



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

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**RESPONSE TO QUERIES FROM SECURITIES INVESTORS ASSOCIATION  
(SINGAPORE)**

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The Board of Directors (the “**Board**”) of Hotel Royal Limited (the “**Company**”) and together with its subsidiaries, the “**Group**”) has received various queries from the Singapore Investors Association (Singapore) (“**SIAS**”) in relation to the Company’s Annual Report for the financial year ended 31 December 2021 (“**FY2021**”). The Board sets out below the Company’s responses to the questions issued by the SIAS.

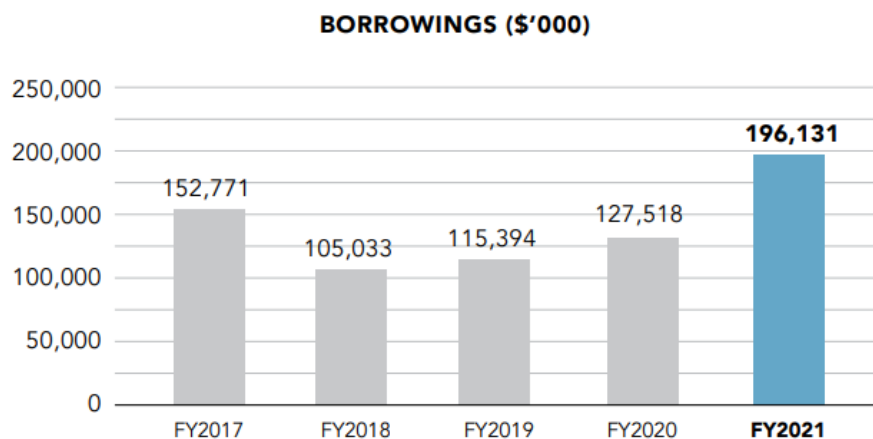
**Q1.** As noted in the chairman’s statement, the group announced the cessation of operations of Hotel Royal Penang and the divestment of its unit in Maxwell House in a collective sale which netted the group \$9.9 million in gains.

(i) What are the plans for the now-closed Hotel Royal Penang?

[Company’s Response:](#)

It is more cost effective for Hotel Royal Penang to stay close presently. Management continues to closely evaluate the situation in Penang and considers all options to maximise and unlock Hotel Royal Penang’s value.

**Q2.** From FY2019 and FY2021, the group’s borrowings increased from new loan drawdowns for the acquisition of Hotel Royal Bukit Bintang, the redevelopment of Baba House and upgrading of Grand Complex in New Zealand.



(Source: company annual report)

Following the sale of the group's unit in Maxwell house, the group still owns Metro Residences, units in Kapo Factory Building and Tong Lee Building, Penang Plaza and Grand Complex Properties in New Zealand. Property rental income was \$7.6 million (2020: \$8.2 million) while the direct operating expenses (including repairs and maintenance) arising from the rental-generating properties amounted to \$6.3 million (2020: \$6.1 million).

- (i) What are the occupancy rates of the investment properties? How has the pandemic impacted the occupancy rates?

Company's Response:

The occupancy rates of the investment properties as at 31 December 2021 were as follow: -

|                                |          |
|--------------------------------|----------|
| Metro Residences               | - 100%   |
| Tong Lee Building (4 units)    | - 100%   |
| Penang Plaza (retail)          | - 84%    |
| Grand Complex                  | - 57%    |
| Kapo Factory Building (1 unit) | - vacant |

Grand Complex's occupancy rate is affected by seismic upgrading works in 2021 so as to meet the New Zealand's revised earthquake code.

The Covid-19 pandemic had a negative impact on tenancy renewals and rental income as many tenants' businesses were suffering from government imposed Covid-19 restrictions, including lockdowns.

- (ii) Given the high operating expenses relative to rental income, has the board reviewed the returns achieved by the group and come up with plans to reduce direct operating expenses?

Company's Response:

The high direct operating expense was primarily due to the increasing insurance cost of Grand Complex which accounted for S\$1.7 million of the operating expenses. Earthquakes in New Zealand have led to higher premium cost on earthquake insurance. There are limited insurers offering earthquake insurance protection in New Zealand.

- (iii) The investment properties are carried at cost less depreciation of \$109.8 million. A list of the investment properties can be found on page 21 of the annual report.

Is there any intention of the board to review its investment properties with a view to monetise some of its assets, especially the mature/ underperforming assets, to unlock the value in these assets, reduce gearing and return the excess capital to shareholders?

Company's Response:

The Group is open to divestments when there are good opportunities to do so.

- Q3.** Management is hopeful that the group's new assets, such as Baba House in Melaka and the Hotel Royal Bukit Bintang, can capture the expected rebound in tourism in the region's recovery story.

