comprise unsold units from East Residences at ALYA Kuala Lumpur and The Glades at Putra Heights.

i) When were these properties launched?
ii) To-date, what is the number of units that have been sold from the inventories?
iii) What are the strategies to increase the sale of these unsold units?

***Response:***

Out of the Group's total value of completed development units of RM836 million, about RM479 million or 57% comprise the units at East Residences at ALYA Kuala Lumpur and at The Glades at Putra Heights.

| Township | Unit Type | Units Launched | Units Sold | Units Balance | Year Launch | Carrying Value (RM'm) |
|---|---|---|---|---|---|---|
| East Residences, ALYA Kuala Lumpur | Townhouse | 126 | 22 | 104 | August 2016 | 378.3 |
| The Glades, Putra Heights | Semi-detached | 48 | 35 | 13 | May 2016 | 30.9 |
| | Townhouse | 78 | 71 | 7 | May 2016 | 8.1 |
| | Link houses | 56 | 41 | 15 | May 2016 | 26.4 |
| | Bungalows | 40 | 37 | 3 | May 2017 | 10.6 |

The Group has been focusing on the sale of completed development units and the strategies adopted include as follows:

i) Special campaigns such as "Rediscover Evergreen Raya" and "Hidden Gems", which provides special packages, rebates, low down-payment, etc.
ii) Site events.
iii) Roadshows / Product Displays at various sites including shopping malls.
iv) Special previews for targeted customers.

4) As reported in the Management Discussion & Analysis, on page 81 of the Annual Report, the Company has, in several of its development, used Industrialised Building Systems ("IBS").

Given that the use of IBS in construction will be made compulsory for all private real estate developers within the next three years, does the Company plan to invest in facilities for manufacturing IBS components?

***<u>Response:</u>***

The Group adopts the use of IBS components which are readily available in the market so as to achieve economy of scale and drive down construction cost. We are also engaging with IBS product suppliers / manufacturers to assess the viability of the IBS construction for adoption in our projects.

The IBS Score for all our projects have been tracked since 2013 and the current average IBS score is about 45 points. The Group has put in place a 5-year IBS Roadmap Action Plan to achieve a target minimum IBS score of 50 points by Year 2020. This is as outlined by the Construction Industry Development Board ("CIBD") for private sector real estate developers for construction value of RM50 million and above.

Currently, the Group has no plans to invest in facilities for manufacturing IBS components but would continue to review the viability for such an investment option.

5) In FY2018, the Group registered a net cash deficit from operating activities amounting to RM589 million. The funding of the working capital is supported by the proceeds from sale of numerous assets (Cash Flow from Investing Activities). As at 30 June 2018, 68% of the current assets of the Group is inventories which comprise unsold completed units and properly development cost.

Please share your approach to working capital management going forward?

***<u>Response:</u>***

The Group is mindful of the current soft property market conditions and the need for discipline working capital management. The following measures have already been instituted:

- Rigorous marketing and sales programme to reduce completed and launched inventories;

- Reassessment of the products to be launched to ensure that the products meets the demands of the buyers;

- Close monitoring on all operating expenditure and tightening of the procurement practices;

- Efficient monitoring of working capital i.e. liquidity, inventories and receivables management;

- Active management of Housing Development Accounts, including maximisation of withdrawals upon expiry of Defect Liability Period ("DLP") for completed development (HDA balance, 2018: RM493 million vs 2017: RM581 million); and

- Review capital expenditure to prioritise spending on a need-to-have basis.

In addition, we will ensure that the Group carries sufficient standby credit facilities to support its business requirements and also available to tap any opportunities that may avail.

Thank you.

Yours faithfully,
**SIME DARBY PROPERTY BERHAD**

**Moriami Mohd**
Group Secretary

Copy to : 1) YBhg Tan Sri Dr. Zeti Akhtar Aziz
Chairman, Sime Darby Property Berhad

2) YBhg Dato' Sri Amrin Awaluddin
Group Managing Director

3) YBhg Datuk Tong Poh Keow
Executive Director / Group Chief Financial Officer