FRAGRANCE GROUP LIMITED
Company Registration No.: 200006656M

RESPONSES TO QUERIES ON THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

The Company has received queries as listed below, raised by Securities Investors Association (Singapore) ("SIAS") and a shareholder in respect of the Company's annual report for the financial year ended 31 December 2020. The Company wishes to provide its responses to the queries below:

1. Queries relating to Premier Towers

1.1. Can management update shareholders on the progress of the settlement of units at Premier Tower?

1.2. Regarding the phase 1 handover of Premier Tower, were all units taken by buyers? Were there a lot of returned units?

1.3. For phase 2 of Premier Tower, 270 units were sold out of total of 394 units. Has the group been able to sell additional units since?

1.4. How much cash has been collected to date from the handover of phase 1 and 2 of Premier Tower? How was the profit margin like for this project?

1.5. When will the settlements of phase 1 and phase 2 of Premier Tower be completed?

Company's Response

The Board has issued 2 announcements in particular on the progress of Premier Tower on 15th January 2021 and 16th April 2021.

The completion of Premier Tower is segregated into 3 phases – Phase 1 of 401 residential units from Level 9 to 45, Phase 2A of 394[(1)] residential units from level 46 to 83 and lastly, Phase 2B of a 172-rooms Mövenpick Hotel from ground floor to Level 6.

Phase 1 received its practical completion certificate in late December 2020 and Phase 2A received the same on 31 March 2021. Settlement of the sold units are happening progressively and as of 20 April 2021, the Group has received a combined total settlement proceeds of approximately A$169.15 million including deposits relating to the remaining units which are yet to settle. We are in the early stages of the settlement timeline and as disclosed, the Board is of the opinion that the overall rate of settlement by the end of the current financial year is expected to be reasonably healthy. We will continue to update on the progress of Premier Tower settlement and will release them in the first half results for FY2021.

The gross profit for our property development segment is in excess of 15% as disclosed on page 10 of our Performance Review.

Subject to COVID-19 evolution, a 5-star Mövenpick Hotel under Phase 2B is expected to open its doors to hotel guests before the end of H1 2021.

(1) The Group has combined 2 residential units in Level 77 into a single penthouse unit subsequent to the annual report date hence the residential units for Phase 2A has decreased from 395 to 394.

2. Queries relating to Singapore development

2.1. What is the expected capital expenditure to develop the two new hotels in Singapore? How will the group be funding the development of these two hotels?

2.2. How much capex is required to complete the Waterloo Street and 15 Hoe Chiang Road hotels? Given the impact of Covid 19 on the tourism industry, will the group shift focus from hospitality to other commercial asset classes?

2.3. Regarding the Singapore residential projects Jervois Treasures and Urban Treasures, how is the current rate of sales?

2.4. For Fragrance Empire Building, how is the rental reversion and occupancy like for this property? Given the low yield for this asset, is management looking at divesting it?

2.5. Is the group looking to replenish its diminishing land bank in Singapore?

Company's Response

The capital expenditure for the 2 new hotel development in Singapore, namely 15 Hoe Chiang Road and 62 & 64 Waterloo Street, is expected to cost around $200 million. The development cost will be funded by way of committed loan facilities from the Group's bankers and internally generated funds.

Referring to Page 13 of the Annual Report, the group is expecting tourism industry to rebound from Q3 2021 onwards and resume to pre-pandemic level by 2023/ 2024. The group is believed to be well-positioned to seize the surge of demand with its upcoming hotel properties in UK and Australia which are expected to complete between 2021 to 2023 and that is expected to improve the group's hospitality results.

6% of Jervois Treasures and 30% of Urban Treasures are sold as of 20 April 2021 and marketing efforts are ongoing to sell the remaining units.

The occupancy rate in Fragrance Empire Building ("FEB") has improved from 86.6% in FY2019 to 95.2% as of 26 April 2021. FEB is an investment property which is held for long term to derive rental income and for capital appreciation.

With reference to Page 11 of the Annual Report, the assets held in Singapore still form the majority of the group's assets at 69% when compared to 72% in FY 2019. This represents the group's efforts to diversify its business in other established markets, by maintaining Singapore as our core market.

3. Queries relating to Hotel Operations and Hospitality segments

3.1. What is the financial status of the former hotel-operator tenant (probably Bespoke Hotels based on online reports)? What is the amount owed by the former hotel-operator tenant to the group?

3.2. Can management confirm that the four affected hotels are The Lyndene and St Chads in Blackpool, The Townhouse in Manchester and The Duke in Plymouth? What are the statuses of the affected hotels? Can management confirm that the four hotels are set to re-open next month?

Company's Response

Bespoke, the former hotel-operator tenant of the Group's 4 hotel properties in UK, has dissolved its business. Since the hotels were closed for a major part of 2020 due to the country's lockdowns, there were COVID-related rental rebates/ supports/ waivers offered to them and there were no owings as at end of FY2020.

