



**RESPONSE TO QUERIES FROM SECURITIES INVESTORS ASSOCIATION
(SINGAPORE) ON THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR
ENDED 31 DECEMBER 2017**

1. As noted in the Chairman's Statement (page 2 of the annual report), the group reported a 8% increase in group revenue to \$163.0 million. This was due to a 3% increase in revenue from hotel operations and management and a 71% increase in rental income from its investment properties. The jump in rental income was attributed to the maiden revenue contribution from Grand Central Building, Christchurch (which started recognising rental income in January 2017) and the two new investment properties that were purchased in Christchurch and Hamilton, New Zealand in 2017.

Overall, the group reported an impressive 36% increase in profit from operating activities before fair value changes and gain on disposal of property, plant and equipment amounting \$41 million.

The group has adjusted its hotel portfolio with the sale and purchases of hotels in recent years. For instance, Hotel Grand Chancellor Townsville was acquired in the second quarter of 2016 and Hotel Grand Chancellor Surfers Paradise was sold in the third quarter of 2016. Earlier, the group's hotel in Little India was monetised for \$248 million following a sale in 2014.

(i) Can management help shareholders understand how it evaluates its hotel assets and what are the key considerations driving the sale or purchase of its hotel operating assets?

Company's Response: Management reviews the performance of its Group's hotel assets monthly by benchmarking KPIs against budget and last year. Net income yields are monitored regularly in order to take remedial actions to improve on low yielding hotels.

The key consideration in a potential sale is to compare the expected net capital gain against the projected income yield of the hotel.

Some of the key considerations in a potential purchase of a hotel are:

- (a) Identify hotels with a current yield of at least 3% above financing cost.
- (b) Hotels below replacement cost
- (c) Hotels where there are opportunities to add value to the hotel after acquisition
- (d) Good location and which can add synergies to our existing hotels

The group currently has 2 hotels in Singapore, 1 in Kedah, Malaysia, 8 hotels in Australia, 2 hotels in New Zealand and 1 in Sihui, China. In Singapore, the hotels are situated in prime locations along Orchard Road while some of the hotels in the portfolio are not in first tier cities (such as Hotel Grand Crystal Kedah and Hotel Grand Central, Sihui, China).

(ii) Can management provide a holistic overview of its strategic plans to grow the hotel business? Are there plans to expand the hotel's geographical footprint?

Company's Response: There are no immediate plans to expand beyond the Group's existing geographical footprint.

Management is focused on improving the net yields of the Group's existing hotel by the twin strategy of increasing revenue by way of increasing both room occupancy and room rate while continuing to maintain tight cost control over operating expenses.

(iii) Can the company also provide better clarity on the strategic positioning of its various hotel brands?

Company's Response: Our subsidiary hotels operate various brands as follows:

Singapore:
Hotel Grand Central - 4 Star
Hotel Chancellor - 3.5 Star

Australia:
Hotel Grand Chancellor - 4 Star

(iv) In addition, the group's 23.8% associate, Grand Central Enterprises Bhd, owns and operates 5 other hotels in Malaysia under the "Hotel Grand Continental" brand. What is the level of oversight and influence on the associate company?

Company's Response: Mr Tan Eng Teong, Mr Tan Teck Lin and Mr Tan Eng How are common directors of Hotel Grand Central Ltd ("HGC") and Grand Central Enterprises Bhd ("GCE").

Mr Tan Teck Lin and Mr Tan Eng How are the Managing Director and Executive Director of GCE respectively and are involved with the day to day operations of GCE's hotels.

Regular operating reports are submitted by GCE to HGC.

(v) Can management also provide better visibility on the strategic direction, performance and achievements (including development projects, land bank etc) of its 28.6% associate, Grand Central Development Sdn Bhd?

Company's Response: Grand Central Development Sdn Bhd ("GCD") is principally involved in the development and sale of medium cost apartments and light industrial units in the Klang valley.

GCD has been profitable since 1998 with strong takeup rates for its various projects.

GCD has not made additional landbanking investments recently pending an upturn in the current property market in the Klang valley.

