



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 2017**

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 2017. The Board would like to address the queries raised by Securities Investors Association (Singapore) ("SIAS") as follows:

Question 1

As shown in the Corporate Milestones (pages 10 & 11 of the annual report), the group's last 4 major investments/developments were the Bangkok hotel, Royal Residences in Singapore, Burasari Resort in Phuket and Baba House at Melaka.

(i) Hotels: What is the group's capital allocation strategy going forward? Is the group actively looking for more investments in hospitality assets? If so, where would the group be expanding its network? Does the group have a strategy to build up a network of strategically located hotels in key cities to reap the network effect?

Company's response

Yes, the group is actively looking for more investments in hospitality assets, especially in key cities in the Asia Pacific region. However, we will be disciplined and will only invest in properties that are well located, under-performing, has capital appreciation potential and can be self-financing in interest payments and after a few years' operation, also cover principal repayment. Hence, being cash flow positive.

(ii) Investment properties: The group has a sizeable investment property segment that generated \$9.6 million in revenue and \$5.4 million in segment profit in FY2017. Would the group be looking to expand its investment property portfolio to achieve a larger and a more diversified recurring income base?

Company's response

Yes, the company is actively looking to grow its investment property portfolio so as to have a larger recurring income base. Investment properties also take up less management time and act as a balance to the more cyclical hotel segment.

(iii) Financial investments: Has the group evaluated the performance its in-house and managed portfolios? Did the group compare the returns against an appropriate benchmark.

Company's response

The group regularly evaluates the performance of its in-house and managed portfolio. The managed fund portfolio improved by about 9.5% in FY 2017 and the in-house portfolio improved by about 29%. However, the in-house portfolio is very much smaller.

Presently we do not compare against a benchmark and this is one area that we can look into.

Question 2

Would the board/management provide shareholders with better clarity on the following operational matters? Specifically:

(i) The Baba House: Given the long gestation period of this boutique hotel, what are the projected returns expected once the whole redevelopment is completed? What is the total investment?

Company's response

The property was bought for about RM26m and the upgrading cost for Phase 1 is around RM14m, giving a total investment of RM40m (about S\$13.6m) for a 102 room boutique hotel, or about S\$133k per room.

This investment should be self-financing in interest payments during the initial years and also cover principal repayment after a few years of operation. Over the medium time frame, we feel that this Melaka property will have capital appreciation potential.

This will be further enhanced when we complete the purchase of Baba Mansion (located next to Baba House) in 1Q 2019 and commence on Phase 2's upgrading that will add another 80 plus guest rooms. We bought Baba Mansion for RM15m and the state land behind Baba Mansion for RM0.416m. We are in the process of drawing upgrading plans for Baba Mansion.

(ii) Occupancy rates (Hotels): Would management consider disclosing the occupancy rates and the REVPAR of the major hotel assets in the group?

Company's response

We feel that disclosing the room occupancy and REVPAR of our hotels will invite unwanted rate competition from our competitors.

(iii) Occupancy rates (Investment properties): Similarly, please disclose the occupancy rates at the major investment property assets, such as Royal Residences, Penang Plaza and Grand Complex Properties.

Company's response

The occupancy rates are as follows:

Royal Residences (55%);

Penang Plaza (88%); and

Grand Complex (85%).

Question 3

3. The company will be holding its 49th Annual General Meeting on Saturday, 28 April 2018 at 2.30 p.m. The company is one of the few companies locally that would hold its AGM on the weekend. In addition, the company has a practice of posting the minutes of the AGM on SGX that includes a detailed record of the questions posted by shareholders and the answers given by management and the board. This is a highly commendable practice.

(i) Would the board help shareholders understand the reason(s) for holding the AGM on the weekend at the end of the month of April?

Company's response

The Company has been holding its AGM on the last Saturday of April of each year for the following reasons:

- (a) This will allow investors who hold a day job to attend the company AGM without the need to take a day off or annual leave;
- (b) AGM on Sat will not clash with other AGMs that are held on weekdays and this will allow our shareholders who hold shares in other listed companies to also attend the weekday's AGMs; and
- (c) By fixing the AGM on the last Saturday of April will allow our shareholders to schedule their AGM's date in advance.

(ii) Has the board considered holding the AGM earlier in the first or second week of April on a weekday? Has the board evaluated if that would increase shareholders' participation and attendance at the AGM? Shareholders are appreciative that the company has avoided holding its AGMs on the peak days in the last week of April where it is common for over 100 companies to hold their AGMs on certain days.

Company's response

We have considered holding our AGM on a weekday but for the reasons mentioned in 3(i) above, has decided that a weekend AGM will allow more shareholders to attend.

Our subsidiaries' audited accounts from Malaysia and Thailand usually take a longer time to complete than New Zealand and Singapore. We will strive to have their audit completed earlier so as to achieve an earlier AGM date.

By Order of the Board

Sin Chee Mei
Company Secretary

30 April 2018