ROYAL HERITAGE

承前启后

HOTEL ROYAL LIMITED
ANNUAL REPORT 2018

CORPORATE INFORMATION

BOARD OF DIRECTORS
Dr Lee Keng Thon
Non-Executive Chairman
Dr Pang Eng Fong
Lead Independent Non-Executive Director
Dr Tan Kim Song
Independent Non-Executive Director
Mr Yang Wen-Wei
Independent Non-Executive Director
Mr Lee Khin Tien
Non-Executive Director
Mr Lee Kin Hong
Non-Executive Director

AUDIT AND RISK COMMITTEE
Dr Tan Kim Song (Chairman)
Dr Pang Eng Fong
Mr Yang Wen-Wei
Mr Lee Khin Tien

REMUNERATION COMMITTEE
Mr Yang Wen-Wei (Chairman)
Dr Pang Eng Fong
Dr Tan Kim Song
Mr Lee Khin Tien

NOMINATING COMMITTEE
Dr Pang Eng Fong (Chairman)
Dr Tan Kim Song
Mr Yang Wen-Wei
Mr Lee Khin Tien

COMPANY SECRETARY
Ms Sin Chee Mei
Mrs Wong Siew Choo

SHARE REGISTRAR
B.A.C.S. Private Limited
8 Robinson Road
#03-00
ASO Building
Singapore 048544
Tel : (65) 6593 4848
Fax : (65) 6593 4847
Email : main@bacs.com.sg

REGISTERED OFFICE
36 Newton Road
Singapore 307964
Tel : (65) 6426 0168
Fax : (65) 6256 2710
Email : royal@hotelroyal.com.sg

AUDITORS
Deloitte & Touche LLP
Public Accountants and
Chartered Accountants Singapore
6 Shenton Way
OUE Downtown 2, #33-00
Singapore 068809
Tel : (65) 6224 8288
Fax : (65) 6538 6166

AUDIT PARTNER-IN-CHARGE
Mr Michael Ng Wee Kiat
Appointed in 2017

PRINCIPAL BANKERS
Oversea-Chinese Banking Corporation Limited
DBS Bank Limited
Bank of New Zealand Limited

INVESTOR RELATIONS
Mr Lee Chou Hock
chlee@hotelroyal.com.sg

A ROYAL HERITAGE

承前启后

Our Group celebrates 50 years listed on the Main Board of the Singapore Exchange this year!

From 1968, we started our hospitality business with our flagship Hotel Royal Singapore in Newton Road, a single hotel with around 321 rooms, and today, we have grown into a portfolio of 7 hotels and 6 properties in 4 countries.

Our success stems from our culture of providing quality service from the heart.
These values, originating from a genuine desire to make every guest feel at home, have transcended through the years and have become what is currently known as our distinctive CARE™ hospitality.
That's the Hotel Royal heritage.

CONTENTS

CORPORATE PROFILE	4
GROUP'S MAJOR PROPERTIES	6
GROUP'S FINANCIAL HIGHLIGHTS	8
VALUE-ADDED STATEMENT	9
CORPORATE MILESTONES	10
CHAIRMAN'S MESSAGE	14
BOARD OF DIRECTORS	16
SENIOR MANAGEMENT	18
OPERATIONS AND FINANCIAL REVIEW	22
SUSTAINABILITY REPORT	34
CORPORATE SOCIAL RESPONSIBILITY	42
PEOPLE REPORT	44
AWARDS & ACCOLADES	47
CORPORATE GOVERNANCE REPORT	49
RISK FACTORS AND RISK MANAGEMENT	68
FINANCIAL STATEMENTS	70
STATISTICS OF SHAREHOLDINGS	153
NOTICE OF ANNUAL GENERAL MEETING	155
PROXY FORM	

INTEGRITY

诚信

In any business,
having honesty and integrity are quintessential
values that secure sustainability.
These are also the hallmarks of our Group –
because we believe that the smallest action can have
an impact on our reputation.
When we operate with integrity,
we build strong, lasting relationships with our
guests and employees.


誠信
忠厚

CORPORATE PROFILE

Listed on the Mainboard of the Singapore Exchange in 1968,
Hotel Royal Limited owns
a total of 7 hotels in Singapore, Malaysia and Thailand

- Hotel Royal
  Singapore
- Hotel Royal @ Queens
  Singapore
- Hotel Royal Kuala Lumpur
  Kuala Lumpur, Malaysia
- Hotel Royal Penang
  Penang, Malaysia
- The Baba House
  Melaka, Malaysia
- Hotel Royal Bangkok @ Chinatown
  Bangkok,Thailand
- Burasari Resort
  Phuket, Thailand

It also owns Grand Complex, a prime commercial complex in the central business district of Wellington, New Zealand, which has approximately 263,000 square feet of lettable office and retail space, and 323 car park lots.

The Baba House, which is strategically located in the heart of Melaka's UNESCO Heritage Zone in West Malaysia, is presently undergoing major upgrading that will transform it into a heritage boutique hotel after the Group acquired it in January 2015. The 97-room Baba House, known for its traditional Peranakan architecture, is minutes to Melaka's famed Jonker Street, and close to historical landmarks such as Stadthuys (Dutch Governor House) and A'Famosa as well as bustling shopping districts.

Meanwhile, the Group continues to explore opportunities to acquire hotel and investment properties in the Asia-Pacific region.

GROUP'S
MAJOR PROPERTIES

Location	Name of Property	Description and area	No. of Guest Rooms	Tenure	Effective Stake
HOTELS					
Singapore	Hotel Royal 36 Newton Road	Land area of about 7,200 sq m Hotel building with built-up area of approximately 23,500 sq m	362	Freehold	100%
	Hotel Royal @ Queens 12 Queen Street	Land area of about 1,979 sq m Hotel building with built-up area of approximately 14,605 sq m	231	Freehold	100%
Malaysia	Hotel Royal Kuala Lumpur Jalan Walter Grenier 55100 Kuala Lumpur	Land area of about 773 sq m Hotel building with built-up area of approximately 20,027 sq m	285	Freehold	100%
	Hotel Royal Penang 3 Jalan Laut, Georgetown Penang	Land area of about 3,495 sq m Hotel building with built-up area of approximately 28,569 sq m	281	Freehold	100%
	The Baba House No. 121, 123, 125,127 Jalan Tun Tan Cheng Lock Melaka	Land area of about 1,984 sq m Hotel building with built-up area of approximately 3,926 sq m	97	Freehold	100%
Thailand	Hotel Royal Bangkok @ Chinatown Yaowaraj Road Bangkok	Land area of about 1,480 sq m Hotel building with built-up area of approximately 19,082 sq m	290	Freehold	100%
	Burasari Resort 18/110 Ruamjai Road Phuket	Land area of about 6,722 sq m Hotel building built-up area of approximately 11,441 sq m	184	Freehold	100%
		Total Number of Guest Rooms	**1,730**		
INVESTMENT PROPERTIES					
Singapore	Royal Residences 1A Surrey Road	Land area of about 718 sq m Residential building with total lettable area of about 1,720 sq m (The Company has a 91.63% share of the above property. The remaining 8.37% is owned by a related party)		Freehold	91.63%
	No.20 Maxwell Road #12-02 Maxwell House	Office unit Strata floor area of about 551 sq m		99 years (from 1969)	100%
	#05-14 Kapo Factory Building	Flatted factory unit Strata floor area of about 157 sq m		Freehold	100%
	#02-14, #06-02, #07-02 and #09-08 Tong Lee Building	Factory unit Strata floor area of about 277 sq m each (total of 1,108 sq m)		Freehold	100%
Malaysia	Penang Plaza 126 Jalan Burma Georgetown, Penang	Land area of about 5,498 sq m Shopping centre and offices with total lettable retail area of 5,956 sq m; total lettable office area of 2,378 sq m and 88 carpark lots		Freehold	100%
New Zealand	Grand Complex Properties 16-20 Willis Street 22-42 Willis Street 80 Boulcott Street 84 Boulcott Street Wellington	Land area of about 6,898 sq m Shopping centre and offices with lettable retail area of 4,431 sq m; lettable office area of 20,028 sq m and 323 carpark lots		Freehold	100%

Hotel Royal Newton Singapore

Royal Residences

The Baba House Melaka Malaysia
(Artist's impression)

Hotel Royal Kuala Lumpur
Malaysia

Hotel Royal @ Queens
Singapore

Burasari Resort
Phuket

Hotel Royal Bangkok
Chinatown

GROUP'S FINANCIAL HIGHLIGHTS

	2018	2017	2016	2015	2014
For the year ($'000)					
Revenue	60,080	61,483	58,704	57,280	56,687
Earnings before Interest, Taxation, Depreciation and Amortization (EBITDA)	23,220	24,721	24,457	19,488	24,747
Gross Profit	30,244	31,157	30,888	29,187	30,004
Net Profit attributable to Owners of the Company	6,942	7,571	7,735	2,893	11,178
Finance Costs	(4,228)	(4,498)	(4,644)	(5,124)	(3,627)
Cash from Operating Activities	20,477	17,813	13,262	17,501	14,709
Capital Expenditure	9,538	10,116	5,718	14,022	24,549
At year end ($'000)					
Total Assets	807,393	744,863	725,891	724,041	725,750
Total Liabilities	138,043	186,529	183,024	188,569	187,810
Total Equity	669,350	558,334	542,867	535,472	537,940
Cash and Bank Balances	29,269	18,328	14,721	17,037	17,834
Property, Plant & Equipment	647,679	605,718	590,216	588,808	577,840
Investment Properties	93,887	91,222	94,390	93,492	97,310
Total Borrowings	105,033	152,771	151,705	157,193	154,839
Asset Revaluation Reserve	407,913	364,577	354,185	352,360	339,497
Financial Ratios					
Revenue Growth (%)	(2.28)	4.73	2.49	1.05	10.70
Net Profit Growth (%)	(8.31)	(2.12)	167.37	(74.12)	15.93
Adjusted Net Assets Value (ANAV) ($'million)(2)	829.82	708.12	704.87	691.10	701.57
Debt to ANAV (times)	0.13	0.22	0.22	0.23	0.22
Per Share Information					
Earnings per Share (cents) before Income Tax (1)	11.17	13.33	12.81	6.60	16.73
Earnings per Share (cents) after Income Tax (1)	7.52	8.88	9.07	3.39	13.11
Net Assets Value (NAV) per Share ($)	6.64	6.65	6.46	6.37	6.40
Adjusted Net Assets Value (ANAV) per Share ($) (2)	8.23	8.43	8.39	8.23	8.35
Dividend per Share - Ordinary Shares ($)	0.05	0.05	0.05	0.05	0.05
Market capitalisation ($'million) at year end	300.38	338.52	314.16	284.76	319.20

(1) The weighted average number of ordinary shares is 85.292 million for 2014 to 2017 and 92.345 million for 2018.

(2) The revaluation surplus (net of tax effect) arising from freehold and leasehold land and hotel buildings have been included in determining the Adjusted Net Assets Value.

VALUE-ADDED STATEMENT

	2018 $'000	2017 $'000
Revenue earned	60,080	61,483
Less: cost of sales	(29,836)	(30,326)
Gross value-added from operations	**30,244**	**31,157**
Other income	548	1,335
Other expenses	(2,495)	(2,933)
Net foreign exchange adjustment gain	276	157
Total value-added	**28,573**	**29,716**
Distribution:		
To employees in salaries and other related costs	15,387	16,114
To government in corporate and other taxes	3,370	3,629
To providers of capital:		
- Interest paid on borrowing from banks	4,228	4,498
Retained for re-investment and future growth		
- Depreciation and amortisation	8,680	9,023
- Accumulated profits	(3,079)	(4,299)
Non-production costs and income:		
- Allowance for doubtful receivables	70	77
- Bad debt expense	4	33
- Write back of allowance for doubtful receivables	(87)	(150)
- Impairment loss on available-for-sale investments	-	16
- Impairment loss on leasehold land and building	-	775
Total distribution	**28,573**	**29,716**
PRODUCTIVITY DATA		
Number of employees	756	815
Value-added per employee ($'000)	37.79	36.46
Value-added per $ of employee cost	1.86	1.84
Value-added per $ revenue earned	0.48	0.48
Value-added per $ of investment in investment properties, property, plant and equipment	0.04	0.04

CORPORATE MILESTONES

1968

Incorporated and listed on Main Board of Singapore Exchange

1969

Construction of Hotel Royal Singapore commenced

1972

Hotel Royal Singapore commenced operations

1992

Purchased Castle Mall Shopping Centre in NSW, Australia and sold in September 2002

2010

Acquired Hotel Royal Kuala Lumpur in Kuala Lumpur, Malaysia

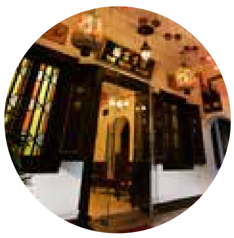
2011

Acquired Hotel Royal Bangkok@Chinatown in Bangkok, Thailand

Royal Residences (formerly Star Mansion) at 1A Surrey Road completed

2014

Acquired Burasari Resort in Phuket, Thailand



2015

Acquired The Baba House in Melaka, Malaysia

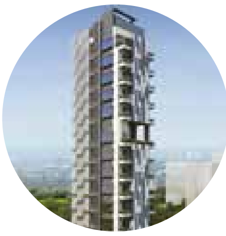
1995

Purchased Grand Complex mixed commercial/ retail development in Wellington, New Zealand

2004

Purchased Dapanso Building at 158 Cecil Street Singapore

Purchased Hotel Royal @ Queens at Queen Street Singapore



2007

Disposal of Dapenso Building at Cecil Street Singapore

Acquired Star Mansion at 1A Surrey Road Singapore

2008

Purchased Hotel Royal Penang and Penang Plaza in Penang, Malaysia

2017

Commencement of major upgrading of Baba House in Melaka into a heritage boutique hotel.

2018

Raised $50.4 million through a Rights Issue of 16.8 million ordinary shares at $3.00 each.

EMPATHY

同理心

We create an empathetic environment
for our guests and employees, because our brand is
all about making our guests feel at home.
Showing deep respect for one another
is a fundamental value that helps us understand the
needs of our guests and employees,
and enhance brand loyalty.


理記

CHAIRMAN'S MESSAGE

On 15 February 2019, we announced the proposed acquisition of the 418-room Royale Chulan Bukit Bintang Hotel for MYR197 million. This 4-star property is conveniently located in the heart of Kuala Lumpur's chic Bukit Bintang shopping district.

Dear Shareholders,

FY2018 is a special milestone year as we celebrate fifty years as a public-listed company. It was half a century ago that our initial public offer was first made on 18 November 1968. The initial shares offering opened at 10am on 29 November 1968 and was fully subscribed.

