CDL HOSPITALITY TRUSTS

SIAS Question 1

In the Chairman's Statement (page 6 of the annual report), it was highlighted that 2016 marks a significant milestone for CDLHT (a stapled group comprising CDL Hospitality Real Estate Investment Trust and CDL Hospitality Business Trust) as it represents "a meaningful and rewarding decade since CDLHT was listed on the Singapore Exchange Securities Trading Limited".

In the ten years, the portfolio of S$846.3 million, comprising four hotels with 1,915 rooms and a retail mall, has grown impressively to S$2.4 billion, comprising 15 hotels and 2 resorts with 4,912 rooms and the retail mall.

a) With the growth, the geographical footprint has also increased to six countries, with assets in the United Kingdom (Cambridge) and Japan (Tokyo) being added to the portfolio in the last two years. Can the manager update Stapled Security Holders on the future growth plans? Are there key countries or cities identified for future growth?

The Managers are focused on growth and adopt a medium to long-term perspective towards investment. The two areas of focus to derive growth in our portfolio are through asset management and acquisitions:

1) Optimise the long term potential of our assets through active asset management, including undertaking asset enhancement initiatives as well as working closely with our master lessees and/or hotel managers to drive revenue and cost management. Some examples we have demonstrated in FY 2016 are the refurbishment of Grand Copthorne Waterfront Hotel and negotiation of a new lease with a new lessee for our New Zealand Hotel.

2) The Managers will continue to pursue quality assets with medium to long-term growth potential. We would also look to capitalise on historically low interest rates in certain markets to enjoy spread over funding costs. While we are continuing to look for deals in the Asia Pacific, we are also focussed on looking at key cities in Europe given the much greater deal flow stemming from that region.

b) What is the targeted allocation of Singapore/Overseas assets?

CDLHT does not have a specific target allocation for its portfolio by regions as asset valuation changes over time in tandem with market conditions. The Managers actively strive to achieve portfolio stability through geographical diversification so that our diversified income streams allow us to ride through unfavourable market cycles. This has allowed us to deliver stable returns to our Stapled Securityholders.

While our Singapore proportion has reduced over the years in line with our diversification strategy, it will still remain a major part of our portfolio. We firmly believe in the medium to long-term prospects of the Singapore hospitality market. Singapore has been consistently ranked as the top international meeting city[1] and this is supported by its attractiveness as a destination with excellent infrastructure, its regional hub status for many industries such as Finance and Maritime, and security, which is a paramount consideration in today's climate.

[1] Travel Biz, "Singapore crowned Top International Meeting City by UIA", 30 Sep 2016

c) **Are there any plans to balance CDLHT's portfolio to have more focus into certain sub-segments (luxury/resort/business etc)?**

CDLHT's portfolio of hotels (excluding the Maldives Resorts, where Maldives is a top-tier destination for luxury tourism) are all well located within key cities and focus more on the business segment versus leisure segment as the business segment is generally higher-yielding. Going forward, our focus will continue to be in key cities with positive medium to long-term growth potential.

SIAS Question 2

On the operational performance, can CDLHT give Stapled Security Holders more visibility on the performance of the following assets? Specifically:

a) **Auckland: Following the re-branding of the hotel, and under the new variable lease structure, CDLHT experienced a year-on-year increase in NPI contribution of 37.2% to S$13.3 million from the Grand Millennium Auckland. Does management expect the performance to be sustained and be further improved? Was the slight drop in average occupancy rate from 85.3% to 84.1% due to the rebranding and the refurbishment?**

The New Zealand hospitality market has recorded strong growth in 2016, as observed by total visitor arrivals recording 11.8% year-on-year ("yoy") growth in 2016 to a record high of 3.5 million[2]. This was supported by the number of international airlines servicing Auckland. Some examples include Emirates, American Airlines, Hong Kong Airlines, Hainan Airlines and Tianjin Airlines. Just recently in February 2017, Qatar airlines also launched an inaugural flight route between Doha and Auckland.

Looking forward, the growth momentum of the New Zealand hospitality market is likely to be supported by the increase in air services, the safe haven appeal of the country as well as a strong events calendar. In 2017, three global sporting events, namely the World Masters Games, Lions Tour and Rugby League World Cup are expected to bring a significant number of visitors to Auckland.

As such, the Managers are positive on the outlook of the hospitality market in Auckland, the key gateway city to New Zealand. The new lease structure not only provides downside protection through the annual base rent but the variable rent component will allow CDLHT to benefit from the strong upturn in the Auckland market.