It has also embarked on a 5-Year Roadmap to future-ready our products, services and workforce. These initiatives include innovative offerings, more extensive adoption of technology and upskilling of its staff. In particular, the group will be looking into and implementing new features towards a smart hotel environment, enhancing the Live-Work- Play concept, enhanced digital presence, flexible booking choices and more initiatives to protect the environment.

- (i) Can management help shareholders to better understand the positioning of its hotels under its new roadmap? Will the group be applying the "Every Room a Home" brand promise to all its hotels in the portfolio?

Company's Response:

The management is embracing technology to drive efficiency, cost savings and more importantly, to cater to emerging consumer trends. This will allow the Group to broaden its customer base and justify increase in our average room rate.

"Every Room a Home" is the brand promise of our hotel offering.

The renovation of Hotel Royal Bukit Bintang offers us an opportunity to refine and update this brand promise. We will be designing and reinforcing this experience via the room and hotel environment. We hope that with the appropriate design and staff training, we could substantially refresh our brand promise.

- (ii) Can management also confirm that the opening of the Baba House has been delayed by more than 2 years? Is the refurbishment of the Baba House still within the initial budget?

Company's Response:

The opening of Baba House was delayed due to the Covid-19 pandemic. The refurbishment budget is within control.

- (iii) How is the group carrying out its promotion and marketing to capture the demand for hotel rooms? How successful is the group's digital/online strategy? Large, international hotel chains have built up loyal customers with their hotel loyalty programme. What segment will the group be targeting?

Company's Response:

With the gradual resumption of travels in the regions where we operate our hotels, we are targeting to explore ways to broaden our existing online distribution channels and forming strategic partnerships with online travel agents.

We are always working with travel agents to tap on group, individual travellers and student travels.

Corporate travellers are also our desired segment and we are working with our corporate partners on this.

- (iv) Capital expenditure in FY2021 increased significantly to \$74.3 million, from an average of \$11.5 million between 2017 and 2020. For shareholders' benefit, can management provide a breakdown of the capital expenditure by hotel/asset? What are the ROI/projected returns based on which the board approved the group's investments?
- (v) In addition, the group has committed significant amounts of capital to the Malaysian market since the acquisition of The Baba House in 2015. What is management's assessment of the attractiveness of the Malaysian hospitality market for the long term?

Company's Response:

The acquisition of Hotel Royal Bukit Bintang and seismic strengthening works of Grand Complex formed the major increase in capital expenditure.

The Group looks at a combination of factors to determine the feasibility of an investment. Factors include: -

- a) Geographical Location – to ensure the property is strategically-located and has the potential for appreciation in real estate value.
  - b) Strong Fundamentals and Growth Potential – to acquire properties that have the potential for growth in RevPAR and occupancy rates.
  - c) Asset Enhancement Potential – The Group also targets properties that have the potential for asset enhancements such as management improvement, market repositioning or other value-adding initiatives.
- Q4.** As noted in the corporate governance report, the company's internal audit function ("IA") has been outsourced to a professional firm, Philip Liew & Co. who is independent of the company's business activities.

The IA is staffed with persons of relevant qualifications and experience, carry out the internal audit taking guidance from the International Standards for the Professional Practice of Internal auditing set by The Institute of Internal Auditors, and report directly to the audit & risk committee (ARC) on internal audit matters. The ARC has reviewed and is satisfied with the independence, adequacy and effectiveness of the company's internal audit function.

The ARC is also satisfied that the IA is adequately resourced and has the appropriate standing within the group. The IA report directly to the ARC.

- (i) What was the scope of the internal audit in 2021?

Company's Response:

In FY2021, the internal auditors had conducted internal audits on purchases and creditor management, and cash management on certain Group's entities.

(ii) How long is the internal audit cycle?

Company's Response:

The internal audit cycle for the Company and its subsidiaries is 4 years.

(iii) Can the ARC confirm that the (foreign) subsidiaries in Malaysia, New Zealand and Thailand were all included in the internal audit?

Company's Response:

Yes. The foreign subsidiaries in Malaysia, New Zealand and Thailand are included in the internal audit on a rotational basis.

(iv) How were the scope and the effectiveness of the IA affected in the past two years, especially by the closure of national borders?

Company's Response:

Internal audit was carried out by the associates of the internal auditors located in the country of audit and the results were being reported back to the internal auditors in Singapore. While there were disruptions, it did not hinder the scope and effectiveness of the internal audit being carried out.

(v) For the benefit of shareholders, would management disclose the key findings and the recommendations of the IA?

Company's Response:

The findings raised by the internal auditors were mainly related to documentation processes to tighten the current system and policy. They were not considered as high-risk findings.

The recommendations made by the internal auditors on documentation processes were accepted by management. The Group has since implemented appropriate actions improve the documentation processes.

By Order of the Board

Yang Wen-Wei  
Independent Non-Executive Chairman

28 April 2022