In the past half century, globalisation has transformed the world economy, boosting greatly the demand for travel. Despite economic crises and political upheavals in the region, the Group has grown from strength to strength. We started out as a single hotel property company. We have evolved into a hospitality management company that operates hotels in the region, leases service apartments and manages property investments. We now own seven – soon to be eight – hotels in Singapore, Malaysia and Thailand as well as a commercial complex in Wellington, New Zealand. Along the way, we have multiplied the initial shareholders' fund of $10 million more than 60 times to over $650 million. We continue to be on the lookout for opportunities to expand our property portfolio while finding ways to increase returns from our existing assets.

RIGHTS ISSUE

On 18 July 2018, we completed a renounceable, non-underwritten Rights Issue of 16.8 million new ordinary shares at $3.00 a share. Shareholders could subscribe for one Rights Share for every five ordinary shares that they hold. We are pleased to report that the Rights Issue was oversubscribed. The Rights Issue raised $50.4 million which has been used for the repayment of bank borrowings and general working capital purposes.

YEAR IN REVIEW

Against the backdrop of a highly competitive business environment in the region, the Group posted a reasonably satisfactory performance in FY2018.

Group revenue declined marginally by 2.3% year-on-year to $60.1 million, while net profit attributable to shareholders dipped 8.3% to $6.9 million. In the twelve months to 31 December 2018, the Group achieved earnings per share of 7.52 cents, down from 8.88 cents a year earlier. Net asset value per share remained steady at $6.64 as the additional 16.8 million rights issue had a dilutive effect on the Group's net asset value per share.

Our well-located hotel properties and investment properties have generated an increase in market value of about $203.8 million. Only $43.3 million appeared as asset revaluation reserve in the balance sheet. The balance of $160.5 million arising from revaluation surpluses on hotel building and investment properties were not taken into our books. If all of the valuation surpluses are taken in, the adjusted net assets value would be $829.8 million, or $8.23 per share.

The Group's financial position remains robust, with adjusted net assets value of $829.8 million as at 31 December 2018, and with net gearing ratio maintaining at around 13% of adjusted net assets value.

We envisage that the strong balance sheet will provide us sufficient headroom for future growth.

LOOKING AHEAD

Our core markets of Singapore, Malaysia and Thailand, continue to face mounting competitive pressures.

In Singapore, visitor arrivals in FY2018 hit a new high, jumping 6.2% to 18.5 million thanks to improvements in flight connectivity and a higher global profile following the historic Trump-Kim summit in June 2018. The growth in visitor numbers was driven by record-high visitor arrivals from seven of Singapore's top 15 markets – namely, China, India, Philippines, United Kingdom, United States, Vietnam and Germany. The hotel industry in Singapore continues to benefit from the tight room supply in the city. More openings in 2019, largely in the Sentosa and Raffles Place precincts, may affect room and occupancy rates for the Group's hotels.

Over the Causeway, Malaysia recorded 25.8 million in visitor arrivals in FY2018 with Singapore, Indonesia and China being its top three markets. New tourism developments such as Desaru Coast Malaysia, and 20th Century Fox World Theme Park will enhance Malaysia's appeal in leisure tourism. The hotel room inventory in Kuala Lumpur has risen significantly. In the upscale and luxury segment there will be new entrants such as New World Petaling Jaya, Alila Bangsar and Hyatt House Mont Kiara, W Hotel, Banyan Tree, Citizen M, Four Seasons and Movenpick.

In Thailand, tourist arrivals rose 7.5% year-on-year to approximately 34 million for the first eleven months of 2018. As with Malaysia and Singapore, visitors from China formed the top source market, rising nearly 8%.

In all the markets we operate in, we intend to expand our customer base and market share by competitive pricing and ensuring that our hotel assets are progressively updated. The Group will closely monitor room occupancies and room rates of our hotels in these countries, and refine offerings to enhance customer experiences.

Going forward, the Group will prudently manage our investment properties' income by upgrading our investment properties, such as those in New Zealand, so as to maximize our rental income. We will also diversify our investment portfolio. However, economic and geopolitical uncertainties ahead will pose challenges.

EXPANDING OUR HOSPITALITY FOOTPRINT

On 15 February 2019, we announced the proposed acquisition of the 418-room Royale Chulan Bukit Bintang Hotel for MYR197 million. This 4-star property, which is conveniently located in the heart of Kuala Lumpur's chic Bukit Bintang shopping district, fits in with our operating profile. It would add strategic value to our existing Hotel Royal Kuala Lumpur, and the Group's other hotels in Penang and Melaka. The cost per room of about MYR471,292 is reasonable. Located in the upscale Bukit Bintang area, the hotel has capital appreciation potential.

We are pleased that the vendor has accepted our offer. The Sale and Purchase Agreement was executed on 15 March 2019 and the latest completion date will be in mid July 2019.

APPRECIATION

In appreciation for the support of all our shareholders, the Directors have proposed a one-tier tax-exempt first and final dividend of 5 Singapore cents per ordinary share and a special dividend of 1 Singapore cent – amounting to $6.048 million in dividend payout – for your approval at the upcoming Annual General Meeting on 27 April 2019.

I have come to the end of my term as Chairman of the Board, and a new Chairman will be announced in due course. I take this opportunity to thank our Directors for their strategic counsel and insights all these years as we steered the Group towards sustainable growth and greater shareholder value.

I would also like to express appreciation to our management team and employees for being at the forefront of service excellence and for embodying our brand values on a daily basis.

Thank you all for your support, and may we all rally together for the next 50 years!

Dr Lee Keng Thon
Chairman

18 March 2019

BOARD OF DIRECTORS

DR LEE KENG THON, 75

Dr Lee Keng Thon was appointed to the Board of Directors on 8 September 1971. He was last re-appointed as a director on 30 April 2016 and was appointed the Chairman of the Company on 29 April 2006.

Dr Lee is a director of Aik Siew Tong Limited, Melodies Limited and Singapore-Johore Express (Private) Limited with businesses in real estate, bus transportation and plantation. He is a medical graduate from University of Sydney with a private medical practice.

DR PANG ENG FONG, 75

Dr Pang Eng Fong was appointed to the Board of Directors on 5 December 2011. Dr Pang is the Chairman of Nominating Committee and a member of the Audit and Risk Committee and Remuneration Committee. He was last re-elected as a director on 30 April 2016.

He is a Professor Emeritus of Strategic Management (Practice), Singapore Management University.

He graduated in economics from the University of Singapore and holds a Ph.D from University of Illinois. He has been a visiting professor at Columbia University as well as the University of Michigan. He has also served as Singapore's ambassador/high commissioner in Seoul, Brussels and London.

DR TAN KIM SONG, 58

Associate Professor Tan Kim Song was appointed to the Board of Directors on 2 March 2015 and is the Chairman of the Audit and Risk Committee. He is also a member of the Nominating and Remuneration Committees. He was last re-appointed as a director on 29 April 2017.

Dr Tan is currently a faculty member in the School of Economics, Singapore Management University. He has previously worked in Chase, Fleet Boston and other investment banks, primarily in the fixed income market, as well as the Singapore Press Holdings.

He graduated in Economics from Adelaide University (First Class Honours) and holds a PhD from Yale University. He is currently also a member of the Appeal Board, Competition Commission of Singapore.

Mr Thomas Yang Wen-Wei, 47

Mr Thomas Yang was appointed to the Board of Directors on 28 April 2018 as an independent non-executive director. He is the Chairman of the Remuneration Committee and a member of the Audit and Risk Committee and Nominating Committee.

He is currently the Executive Operating Officer for his family-run business, Merdeka Construction Company Pte Ltd. A commercially astute sales and business development professional in the Information Technologies industry, Mr Yang has built a successful track record. During his diverse and rewarding career, he had the opportunity to work for a number of leading international companies and start-ups to proactively sell customised, technology-driven solutions in the competitive markets. Known for his consultative approach, he has collaborated with different data analytics companies to provide data analysis service to many clients.

He graduated From Northeastern University in America with a Master of Science, Electrical Engineering (Wireless Engineering).

MR LEE KIN HONG, 65

Mr Lee Kin Hong was appointed to the Board of Directors on 21 June 2002 as a non-executive director. He was last re-appointed as a director on 28 April 2018.

He is currently the Managing Director of Singapore-Johore Express (Private) Limited and has more than 30 years of experience in managing commercial, industrial and residential projects.

He graduated from the National University of Singapore with a Bachelor of Science (Building) and Master of Science (Project Management). He is also a member of the Singapore Institute of Building. Mr Lee Kin Hong is an Honourable Chairman of Sian Chay Medical Institution, a charitable organisation registered with the Ministry of Health.

MR LEE KHIN TIEN, 67

Mr Lee Khin Tien was appointed to the Board of Directors on 31 December 1996 as a non-executive director. He is a member of the Audit and Risk Committee, Nominating and Remuneration Committees. He was last re-elected as a director on 29 April 2017.

Mr Lee Kin Tien is a director of Aik Siew Tong Limited, Melodies Limited and Singapore-Johore Express (Private) Limited with businesses ranging from real estate, bus transportation and plantation. He has more than 30 years of experience in real estate and plantation business. He graduated from Nanyang University with a Bachelor of Science (Biology).

SENIOR MANAGEMENT

LEE CHOU HOCK
CHIEF EXECUTIVE OFFICER

Mr Lee Chou Hock joined the Group in 1985. He is responsible for the management of the day to day operations of the Company and its investments in the subsidiaries. Prior to joining Hotel Royal, he was with a public accounting firm in Singapore. He holds a Bachelor of Accountancy from the University of Singapore and a Master of Business Administration (Hospitality & Tourism Management) from Nanyang Technological University.

LEE CHU BING
GENERAL MANAGER
Hotel Royal @ Queens

Mr Lee Chu Bing joined the Group in 2004 in the Sales & Marketing Department and also assisted in the leasing of the Group's investment properties. He was appointed the General Manager of Hotel Royal @ Queens (Singapore) Pte Ltd in April 2007. He holds a Bachelor of Arts from the National University of Singapore.

LUKAS GERBER
GENERAL MANAGER
Burasari Resort, Phuket

Mr Lukas Gerber joined Burasari Resort as its General Manager in 2011.

Lukas has a strong background in food and beverage, with extensive experience in managing resort properties in Thailand.

He graduated from the hotel management school of Belvoirpark, Zurich as well as a Diploma in Management from NBW Zurich in Switzerland.

SAZRUL BIN FADZIL
GENERAL MANAGER
Hotel Royal Kuala Lumpur

Sazrul Bin Fadzil joined the Group in 2010 as General Manager of Hotel Royal Kuala Lumpur.

After graduating from University of Institute Technology MARA Malaysia's Hotel and Catering Management School, he was selected for a one-year industrial training in ANA Hotel Group in Tokyo, Japan as part of All Nippon Airways' scholarship programme. While in Japan, Mr Sazrul gained in-depth knowledge and experience in hotel management particularly in Front Office, Housekeeping, Maintenance and Security.

He started his career in 1990 as a management trainee in Rasa Sayang Resort, Penang, following which he joined the Genting Highlands Resorts for six years. He later took on a senior management role mainly in the opening and rebranding of new hotel properties.

Active as a NGO participant, Mr Sazrul is a committee member of Malaysia Association of Hotels and Vice Chairman of the Kuala Lumpur Chapter. In addition, he is also a Certified Inspector for the Ministry of Tourism, Arts and Culture, Malaysia where he evaluates star ratings for hotel properties, and a Certified Hotel Trainer for the American Hotel & Resort Association.

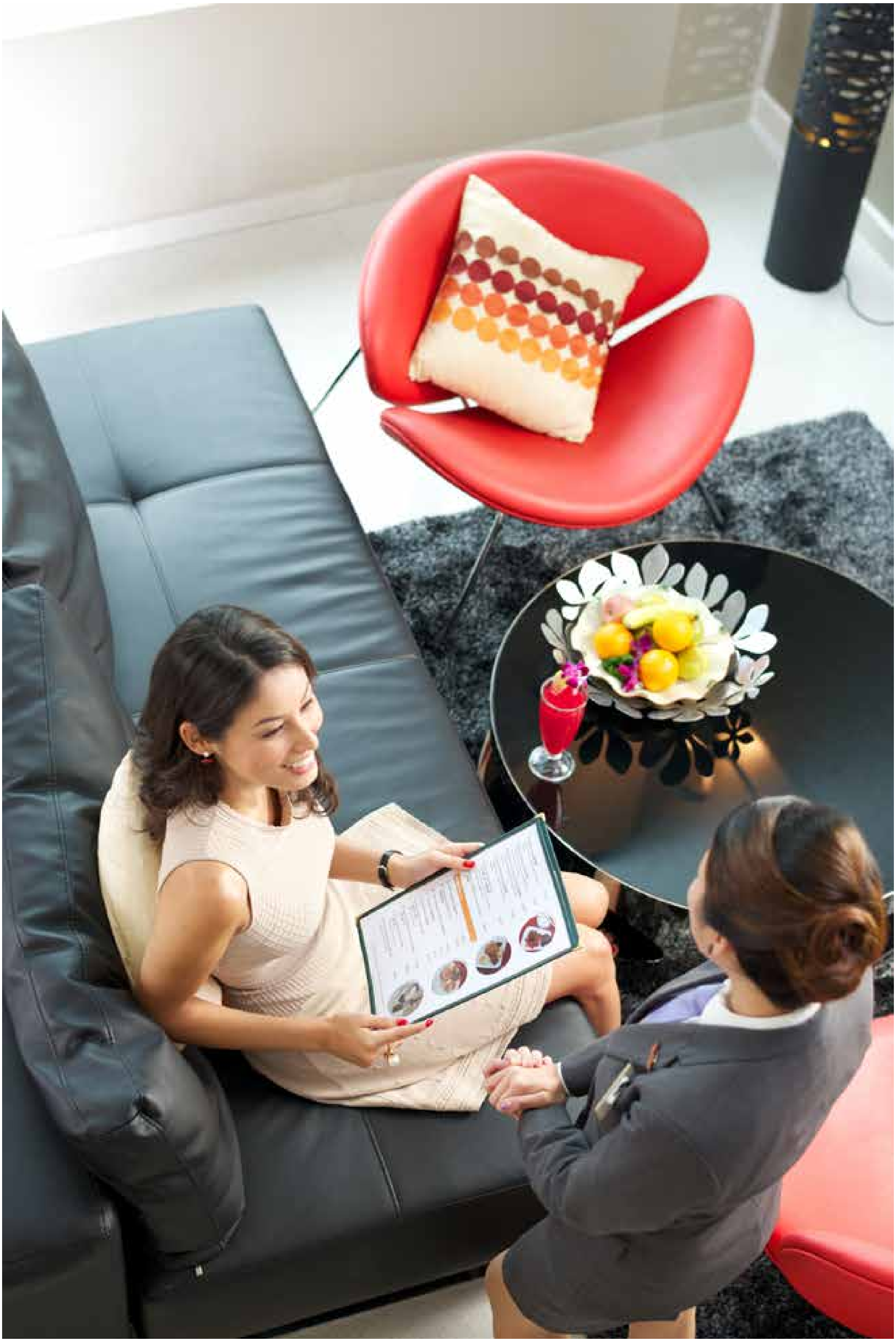
LEE ZONGYE ZACH
DIRECTOR OF PROJECT DEVELOPMENT

Mr. Lee Zongye Zach joined the Group in 2018. He is responsible for the supervision of re-development and upgrading works, and lease management to the Group's real estate assets. He also assists in evaluating real estate investments for the Group.

