HOTEL ROYAL LIMITED

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

RESPONSES TO QUERIES FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2024

The Board of Directors (the "**Board**") of Hotel Royal Limited (the "**Company**", and together with its subsidiaries, the "**Group**") refers to the following queries raised by the Securities Investors Association (Singapore) in relation to the Company's annual report for the financial year ended 31 December 2024, and appends its responses as follows:

Question 1

For the financial year ended 31 December 2024, room revenue increased by 16.1% to $47.4 million, while food and beverage revenue rose by 29.9% to $7.8 million.

In his interview, the chairman noted year-on-year improvements in occupancy but did not provide specific figures. According to the sustainability report (page 75), the group achieved an average occupancy rate of 69% in 2024. In addition, in Note 13, the group used occupancy rate assumptions of 80% to 86% for Singapore and 70% to 78% for Malaysia under the income capitalisation method. No estimate was provided for Thailand.

(i) Can management provide a breakdown of the average occupancy rates achieved across the group's hotel portfolio in FY2024, segmented by geography (Singapore, Malaysia, Thailand) and/or by asset class (Luxury collection, City hotel collection, Boutique collection)? How do these occupancy levels compare to their respective market benchmarks?

Company's response

A breakdown of the average occupancy rates achieved across the Group's hotel portfolio in FY2024, segmented by geography (Singapore, Malaysia, Thailand):

	Average Occupancy Rates
Singapore	79%
Malaysia	59% [i]
Thailand	72%

[i] Malaysia's atypically low occupancy rates were influenced by the newly launched Hotel Royal Signature in Kuala Lumpur. Over the past year, the new hotel's room inventory had gradually increased as the phased renovation works were completed floor by floor. Aligned with industry standards, we expect a 12-month ramp-up period to reach stabilized occupancy after taking over all the rooms in February 2025. Excluding newly launched Hotel Royal Signature in Kuala Lumpur, Malaysia segment achieved an average occupancy rate of 73%.

Based on market benchmarks sourced from local tourism boards, all the segments, within the Group's hotel portfolio, performed comparable with industry standards in FY2024.

(ii) What is the potential uplift in revenue from further improvements in occupancy and room rates?

Company's response

Any further improvements in occupancy and average room rates are expected to contribute positively to revenue growth. Management will continue to focus on strategic initiatives aimed at enhancing occupancy levels and optimising average room rates. These include targeted marketing campaigns, dynamic pricing strategies and service enhancements to improve guest experience. Any sustained improvement in these metrics is expected to have a positive impact on the segment's revenue performance over time, and the team closely monitors key indicators to ensure alignment with market opportunities. The full completion of the renovation of Hotel Royal Signature in Kuala Lumpur in FY2025 is anticipated to contribute positively to revenue growth.

The chairman also stated that the group will prioritise brand development, consolidation of operations, and improved productivity and efficiency as part of its 5-year plan. Acquisitions are not being considered for the time being.

(iii) Can management remind shareholders of the key features of this 5-year plan? Why are brand building and enhancing productivity positioned as strategic goals under a multi-year plan, when these should be ongoing, fundamental management responsibilities?

Company's response

Brand maintenance has consistently remained a fundamental and ongoing responsibility of management. In this context, brand building refers to an atypically intensive initiative aimed at redefining our brand promise and implementing targeted measures to enhance brand adoption. Concurrently, the Group is undertaking plans to restructure and strengthen the head office organisation to better align with its long-term growth strategy and vision. This is a significant endeavour, one of considerable scale, and expected to be our core management responsibility on an ongoing basis. As such, it will serve as a key driver in continuously enhancing brand equity throughout the planning horizon.

(iv) Can the chairman/board clearly articulate the measurable outcomes, milestones, and timelines of its 5-year plan?

Company's response

The Group is exploring the possibility to establish itself as a reputable franchise management company in the future. Before positioning ourselves towards this opportunity, it is imperative that the Hotel Royal brand strengthens both its brand desirability and enhance its profitability. Progress will be assessed through the success of the recently launched loyalty program, traveller reviews and sentiments, overall profit margins, and alignment with both industry benchmarks and the Group's key performance indicators (KPIs).

<u>Question 2</u>

Can management elaborate on the opportunities to monetise non-core assets within the group's portfolio? For instance:

(i) Grand Complex Properties, Wellington, New Zealand: As noted by the company, there is increasing flight-to-quality in the office market, with tenants relocating to Premium Grade A buildings while lower-grade office assets face headwinds. Can management provide an update on the current occupancy rate and leasing profile of this mixed-use development? Has the property been officially declassified as earthquake-prone?

