QUESTIONS POSTED BY SIAS ON THE 2018 ANNUAL REPORT OF ISETAN (SINGAPORE) LIMITED

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?

REPLY FROM ISETAN (SINGAPORE) LIMITED:

We monitor very closely the performance of a store (including the ROI) after a renovation. The renovated area on level 1 of Isetan Tampines was re-opened in November 2017. Since then, the improvement in sales and earnings of the renovated portion has been significant.

Although the retail segment lost $21.2m in FY2018, $14.3m was due to impairment of PPE and onerous contacts. Excluding this, the retail segment lost $6.9m in FY2018.

The Company's strategies to restore profitability involve initiatives such as the rejuvenation of its stores that are in need of a fresh look, increased use of digital and e-commerce platforms, improved service standards and more targeted merchandising. Our new mobile app due for launch later this year will be enabled for IOS and Android phones. It will not only have new features like e-rebates , e-promotion coupons , e-newletters and online purchase of e-gift vouchers but will also appeal to a younger set of customers who are more tech-savvy and can possibly expand our customer base. Our merchandise mix will be continuously adjusted to cater to the needs and wants of the target customers in each store. Specifically, we will concentrate on our strong departments and organize more experiential events like food fairs to draw customers. We continue to monitor the performance of each store and will consider closing non-performing ones if necessary. Part of our strategy to restore the profitability of the group will be the renovation of the Flagship Isetan Scotts Store. In this regard, the Store will be reconfigured to emphasize on categories like Beauty and Athleisure, upgrade the store image and expand our sub-leasing area for stable recurring income. The Board is constantly relooking at the business model to see that it is sustainable.

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?

REPLY FROM ISETAN (SINGAPORE) LIMITED:

The Company is constantly reviewing the returns at its investment property in Wisma Atria. We also monitor closely all developments that may impact footfall and rental yields at the property. Studying the possible impact of the Draft Master Plan 2019 is part of this constant review. Only one lease was up for renewal but the tenant did not renew it. As at the end of 2018, the property was near full occupancy rate. The Company will look at potential changes in tenant mix and reconfiguration opportunities as and when leases are up for renewal.

The Company is unable to disclose specific numbers in our answer above as it may have implications on our rental negotiations with our tenants.

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?

REPLY FROM ISETAN (SINGAPORE) LIMITED:

The VIU calculation was based on a conservative growth rate that is sustainable. The Board has reviewed the VIU and agreed with it. Three stores were impacted by the impairment charge, of which two were also affected by the onerous rental contracts charge.

The Company is unable to disclose specific numbers in our answer above due to competitive reasons.