Prior to joining Hotel Royal Group, he worked as an Architect and Project Manager in the United States and Singapore. He holds a Masters Degree in Architecture from Cornell University, and a Masters Degree in Real Estate from Harvard University.

WONG SIEW CHOO
GROUP REVENUE CONTROLLER

Mrs Wong Siew Choo is responsible for the treasury functions and credit control of the Group. She joined the Group in 1973. Prior to joining the Group, she had accumulated experiences in accounting and purchasing.



FAMILY

一家亲

At Hotel Royal, we offer our people meaningful,
fulfilling work experiences.
As a certified Service Quality Class and
Singapore Service Class company,
we care for our employees by making them realise that
what they do and who they are matter.

OPERATIONS AND FINANCIAL REVIEW

Hotel Royal Group is primarily engaged in the following business activities:

A) HOTEL OPERATIONS

The Group owns and operates hotels, as well as provides food & beverage services. Its hotel portfolio includes the flagship Hotel Royal Singapore, Hotel Royal @ Queens, Hotel Royal Kuala Lumpur, Hotel Royal Penang, Hotel Royal Bangkok @ Chinatown, Burasari Resort in Phuket, Thailand, as well as The Baba House, Melaka which is currently undergoing major refurbishment.

B) PROPERTY INVESTMENTS

The Group also owns investment properties in Singapore, Malaysia and New Zealand for rental income.

C) FINANCIAL INVESTMENTS

It also holds financial investments such as shares, bonds, funds and other products, to generate a stable stream of income through interest and dividends, and also for potential capital appreciation.

Consolidated Statement of Profit or Loss (extract)
Year ended 31 December 2018

	2018 $'000	2017 $'000	Change %
Revenue			
Hotel Operations Segment	51,190	51,390	(0.4%)
Property Investments Segment	8,406	9,578	(12.2%)
Financial Investments Segment	484	515	(6.0%)
Total revenue	**60,080**	**61,483**	**(2.3%)**
Less: Cost of sales	(29,836)	(30,326)	(1.6%)
Gross profit	**30,244**	**31,157**	**(2.9%)**
Less: Operating expenses	(14,033)	(14,018)	0.1%
Add: Other income	954	1,941	(50.9%)
Less: Other expenses	(2,625)	(3,382)	(22.4%)
Less: Finance costs	(4,228)	(4,498)	(6%)
Profit before income tax	**10,312**	**11,200**	**(7.9%)**
Less: Income tax expense	(3,370)	(3,629)	(7.1%)
Profit for the year attributable to owners of the Company	**6,942**	**7,571**	**(8.3%)**

REVENUE

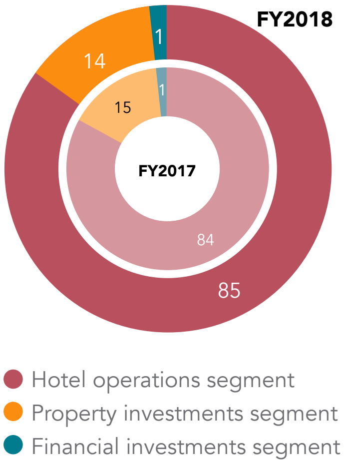
The Group derives its revenue mainly from the sales of rooms, food and beverage, as well as income from rental properties and financial instruments.

In FY2018, Group revenue dipped by 2.3% to $60.1 million, from lower room and food/beverage sales generated at Hotel Royal Bangkok @ Chinatown. In addition, Rental Income from Investment Properties declined by 12.2% to $8.4 million from lower occupancy at its Singapore and New Zealand properties.

On a geographical perspective, revenue from Singapore (which accounts for 45% of total revenue in FY2018) decreased by 1.7% to $26.9 million while Malaysia (accounting for 17% of total revenue) rose by 3.8% to $10 million. Thailand, with 28% of total revenue, posted a 1.9% drop to $16.9 million. Sales from New Zealand, accounting for 10% of total revenue, decreased by 13.5% to $6.3 million.

OPERATIONS AND FINANCIAL REVIEW

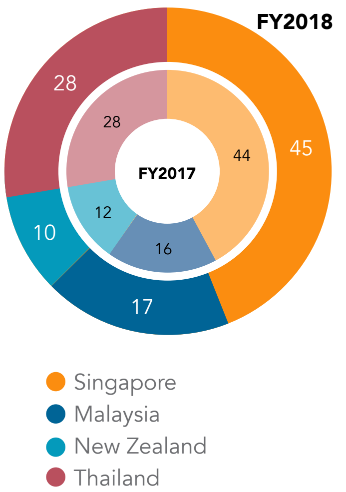
REVENUE BY SEGMENT (%)



	Financial year ended 31 Dec 2018 $'000	%	2017 $'000	%	Increase (Decrease) $'000	%
Hotel operations segment	51,190	85	51,390	84	(200)	(0.4%)
Property investments segment	8,406	14	9,578	15	(1,172)	(12.2%)
Financial investments segment	484	1	515	1	(31)	(6.0%)
Total	**60,080**	**100**	**61,483**	**100**	**(1,403)**	**(2.3%)**

Group revenue comprises mainly of income from hospitality operations and financial instruments, as well as rental receipts from investments properties. In 2018, the hotel operations segment posted a marginal decline of 0.4% to $51.2 million, while the financial investments segment decreased 6% to $484,000. The property investments segment decreased by 12.2% to $8.4 million.

REVENUE BY GEOGRAPHICAL LOCATION (%)



	Financial year ended 31 Dec 2018 $'000	%	2017 $'000	%	Increase (Decrease) $'000	%
Singapore	26,904	45	27,364	44	(460)	(1.7%)
Malaysia	10,033	17	9,662	16	371	3.8%
New Zealand	6,289	10	7,270	12	(981)	(13.5%)
Thailand	16,854	28	17,187	28	(333)	(1.9%)
Total	**60,080**	**100**	**61,483**	**100**	**(1,403)**	**(2.3%)**

Singapore was still the Group's largest market, accounting for 45% of total revenue. This was followed by Thailand (28%), Malaysia (17%) and New Zealand (10%).

During the year in review, Malaysia's revenue improved by 3.8% due to better room occupancy. Revenue from Singapore and Thailand weakened slightly by 1.7% and 1.9% due mainly to downward adjustments of room rates and lower occupancies. Our New Zealand investment properties, similarly, reported a 13.5% lower revenue due to lower occupancy during the year.

PROFITABILITY

In FY2018, the Group's gross profit fell 2.9% to $30.2 million.

Operating income from other sources, such as foreign exchange gain, miscellaneous other income and gain on disposal of property, plant and equipment, slid by 50.9% to $0.95 million from the absence of disposal gain from available-for-sale investments.

Lower overhead expenses during the year led to a marginal 0.6% dip in administrative expenses to $12.8 million.

The decrease in other expenses in FY2018 year-on-year was mainly due to the absence of impairment loss on leasehold land and building, reduction in foreign exchange loss and lower bad debt expenses offset by higher fair value loss on financial assets at fair value through profit or loss. Expenses declined by 22.4% to $2.6 million.

Distribution costs were up 8.2% to $1.2 million largely due to higher sales commission expenses.

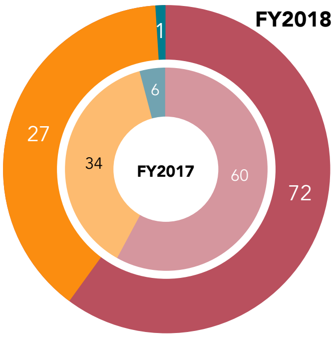
The Group's pre-tax profit decreased by 7.9% to $10.3 million. The Hotel operations segment, continued to be the largest contributor to the Group's earnings (72% of total profit). In FY2018, pretax profit from this segment increased by 12.1% to $10.6 million.

The Property investments segment, accounting for 27% of total profit, posted a 28.2% decline or $1.518 million from $5.4 million in FY2017 to $3.9 million in 2018. This was mainly due to lower contributions from both Singapore and New Zealand properties, offset by better performance in Malaysia properties.

The income tax expense slid by 7.1% to $3.4 million, and the Group closed the year with an 8.3% decline in net profit attributable to shareholders to $6.9 million.

OPERATIONS AND FINANCIAL REVIEW

PROFITABILITY BY SEGMENT (%)

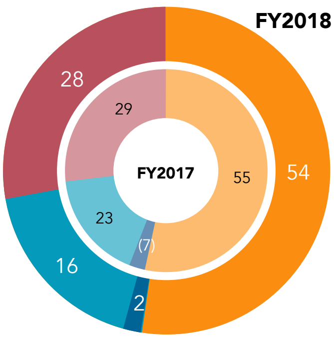


- Hotel operations segment
- Property investments segment
- Financial investments segment

	Financial year ended 31 Dec 2018 $'000	%	2017 $'000	%	Increase (Decrease) $'000	%
Hotel operations segment	10,601	72	9,459	60	1,142	12.1%
Property investments segment	3,864	27	5,382	34	(1,518)	(28.2%)
Financial investments segment	75	1	857	6	(782)	(91.2%)
Profit before interest and income tax	**14,540**	**100**	**15,698**	**100**	**(1,158)**	**(7.4%)**

The Group's profit before interest and income tax decreased by 7.4% to $14.5 million in FY2018, with the largest contribution from its hotel operations. The property investments segment posted a dip of 28.2% while the Group's financial investments led the 91.2% decline.

PROFITABILITY BY GEOGRAPHICAL LOCATION (%)



- Singapore
- Malaysia
- New Zealand
- Thailand

	Financial year ended 31 Dec 2018 $'000	%	2017 $'000	%	Increase (Decrease) $'000	%
Singapore	7,893	54	8,547	55	(654)	(7.7%)
Malaysia	228	2	(1,099)	(7)	1,327	120.7%
New Zealand	2,290	16	3,636	23	(1,346)	(37%)
Thailand	4,129	28	4,614	29	(485)	(10.5%)
Profit before interest and income tax	**14,540**	**100**	**15,698**	**100**	**(1,158)**	**(7.4%)**

The decrease in pretax profit from our Singapore operations, by 7.7% to $7.9 million was mainly due to the downward adjustment of room rates and lower room occupancy resulting from keen competition and increase in room inventory.

In Malaysia, the lower operating expenses from its hotels, offset by higher income from the rental of investment properties boosted the Group's pretax profits by 120.7% to $228,000.

The profitability of the Group in New Zealand declined 37% to $2.3 million due mainly to a major refurbishment of the property. Its profit will increase when the refurbishment in completed in 2019.

The lower occupancy in its Bangkok hotel led to a pretax profit decline of 10.5% to $4.1 million.

CASHFLOW

In FY2018, the Group continued to generate strong operating cash flow which increased by 15.0% to $20.5 million, thereby providing the Group with the necessary capital for growth and expansion.

During the year in review, the Group invested a total of $6.9 million, mainly for upgrading its properties in Singapore, Malaysia and New Zealand.

The net cash of $2.5 million used in financing activities was largely due to repayment of bank loans offset by proceeds from rights issue.

As at 31 December 2018, the Group posted an uplift of $10.9 million in cash and cash equivalents, giving rise to an amount of $28.2 million.

OPERATIONS AND FINANCIAL REVIEW

GROUP CASH AND BANK BALANCES

	FY 2018 $'000	FY 2017 $'000	FY 2016 $'000	FY 2015 $'000	FY 2014 $'000
Cash on hand	174	166	156	144	154
Cash at bank	15,632	16,462	13,338	15,677	16,053
Fixed deposits	13,463	1,700	1,227	1,216	1,627
Total	**29,269**	**18,328**	**14,721**	**17,037**	**17,834**

Cash and bank balances for the Group consists of cash on hand, cash at bank and fixed deposits. The fixed deposit of a subsidiary company was pledged for a loan facility which was secured by a mortgage over the subsidiary's freehold hotel property, investment property, fixed and floating charges on all the assets of the subsidiary, subordination of intercompany advances made to the subsidiary, fixed deposits and corporate guarantee from the Company.

The Group's fixed deposits earn interest ranging from 1.38% to 3.25% per annum and for terms ranging from 30 to 270 days.

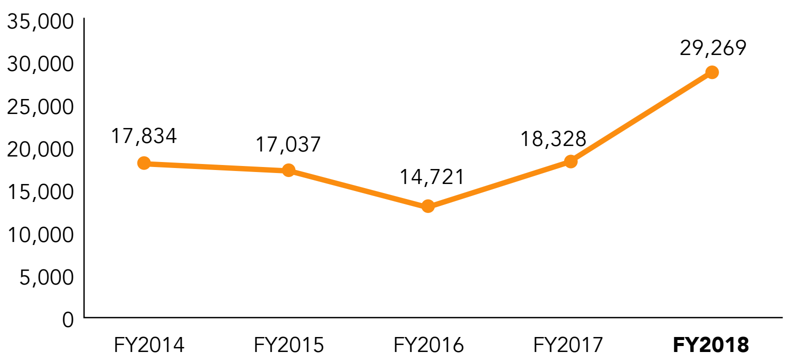
	2018 $'000	2017 $'000
Net cash from operating activities	20,477	17,813
Net cash used in investing activities	(6,934)	(9,478)
Net cash used in financing activities	(2,529)	(4,973)
Net increase in cash and cash equivalents	11,014	3,362
Cash and bank balances at end of year	**29,269**	**18,328**

Increase was mainly due to better contribution from financial assets at fair value through profit or loss.

Decrease was due to the renovating and upgrading of properties in Singapore, Malaysia and New Zealand, offset by proceeds from disposal of financial assets at fair value through other comprehensive income.

Decrease was due to proceeds from rights issue, offset by repayment of bank loans.

CASH AND BANK BALANCES ($'000)

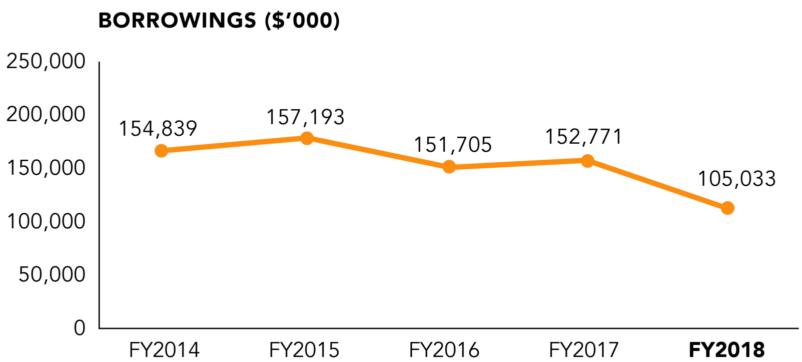


GROUP BORROWINGS

	FY 2018 $'000	FY 2017 $'000	FY 2016 $'000	FY 2015 $'000	FY 2014 $'000
Secured	105,033	152,771	151,705	157,193	154,839

Comprising short-term and long-term bank loans and finance lease, the Group's borrowings are secured by mortgages of the Company's and subsidiaries' freehold land and buildings, investment properties of certain subsidiaries, and a floating charge on all the Company's and subsidiaries' assets. Its obligations under finance leases are secured by the lessor's title to the leased assets.

