

## **TH PROPERTIES SDN. BHD.**

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### **Main Points**

#### **What we examined?**

- TH Properties is a wholly-owned subsidiary of the Pilgrims Fund Board (LTH) with a paid-up capital of RM880 million. As of 31 December 2020, TH Properties has incorporated 26 subsidiaries and five joint ventures.
- Assessment on the TH Properties main activities for the year 2018 to November 2021 covering two main Audit areas, namely the performance and management of construction, property development and facilities management activities. The performance activity was evaluated based on achievements of output and outcome.
- In addition, the management activity encompassed four aspects namely the management of construction and property development contracts; management of facilities; financial performance of subsidiaries and joint ventures; and source of funds.
- Assessment on nine aspects of good corporate governance, namely the Chairman; the Board of Directors; the Chief Executive Officer; the Company Secretary; the Business Plan and Key Performance Indicator (KPI); the Standard Operating Procedures (SOP); the Audit Committee; the Internal Audit; and the Nomination and Remuneration Committee for the year 2018 to November 2021.
- Analysis of financial positions was conducted on audited financial statements for the year 2018, 2019 and 2020.

#### **Why is it important?**

- To evaluate the achievement of TH Properties main objectives which are to carry out the business of building contractors; housing developers; and to construct, maintain and alter any buildings or works implemented via subsidiaries and joint ventures.
- As of 30 November 2021, financing from LTH worth RM597.33 million has been disbursed to TH Properties.

#### **What we found?**

- Overall based on the Audit scope, the objectives of the establishment of TH Properties were not fully achieved. The weaknesses found are as follows:
  - KPI achievement of TH Properties was less efficient for the year 2018 to 2020 especially for property development,

construction and project management activities due to the poor sales performance, delays and absence of new projects which had affected the financial performance of the TH Properties;

- the performance of projects implementation was less efficient because 12 (85.7%) out of 14 projects were delayed in completion for the year 2018 to November 2021;
  - the sales performance of property development projects was poor and inconsistent for all TH Properties' property development projects for the year 2018 to November 2021;
  - the declaration of dividends by TH Properties to LTH was not in line with its actual cash flow capability and financial performance;
  - the declining level of quality and customer satisfaction based on the analysis of feedback from residents showed that the performance of TH Properties as a housing developers was less efficient;
  - contract management was less efficient as there were delays in the signing of contract documents which triggered potential risk that affect the interests of TH Properties. In addition, delays in extension of time approval and late issuance certificate of practical completion potentially affected the efficiency of implementation and performance achievement of the companies' activities;
  - the implementation of property development projects was less efficient. Defect rectification works for Pesisiran Residences took a long time and escalated the project cost. The sub-structure site of Sofea Residensi was left abandoned for a long period which triggered potential risk of damage to the structure, spreading of infectious diseases as well as causing negative perception towards the capabilities of TH Properties as a housing developer and LTH;
  - the financial performance of subsidiaries and joint ventures undertaking construction and property development activities were less stable as none of the companies recorded pre-tax profits for the three consecutive years except THP Sydney Bay Views Sdn. Bhd.. Losses incurred by subsidiaries and joint ventures have impacted on the overall financial position of the TH Properties; and
  - the financial position of TH Properties was found to be less stable due to losses before tax and zakat for the years 2019 and 2020. As a result, TH Properties recorded accumulated losses amounting to RM89.29 million in 2020.
- The composition of TH Properties' non-independent directors had contributed to the issues arising in connection with the dividends declaration and oversight of subsidiaries and joint ventures.

**What do we recommend?**

- The stakeholders involved should consider the following recommendations:
  - improve the quality and finishing works of the property development projects to restore the public perception on TH Properties projects;
  - intensify promotional and sales efforts to reduce the number of unsold completed units;
  - review and re-evaluate the number of subsidiaries and joint ventures established taking into consideration the current economic situation and other risks to mitigate administrative costs and improve the effectiveness of companies oversight; and
  - improve corporate governance in the aspects of:
    - appointment of independent directors to serve on the TH Properties Board of Directors in accordance with Board Charter;
    - updating of SOPs to ensure that the activities workflows can be managed efficiently and in an orderly manner; and
    - ensuring that Board level committees that require the composition of Independent Directors can be established and functional in accordance with the terms of reference.