<u>Company's response</u>

As of 31 December 2024, the occupancy rate for mixed-use development stands at approximately 58%.

The leasing profile is as follows:

- Office Component: 67% leased
- Retail Component: 54% leased
- Carpark Component: 100% leased
- Childcare Component: 100% leased

The property has been officially declassified as earthquake prone. Under current regulations, buildings are considered earthquake-prone if they have a New Building Standard (NBS) rating of less than 35%. All components of the Grand Complex have achieved an NBS rating of 35% or higher.

(ii) Hotel Royal Penang and Penang Plaza: Tourism data indicates a strong recovery in Penang. Is Hotel Royal Penang still closed? What specific operational challenges has the group faced in running the hotel? When is the amalgamation and subdivision of the land parcel housing Hotel Royal Penang and Penang Plaza expected to be completed, and what is the group's strategy to maximise value from the site?

<u>Company's response</u>

Hotel Royal Penang remained closed. Hotels in Penang are currently running under 60% occupancy in the market, likely due to an oversupply of hotels. For Hotel Royal Penang to succeed, we will have to significantly outperform the market, similar to what we are achieving for Baba House in Melaka. This will involve repositioning the hotel and likely incurring significant capital expenditure.

The land subdivision has been completed. The Group is currently assessing all available options, including the potential for reopening or a sale over the next 12 to 18 months, subject to the completion of feasibility study.

(iii) Quoted equity shares, quoted bonds, hedge and managed funds and structured products: Given that the company has no apparent competitive advantage in investing in financial products, would the board consider a phased exit of these positions and commit to returning excess capital to shareholders?

Company's response

The Group is not considering a phased exit from the company's positions in quoted equity shares, quoted bonds, hedge and managed funds, or structured products at this time. These investments are managed as part of the company's broader capital management strategy, which aims to optimise returns on surplus capital while maintaining liquidity and risk diversification.

The company continues to adopt a prudent investment approach, with professional oversight to ensure alignment with overall corporate objectives.

Question 3

The company changed its accounting policy for its investment properties from the cost model to the fair value model "in order to better reflect the valuation of investment properties in line with market value."

This change, in line with SFRS(I) 1-40 Investment Property, was applied retrospectively (Note 36 of the annual report). As a result:

- **The carrying value of investment properties increased by $37.498 million, from $95.864 million to $133.362 million.**
- **Retained earnings increased by $36.774 million, from $65.478 million to $102.252 million as of 31 December 2023.**

(i) Can the audit committee elaborate on the rationale and timing of the accounting policy change from cost to fair value? Was this driven by a change in business strategy, market conditions, or financial reporting objectives?

