



Securities Investors Association (Singapore)

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Issuer: Isetan (Singapore) Limited

Security: Isetan (Singapore) Limited

Meeting details:

Date: 26 April 2019

Time: 10.00 a.m.

Venue: Furama RiverFront, Venus 1, Level 3, 405 Havelock Road, Singapore 169633

Company Description

Isetan (Singapore) Limited is engaged in carrying on the business of operating department stores; operating supermarkets; trading in general merchandise, and earning rental income from its investment property. The Company operates in two segments: retail segment and property segment. The retail segment is involved in the business of retailing and operating department stores. The property segment is mainly involved in the leasing of properties owned by the Company and its subsidiaries. The Company operates Isetan Scotts store, which is located at Shaw House. The store has a collection of international fashion designer lines, cosmetics and family-oriented merchandise catering to the local and tourist markets. The supermarket at the basement level offers products having Japanese lifestyle concepts to the Singapore market through various food festivals and promotional activities. It also operates Isetan Tampines, Isetan Katong, Isetan Serangoon Central and Isetan Jurong East stores.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=I15)

Q1. In the chairman's statement, it was highlighted that the group recognises that the changing retail landscape and disruptions caused by e-commerce will erode the group's competitiveness and threaten its survivability if the group continues adopting the traditional department store format.

The group has announced a major \$12 million revamp of the Flagship Isetan Scotts Store which is a critical part of its future plans.

This is based on the group's experience in the renovation of the Isetan Tampines store in 2017 which achieved "*an improvement in its sales and results for FY2018 as compared to FY2017*". Renovations were also carried out at the Katong store and management is monitoring the performance.

- (i) Did management evaluate the impact of its store rejuvenation efforts at Isetan Tampines? How substantial was the improvement in sales and earnings? Was the improvement sustained?**
- (ii) Did management estimate the return on investment of its renovation at Isetan Tampines?**
- (iii) What are the projected improvements from the \$12 million revamp of the Flagship Isetan Scotts Store? Will this create value for shareholders once all the costs are factored in?**

The retail segment lost \$(21.2) million in FY2018, up from the loss of \$(9.4) million in FY2017.

- (iv) As the board has the responsibility to oversee the business affairs of the company, would the board clearly articulate its strategy to restore the profitability of the group? Is the board targeting the retail segment to return to profitability? If so, by when?**
- (v) Has the board re-evaluated the sustainability of the group's business model?**

Q2. In the Draft Master Plan 2019 announced on 27 March 2019, the Urban Redevelopment Authority (URA) disclosed plans to rejuvenate the Central Business District as well as giving the Orchard Road shopping belt a facelift. The Draft Master Plan offers landlords redevelopment, asset repositioning and asset enhancement opportunities.

- (i) Has the company evaluated how its investment property (Wisma Atria) will be affected by the Draft Master Plan 2019?**

Even as the asset maintained its near full occupancy rate, rental revenue declined 13.57%.

- (ii) Can management disclose the number of leases renewed in the year? How much floor area was renewed and how much was the rental reversion?**

(iii) What pro-active measures is the company taking to maintain/improve the earnings of the investment properties?

Q3. In addition, the “Assessment for impairment of property, plant and equipment (“PPE”) and presence of onerous rental contracts” is a key audit matter (KAM) highlighted by the Independent Auditor’s in their Report on the Audit of the Financial Statements (page 28). Key audit matters are those matters that, in the professional judgement of the Independent Auditor’s, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM:

(a) Assessment for impairment of PPE

As at 31 December 2018, the carrying value of the Group’s PPE under the Retail segment was S\$27,984,000. The disclosures relating to PPE are included in Note 24 of the financial statements.... In the current financial year, an impairment charge of \$11,887,000 was recorded to reduce the carrying values of PPE of certain CGUs (retail stores) under the Retail segment to their estimated recoverable amounts.

(b) Assessment for presence of onerous rental contracts

In the current financial year, a charge of \$2,380,000 relating to onerous rental contracts was recorded (Note 27(a))

- (i) PPE:** After an impairment charge of \$11,887,000 the carrying value of PPE in each loss-making retail stores under the Retail segment is \$27,984,000 (which is the estimated recoverable amount). **How confident is the audit committee in its estimate of the value-in-use (VIU)? What was the actual growth rate used in the calculation of VIU? How many of the group’s retail store suffered the impairment in its PPE? Can management provide a breakdown of the impairment of PPE by retail store?**
- (ii) Onerous rental contracts:** Similarly, can management update shareholders on the retail stores that are deemed to sit on onerous rental contracts?
- (iii) Revamp of Isetan:** Did the board factor in the impairment of PPE and the recognition of onerous contract into the planning and approval process for the \$12 million revamp of Isetan Scotts? What are the “transformational” changes made that would reduce the risks of more impairment of PPE down the road?

A copy of the questions for the Annual Report for the financial year ended 31 December 2017 could be found here:

[https://sias.org.sg/qa-on-annual-reports/?company=Isetan%20\(Singapore\)%20Ltd&cid=6400,4621](https://sias.org.sg/qa-on-annual-reports/?company=Isetan%20(Singapore)%20Ltd&cid=6400,4621)

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