In 2018, the Group's borrowing reduced by about $47.7 million, or 31.2% over that of the previous year.



OPERATIONS AND FINANCIAL REVIEW

Statements of Financial Position (extract) **31 December 2018**	**2018** **$'000**	**2017** **$'000**	**Change** **%**
Total Assets	**807,393**	**744,863**	**8.4%**
- Property, plant and equipment	647,679	605,718	6.9%
- Investment properties	93,887	91,222	2.9%
- Investments	28,459	21,027	35.3%
- Inventories	1,092	861	26.8%
- Trade receivables and other receivables	4,541	4,991	(9.0%)
- Goodwill	1,920	1,875	2.4%
- Cash and bank balances	29,269	18,328	59.7%
Total Liabilities	**138,043**	**186,529**	**(26.0%)**
- Trade and other payables	10,221	10,971	(6.8%)
- Tax liabilities	22,017	22,014	0.01%
- Bank borrowings	105,033	152,771	(31.2%)
Capital and reserves	**669,350**	**558,334**	**19.9%**
- Share capital	150,665	100,438	50%
- Asset revaluation reserve	407,913	364,577	11.9%
- Employee benefit reserve	190	180	5.6%
- Fair value reserve	16,755	3,707	352%
- Translation reserve	123	90	36.7%
- Retained earnings	93,704	89,342	4.9%

The Group's total shareholders' equity improved by 19.9% to $669.3 million as we positioned ourselves to consolidate our core businesses and investments.

Despite the challenging business environment in FY2018, the Group continued to progressively upgrade its hotel properties in a bid to further increase its market share in these key markets.

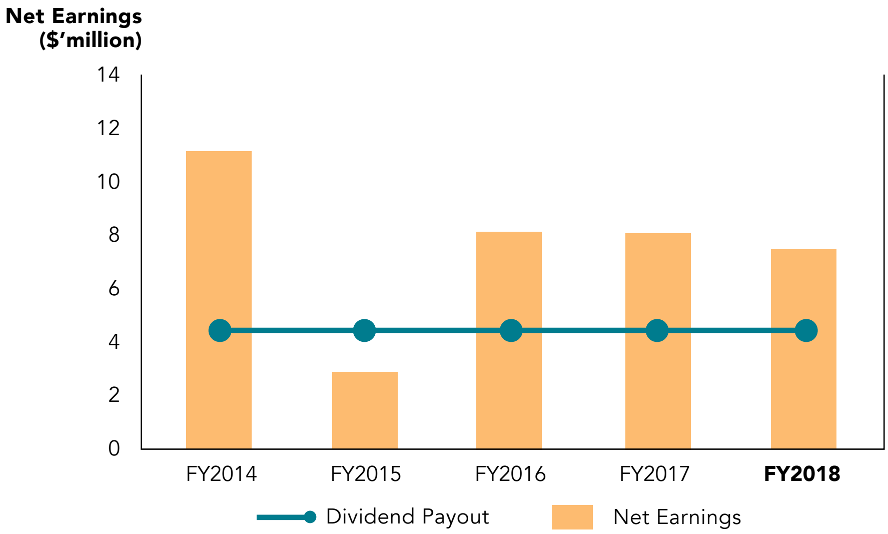
Moving ahead, the Group expects to expand its hospitality room inventory in key cities in the Asia Pacific by way of acquisitions. It will also actively upgrade and increase rental income from its investment properties in New Zealand.

SHAREHOLDER RETURNS

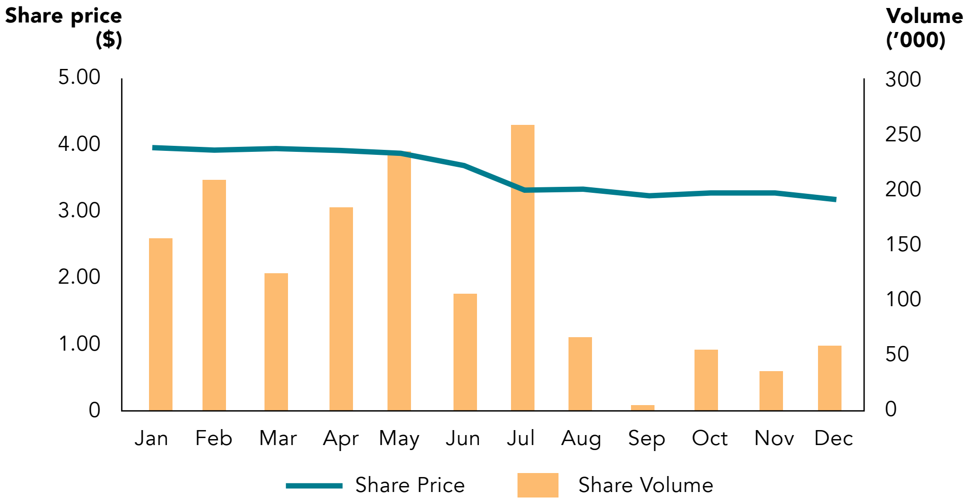
The Group's priority is to achieve long-term capital growth for shareholders. The bulk of its profits, when made, shall therefore be retained for investing in the Group's future. However, the Group will also distribute an appropriate annual dividend to reward shareholders, cash flow permitting.

In response to the FY2018 results, the Directors are pleased to propose a first and final tax-exempt dividend of $0.05 per ordinary share, and a special dividend of $0.01 per ordinary share. Amounting to $6.048 million, these dividends are subject to approval by shareholders at the upcoming Annual General Meeting on 27 April 2019. If approved, these dividends will be paid out in June 2019.

NET EARNINGS AND DIVIDEND PAYOUT



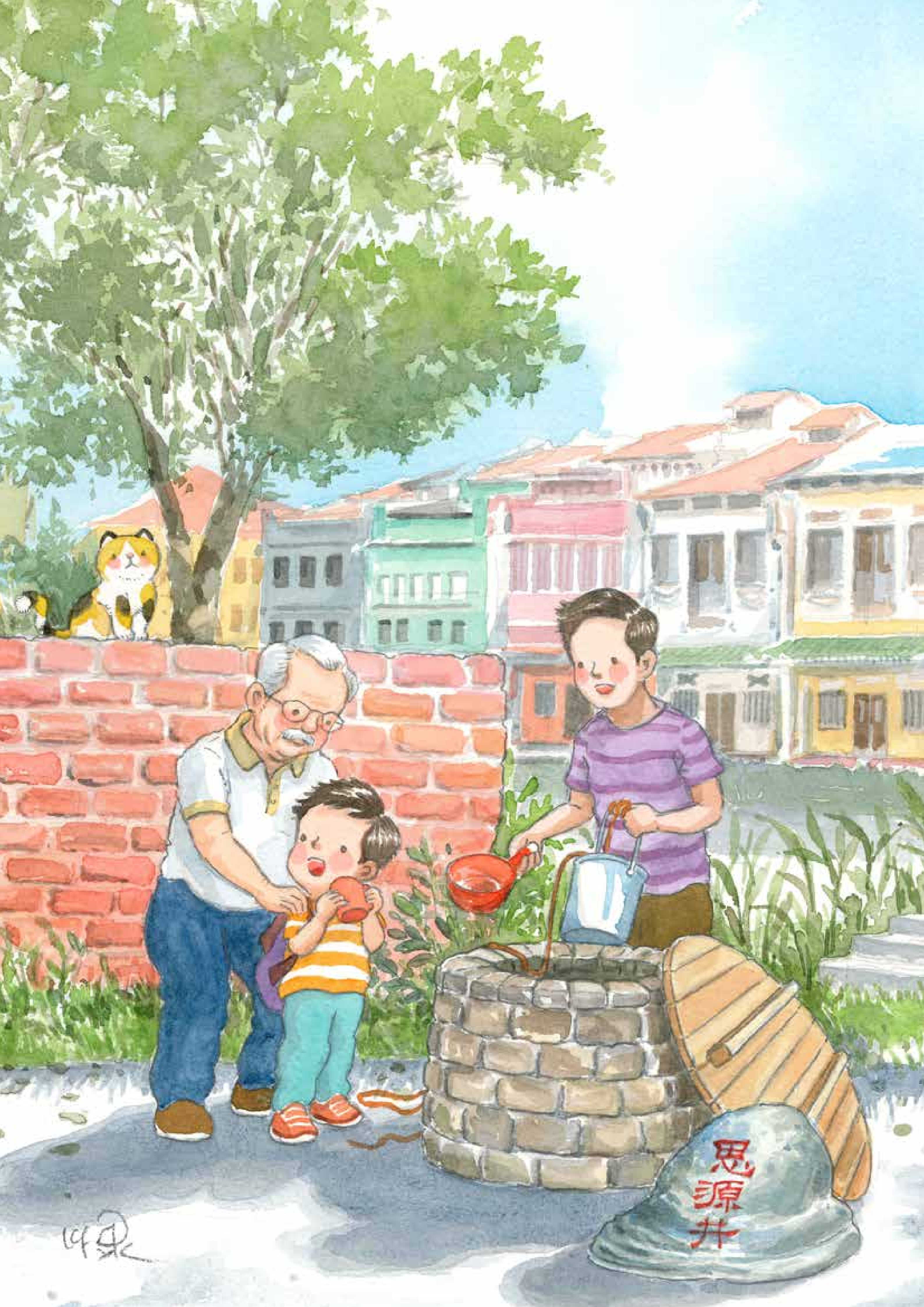
SHARE PRICE AND TRADING VOLUME (FY2018)



HERITAGE

承前启后

These two wells were discovered
while refurbishing Baba House in Melaka.
Like the Chinese proverb **饮水思源**,
which means, remembering the source of
our blessing and existence, we treasure the values on
which our Group was founded,
and these values will see us through the
generations to come.


思源井

SUSTAINABILITY REPORT

FOREWORD BY THE CHAIRMAN

Dear Shareholders,

Increasingly, investors and stakeholders view a successful business as one that is not only profitable from year to year, but also one that is adept at aligning with the socio-environmental priorities in the macro operating landscape. It is with this in mind that we submit our full Sustainability Report for FY2018 together with our Annual Report to shareholders.

The Board, through Hotel Royal's management committee, oversees sustainability within the Group, including the integration of key elements of sustainability management into the Group's strategy, risk governance, daily operations and reporting. As per our previous Sustainability Reports, this Report is based on the Materiality Matrix that illustrates the Management's strategic priorities vis-à-vis our stakeholders. By seeking to provide a discussion on each of these factors highlighted in the Matrix, we hope to effectively demonstrate that a sustainable business strategy can indeed be aligned with business profitability and shareholder value.

Dr Lee Keng Thon
Chairman

18 March 2019

ABOUT THIS REPORT

ORGANISATIONAL STRUCTURE

Hotel Royal's sustainability strategy is developed and directed by the senior management in consultation with the Board of Directors. The Group's Sustainability Committee, which includes senior management executives, is led by the Group's CEO, and is tasked to develop the sustainability strategy, review its material impacts and considering stakeholder priorities, and in setting goals and targets, as well as collecting, verifying, monitoring and reporting performance data for this Sustainability Report.

CONTENTS OF THE REPORT

Our Report will begin with a review of the material aspects that both stakeholders and the Company view as being critical to the success and sustainability of the Company. We will seek to assess any changes in these material aspects when compared to the preceding year, where applicable, and look into issues that may have a large variance. These may include changes to the business environment, stakeholder feedback and sustainability trends.

HOTEL ROYAL'S SUSTAINABILITY POLICY

Hotel Royal Limited is a hospitality group that places much emphasis on executing a sustainable business strategy with profitability and shareholder value as foremost priorities. As a responsible corporate citizen operating in Singapore and the Asia-Pacific region, the Group's values are articulated in the following principles:

1 Code of conduct and business ethics

Our Group adopts a Code of Conduct and Business Ethics that stipulates the principles of our conduct and business ethics that apply to all of the Group's employees. This Code covers areas such as conduct in workplace, business conduct, protection of the Company's assets, confidentiality of information and conflict of interest, etc.

We have also established a whistle-blowing mechanism to aid in the reporting of corporate misconducts, if any. We do not engage in child labour or take unethical means, directly or indirectly, to provide business services in our day-to-day operations. By "indirectly", we are saying that we do not engage in business with partners, suppliers or third party manufacturers that are known to use unethical means in their business processes.

2 Health, safety and the environment

Management of health, safety and the environment is high on our list of priorities. We continuously seek to minimise the impact of our activities through water and energy conservation, as well as having a robust workplace safety management programme.

Please refer to the section on Corporate Social Responsibility on Pages 42 - 43 of our FY2018 Annual Report.

3 Employees

We believe in engaging and developing our staff to their fullest by providing opportunities for development and growth.

Please refer to the People Report on Pages 44 - 45 of our FY2018 Annual Report.

4 Community

We believe in giving back to the society through supporting various charitable initiatives and community projects.

Please refer to the section on Corporate Social Responsibility on Pages 42 - 43 of our FY2018 Annual Report.

STATEMENT OF ASSURANCE

It should be pointed out that while the financial statements in the Report are audited by independent auditors, we rely on our internal process to verify the accuracy of the Environmental, Social and Governance (ESG) performance data and information presented in this Report.

SUSTAINABILITY REPORT

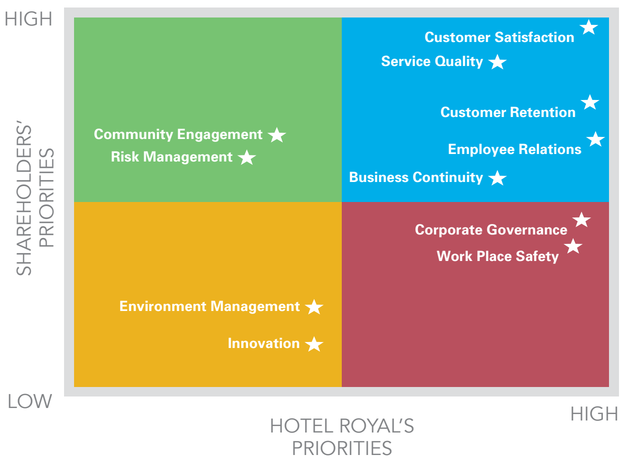
OUR STAKEHOLDERS

STAKEHOLDERS	HOTEL ROYAL'S COMMITMENT	ENGAGEMENT METHOD	FREQUENCY
INVESTORS	Maximise shareholder value through our corporate strategies and business fundamentals	• Annual General Meeting • IR Website • Emails	Annually/Throughout the year
CUSTOMERS	Maximise customer satisfaction through delivering quality service and products	• Ongoing operations • Collaterals • Guest feedback channels • Website	Ongoing
EMPLOYEES	Maximise the full potential of our people resources through continual employee development and training	• Induction programmes for new employees • Staff training and development • Regular emails and meetings • Recreational and wellness activities • Employee feedback channels • Appraisals	Throughout the year
PARTNERS	Build strong partnerships with regulatory and non-governmental organisations in the pursuit of the best in environmental, health and safety standards in our operations	• Regular meetings, including new policies and practices • Conferences and forums	Throughout the year
COMMUNITY	Minimise environmental impact and contribute to the communities where we operate in	• Outreach programmes • Sponsorship of events	Annually/Throughout the year

MATERIALITY MATRIX

The Materiality Matrix maps out the significant ESG and economic factors that impact our business, as well as insights gained from stakeholder engagements. It helps us to focus our efforts in paying attention to the values that are critical to the success of our business as well as the priorities of various stakeholders. It is reviewed regularly, taking into account the feedback that we receive from our engagement with a wide variety of stakeholders, broader sustainability trends and the issues facing the hospitality industry.