2. The group has built up a portfolio of investment properties valued at \$277.8 million as at 31 December 2017. As at 31 December 2012, the investment properties amounted to just \$43.9 million.

In Note 30 (page 93 & 94 – Financial risk management objectives and policies: Foreign currency risks), the group has stated that it does not enter into any derivatives to hedge foreign exchange exposures. Due to the group's significant operations in Australia and New Zealand, the Group is exposed to currency translation risk arising from its net investments in these countries. The group has disclosed that the net investments are not hedged as currency positions in AUD, NZD, MYR and RMB are considered to be long-term in nature. A 5% change in AUD will result in \$3.8 million change in profit net of tax (page 94).

In the Consolidated Statement of Comprehensive Income (page 33), the group recognised foreign currency translation losses of \$(13.7) million in FY2017 versus a gain of \$8.1 million in FY2016.

(i) As there are loans taken out in foreign currencies to fund the acquisition/development of certain assets, would the company provide some visibility to the level of the group's natural hedging?

Company's Response: Foreign assets are usually geared 50% compared to the total acquisition price.

The level of natural hedging of these assets are typically 50% of the acquisition price of the assets.

(ii) Can the board tell shareholders its deliberations over the group's increasing foreign currency exposure and would the board consider if some form of hedging would reduce the foreign currency risks and provide greater stability to the group's financial position?

Company's Response: Foreign currency risks are inevitable in any overseas venture.

The Group principally manages this risk by investing in long term assets and holding these assets via overseas incorporated companies. Foreign exchange differences are adjusted through the translation reserve in the Balance Sheet rather being recognised in the Income Statement. There is no impact to the Earnings per Share arising from such foreign currency fluctuations.

3. On 26 September 2017, the company announced the appointment of Mr. Lim Thian Loong as an independent non-executive director of the company. Mr. Lim was also appointed a member of the Audit Committee and the Remuneration Committee on 6 March 2018.

Mr. Lim is also a director of Grand Central Enterprises Berhad, the 23.8% associate of the company.

In the company's Corporate Governance Report, it was stated that Nominating Committee is "responsible for identifying candidates and reviewing all nominations for the appointment, re-appointment or termination of directors and Board committee members... (page 11)".

(i) Can the company let shareholders know in greater detail the search and nomination process to identify and appoint new directors, especially independent directors?

Company's Response: The nominating committee ("NC") scrutinised the qualifications, experience and independence of various candidates for the Independent Director role.

The NC then recommended to the Board of Directors that Mr Lim was adequately qualified, experienced and independent to serve as an Independent Director.

Apart from Mr. Lim, the three other independent directors are Mr. Tan Kok Aun, Mr. Fang Swee Pang and Mr. Chng Beng Siong. The directors were appointed to the board on 10 November 2011, 28 April 2000 and 29 June 2000 respectively. Accordingly, the independence of Mr. Fang and Mr. Chng, each who has served on the board beyond nine years from the date of his first appointment, is subject to particularly rigorous review as recommended by Guideline 2.4 of the 2012 Code of Corporate Governance.

(ii) Can the company elaborate further on the particularly rigorous review that it had carried out to review the independence of the long tenured directors?

Company's Response: Each independent director was required to fill up a questionnaire annually declaring their independence.

The Board assessed whether independent directors had provided professional services to the Group or had traded in the shares of the Company. Independent directors were not paid remuneration in addition to their director fees.

The independent directors do not serve in the Boards of any other listed companies in Singapore and are fully dedicated to serving our Company.

The company has also stated that it “believes that Board renewal is a necessary and continual process, for good governance and ensuring that the Board has the skills, expertise and experience which are relevant to the evolving needs of the Group’s business”.

(iii) What are the board’s other near-term plans to refresh the board membership progressively and in an orderly manner, to avoid losing institutional memory?

Company’s Response: The Board had progressively refreshed its membership progressively since 2007 and would continue to do so in the future.

The dates of appointment of various directors are disclosed on page 5 of the Annual Report.

Board of Directors
Hotel Grand Central Limited