The 4 hotel properties previously leased by Bespoke are Lyndene and St Chads in Blackpool, The Townhouse in Manchester, and The Duke of Cornwall in Plymouth. These hotels are now owner managed as explained in Note 36 to our audited financial statements and are due for opening on 17 May 2021 subject to the easing of COVID-19 restrictions.

3.3. Has management reviewed the performance and financial position of any other operators in the portfolio?

Company's Response

Not applicable as all the 6 hotels are now operated by us.

3.4. Does management have the experience and the bandwidth to take over the operations of the four UK hotels and to get them running efficiently? There are still restrictions on international travel and ongoing lockdowns in the UK.

3.5. Can the company help shareholders better understand the current scale of its hotel operations and the impact of COVID on the operations in 2020?

Company's Response

As described in Note 3.1.1 to the Financial Statements, it is the Group's directive to operate all existing hotel properties in UK and hence the Group is no longer leasing them. The Group has signed a hotel management agreement ("HMA") with a world-renowned hotel operator and these 4 hotels will now be owner-managed.

This operating model is similar to the hotel operations in Australia where we have engaged a world-renowned hotelier, with strong financial performance and operational capabilities to run the hotel operations and manage the hotel properties. Management is of the view that partnering hotel operators with strong branding will provide an improved and holistic hospitality experience for our guests and improve the segment's results and reputation in years to come.

As mentioned in Page 13 and 14 of the 2020 Annual Report, the Group has adopted a lean and essential workforce to minimise cost yet offer the hotels flexibility to scale up when occupancy improves. To mitigate the impact of lower occupancies, the Group is actively marketing its hotel properties in UK and has offered its hotel rooms to house travellers and returning citizens on stay home notices in Australia.

4. Queries relating to General Performance

4.1. Given that the pandemic has caused unprecedented disruption to businesses and livelihoods, has the group experienced slower settlements, requests for delays and/or higher-than-expected defaults?

4.2. Can the board provide shareholders with greater clarity on the pace of its growth going forward given that the pandemic has hit the hospitality sector badly?

4.3. The group's debt gearing is currently at the higher end of its historical range at 1.48x. What kind of gearing is management targeting in the medium term?

Company's Response

As per the Group's announcement on 15 January 2021, the Board reckons that external factors such as the impact of COVID-19 could affect the pace of settlement of Premier Tower given the travel and other restrictions. The settlements are happening progressively and we are in the early stages of the settlement timeline having served the settlement notices. While the pace and speed of settlement may be slow, the Board is of the opinion that the overall rate of settlement by the end of the current financial year is reasonably healthy.

The Group's current operating hotels are situated in both Australia and United Kingdom ("UK"). Following the ease of interstate travel restrictions and vaccine programme in these 2 geographical regions, the hotels performance are expected to improve. Experts have indicated in recent market study that tourism industry should rebound from Q3 2021 onwards and resume to pre-pandemic level by 2023[2]. The Group has few other hotels in the UK which are undergoing construction and are slated to be completed during the period of 2022 to 2024. Management is of the view that the Group would be able to capture the opportunities that would arise once the effect of pandemic is contained.

As mentioned in our Performance Review, typically Property Development will expect to experience the build-up of debts during the years in which development of properties are underway. With completion of the development, the medium term note will be repaid. On the basis that the redemption of certain medium term notes take place in 2021, the gearing ratio is expected to fall below 1.28x. The first S$125M of the 3 notes have been fully redeemed as disclosed in our announcement on 26 April 2021.

(2) https://www.unwto.org/impact-assessment-of-the-covid-19-outbreak-on-international-tourism

5. Queries relating to Corporate Governance

5.1. Can the company disclose the professional firm(s) that it engaged for the group's internal audit function?

5.2. Can the audit committee help shareholders understand if the group's internal audit plan covers its major operations in Singapore, Australia and the UK?

5.3. Has the audit committee reviewed the internal audit plans and scheduled the re-start of the internal audit engagements in Singapore, Australia and in the UK (where permitted by the local laws with regard to COVID safety measures)?

Company's Response

The Group has engaged BDO and PKF for its internal audit function for FY 2018 and FY 2019.

The audit committee, with the concurrence of management, assesses the scope of internal audits for all geographical locations as well as the operating segments that internal audits shall cover. In 2020, the audit committee agreed to defer any internal audit for a year after considering the Group's operations in 2020 and its possible financial and operating risks along with the Group's existing risk management policies and the assurance that it would obtain from the external auditors.

Management has already been instructed by the audit committee to draft a Request for Proposal (RFP) that would cover a 3-year cycle for the audit committee to review before inviting selective firms to provide their proposal. The audit committee plans to hold a meeting with the selected firms to aid its conclusion in the selection of its internal auditor.

By order of the Board
Fragrance Group Limited

Periakaruppan Aravindan
Deputy CEO and Executive Director
27 April 2021