In this Report, we have expanded our coverage to include all of the Group's hotels in Singapore, Malaysia and Thailand.



MANAGING SUSTAINABILITY - IDENTIFICATION OF KEY SUSTAINABILITY ISSUES

The Group has adopted the following Materiality Matrix approach to identify and prioritise key sustainability issues. Feedback was gathered from its stakeholders who formed the basis for determining the Matrix.

Based on feedback from our various stakeholders, we have shortlisted 11 material factors based on valuable insights that we have gained from our stakeholder engagement efforts, as well as factors that Management deems to have potential material impacts to our business operations. These are reviewed from time to time.

CUSTOMER SATISFACTION, RETENTION & SERVICE QUALITY

The ability to retain existing customers, while attracting new ones, is vital to the Group's business sustainability. At Hotel Royal, we prioritise our strong relationships with our guests and customers by continually striving to improve our service standards and product quality, and making them feel completely at home. Every year, we aim to achieve a minimum score of 80% in our Customers & Employees Satisfaction Surveys, and a minimum of 12 compliments for every complaint received. Our senior management teams are fully committed to reading every feedback form submitted by our guests and will take the necessary follow-up action.

	2018	2017
Customer Satisfaction Survey	81%	78%
Employee Satisfaction Survey	81%	80%

EMPLOYEE RELATIONS

In the hospitality industry, having motivated and well-trained employees to deliver personalized service is critical. As such, we highly prioritise our talent management initiatives and policies to achieve our operational objectives.

Across the Group's hotels in Singapore, Malaysia and Thailand, we had a total of 756 employees as at 31 December 2018 (2017: 815 staff) delivering quality service to our guests and customers.

The Group continually ensures that our staff are motivated and incentivized to fulfill our brand promise - through our established human resource policies and our structured staff training and development programmes.

In addition, we strive to increase our productivity and efficiency by relying less on manpower and more on operational innovation and best practices. We continue to maintain a healthy balance in the gender diversity amongst our employees.

	2018	2017
Men	420 (56%)	465 (57%)
Women	336 (44%)	350 (43%)
Total staff	756 (100%)	815 (100%)

	2018	2017	Change (%)
Total training hours	26,615	30,842	(13.7)
Average training hours per employee	35.21	37.84	(10.2)

Armed with a vision to be the preferred hospitality group for the mid-market leisure and corporate travel segment, the Group measures itself against the best in class by being one of the few hotel management companies that hold quality certifications such as the ISO, Singapore Quality Class Star (SQC Star) and Singapore Service Class. Our training objectives are to instill in our staff the four service deliverables – namely, customer service, attitude, recognition, and efficiency – inspired by our service credo, "We CARE". It is our hope that as we train our staff to achieve optimal level of performance, thereby creating a culture that is in line with our service credo.

The Group managed a total of 26,615 hours on staff training in 2018, which is a dip of 13.7% over the previous year. This is mainly due to a leaner workforce. The Group managed to achieve an average training hours per employee in excess of 30 hours for both 2018 and 2017.

SUSTAINABILITY REPORT

WORKPLACE SAFETY

	2018	2017
Workplace injury rate	0	0
Accident frequency rate	0	0
Accident severity rate	0	0

The safety of the work environment is of utmost priority for the Group. At each of our hotels, there are workplace safety and health (WSH) committees that recommend, monitor and review safety procedures, as well as identify areas or work processes that pose potential risks.

Ensuring that our practices are in line with the best practices of the industry, each of these committees has put in place reporting procedures for all accidents and injuries at the workplace. Even minor cuts, are reported to the relevant HR department for action and tracking.

Our staff are also sent for training in workplace safety, first aid, handling fire hazards at the work place, as well as fire drills and evacuation exercises.

During the year in review, no incidents were reported.

BUSINESS CONTINUITY & RISK MANAGEMENT

Recognising that material ESG issues are also key to the Group's sustainable growth, Hotel Royal upholds a robust risk and control framework that is designed to provide reasonable assurance that our strategic business decisions continue to enhance stakeholder value, while complying with the necessary legal and regulatory requirements.

In order to respond resiliently to changing market conditions, it is important for the Group to take a proactive and structured approach to identifying and managing our risk profiles in order to support the Group's strategic performance. Such risks include those pertaining to the overall market, credit, operations, legal and finance.

Over the years, we have successfully infused the strict discipline of strategic risk management, which also includes material ESG issues, into all of our decision-making processes. ESG issues are in fact strategic risks that may be near or longer-term in nature. In identifying these material issues, the Group seeks to ensure that pertinent implications of legislative and regulatory changes as well as socio-economic and reputational drivers are effectively and efficiently managed. As a group, Hotel Royal will proactively seek to integrate sustainability considerations into its businesses, mitigate risks and continuously improve business operations to deliver stakeholder value.

For more detailed discussions of our Risk Management initiatives, please refer to pages 68-69 of this Annual Report.

CORPORATE GOVERNANCE

Listed on the Main Board of the Singapore Exchange since 1968, the Group is unwaveringly committed to the best practices of corporate governance for its long-term sustainability.

Driven by our strong sense of creating value and corporate transparency, the Group believes in developing sound, consistent policies and practices by complying with the letter and the spirit of Singapore's Code of Corporate Governance.

Please refer to pages 49 to 67 of this Annual Report for details of our Corporate Governance practices.

COMMUNITY ENGAGEMENT

	2018 $	2017 $	Increase (%)
Community investments	103,510	99,235	4.3

Apart from driving profits and delivering shareholder value, the Group is deeply committed to doing its part in fostering goodwill in the communities and environment that it operates in. After all, reaching out to the community is an extension of Hotel Royal's culture of making Every Room A Home. Every year, we, together with our employees, contribute funds and time to support various meaningful causes.

In 2018, the Group increased its contributions to the community by 4.3% through donations and sponsorship of room nights to various arts groups.

ENVIRONMENT MANAGEMENT

	2018	2017	Increase/ (Decrease) (%)
Energy usage (GJ)	72,976	74,074	(1.5)
Water usage (cubic metres)	394,002	393,021	0.2
Hazardous and non-hazardous waste (tonnes)	895	2,110	(57.6)

Our environment initiatives are focused on minimizing the material environmental impact of our operations, which include energy, water and waste. We managed to achieve a 57.6% reduction in hazardous and non-hazardous waste by reducing food wastage and newspapers for the guest rooms. Since June 2018, we have embarked on a campaign to educate our guests and staff to "Love food, Not waste", and are pleased to see encouraging results. We also actively engage staff and customers to champion and address some of the environmental impacts together.

In recent years, we have introduced a number of initiatives such as installing energy saving and sensor-activated LED lightings in guest rooms and common areas, as well as adjusting the water flow in our guest rooms.

In 2018, the Group's energy usage dipped by 1.5%, while our water usage rose slightly by 0.2% year-on-year.

Our previous efforts, such as tapping solar energy to generate hot water, and installing environmentally friendly VRV air-conditioning systems, continue to reap benefits to the Group. Every little act goes a long way, even the simple acts of switching off lights during the lunch period, and collecting rainwater to water the plants and wash common areas. Since 2016, Hotel Royal in Singapore and Bangkok have installed dispensers for hot, warm and cold water on all floors, and ceased distributing bottled drinking water to the guest rooms. In addition, Hotel Royal Singapore joined Hotel Royal @ Queens as smoke-free hotels.

INNOVATION

One of the keys to any successful business is being able to come up with new ideas to keep operations, products and services fresh. This is particularly true in the hospitality industry, as we operate in an increasingly competitive landscape.

As such, our priority is to nurture a culture of innovation amongst our staff across the Group. We are pleased that during the year in review, we introduced a number of service improvements, such as using WhatsApp to enhance communications and timely reporting of maintenance defects. Most of our other initiatives were in the area of saving energy at our properties – such as installing energy saving and sensor-activated lightings in common areas, sensor-activated taps and toilet equipment.

Being innovative does not only mean inventing – it is also about making improvements to our business processes, enhancing our products and services, and making productivity gains to increase efficiency and profitability. We strive to think out of the box to improve our operations so as to reduce impact to the environment, improve service to our guests and to bring about efficiency in our operations.

CORPORATE SOCIAL RESPONSIBILITY

We believe in doing our part
as a good corporate citizen in minimizing the impact that
our operations may have on the environment.

THE ENVIRONMENT

At Hotel Royal, we recognize the need to preserve and protect the earth's limited, natural resources. We believe that part of being a good corporate citizen is maintaining or improving the cleanliness of the air, water and land of the locations in which we operate. We are committed to complying with applicable environmental laws and regulations, and reviewing our operations and processes to improve our use of these resources, and to enhance the quality of the environment.

With increasing awareness of how plastic wastes are clogging the earth's oceans and waterways, the Group is taking an offensive against the use of non-biodegradable materials in our operations. In 2018, our team at Burasari Resort in Phuket, Thailand joined hands with the Phuket Hotel Association to say "no" to plastics and styrofoam – an event held at the Holiday Inn Patong. Our team in Phuket also partners with Patong Hotel Association in cleaning up Patong Beach once every two months.

Since 2016, Hotel Royal Singapore has installed dispensers for hot, warm and cold water on all floors, and ceased distributing bottled drinking water to the guest rooms. In addition, Hotel Royal Singapore, Hotel Royal @ Queens and Hotel Royal Kuala Lumpur are smoke-free – with all guest rooms and suites designated as no smoking zones.

The Phuket and Kuala Lumpur teams also participated in the Earth Day observance on 24 March 2018. Burasari Resort staff joined others for World Ocean Day held on 8 June 2018 where a mini marathon and charity run were organized at Bangwad Dam. The Phuket government also organized a car-free day at Patong Beach to encourage the reduction of carbon emissions.

Across the Group's properties, we have various initiatives in place to reduce our reliance on fossil fuels, such as tapping solar energy to generate hot water, switching to energy-saving LED lighting, motion sensors in lighting systems, and environmentally friendly VRV air-conditioning systems. Every little act goes a long way such as switching off lights during periods of inactivity, collecting rainwater to wash common areas, as well as waste separation and management.

SUPPORT OF THE ARTS

As an ardent supporter of the arts, Hotel Royal Singapore continued to support the Theatre Practice by sponsoring a total of 241 room nights in FY2018.

Throughout the year, The Theatre Practice put up productions such as "I came at last to the seas" during the Huayi – Chinese Festival of Arts 2018 in February; "Four Horse Road"held in April, and the M1 Patch! A Theatre Festival of Artful Play – an international festival of theatre advocating the cultivation of artists and audiences through the spirit of play held in August.

COMMUNITY OUTREACH

Corporate social responsibility is an important activity of the Group, as we believe in giving back to the community, to do our part in improving the lives of others around us.

In March 2018, our resort in Phuket organized a blood donation drive as well as a mini marathon and charity run in June. In November, the hotel made a donation for the Life Home Project.

Our hotels in Penang and Kuala Lumpur would organize visits to various homes during major festivals. In February 2018, Hotel Royal Penang visited senior residents of Bethel Home at Cecil Street where they brought food catered by the hotel and celebrated Chinese New Year with the residents. In addition, they also brought with them daily necessities and groceries, and not forgetting the ubiquitous red packets! Hotel Royal Kuala Lumpur sponsored a meal for Rumah Caring Kajang's residents and treated them to a rousing lion dance performance.

During Ramadan in May, our staff volunteers in Penang distributed bubur lambuk – a traditional Malay spiced savoury porridge - to passersby and drivers outside the Hotel's main entrance. The staff from Hotel Royal Kuala Lumpur distributed porridge for the first responders at Balai Bomba Maharajalela, and broke fast with young residents of Rumah Anak Yatim Muafakat Cheras.

Believing that the smallest act of kindness is worth more than the grandest of intentions, a team of 20 from Hotel Royal Penang repainted the walls and spruced up the garden of an orphanage in Penang – Pusat Jagaan Nasyitul Aisyiyah - on 7 June 2018. The beneficiaries were also treated to a sumptuous buffet dinner at the hotel later that month where some 30 children attended.

In December, Hotel Royal Penang adopted 10 children for RM360 each at the Cheshire Home's Foster Parents Day. The hotel staff also donated RM300 to buy grocery and sundry items for the Home.

PEOPLE REPORT

The Group has 756 employees across its operations in Singapore, Malaysia and Thailand, delivering exceptional service inspired by its credo – "Every Room A Home".

The Group's Service Quality Culture ensures that staff are empowered to provide positive customer experiences and to anticipate the needs of all of our guests. This is a culture that we strive to instill in all of our staff throughout the Group's properties. Based on the Group's values of integrity and trust, senior management plays an active role in daily operations, and engages staff regularly through quarterly feedback sessions to solicit feedback and suggestions. It also took the lead in resolving work-related issues and facilitating improvements in work areas.

TRAINING

As ambassadors of the Group's brand, our staff are continually motivated and equipped through training. As the preferred hospitality group for the mid-market segment, such as corporate travel, agents, training, sports, shipping, incentives, online travel and performance segments, Hotel Royal is often measured against the best in class, particularly since we are one of the few hotel management companies with ISO, Singapore Quality Class (Star) and Singapore Service Class certifications.

Our aim is to align our training with the employee's personal goals with that of the Group's service credo. This we do through our internal "WE CARE" programme, which seeks to instill in our staff, the four deliverables based on the acronym CARE (customers, attitude, recognition and efficiency).

In addition, training on first aid, on-the-job skills in front office, food & beverage, housekeeping and security were conducted across the Group's hotels.

In FY2018, the Group's hotels clocked a total of 26,615 training hours.

RECOGNITION

Not only are appraisals given to all staff to assess their performance, we also provide a channel for them to provide feedback about their training needs, job satisfaction, quality of the work environment, benefits and welfare through the Employee Satisfaction Survey. This is of importance to us and we seek to achieve a minimum of 80% rating in the annual survey. In 2018, the score was 81%.

Apart from getting feedback from staff, it is equally important for us to track the Company's operational performance. This is monitored annually through the Customer Satisfaction Survey that targets a minimum 80% score. In 2018, a score of 81% was achieved.

