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17 May 2024

By E-mail

MINORITY SHAREHOLDERS WATCH GROUP (MSWG)
Level 23, Unit 23-2,
Menara AIA Sentral,
No.30, Jalan Sultan Ismail,
50250 Kuala Lumpur

Dear Sir,

Re: 51st Annual General Meeting (AGM) of Sime Darby Property Berhad ("the Group" or "the Company") to be held on 20 May 2024

We refer to your letter which was e-mailed to us on 10 May 2024 in relation to Sime Darby Property Berhad's ("the Group" or "Sime Darby Property") Annual General Meeting to be held on Monday, 20 May 2024.

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

Operational /Financial Matters

1. **The Group managed to secure J&T Distribution Solutions Sdn Bhd as the first pre-committed tenant at the E-Metro Logistics Park, which is slated for completion in 2024. (Page 7 of IAR)**

   a) **Has the Group managed to secure other tenants in addition to J&T Distribution Solutions Sdn Bhd? If yes, please name the tenants.**

   Response:

   The E-Metro Logistics Park is developed under the Industrial Development Fund ("IDF") and managed by the joint venture between Sime Darby Property Berhad and LOGOS Property Group.

   Development of Metrohub 2, measuring ~800k sq. ft. s is on track for completion in this quarter and Metrohub 1, measuring ~1.1 million sq. ft. is targeted to be completed by 2H 2024.

In terms of demand, we have received ~4.5 mil sq. ft. of warehouse space enquiries, which translates to ~2.2x of our upcoming available warehouse space under Metrohub 1 and 2 (~2 mil sq. ft.).

We have secured J&T as our first tenant and are currently in active discussions with several potential tenants for the remaining space of Metrohub 2, which is completing soon. It is worth noting that the typical lead time for industrial & logistics tenancy is relatively short (3 – 6 months). We expect a pick-up in terms of conversions of the ~4.5 mil sq. ft. in latent demand to tenancy for over the next 6 to 12 months.

b) What is the lease period of J&T Distribution Solutions Sdn Bhd and its annual rental income?

Response:

J&T's tenancy period is a typical 3 years with an additional 1-year option to extend.

We are not able to disclose annual rental rate; however, the rental rate is in line with market expectations for industrial and logistics assets in Bandar Bukit Raja.

c) What is the expected occupancy rate when E-Metro Logistics Park is fully completed?

Response:

Under the Industrial Development Fund ("IDF"), the development mix consists of (i) ready-built warehouses, (ii) built-to-suit to sell and (iii) built-to-suit to lease assets (Metrohub 1 and 2).

Similar to Metrohub 1 and 2, we expect all of the ready-built facilities to be more than 70% occupied within 6 – 12 months post-completion.

2. The Group had recently formed a strategic partnership with Lagenda Properties to revolutionise affordable housing with the first affordable township project in Gurun, Kedah. (Page 7 of IAR)

a) Why did the Group form a partnership with Lagenda Properties instead of venturing into the affordable township on its own, as it has the experience, expertise, and strategic land bank to launch an affordable township?

Response:

To the Group, the affordable township segment is an "Engine 3" business that involves disruptive opportunities and experimentation. It differs from the Group's core product lineup and requires delivery of affordable homes at scale.

Although the Group could independently venture into affordable townships, partnering with Lagenda Properties is a strategic decision. Lagenda's market leadership and track record in this segment enable both parties to exchange best practices in areas such as planning and product delivery. Additionally, this partnership allows the Group to better understand a new market segment and leverage an existing non-core land bank in Gurun, Kedah, which is not suitable for our core products.

b) **Please highlight the main salient points of the strategic partnership with Lagenda Properties, like the contribution of capital and share of profit, etc.**

Response:

The strategic partnership is done via a 50:50 joint venture. Hence, the contribution of capital and share of profit will be done on a 50:50 basis.

c) **When will the Group see the maiden profit from this partnership?**

Response:

The group is expected to see maiden profit in FY2025 as the first launch is expected to happen in FY2025. This is subject to securing the necessary development approval for the first project in Gurun.

