



HOTEL ROYAL LIMITED
(Co. Reg No. 196800298G)
(Incorporated in the Republic of Singapore)

RESPONSE TO QUERIES FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

The Board of Directors (the "**Board**") of Hotel Royal Limited (the "**Company**") refers to the Company's Annual Report for the financial year ended 31 December 2019. The Board would like to address the queries raised by Securities Investors Association (Singapore) ("**SIAS**") as follows:

Question 1

As noted in the chairman's message, the emergence of COVID-19 has darkened the outlook for the world economy. Singapore, along with many other countries, has restricted movement across its borders which has hit hotels and the tourism sector hard.

The chairman added that, as experience suggests, a rebound will eventually come and the group must prepare well to take advantage of it.

(i) Can management help shareholders understand the impact of the pandemic on the various hotels in the different cities?

Company's Response

Hotel revenue has fallen substantially as governments have closed their borders. As a result, there are few travellers. Our hotels in Penang, Phuket and Bangkok have come to a standstill. The revenue of these hotels is substantially impacted in the second and third quarters.

As Malaysia has imposed a Movement Control Order ("**MCO**"), our hotel in Kuala Lumpur was engaged to accommodate quarantine business. The occupancy rate for the two Singapore hotels during the Circuit Breakers period is satisfactory. They were able to offer rooms to Malaysian workers affected by the MCO in Malaysia for April and May 2020. Presently, we are cultivating this source of business

Group revenue for January to May 2020 was S\$15.414 million (January to May 2019: S\$23.352 million).

(ii) Would management be providing shareholders with timely updates of material development at its hotels and in the group's operations as part of the company's continuous disclosure obligations?

Company's Response

Management will provide timely updates to shareholders on developments that materially affect its hotels.

(iii) Does the group see any silver lining during this challenging period? Has the group evaluated any suitable assets/businesses that might be available on an opportunistic basis?

Company's Response

At this juncture, the Group is not evaluating any investment proposals. It will when circumstances change.

(iv) Can management elaborate further on the chairman’s point about being well prepared to take advantage of the recovery from the pandemic?

Company’s Response

We are in constant communication and contact with our travel agent partners, corporate clients and government bodies to work out promotions that can be launched at short notice.

Question 2

As shown in the annual report, the group has stated that its service credo “Every Room A Home” forms the DNA of its brand promise. In his statement, the chairman had stated that the group’s commitment is to “*make our hotels more like a home away from home... staff will be trained to be multi-taskers, attentive as hosts to the varied needs of guests* (page 12 of the annual report).

In the table below, a quick online check shows the ratings of the group’s 6 hotels, excluding The Baba House which is scheduled for opening in 2020 after completing a major refurbishment.

Hotel	Website T	Website B
Hotel Royal	3/5	7/10
Hotel Royal @ Queens	3.5/5	7.5/10
Hotel Royal Kuala Lumpur	3.5/5	8.1/10
Hotel Royal Penang	3.5/5	7.7/10
Hotel Royal Bangkok @ Chinatown	4/5	8.4/10
Burasari Resort	4.5/5	8.7/10

(Source: online checks)

The group’s flagship hotel, Hotel Royal, receives the lowest ratings among the 6 operating hotels in the group’s portfolio. For instance, it is ranked #277 out of 355 hotels in Singapore on a popular website and has a 3/5 rating by hotel guests. A common comment about Hotel Royal is that it is in need of a refurbishment and that rooms look tired.

(i) How does management assess and evaluate the performance of each hotel in its portfolio?

Company’s Response

Management assesses and evaluates the performance of each hotel in its portfolio using these criteria:

- (a) accounting profit;
- (b) its cash flow ability to service interest and principal repayment; and
- (c) increase in its fair value.

(ii) How does management keep its rooms comfortable and welcoming while balancing the need to carry out refurbishment that can lead to higher and more sustainable room rates in the long run? In particular, would it make sense to redevelop Hotel Royal so that the layout and configuration can be optimised and its equipment and machinery upgraded to lower the operating costs?

Company’s Response

Where feasible, the Group prefers to carry out refurbishment on a floor by floor basis so that the hotels can still operate and generate cash flow.

(iii) The group operates on a standalone basis in an industry that has consolidated into major hotel operators with multiple brands across the spectrum. Has the group evaluated other business models which may include engaging a third-party hotel operator for its assets or expanding its hotel operations through management contracts with hotel owners?

Company's Response

The Group has engaged a third party to operate its Burasari Resort in Phuket as it believes the original owner knows the market better and can help to better realise the property's potential. The Company keeps an open mind on third-party hotel management.

Presently, the Group has no intention to manage hotels for other parties.

Question 3

As noted in the corporate governance report, the board has stated that one of its primary responsibilities is to provide entrepreneurial leadership, set strategic objectives, and ensure that the necessary financial and human resources are in place for the company to meet its strategic objectives (page 50).

The long-term strategic objectives are to drive long-term growth and value for our shareholders.

(i) Would the board elaborate further on how it defines and measures "long-term growth" and "value for shareholders"?

Company's Response

The Group takes a long-term view on the management of its property portfolio.

This perspective means that it will continue to look for ways to add value to its properties through upgrading, alterations & additions and redevelopment.

As noted in the group's financial highlight (page 8), revenue for the period has fluctuated between \$57 million and \$61 million, with revenue in FY2019 at the lower end (\$57.7 million). Some of the other financial measures are:

- EBITDA: \$19.5 million to \$24.7 million; \$20.7 million in 2019
- Net profit: \$2.9 million to \$7.7 million; \$4.9 million in 2019
- Equity: \$535 million in 2015 to \$688 million in 2019; with \$50 million contributed by shareholders
- Adjusted Net Assets Value (ANAV) per Share: \$8.23 to \$8.43; \$8.37 in 2019
- Market capitalisation: \$284 million to \$339 million; \$303 million at year end 2019

(ii) Would the board elaborate further on the group's growth strategy and its optimal growth trajectory? For instance, revenue grew by 1% over the 5-year period.

Company's Response

There are too many uncertainties to make an informed judgement at this time.

When international travellers return to Singapore and the region, our hotels will be ready to capitalise on their return.

(iii) Has the board reviewed, and is the board satisfied, with the pace of value-creation achieved for shareholders? In what ways can shareholders crystallise and benefit from the group's value creation?

Company's Response

Adjusted net asset value has increased from S\$691 million in 2015 to about S\$844 million in 2019, representing an increase of about 15% (after adjusting for the rights issue proceed of S\$50.4 million in 2018). This represents an increase of about 3% or an average annual increase of S\$20.52 million.

Shareholders will share in this value creation over a longer-term horizon.

(iv) Given the prime assets and the human capital in the group, what guidance has the board given to management to further improve the operational and financial performance?

Company's Response

The Covid-19 pandemic has shown that the entire business of the Group may be at risk if the pandemic continues. We need to build up our operational and financial capabilities to ride through this pandemic.

One key strategy is to grow the Group's investment income to offset any unexpected decline in our hotel revenue.

Our long-term relationship with partners and customers will assist the Group to secure our market share.

By Order of the Board

Sin Chee Mei
Company Secretary

27 June 2020