To further motivate staff towards service excellence, we have also put in place a positive reinforcement scheme where the number of compliments received per staff are tracked and linked to a points system, which allows accumulated points to be redeemed for shopping vouchers.

In addition, exemplary staff are identified each month as "Outstanding Service Providers". At the end of the year, the best performing staff for the year will win the "Outstanding Service Provider of the Year" Award. Exceptional service providers who went out of their way to serve are also recognized and nominated for the "Extra Mile Award".

All these initiatives are implemented to stem a common challenge in the industry – high employee turnover rate. The Group believes that a happy and well-motivated workforce goes a long way.

THE PERFECT TEN

As we celebrate 50 years since the Company's inception, we are grateful for the staff who joined us when our first hotel started operations in 1972. We are particularly appreciative of the 10 who are still hard at work and contributing significantly to the Company's growth:

When we asked them how they would summarise their work experiences, these are what they shared:

"Happy", "thanks for believing in me", "empowerment", "good colleagues", "cooperative", "team work", "enjoy the job".

Thank you all for being such great role models for the rest of us!

Front row from left to right:
Mr Zain Bin Yunos, Mdm Adeline Chan Choon Mui, Mdm Molly Cheng Mui Lee, Mdm Wee Foong Boey, Mdm Wong Siew Choo

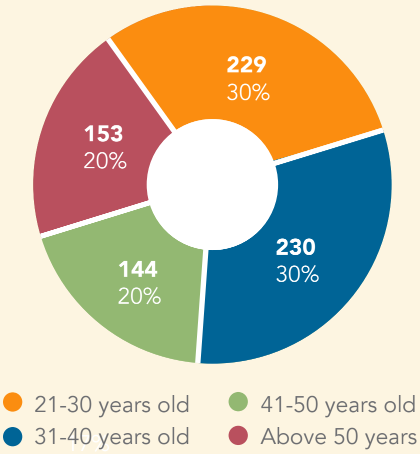
Back row from left to right:
Mdm Ang Juat Wah, Mdm Lim Beng Geok, Mr Rahiman Bin Ismail.

Name	Designation	Department	Length of Service (as at 31 Dec 2018)
Mdm Ang Juat Wah	Linen Maid	Housekeeping	46 years & 3 months
Mdm Lim Beng Geok	Communication Officer	Telephone Department	45 years & 9 months
Mr Rahiman Bin Ismail	Bellhop	Front Office	46 years
Mr Zain Bin Yunos	Food & Beverage Manager	F&B	45 years & 11 months
Mdm Adeline Chan Choon Mui	Assistant Revenue Controller	Revenue Department	45 years & 6 months
Mdm Molly Cheng Mui Lee	Secretary	Executive Office	45 years
Mdm Wee Foong Boey	Kitchen Helper	F&B	45 years & 8 months
Mdm Wong Siew Choo	Revenue Controller	Revenue Department	45 years & 5 months
Mdm Ann Tan Mui Geok	Room Attendant	Housekeeping	46 years & 3 months
Mdm Daisy Woon Wai Keng	Outstation Cashier	Coffee House	45 years & 6 months

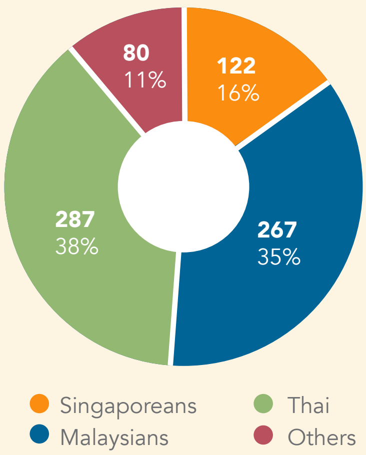
PEOPLE REPORT

GROUP EMPLOYEE PROFILE 31 DECEMBER 2018

BY AGE



BY NATIONALITIES



AWARDS & ACCOLADES

1995
- Received Associate of the Arts Award from the Ministry for Information and the Arts

1996
- Awarded Hotel Security Awards jointly administered by Singapore Hotel Association, Singapore Police Force and National Crime Prevention Council

1997
- Awarded ISO 9002 certification by Spring Singapore

1998
- Awarded Hotel Security Awards jointly administered by Singapore Hotel Association, Singapore Police Force and National Crime Prevention Council

1999
- Awarded Hotel Security Awards jointly administered by Singapore Hotel Association, Singapore Police Force and National Crime Prevention Council

2000
- Received the SHA/Police/NCPC/STB Hotel Security Gold Award jointly administered by Singapore Hotel Association, Singapore Police Force and National Crime Prevention Council

2001
- Awarded Hotel Security Awards jointly administered by Singapore Hotel Association, Singapore Police Force and National Crime Prevention Council

2002
- Awarded Hotel Security Awards jointly administered by Singapore Hotel Association, Singapore Police Force and National Crime Prevention Council

2003
- Received the SHA/Police/NCPC/STB Hotel Security Gold Award jointly administered by Singapore Hotel Association, Singapore Police Force and National Crime Prevention Council

2004
- Received Supporter of the Arts Award from National Arts Council Awarded Hotel Security Awards jointly administered by Singapore Hotel Association, Singapore Police Force and National Crime Prevention Council

2005
- Awarded Singapore Quality Class (SQC) certification by SPRING Singapore
- Received Supporter of the Arts Award from National Arts Council
- Awarded Hotel Security Awards jointly administered by Singapore Hotel Association, Singapore Police Force and National Crime Prevention Council

2006
- Awarded Singapore Service Class (SSC) certification by SPRING Singapore
- Received Supporter of the Arts Award from National Arts Council
- Received the SHA/Police/NCPC/STB Hotel Security Gold Award

AWARDS & ACCOLADES

2007
- Received Supporter of the Arts Award from National Arts Council Received the SHA/Police/NCPC/STB Security Award

2008
- Received Supporter of the Arts Award from National Arts Council
- Received the SHA/Police/NCPC/STB Security Award

2009
- Awarded Singapore Service Class (SSC) and Singapore Quality Class (SQC) re-certification by SPRING Singapore
- Received the SHA/Police/NCPC/STB Security Award
- Received Supporter of the Arts Award from National Arts Council

2010
- Received Supporter of the Arts Award from National Arts Council
- Received the SHA/Police/NCPC/STB Security Award

2011
- Finalist for Top Hotel for Hawker Food in Singapore by HotelClub
- Received Supporter of the Arts Award from National Arts Council
- Received the SHA/Police/NCPC/STB Hotel Security Award

2012
- Received Supporter of the Arts Award from National Arts Council
- Received the SHA/Police/NCPC/STB Hotel Security Award

2013
- Awarded Singapore Quality Class (Star) certification by SPRING Singapore
- Singapore Hotel Association Outstanding Star Award was conferred to Ms Alice Lau Yin Fun (Guest Relations Officer) for outstanding individual performance
- Received Supporter of the Arts Award from National Arts Council
- Received the SHA/Police/NCPC/STB Hotel Security Award

2014
- Awarded Hotel Security Awards jointly administered by Singapore Hotel Association, Singapore Police Force and National Crime Prevention Council Received Supporter of the Arts Award from National Arts Council

2015
- Received Friend of the Arts Award from National Arts Council
- Awarded Hotel Security Awards jointly administered by Singapore Hotel Association, Singapore Police Force and National Crime Prevention Centre

2016
- Ranked 32 out of 631 Singapore listed entities in Singapore Governance & Transparency Index
- Awarded Hotel Security Awards jointly administered by Singapore Hotel Association, Singapore Police Force and National Crime Prevention Centre
- Received Friend of the Arts Award from National Arts Council
- Short listed for Singapore Productivity Awards by Singapore Business Federation

2017
- Awarded Transparency Award for SMEs by Singapore Securities Investors Association and Centre for Governance, Institutions and Organisation (CGIO) NUS Business School
- Awarded Hotel Security Excellence Award & Hotel Security Star Award jointly administered by Singapore Hotel Association, Singapore Police Force and National Crime Prevention Council
- Recipient of Friend of the Arts Award from National Art Council

2018
- Best Investor Relations Award (Singapore Corporate Award) (Mid-Cap, Silver)
- Most Transparent Company Award (SIAS Investors' Choice Award) (Hotel/Restaurant, Winner)
- Hotel Security Excellence Award (Singapore Hotel Association, Singapore Police Force and National Crime Prevention Council)
- NFEC Fire Safety Award (National Fire & Civil Emergency Preparedness Council)
- Friend of the Arts Award (National Art Council)

CORPORATE GOVERNANCE REPORT

The Board and management of Hotel Royal Limited firmly believe that the Group's unwavering commitment to the best practices of corporate governance is essential to its sustainability and performance in the long-term. Driven by a strong sense of creating value and accountability towards its investors and stakeholders, Hotel Royal's quest for corporate excellence lies in its belief in developing and maintaining sound, transparent and consistent policies and practices. The Group is focused on complying with the latest updated versions of Singapore's Code of Corporate Governance – not only to the letter of the Code but to the spirit of the Code as well. In so doing, we endeavour to achieve operational excellence and achieving our long-term strategic objectives to drive long-term growth and value for our shareholders.

Best Investor Relations Award
(Singapore Corporate Award)
(Mid Cap, Silver)

Most Transparent Company Award
(SIAS Investors' Choice Award)
(Hotel / Restaurant, Winner)

CORPORATE GOVERNANCE REPORT

Preamble

The Board of Directors (the "Board") of Hotel Royal Limited (the "Company") is pleased to confirm that it has adhered to the following corporate principles and guidelines tailored to the specific needs of the Company set out in the Code of Corporate Governance 2012 (the "Code"). These principles and guidelines reflect the Board's commitment in having effective self-regulatory corporate practices to safeguard the interests of its shareholders and maximising long-term success of the Company and Group.

The Board believes that these guidelines should be an evolving set of corporate governance principles, subject to the specific needs of the Company and subject to modification when circumstances may warrant.

1. BOARD MATTERS

1.1 The Board's Conduct of Its Affairs

Principle 1: Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the long-term success of the company. The Board works with Management to achieve this objective and Management remains accountable to the Board.

Role: The Board strives to create value for its shareholders so as to ensure the long-term success of the Group through the development of the right strategy, business model, risk appetite, compensation framework and succession planning. The Board also sets the tone for the entire organisation with regards to its ethics and values.

The primary responsibilities of the Board of Directors encompass the following:

- to provide entrepreneurial leadership, set strategic objectives, and ensure that the necessary financial and human resources are in place for the Company to meet its objectives;
- to establish a framework of prudent and effective controls which enables risks to be assessed and managed, including safeguarding of shareholders' interests and Company's assets;
- to review Management performance;
- to identify the key stakeholder groups and recognise that their perceptions will affect the Company's reputation;
- to set up the Company's values and standards (including ethical standards), and ensure that obligation to shareholders and other stakeholders are understood and met;
- to consider sustainability issues, such as environmental and social factors, as part of its strategic formulation; and
- to be responsible for the overall corporate governance of the Group.

Each Director exercises his independent judgement to act in good faith and in the best interest of the Company, so as to enhance the long term value of the Group to its shareholders.

Board Committees: To assist in the execution of its responsibilities, the Board has established a number of committees, including an Audit and Risk Committee ("ARC"), a Nominating Committee ("NC") and a Remuneration Committee ("RC"). These committees are chaired by independent directors and function within clearly defined terms of reference and operating procedures.

Internal Limits of Authority: The Group has internal guidelines governing matters that require the Board's approval which include:-

- approval of the Group strategic objectives;
- approvals of the annual operating and capital expenditure budgets and any material changes to them;
- review of performance in the light of the Group strategic objectives and business plans;
- changes relating to the Group capital structure including reduction of capital, share issues and share buy backs;
- review of performance in the light of the Group strategic objectives, business plans;
- approval of the quarterly/half-yearly/full year's results announcements, annual reports and financial statements, including the corporate governance report;
- approval of the dividend policy and declaration of the interim dividend, if any, and recommendation of the final dividend;
- approval of any significant changes in accounting policies or practices;
- ensuring maintenance of a sound system of risk management and internal controls;
- approval of major capital projects;
- contracts regarding acquisitions or disposals of major fixed assets (including intangible assets such as intellectual property), substantial bank borrowings etc;

- major investments and expenditure;
- approval of resolutions and corresponding documentation to be put forward to shareholders at a general meeting including approval of all circulars and prospectuses etc;
- approval of press releases concerning matters decided by the board;
- changes to the structure, size and composition of the board, including following recommendations from the NC regarding appointment, cessation of directors, members of board committees;
- determine the remuneration policy for the directors, and other senior executives including the introduction of new share incentive plans or major changes to existing plans, to be put to shareholders for approval;
- establish board committees and approving their terms of reference, and approving material changes thereto;
- approval of policies, including, code of conduct, share dealing code, whistle blowing policy, environment and sustainability policy, corporate social responsibility policy etc; and
- any decision likely to have a material impact on the Company or Group from any perspective, including, but not limited to, financial, operational, strategic or reputational.

Board Meetings: Each Board member exercises equal responsibility in overseeing the business and affairs of the Company and objectively takes decision in the interest of the Company.

The schedule of all Board and Board Committee meetings for the financial year is notified to all directors well in advance. The Board meets on a quarterly basis. To cater to urgent substantial matters, the Board may convene meetings on an ad-hoc basis.

The Company's Constitution provides for the Board to conduct its meeting via teleconferencing or videoconferencing on a timely basis when physical meeting is not possible. The Board and its sub-committees may also make decision through circular resolutions in writing including by electronic means.

The Board is regularly updated on risk management, corporate governance and other major changes in the regulatory requirements and financial reporting standards that are relevant to the Group.

Relevant new releases issued by the Singapore Exchange Securities Trading Limited ("SGX-ST") and the Accounting and Corporate Regulatory Authority ("ACRA") are circulated to the Board.

Director Orientation: A formal appointment letter is sent to all newly-appointed directors upon their appointment, explaining, among other matters, their roles, obligations, duties and responsibilities as members of the Board. All new directors are oriented by senior management with the Company's and Group's businesses and operations, its significant financial, accounting and risk management issues, code of corporate governance, policies on disclosure of interests in securities, the rules relating to disclosure of any confliction of interest in a transaction, its principal officers and independent auditors.

Training: To keep pace with regulatory changes, the director's own initiatives are supplemented from time-to-time with information, updates, sponsored seminars conducted by external professionals and relevant courses conducted by the Singapore Institute of Directors, including any changes in legislation and financial reporting standards, government policies, and regulations and guidelines from SGX-ST that affect the Company and/or directors in discharging their duties. Directors can request for further explanations and conduct informal discussions on any aspect of the Group's operations or business issues with Management. During the year, the Company Secretary conducted detailed briefing on new disclosure requirements at Board meetings.

Annually, the Company's external auditors update the ARC on new and revised financial reporting standards that are applicable to the Company and Group.

The Company has set aside funding and will be responsible for arranging and funding the training of directors.