3. **The Group achieved a Net Promoter Score, ("NPS") of 70% in FY2023 as compared to the target of 60% for FY2023. (Page 131 of IAR)**

a) **What factors contributed to the NPS of 70% in FY 2023 as the Group's target was 60% only?**

Response:

The Group's NPS target of 60% for FY2023 was set on the backdrop of recovery from the pandemic and prevailing challenges surrounding overall construction activity, delivery, and product quality. Despite the challenging operating landscape, the Group remained committed to delivering a seamless customer experience, achieving an NPS score of 70%. The Group acknowledges this achievement while recognising further room for improvement.

b) **What is the Group's target for NPS in FY 2024? Will it be higher or lower? Please explain the rationale.**

Response:

The number of units to be handed over (HOVP) is expected to remain high in FY2024, exceeding 2,000 units, following the substantial volume of ~3,400 units delivered in FY2023. Consequently, the Group anticipates challenges in defects management and has set a revised target of 65%.

4. The Group's first wholly owned KL East Mall ("KLEM") is on-track to achieve the Group's net property income ("NPI") yield requirements by FY 2024. (Page 162 of IAR)

a) What was the NPI yield achieved for KLEM in FY 2023? Please provide reasons for the deviation of the actual NPI yield as compared to the target NPI yield in FY 2023.

Response:

In FY2023, KLEM achieved NPI yield of ~4% as compared to targeted NPI yield of ~3%. This outperformance was mainly contributed by higher revenue from gross turnover rent and marketing revenue coupled with cost-saving initiatives.

We view this achievement positively, amid a challenging operating environment affecting the initial rental rates during the operationalisation of KLEM in November 2020. Tenants have since completed their first 3-year rent reversion cycle in 2023, thus allowing for increases in rental rates from 2024 onwards.

b) What are the NPI yield requirements (in terms of percentage) for FY 2024?

Response:

For FY2024, the targeted NPI yield for KLEM is expected to be 5.5 - 6%, in line with Malaysian retail mall market expectations. With a combination of cost reduction and revenue enhancement initiatives, KLEM is currently on-track to achieve the Group's targeted NPI yield requirements by FY2024.

5. The Group had written off inventories amounting to RM10.5 million in FY 2023 as compared to RM3.1 million in FY 2022, an increase of RM 7.4 million or 239%. (Page 284 of IAR). The Group also recognised a write-down of inventories of RM8.8 million in FY 2023.

a) Why did the Group have to write off such a huge amount of inventories in FY 2023?

b) What are the types of inventories that were written off with their respective amounts in FY 2023?

Responses to 5(a) and 5(b):

The inventories write-off was part of the Group's annual assessments on its assets and development projects, which involved thorough review of development costs that were capitalised and the replanning of development projects to ensure that they remained feasible and aligned with market demand in terms of product pricing, type, and design.

As a result of these efforts, a total of RM10.5 million or 0.3% of total capitalised development costs of RM3.4 billion as at 31 December 2023 were written off following a comprehensive review of development projects across the Group's townships, with a particular focus on projects in Klang Valley and Johor.

c) **Please explain the type of inventories that were written down in FY 2023.**

Response:

Similarly, the write-down of inventories were recognised as part of the annual assessment of the Group's inventories. The write-down consists of:

i. Land held for property development for which the total land and allocated common costs incurred in prior years exceeded the latest valuation report and are hence written down based on the latest market value, and

ii. Completed development properties (commercial properties) for which the carrying amount exceeds recent indicative offers received.

6. **The Group recorded RM13.7 million forfeiture income in FY 2023 as compared to RM4.0 million in FY 2022, an increase of RM9.7 million or 242.5%. (Page 306 of IAR)**

a) **What were the reasons for the high forfeiture income in FY 2023 as compared to FY 2022?**

b) **Which property project gives rise to the high forfeiture income?**

c) **What is the type of property, number of units and value of forfeited properties?**

d) **Has the Group been able to sell the forfeited properties? If yes, please provide the number of units and value as of March 2024.**

Responses to 6(a), (b), (c) and (d)

The increase in forfeiture income was primarily attributable to forfeiture income amounting to RM9.7m being recognised from the termination of a bulk sale for commercial properties in the KLGCC Resort township with total sale consideration of approximately RM100.0 million. The Group has legal rights to forfeit the deposit collected in accordance with the SPAs.

The Group has yet to sell the said property and is actively considering various options including owning and managing the building.

Yours faithfully,
for SIME DARBY PROPERTY BERHAD

Dato' Azmir Merican
Group Managing Director

Copy to : Chairman and the Board of Directors of Sime Darby Property Berhad