The slight drop in occupancies was due to the reinstatement works that the outgoing lessee had to fulfil as part of the lease obligations leading to the end of the lease. There was a small number of rooms taken out of inventory at any given time.

b) **Maldives (Jumeirah Dhevanafushi and Angsana Velavaru): Based on the value in use approach, an impairment loss of $8.1 million was recognised in 2016 (on top of the $1.7 million recognised in 2015). The valuation of Angsana Velavaru has also dropped from US$78 million to US$66 million. The new supply of rooms in Maldvies in 2016 has further intensified competition. What is CDLHT's strategy for the Maldives assets?**

[2] Statistics – Tourism New Zealand

The Maldives hospitality sector was challenging mainly due to the relative strength of the US dollar ("USD") against currencies of some of the top source markets, which has made Maldives a more expensive travel destination as the rates are priced in USD. There was also a slowdown in luxury spending and travel from its top source market, China. The Managers are working closely with operators of both resorts to improve the market mix as well as taking cost containment measures. Where appropriate, there will be investment in the resorts to enhance its competitiveness in the face of growing competition.

c) Cambridge and Tokyo: Following the recent addition to CDLHT's portfolio, have the three assets performed up to management's projections?

These assets have performed well since our acquisition. In FY 2015, the maiden year of our Japan acquisition, the Japan Hotels, which are located in Tokyo, recorded yoy RevPAR growth of 22.2%. In FY 2016, overall occupancy was above 90% while RevPAR increased slightly by 0.6% as the hotels faced rate pressure partly from currency headwinds during the year, as well as rising competition from new hotel room supply. As for the UK Hotel, healthy yoy RevPAR growth of 11.9% was recorded in FY 2016, the first full year of our ownership.

<u>SIAS Question 3</u>

CDLHT's aggregate leverage has increased gradually over the years as the portfolio increased to its current size of S$2.4 billion.

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Aggregate Leverage	**25.3%**	**24.9%**	**29.7%**	**31.7%**	**36.4%**	**36.8%**

(Source: CDL Hospitality Trusts Annual Reports)

In Note 15 (page 164 – Units/Stapled securities in issue and to be issued (Capital Management)), it was disclosed that:

The Boards seek to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The Monetary Authority of Singapore has revised the Property Funds Appendix of the Code on Collective Investment Schemes with effect from 1 January 2016 such that the aggregate leverage should not exceed 45% of the fund's deposited property. CDLHT's aggregate leverage is at 36.8% (as at 31 December 2016).

a) With the change of the aggregate leverage to 45%, has CDLHT reviewed the current capital management policy? Is CDLHT inclined to, or in a position to, increase its aggregate leverage to a level nearer to the 45% limit set by the Property Fund Appendix?

With a gearing ratio of 36.8% as at 31 December 2016, CDLHT has a regulatory debt headroom of S$379 million and our balance sheet remains healthy while our interest coverage ratio is healthy at 6.2x as at 31 December 2016. CDLHT has the intention to continue to expand and will raise its gearing ratio where appropriate to enhance capital efficiency.

In addition, as seen in Note 27 (page 183 – Financial instruments), the Stapled Group has a net exposure of $203.6 million to the United States Dollar (USD) as at 31 December 2016. The net exposure in 2015 was just under $7 million.

The Sensitivity analysis (page 185) shows that a 10% strengthening/weakening of the Singapore dollar against the United States Dollar would result in an increase/ (decrease) in the profit or loss by $20.4 million.

b) Would CDLHT help Stapled Security Holders understand if the Stapled group has increased its currency risk?

Our USD denominated loans were drawn to fund the acquisition of the Maldives Resorts, ensuring that we are naturally hedged, and our USD loan quantum has largely remained the same. Therefore, there is no mismatch in assets and liabilities as well as no significant increase in currency risk.

The net currency exposure arose solely due to the hedge accounting treatment and does not impact distribution to Stapled Securityholders.

At end 2015, USD denominated loans relating to the Maldives Resorts were designated as effective hedges under hedge accounting. At end 2016, hedge accounting for the USD denominated loans was discontinued as certain criteria for adopting hedge accounting were not met. Therefore, the currency exposure was disclosed as such in Note 27 Page 184.

c) What caused the large increase in currency mis-match of the group's assets and liabilities?

The same reason applies with the above.

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