Number of Meetings: During the financial year ended 31 December 2018 ("FY2018"), the Board held four meetings as warranted by the particular circumstances. Telephonic attendance and conference via audio-visual communication at Board's meetings are allowed by the Company's Constitution.

If a director is unable to attend a Board or Board Committee meeting, the director will receive all the meeting papers so that he can review them and let the Chairman of the Board or Committee Chairman have his views, which will be conveyed to other members at the meeting.

The attendance of directors at these meetings in FY2018 is shown below:

Director	Board Meeting	Board Committee Meetings			Non-Executive Directors' Meeting (without presence of Management)	AGM
		Audit & Risk	Nominating	Remuneration		
Dr Lee Keng Thon	4	-	-	-	-	1
Dr Pang Eng Fong	4	4	1	1	1	1
Dr Tan Kim Song	4	4	1	1	1	1
Yang Wen-Wei [(a)]	3	3	-	1	1	-
Lee Khin Tien	4	4	1	1	-	1
Lee Kin Hong	4	-	-	-	-	1
COL (Ret) Rodney How Seen Shing [(b)]	1	1	1	-	-	1
No. of Meeting Held in 2018	**4**	**4**	**1**	**1**	**1**	**1**

(a) Mr. Yang Wen-Wei was appointed as Director of the Company with effect from 28 April 2018.
(b) Col (Ret) How Seen Shing did not seek re-election and retired as an Indpendent Director of the Company at the AGM on 28 April 2018.

1.2 Board Composition and Guidance

Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from Management and 10%* shareholders. No individual or small group of individuals should be allowed to dominate the Board's decision making.

Board Size: The Board believes that it should generally have at least 6 members and not more than 9 directors. This range permits a good mix of expertise and experience without hindering effective deliberation.

Board Independence: The Board, taking into account the NC's view, assesses the independence of each director (with special attention given to directors who has served for more than 9 years) in accordance with the Code on an annual basis. As at 31 December 2018, there are no independent directors serving more than 9 years from the date of his first appointment to the Board.

A director who has no relationship with the Group or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of business judgement in the Company's best interest, is considered to be independent. In line with the guidance of the Code, the Board also takes into account of the existence of such relationships or circumstances, if any, including the employment of a director, or an immediate family member, by the Company or any of its related companies during the financial year in review or any of the previous three financial years; the acceptance by a director, or an immediate family member, of any significant compensation from service to the Board; and a director being related to any organisation from which the Company or any of its subsidiaries received significant payment or material services during the financial year in review or the previous financial year.

* 10% shareholder refers to a person who has an interest or interests in one or more voting shares in the Company and the total vote attached to that share, or those shares, is not less than 10% of the total votes attached to all the voting shares in the Company. Voting shares exclude treasury shares.

On this basis, Dr Lee Keng Thon, Mr Lee Khin Tien and Mr Lee Kin Hong are the non-executive and non-independent directors. All other directors, namely Dr Pang Eng Fong, Dr Tan Kim Song and Mr Yang Wen-Wei are considered to be independent.

In assessing the independence of the directors, the Board through the NC has examined the different relationship identified by the Code that might impair the directors' independence, and is satisfied that, Dr Pang Eng Fong, Dr Tan Kim Song and Mr Yang Wen-Wei are independent and are able to act with independent judgement.

There is presently a strong independent element on the Board, the independence of each director is assessed and reviewed by the NC annually. Each independent director completes a Director's Independence Checklist annually so as to confirm his independence based on the Code's guidelines. Each of them also confirmed that they are independent and have no relationship identified in the Code. Through the NC, the Board considers all three independent directors, Dr Pang Eng Fong, Dr Tan Kim Song and Mr Yang Wen-Wei to be independent including independence from the 10% shareholders of the Company.

Half of the Board consists of independent directors and all directors are non-executive.

The Board also recognises the need to refresh itself periodically.

The Board enjoys open, candid and robust discussion and no individual or small group of individuals dominate the Board's decision making. All independent directors have unrestricted direct access to management so that they can seek clarifications before or after Board meetings. With half of the directors deemed to be independent, the Board is able to exercise independent and objective judgement on Board affairs.

Board Competency: The Board and its Board committees collectively possesses the core competencies, appropriate mix of expertise and experience for effective functioning and decision-making. The Board is of the opinion that given the scope and nature of the Group's operations, the size of the Board is appropriate in ensuring effective decision making.

Board Composition: The current composition of the Board is as follows:-

Director	Board Membership	Committee Membership		
		Audit and Risk	Nominating	Remuneration
Dr Lee Keng Thon	Non-Executive Group Chairman	-	-	-
Dr Pang Eng Fong	Lead Independent Non-Executive Director	Member	Chairman	Member
Dr Tan Kim Song	Independent Non-Executive Director	Chairman	Member	Member
Yang Wen-Wei	Independent Non-Executive Director	Member	Member	Chairman
Lee Khin Tien	Non-Executive Director	Member	Member	Member
Lee Kin Hong	Non-Executive Director	-	-	-

Limit on Other Directorships in Listed Entities: Other than directorships in the Company, none of the directors hold directorships in other listed companies during the current and preceding three years. The Board is of the view that a director should hold no more than four directorships in listed entities for a director with full-time employment and not more than six directorships in listed entities for a director with no full-time employment.

The profile of the directors and other relevant information are set out under the "Board of Directors" section on pages 16 and 17 of this Annual Report.

The shareholdings of the individual directors of the Company are set on page 71 of this Annual Report. None of the directors hold shares in the Company's subsidiaries.

Role of the Lead Independent Director: The independent element was further strengthened by the appointment of a Lead Independent Director. Dr Pang Eng Fong, who is the Lead Independent Non-Executive Director, is available to shareholders with concerns which they cannot resolve through the normal channels of the Chairman, the CEO or the Group Accountant ("GA").

Independent Directors' Meetings: The independent directors met among themselves without the presence of the non-independent directors and management at least once a year. They provided feedback to the Chairman after such meeting.

1.3 Chairman and Chief Executive Officer

Principle 3: There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the company's business. No one individual should represent a considerable concentration of power.

Relationship Between Chairman and CEO: The Non-Executive Chairman and the Chief Executive Officer ("CEO") are two separate persons who are related. The CEO, Mr Lee Chou Hock, who is not a Board member, is the nephew of the Non-Executive Chairman, Dr Lee Keng Thon.

Chairman's Role: The Non-Executive Chairman's roles in relation to Board matters are as follows:

- lead the Board to ensure its effectiveness on all aspects of its role;
- set the agenda and ensure that adequate time is available for discussion of all agenda items, in particular strategic issues;
- promote a culture of openness and discussion at the Board;
- encourage constructive relations between the Board and Management;
- exercise control over quality, quantity and timeliness of the flow of information between Management and the Board;
- ensure effective communication with shareholders;
- facilitate the effective contribution of Non-Executive Directors in particular; and
- promote high standards of corporate governance.

There is a clear division between the leadership of the Board and the CEO. The CEO's functions include the overall management, strategic direction and the day-to-day operations of the Group, and the realisation of organisational objectives of the Group. No one individual represents a considerable concentration of power.

1.4 Board Membership

Principle 4: There should be a formal and transparent process for the appointment and re-appointment of directors to the Board.

The Nominating Committee

NC Composition: The NC consists of four directors; namely, Dr Pang Eng Fong (Chairman), Dr Tan Kim Song, Mr Yang Wen-Wei and Mr Lee Khin Tien. 75% of the members of the NC, including its Chairman, are independent.

Key Terms of Reference: The key terms of reference of the NC are to:

- evaluate and review nominations for appointment and re-appointment to the Board and the various committees;
- nominate a director for re-election at the Annual General Meeting ("AGM"), having regard to the director's contribution and performance;
- determine annually and as and when circumstances require if a director is independent;
- recommend to the Board the process for the evaluation of the performance of the Board, the Board Committees and individual directors, and propose objective performance criteria to assess the effectiveness of the Board as a whole and the contribution of each director and annual assessment of the effectiveness of the Board;
- decide whether a director who has multiple board representations is able to and has been adequately carrying out his duties as director of the Company;
- review and make recommendations to the Board on the succession plans for directors, in particular, the Chairman and for the CEO;
- review training and professional development programmes for the Board; and
- perform such other functions as may be assigned by the Board.

The NC and the Board will, at least once every year, review the terms of reference of the NC.

Succession Planning: Succession planning is a critical part of the corporate governance process. The NC seeks to refresh the Board membership in an orderly and progressive manner, so as to avoid losing institutional memory.

The NC is responsible for identifying and recommending new members to the Board for approval, after considering the necessary and desirable competencies such as their integrity, skills, experience, financial literacy and diversity of expertise. Accordingly, in selecting potential new directors, the NC will seek to identify the competencies required to enable the Board to fulfil its responsibilities. The NC may engage consultants to undertake research on, or assess, candidates for new positions on the Board, or to engage such other independent experts as it considers necessary to carry out its duties and responsibilities.

Process For Selection and Appointment of New Directors: When a vacancy arises under any circumstance, either as part of the Board renewal process or where it is considered that the Board would benefit from the services of a new director with particular skills, the NC or the Board would determine the selection criteria and sources for candidates. The NC would make reference checks, meet up with the candidates, assess their suitability, and make recommendation to the Board. Shortlisted candidates would meet up with the other Board members before the Board approves the appointment.

Re-Nomination of Retiring Directors: The NC reviews and recommends to the Board the re-nomination of retiring directors standing for re-election and appointment of new directors. The review ensures that the director to be re-nominated or appointed is able to contribute to the ongoing effectiveness of the Board, has the ability to exercise sound business judgement, and has demonstrated leadership experience, high levels of professional skills and appropriate personal qualities.

Directors will submit themselves for re-election at regular intervals of at least once every three years. Pursuant to Article 117 of the Company's Constitution, at least one-third of the directors shall retire from office at the Company's Annual General Meeting. In addition, Article 102 of the Company's Constitution provides that a newly appointed director must submit himself for re-election at the Annual General Meeting following the appointment.

The NC has recommended to the Board that Dr Lee Keng Thon and Dr Pang Eng Fong (retiring pursuant to Article 117) and Mr Yang Wen-Wei (retiring pursuant to Article 102) be subject to retirement by rotation pursuant to Company's Constitution. Dr Pang Eng Fong and Mr Yang Wen-Wei being eligible offer himself for re-election at the coming Annual General Meeting. Dr Lee Keng Thon will not seek re-election and will retire as Director and Chairman of the Company on 27 April 2019 at the close of the Annual General Meeting. The Board believe that the next Chairman will be an independent director so that the Chairman and CEO are not related and to give even better recognition of the interest of the minority shareholders.

Details of the Directors seeking re-election are set out on pages 159 to 162 of this Annual Report.

Annual Review of Directors' Independence: In recommending the above director for re-election, the NC has given regard to the results of the board assessment (please refer to paragraphs under Board Performance regarding assessment of Board performance) in respect of his competencies in fulfilling his responsibilities as director of the Board. The NC has also reviewed the independence of Dr Pang Eng Fong, Dr Tan Kim Song and Mr Yang Wen-Wei. In assessing their independence, the NC having considered the guidelines set out in the Code, is of the view that Mr Yang Wen-Wei, Dr Pang Eng Fong and Dr Tan Kim Song are independent. There are no relationships identified in the Code which would deem them not to be independent. Mr Yang Wen-Wei, Dr Pang Eng Fong and Dr Tan Kim Song have also declared that they are independent.

The Board recognises the Independent Directors' contribution and that they have over time developed an in-depth understanding of the Group's business and operations. The Independent Directors provide invaluable contributions to the Group. Nevertheless, the Board has set a maximum term of 9 years for each of the Independent Directors so as to allow the Board to have a strong team of Independent Directors.

Alternate Directors: There are no alternate directors on the Board.

Initial Appointment and Last Re-Election of Directors: Details of the year of initial appointment and last re-election of the directors are appended below:

Director	Position	Date of Initial Appointment	Date of Last Re-election / Re-appointment
Dr Lee Keng Thon	Non-Executive Group Chairman	8 September 1971	30 April 2016
Dr Pang Eng Fong	Independent Non-Executive Director	5 December 2011	30 April 2016
Dr Tan Kim Song	Independent Non-Executive Director	2 March 2015	29 April 2017
Yang Wen-Wei	Independent Non-Executive Director	28 April 2018	-
Lee Khin Tien	Non-Executive Director	31 December 1996	29 April 2017
Lee Kin Hong	Non-Executive Director	21 June 2002	28 April 2018

Number of Meetings: The NC held one meeting during FY2018. The NC has ad-hoc meetings on matters requiring urgent attention, which would then be formally confirmed and approved by circulating resolutions in writing.

Each member of the NC abstains from voting on any resolutions and making any recommendation and/or participating in discussion on matters in which he is interested.

Succession Planning of Senior Management: The NC also reviews the succession planning for senior management, especially the Chief Executive Officer. As part of this review, the successors to key positions are identified, and development plans are instituted for them.

1.5 Board Performance

Principle 5: There should be a formal annual assessment of the effectiveness of the Board as a whole and its board committees and the contribution by each director to the effectiveness of the Board.

We believe that the Board's performance is ultimately reflected in the long term success of the Group.

The Board ensures compliance with applicable laws and Board members act in good faith, with due diligence and care in the best interests of the Company and its shareholders. In addition to these fiduciary duties, the Board is charged with two key responsibilities: setting strategic directions and ensuring that the Company is ably led. The measure of a Board's performance is also tested through its ability to lend support to management especially in times of crisis and to steer the Group in the right direction.

The Board, through the delegation of its authority to the NC, has used its best efforts to ensure that directors appointed to our Board possess the relevant background, experience and knowledge in technology, business, finance and management skills critical to the Company's business and that each director with his special contributions brings to the Board an independent and objective perspective to enable balanced and well-considered decisions to be made.

The Board has implemented a process for assessing the effectiveness of the Board as a whole and its board committee and for assessing the contribution by directors to the effectiveness of the Board and the Chairman's leadership. No external consultant has been engaged to perform the board assessment process.

During the financial year, all directors were requested to complete a questionnaire to assess the overall effectiveness of the Board and the Chairman. Factors evaluated include, among other matters, board structure, meetings and accountability, access to information, risk management and internal control, management performance, succession planning, remuneration and communication with shareholders. The results of the questionnaire are first reviewed by the NC, tabled as an agenda for Board's discussion to determine areas for improvement and enhancement.

The performance of individual directors is evaluated annually and informally on a continual basis by the NC and the Chairman. Factors taken into account include attendance at Board and Board Committees' meetings, industry and business knowledge and acumen in the development of the Group's strategy.

Renewal or replacement of Board members, when it occurs, does not necessarily reflect their contributions to date, but may be driven by the need to position and shape the Board in line with the medium term needs of the Company and its business. The Board has taken the view that the financial indicators, may not be appropriate as these are more of a measurement of Management's performance and therefore less applicable to Directors. After the NC's review of the contribution by each individual director to the effectiveness of the Board as a whole and its Board Committees for FY2018, it is satisfied that sufficient time and attention have been given by the Directors to the affairs of the Group.

