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Issuer: Hatten Land Limited

Security: Hatten Land Limited

Meeting details:

Date: 25 October 2018

Time: 10.00 a.m.

Venue: Level 2, 53 Mohamed Sultan Road, Singapore 238993

Company Description

Hatten Land Limited engages in the property development activities primarily in Malaysia. The company primarily develops residential, hotel, and commercial properties. It also has access to approximately 20 land bank and development rights; and provides management consultancy services. Hatten Land Limited is headquartered in Malacca, Malaysia.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=PH0)

1. The following new business initiatives were highlighted in the annual report to showcase the potential of the group's growth:

- Hatten Commercial Management (HCM): HCM will be the group's mall management arm, starting with over 4,900 commercial retail units in the group's five malls
- StayCay: As Asia's first property tech blockchain platform, StayCay will leverage the group's hospitality assets, including its 3,400 hotel rooms, to develop a new token-based rewards programme for hotel guests and shoppers
- Splash World @ Harbour City: A new 500,000 square feet water theme park with partners, Samsung C&T Corporation and Polin Waterparks

This is on top of the group's ongoing plans to develop Satori and Harbour City (Phase 1), which were launched in 2017 and 2015 respectively. While the group has clear revenue visibility with RM875 million of unbilled sales as at 30 June 2018, more than RM237 million of net cash flow has been used in operating activities as the group forges ahead with the execution of its development plans.

- (i) Would the board/management update shareholders on the ground sentiments in Malacca and in Malaysia following the election?**
- (ii) Specifically, there are uncertainties over the status of foreign buyers for residential projects in Malaysia. Based on the group's historical trends, what is the percentage of local buyers and what is the percentage of foreign buyers for the group's projects? How much exposure does the group have to Chinese buyers?**
- (iii) Have there been significant defaults/elevated settlement risks for the group's projects?**

Over the past two financial years, the group has recognised nearly RM700 million in revenue (including progressing billing) and gross profit of RM250 million. However, the profit attributable to owners of the company adds up to RM11.9 million over the two years. The two-year earnings per share (EPS) attributable to owners of the company add up to RM0.92 cents, i.e EPS of less than 1 Malaysian ringgit cents.

The group's net asset value per share stood at RM16.7 cents as at 30 June 2018.

- (iv) Can management elaborate further on the reasons for its depressed earnings even as the development projects are completed and handed to the buyers?**
- (v) In planning for its development projects, what is the minimum budgeted developer's margins used by management? Has management been able to achieve the targeted developer's margins with its completed projects?**
- (vi) How will the proposed initiatives, such as HCM, StayCay and Splash World, improve the level and quality of earnings of the group?**

2. The “Carrying value of development properties held for sale” is a key audit matter highlighted by the Independent Auditor in their report on the Audit of the Financial Statements. Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As disclosed in Note 15 (page 112 – Development properties), the carrying value of unsold units has increased by nearly RM100 million to RM311 million as at 30 June 2017. Completed development properties have a carrying value of more than RM254 million. The breakdown of the RM604 million in development properties is shown in the table below:

15. DEVELOPMENT PROPERTIES

	Group	
	2018 RM'000	2017 RM'000
Completed development properties	254,477	223,987
<u>Development properties under construction</u>		
Unsold units	310,689	217,101
Sold units	3,820	53,483
Properties for development representing land, at cost	35,010	43,042
	603,996	537,613

(Source: Company annual report)

For the financial year, the group did not recognise any allowance for foreseeable losses.

- (i) What is the breakdown of the unsold units (both completed and under construction) according to the projects? Please include critical details such as the number of units, floor area, carrying costs of the balance units in each development project.**
- (ii) To help shareholders understand the performance and the risks of the group, please update shareholders on the sales progress for all the development projects.**
- (iii) What are managements’ strategies to sell the completed units given the market conditions? With a carrying value of RM254 million in completed development properties (including a further RM311 million in unsold units under construction), this represents a major use of the group’s capital and is a drag on the return of the group.**
- (iv) Can the Audit and Risk Committee (ARC) let shareholders know how they had reviewed and evaluated the carrying value/net realisable value of the unsold (completed and under construction) units? What is the ARC’s individual and collective experience in real estate valuation and specific knowledge of the real estate market in Malacca?**

3. On 2 July 2018, the company announced that Mr Eric Tan Eng Huat would be appointed as Corporate Advisor of the company and its subsidiaries. Mr Eric Tan Eng Huat is the father of both Tan June Teng Colin @ Chen JunTing (Executive Chairman and Managing Director) and Tan Ping Huang Edwin @ Chen BingHuang (Executive Director and Deputy Managing Director).

As noted in the appointment announcement, Mr Eric Tan will have the responsibilities of corporate development, strategy and identifying and evaluating merger and acquisition, joint venture and strategic alliance opportunities of the Hatten Land Group.

The NC has considered and recommended the appointment of Mr Eric Tan as an executive corporate advisor and the board is satisfied that Mr Eric Tan has necessary experience, qualifications and competency to carry out his duties as the Corporate Advisor of the Hatten Land Group. As noted in the appointment announcement, Mr Eric Tan was adjudged a bankrupt on 09 November 2001 and was subsequently discharged on 27 February 2018.

- (i) Can the board help shareholders understand if Mr Eric Tan is appointed on a full time basis?**
- (ii) Can the NC further elaborate on the roles and the reporting structure of an executive “corporate advisor”? How is a “corporate advisor” different from an “executive director”?**
- (iii) What are the performance measurements, if any?**
- (iv) Would Mr Eric Tan be considered a key management personnel?**
- (v) Can the company provide shareholders with more clarity on the roles and responsibilities of the (a) Tan June Teng Colin @ Chen JunTing (Executive Chairman and Managing Director) and (b) Tan Ping Huang Edwin @ Chen BingHuang (Executive Director and Deputy Managing Director) given that there appears to be significant overlap with the responsibilities of the corporate advisor (who is the father of the two executive directors)?**
- (vi) Will the Mr Tan June Teng Colin @ Chen JunTing as Executive Chairman and Managing Director) and Mr Tan Ping Huang Edwin @ Chen BingHuang as Executive Director and Deputy Managing Director be reporting to Mr Eric Tan?**

A copy of the questions for the Annual Report for the financial year ended 30 June 2017 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Hatten%20Land%20Ltd>

The company's response could be found here: -----