Issuer: Hotel Grand Central Limited

Security: Hotel Grand Central Limited

Meeting details:
Date: 30 April 2018
Time: 11.00 a.m.
Venue: 28 Cavenagh
Road, Singapore 229635, Hotel Chancellor @ Orchard, Function Room Level 2

Company Description

Hotel Grand Central Limited, together with its subsidiaries, owns, operates, and manages hotels in Singapore, Malaysia, Australia, New Zealand, and China. It is also involved in the provision of marketing, support, and management services; and commercial property investment activities. The company was founded in 1968 and is based in Singapore.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=H18)

1. As noted in the Chairman's Statement (page 2 of the annual report), the group reported a 8% increase in group revenue to $163.0 million. This was due to a 3% increase in revenue from hotel operations and management and a 71% increase in rental income from its investment properties. The jump in rental income was attributed to the maiden revenue contribution from Grand Central Building, Christchurch (which started recognising rental income in January 2017) and the two new investment properties that were purchased in Christchurch and Hamilton, New Zealand in 2017.

Overall, the group reported an impressive 36% increase in profit from operating activities before fair value changes and gain on disposal of property, plant and equipment amounting $41 million.

The group has adjusted its hotel portfolio with the sale and purchases of hotels in recent years. For instance, Hotel Grand Chancellor Townsville was acquired in the second quarter of 2016 and Hotel Grand Chancellor Surfers Pardise was sold in the third quarter of 2016. Earlier, the group's hotel in Little India was monetised for $248 million following a sale in 2014.

(i) **Can management help shareholders understand how it evaluates its hotel assets and what are the key considerations driving the sale or purchase of its hotel operating assets?**

The group currently has 2 hotels in Singapore, 1 in Kedah, Malaysia, 8 hotels in Australia, 2 hotels in New Zealand and 1 in Sihui, China. In Singapore, the hotels are situated in prime locations along Orchard Road while some of the hotels in the portfolio are not in first tier cities (such as Hotel Grand Crystal Kedah and Hotel Grand Central, Sihui, China).

(ii) **Can management provide a holistic overview of its strategic plans to grow the hotel business? Are there plans to expand the hotel's geographical footprint?**

(iii) **Can the company also provide better clarity on the strategic positioning of its various hotel brands?**

(iv) In addition, the group's 23.8% associate, Grand Central Enterprises Bhd, owns and operates 5 other hotels in Malaysia under the "Hotel Grand Continental" brand. **What is the level of oversight and influence on the associate company?**

(v) **Can management also provide better visibility on the strategic direction, performance and achievements (including development projects, land bank etc) of its 28.6% associate, Grand Central Development Sdn Bhd?**

2. The group has built up a portfolio of investment properties valued at $277.8 million as at 31 December 2017. As at 31 December 2012, the investment properties amounted to just $43.9 million.

In Note 30 (page 93 & 94 – Financial risk management objectives and policies: Foreign currency risks), the group has stated that it does not enter into any derivatives to hedge foreign exchange exposures. Due to the group's significant operations in Australia and New Zealand, the Group is exposed to currency translation risk arising from its net investments in these countries. The group has disclosed that the net investments are not hedged as currency positions in AUD, NZD, MYR and RMB are considered to be long-term in nature. A 5% change in AUD will result in $3.8 million change in profit net of tax (page 94).

In the Consolidated Statement of Comprehensive Income (page 33), the group recognised foreign currency translation losses of $(13.7) million in FY2017 versus a gain of $8.1 million in FY2016.

(i) **As there are loans taken out in foreign currencies to fund the acquisition/development of certain assets, would the company provide some visibility to the level of the group's natural hedging?**

(ii) **Can the board tell shareholders its deliberations over the group's increasing foreign currency exposure and would the board consider if some form of hedging would reduce the foreign currency risks and provide greater stability to the group's financial position?**

3. On 26 September 2017, the company announced the appointment of Mr. Lim Thian Loong as an independent non-executive director of the company. Mr. Lim was also appointed a member of the Audit Committee and the Remuneration Committee on 6 March 2018.

Mr. Lim is also a director of Grand Central Enterprises Berhad, the 23.8% associate of the company.

In the company's Corporate Governance Report, it was stated that Nominating Committee is "responsible for identifying candidates and reviewing all nominations for the appointment, re-appointment or termination of directors and Board committee members… (page 11)".

(i) Can the company let shareholders know in greater detail the search and nomination process to identify and appoint new directors, especially independent directors?

Apart from Mr. Lim, the three other independent directors are Mr. Tan Kok Aun, Mr. Fang Swee Pang and Mr. Chng Beng Siong. The directors were appointed to the board on 10 November 2011, 28 April 2000 and 29 June 2000 respectively. Accordingly, the independence of Mr. Fang and Mr. Chng, each who has served on the board beyond nine years from the date of his first appointment, is subject to particularly rigorous review as recommended by Guideline 2.4 of the 2012 Code of Corporate Governance.

(ii) Can the company elaborate further on the particularly rigorous review that it had carried out to review the independence of the long tenured directors?

The company has also stated that it "believes that Board renewal is a necessary and continual process, for good governance and ensuring that the Board has the skills, expertise and experience which are relevant to the evolving needs of the Group's business".

(iii) What are the board's other near-term plans to refresh the board membership progressively and in an orderly manner, to avoid losing institutional memory?