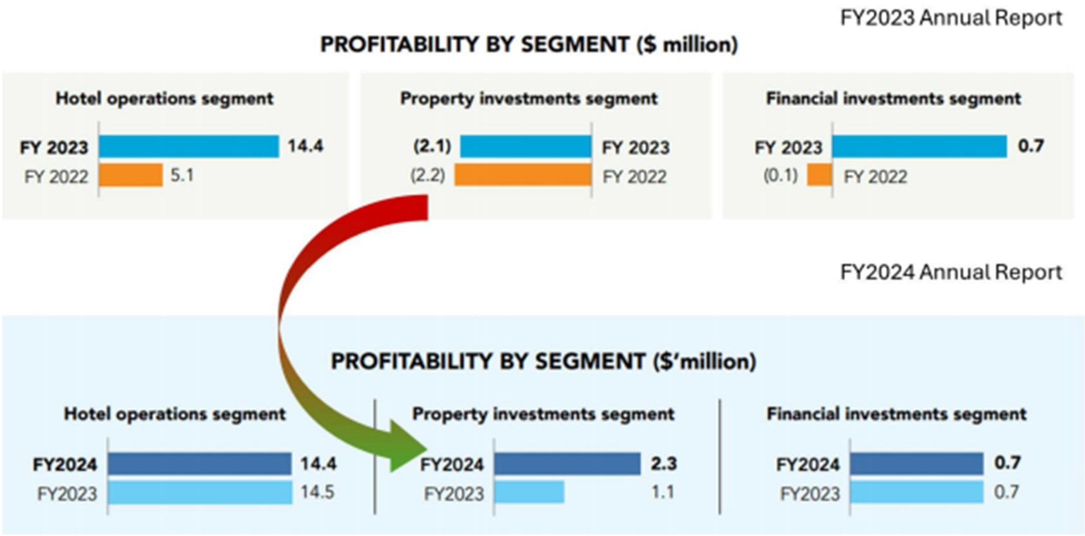
Company's response

In the current financial year, the Group changed its accounting policy regarding the subsequent measurement of investment properties from the cost model to the fair value model. The cost model and fair value model are permitted by SFRS(I) 1-40 *Investment Property*. Under the fair value model, changes in the fair value of investment properties are recognised in profit or loss. This voluntary change in accounting policy has been applied retrospectively

This change was made to better reflect the performance of the property investment segment and to ensure that the carrying values of investment properties more accurately represent their market values. The revised policy provides more relevant and reliable information to users of the financial statements. The decision was primarily driven by prevailing market conditions, including increased volatility and shifts in property valuations, making the cost model less reflective of the current economic value of the Group's property assets.

By adopting the fair value model, the Group aims to provide a more timely and transparent view of its investment properties, thereby improving the overall usefulness of its financial statements for stakeholders.

In 2023, the company had reported a loss of $(2.1) million in the property investments segment. This has been restated as a segment profit of $1.1 million in 2023. FY2024 segment profit is $2.3 million.



(Compiled from company annual reports)

(ii) Can management provide a quantitative reconciliation or waterfall chart explaining how the FY2023 segment loss of $(2.1) million turned into a profit of $1.1 million after the accounting policy change?

<u>Company's response</u>

Please see below for the quantitative reconciliation:

Description	**Amount (S$' million)**
Previously reported segment loss (under cost model)	(2.1)
Add: Reversal of depreciation of investment properties	1.2
Add: Reversal of impairment of investment properties	2.9
Less: Fair value loss on investment properties	(0.6)
Less: Foreign exchange	(0.3)
Restated segment profit (under fair value model)	**1.1**

(iii) Why did the change in accounting policy lead to retrospective adjustments not only in asset values but also in cost of sales and other expenses, resulting in net profit for FY2023 increasing from $2.56 million to $5.01 million?

<u>Company's response</u>

The key factors behind these adjustments were:

a. Cost of Sales – Depreciation:
   Under the cost model, depreciation was applied to the carrying value of investment properties. With the transition to the fair value model, the assets are no longer depreciated. This resulted in lower depreciation expenses for FY2023, which positively impacted the cost of sales.

b. Other Expenses – Foreign Exchange Adjustments:
   The fair value model also impacted foreign exchange gains and losses on investment properties, particularly those denominated in foreign currencies. The weakening of MYR against SGD led to forex adjustments, which influenced other expenses and contributed to the overall decrease in net profit.

As a result of these factors, the net effect of the accounting policy change resulted in a higher reported profit.

Please see below for the quantitative reconciliation:

Description	**Amount (S$' million)**
Previously reported net profit (under cost model)	2.6
Add: Reversal of depreciation of investment properties	1.2
Add: Reversal of impairment of investment properties	2.9
Less: Fair value loss on investment properties	(0.6)
Less: Foreign exchange	(0.3)
Less: Reversal of deferred tax credit	(0.8)
Restated segment profit (under fair value model)	**5.0**

(iv) How do these changes impact executive remuneration?

Company's response

These changes in accounting policy, specifically the shift to the fair value model for investment properties, are non-operating profits and therefore do not impact executive remuneration.

(v) Does the fair value uplift and the resulting accounting profit reduce the board's urgency to improve the actual cash-generating performance of the investment properties segment? How does the board evaluate whether the segment is delivering a return above its cost of capital?

Company's response

The fair value uplift and resulting accounting profit do not reduce the Board's focus on improving the actual cash-generating performance of the investment properties segment. While the fair value model provides a more accurate reflection of market conditions and asset valuations, the Board remains committed to driving the segment's operational performance and ensuring that it generates sustainable cash flows.

The Board evaluates whether the segment is delivering a return above its cost of capital through a combination of the following metrics:

- Net Operating Income (NOI) and trends in occupancy rates and rental yields
- Cash flow generation from operations, particularly recurring income streams

The fair value uplift is an important reflection of the market's perception of asset value, but the Board continues to prioritise operational improvements and long-term cash-generating capacity of the investment properties.

By Order of the Board

Sin Chee Mei
Company Secretary

22 April 2025