1.6 Access to Information

Principle 6: In order to fulfil their responsibilities, directors should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.

The Company recognises the importance of continual dissemination of relevant information which is explicit, accurate, timely and vital to the Board in exercising its duties. As such, the Board expects management to report the Company's progress and drawbacks in meeting its strategic business objectives or financial targets and other information relevant to the strategic issues encountered by the Company in a timely and accurate manner.

Directors are entitled to request from Management additional information to help them make informed decisions. Management shall provide the same to the directors in a timely manner.

As a general practice, detailed Board papers are prepared and circulated to all directors prior to each meeting so as to allow all directors sufficient time to review and consider the matters to be discussed at the Board meeting.

Directors are from time to time furnished with detailed information concerning the Group to enable them to be fully cognizant of the decisions and actions of Management. In exercising their duties, the directors have unrestricted access to the Company's Management, internal and external auditors.

Directors also have separate and independent access to the Company Secretary. The Company Secretary is responsible for ensuring that board procedures are followed and that applicable rules and regulations are complied with. She administers and attends all Board and Board Committees meetings of the Company and prepares minutes of meetings. Her responsibilities also include advising the Board on all governance matters as well as facilitating orientation and assisting with professional developments as directed by the Chairman.

The appointment and the removal of the Company Secretary are subject to the Board's approval.

Professional advices are sought by the Board when necessary to enable the Board or its Independent Directors to carry out their roles effectively. Individual directors may obtain professional advice to assist them in the execution of their tasks subject to the approval from the Chairman, at the Company's expense.

2. REMUNERATION MATTERS

2.1 Procedures for Developing Remuneration Policies

Principle 7: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

RC Composition

The RC comprises four directors; namely Mr Yang Wen-Wei (Chairman), Dr Tan Kim Song , Dr Pang Eng Fong and Mr Lee Khin Tien. Where necessary, the Committee can engage professional help from external consultants in areas of executive compensation.

75% of the members of the Remuneration, including its Chairman, are independent, and all its members are non-executive directors.

Key Terms of Reference

The key term of reference of the RC are to:

- recommend to the Board a framework of remuneration for Board members as well as key management personnel;
- determine specific remuneration packages for each Non-Executive Director and the Chief Executive Officer; and
- review the terms, conditions and remuneration of the key management personnel of the Company.

The RC's objective is to motivate and retain proficient executives and ensure that the Company is able to attract competent staff who can contribute to the long-term success of the Company, taking into account the risk policies of the Company.

The RC recommends for the Board's endorsement, a framework of remuneration which covers all aspects of remuneration, including but not limited to directors' fees, salaries, allowances, bonuses, benefits-in kind and specific remuneration packages for each director. In addition, the RC reviews the performance of the Group's key management personnel taking into consideration the CEO's assessment of and recommendation for remuneration and bonus.

No member of the RC is involved in deliberating in respect of any remuneration, compensation or any form of benefits to be granted to him.

The RC has access to appropriate expert advice inside and/or outside the Company on human resources and remuneration matters of directors and key management personnel wherever there is a need to consult externally. For FY2018, the RC has not consulted any external remuneration consultant.

The RC reviews the Company's obligations arising in the event of termination of the executive directors and key management personnel's contracts of service, to ensure that such contracts of service contain fair and reasonable termination clauses which are not overly generous with an aim to be fair and avoid rewarding poor performance.

Number of Meetings
The RC held one meeting during FY2018.

2.2 Level and Mix of Remuneration
Principle 8: The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the directors to provide good stewardship of the company, and (b) key management personnel to successfully manage the company. However, companies should avoid paying more than is necessary for this purpose.

The RC reviews annually and makes recommendation on the remuneration of the directors and key management personnel to ensure that the level and structure of remuneration commensurate is aligned with the long-term interest and risk policies of the Company and should be appropriate to attract, retain and motivate (a) the directors to provide good stewardship of the Company and (b) key management personnel to successfully manage the Company.

Board Members
The directors' fees paid to the directors are based on the number of meetings attended during the year, subject to a minimum sum. The Chairman of the Board will receive an additional allowance that is equivalent to 120% (FY2017 : 120%) of his director's fee for the Board. The Chairman of each sub-committee will receive an additional allowance that is 50% of his director's fee for the respective sub-committee. The directors' fees are recommended by the Board for approval at the Company's Annual General Meeting. Save for the directors' fees, the Independent Directors do not receive any other forms of remuneration from the Company. The Independent Directors do not have any service agreements with the Company.

The RC is of the view that the remuneration policy and amounts paid to directors and key management personnel are adequate and in line with present market conditions. The Independent Directors are not compensated to the extent that their independence may be compromised.

Senior Executives
The remuneration package of senior executives consists of four parts:

1. ***Base or fixed remuneration***
   This element reflects the scope of the job and the level of skill and experience of the individuals.

2. ***Variable for performance related income/bonuses***
   This is paid depending on the contribution of the senior executives of the Company and its subsidiaries. It usually takes the form of an end of the year ex-gratia payment.

3. ***Benefits***
These benefits are mainly meals in the hotel and car benefit.

4. ***Directors' Fee***
Some of the executives are directors of subsidiaries and receive directors' fees from the subsidiaries.

Incentive payment to the CEO and key management personnel takes the form of an ex-gratia payment at the end of the year and forms a small portion of their total remuneration. Hence, the Company does not use contractual provisions to allow the Company to reclaim incentive components of remuneration from the CEO and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company.

The Company has noted that the Code has recommended the incorporation of appropriate "claw-back mechanisms" to allow the Company to reclaim the variable incentive-based component of remuneration from Directors and Key Management Personnel. There are, at present, no provisions allowing the Company to reclaim incentive components of remuneration from Directors and Key Management Personnel in exceptional circumstances of mistatement of financial results. In this event, the Company should be able to avail itself to remedies against the Directors of such breach of fiduciary duties.

2.3 Disclosure on Remuneration

Principle 9: Each company should provide clear disclosure of its remuneration policies, level and mix of remuneration, and the procedure for setting remuneration, in the company's Annual Report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key management personnel, and performance.

The breakdown of remuneration of the directors of the Company for FY2018 is as follows:

Annual Remuneration Report
Remuneration of Directors for FY2018
(in $)

Name of Director	Director's Fee		Total
	Company*	Subsidiaries	
Dr Lee Keng Thon	55,000	14,272	69,272
COL (Ret) Rodney How Seen Shing	10,750	-	10,750
Dr Pang Eng Fong	39,750	-	39,750
Dr Tan Kim Song	37,000	-	37,000
Yang Wen-Wei	31,750	-	31,750
Lee Khin Tien	34,000	19,544	53,544
Lee Kin Hong	25,000	15,544	40,544
Total	**233,250**	**49,360**	**282,610**

* Subject to shareholders' approval at the Annual General Meeting.

Remuneration of Chief Executive Officer for FY2018
(in $)

Name of CEO	Fixed Remuneration	Variable Bonus	Benefit*	Subsidiaries' Director Fee	Central Provident Fund	Total Remuneration
Lee Chou Hock	343,912	69,920	11,417	19,544	9,181	453,974

* Benefits for Mr Lee Chou Hock were for meal and car benefits.

CORPORATE GOVERNANCE REPORT

Remuneration of Key Management Personnel of the Group for FY2018 (in $)

Name	Fixed Remuneration	Variable Bonus	Benefit*	Subsidiaries' Director Fee	Provident Fund	Total Remuneration
Lee Chu Bing	154,601	31,418	10,537	3,636	17,340	217,532
Lukas Gerber	111,272	6,469	58,048	-	5,564	181,353
Sazrul Bin Fadzil	69,516	-	1,334	-	9,385	80,235
Wong Siew Choo	90,351	6,581	781	-	6,590	104,303
Lee Zongye	44,363	-		-	5,843	50,206

* Benefit for Mrs Wong Siew Choo was for meal. Benefits for Mr Lukas Gerber consists mainly of housing allowance, education for children and personal income tax, and Sazrul Bin Fadzil's benefits consists of meals and air fare.

Mr Lee Chou Hock (Chief Executive Officer) is the nephew of the Non-Executive Chairman, Dr Lee Keng Thon and Non-Executive Directors, Mr Lee Khin Tien and Mr Lee Kin Hong.

Mr Lee Chu Bing is the son of Dr Lee Keng Thon and Mrs Wong Siew Choo is the sister of Dr Lee Keng Thon. Mr Lee Khin Tien and Mr Lee Kin Hong are brothers of the Non-Executive Chairman, Dr Lee Keng Thon.

Mr. Lee Zongye was appointed as Director of Project Development with effect from August 2018. He is the son of Mr. Lee Chou Hock and grand-nephew of Dr Lee Keng Thon, Mr Lee Khin Tien and Mr Lee Kin Hong.

The Company has no employee share option scheme, any share-based compensation scheme or any long-term scheme involving the offer of shares or options.

Remuneration of Employees who are Immediate Family Members of a Director or the CEO
Other than the above-mentioned key executives, no other employees are immediate family of a director or the CEO whose remuneration exceeding $50,000 for the year under review.

3. ACCOUNTABILITY AND AUDIT

3.1 Accountability

Principle 10: The Board should present a balanced and understandable assessment of the company's performance, position and prospects.

The Board believes that it should conduct itself in ways that deliver maximum sustainable value to its shareholders. Prompt fulfilment of statutory requirements is one of the ways to maintain shareholders' confidence and trust in the Board's capability and integrity.

Management is responsible to the Board and the Board itself is accountable to the shareholders.

The Management will provide the Board with detailed management accounts which present a balanced and understandable assessment of the Group's performance, position and prospects on a monthly basis.

The Management also presents to the Board quarterly and full year financial results of the Group and the ARC reports to the Board on the results for review and approval. The Board approves the results after review and authorises the release of the quarterly and full year financial results of the Group to the SGX-ST and the public via SGXNET.

Annual general meetings are held every year to obtain shareholders' approval to routine business, as well as the election of directors.

In addition to its statutory responsibilities, the Board also ensures that the principal risks of the Company's business are identified and appropriately managed.

3.2 Risk Management and Internal Controls

Principle 11: The Board is responsible for the governance of risk. The Board should ensure that Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

The Board as a whole is responsible for risk governance. Its duties are to:

(a) ensure that management maintains a sound system of risk management and internal controls to safeguard the Company's and Group's assets and shareholders' interest;

(b) determine the nature and extent of significant risks and the level of risk tolerance and risk policies which the Board is willing to take to achieve its strategic intent;

(c) provide oversight in the design, implementation and monitoring of the risk management framework and system of internal controls, including actions to mitigate the risks identified where possible;

(d) review annually the adequacy and effectiveness of the risk management and internal control system; and

(e) promote risk awareness culture through the Company for effective risk management.

A summary of the Group Risk Factors and Risk Management is included in Pages 68 and 69 in this Annual Report.

The Board places special emphasis in the identification of major risk factors and management when expanding into new overseas market, and that the short term non-performance of the new investments will not place the Company and the Group under un-manageable risk. Hence, every new overseas investment is thoroughly and robustly discussed at Board meeting, with special emphasis on the input by the Independent Directors.

The work of the internal auditors and the report of the external auditors have enabled the identification of key risks which are reported to the ARC to facilitate the Board's oversight of the effectiveness of risk management and the adequacy of mitigating measures taken by management to address the underlying risks.

The ARC assists the Board in providing risk management oversight while the ownership of day-to-day management and monitoring of existing internal control systems are delegated to management which comprises the CEO, the GA and Head of each business division.

The Board reviews the adequacy and effectiveness of the Company's risk management and internal control systems including financial, operational, compliance and information technology controls based on report prepared by the internal auditors and reviewed by the management at least once a year.

Based on the internal controls established and maintained by the Company, work performed by the internal and external auditors, and reviews performed by management, various Board Committees and the Board, the Board with the concurrence of the ARC is of the opinion that the Company's internal controls, addressing financial, operational, compliance and information technology controls and risk management systems, were adequate and effective as at 31 December 2018.

For FY2018, the Board and the ARC have received assurance from the CEO and the GA on the adequacy and effectiveness of the Company's risk management and internal control systems, and that the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances, as well as the information technology controls. In addition, the Company had, pursuant to the amended Rule 720(I) of the Listing Manual of SGX-ST, received undertakings from all the directors and executive officers that they each shall, in the exercise of their powers and duties as directors and officers, comply to the best of their abilities with the provisions of the SGX-ST's Listing Rules, the Securities and Future Act, the Code on Takeover and Mergers, and the Companies Act and will also procure the Company to do so.

In assessing the need to establish a separate risk committee to assist the Board in carrying out its responsibility of overseeing the Company's risk management framework and policies, the Board after having discussed with the members of the ARC and the Board members, resolved that the function of the risk committee is best carried out by the ARC and in this connection in line with its enhanced role the Audit Committee has been renamed ARC in FY2013.

3.3 Audit and Risk Committee

Principle 12: The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties.

The ARC was tasked by the Board to assist the Board in carrying out its responsibility of overseeing the Company's risk management framework and policies. To reflect its enhanced role, the Audit Committee was renamed the ARC in FY2013.

ARC Composition: Members of the ARC comprise four directors; namely Dr Tan Kim Song (Chairman), Mr Yang Wen Wei, Dr Pang Eng Fong, and Mr Lee Khin Tien. 75% of the members of the ARC, including its Chairman, are independent.

Two members of the ARC, including the Chairman, have recent and relevant accounting and/or related financial management expertise.

Number of Meetings

The ARC held four meetings during FY2018.

Key Terms of Reference and Activities

During FY2018, the ARC has performed its duties as guided by its key terms of reference which stipulate its principal functions.

The key terms of reference of the ARC are to:

- review with the external/internal auditors the audit plans, their evaluation of the system of internal accounting controls, and their audit report including the scope and results of the external audit, the independence and objectivity of the external auditors;
- review the consolidated financial statements and statement of financial position and statement of profit or loss of the Company including reviewing the significant financial reporting issues and judgments so as to ensure the integrity of the financial statements of the Group and Company and any announcements relating to the Group and Company's financial performance, before submission to the Board for approval;
- review the Group's financial and operating results and accounting policies;
- review the internal control procedures, its scope and the results and to ensure co-ordination between the external/internal auditors and the Management; and review the assistance given by Management to the external auditors, and discuss problems and concerns, if any, arising from the interim and final audits;
- review and report to the Board at least annually the adequacy and effectiveness of the Company's risk management and system of internal controls;
- review the effectiveness of the Company's internal audit function;
- review and discuss with the external auditors any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on the Group's operating results and/or financial position, and the Management's response;
- make recommendation to the Board on the proposals to the shareholders on the appointment, re-appointment and removal of the external auditors;
- review interested person transactions (if any) falling within the scope of Chapter 9 of the Listing Manual;
- review potential conflicts of interest, if any;
- undertake such other review and projects as may be requested by the Board, and report to the Board its findings from time to time on matters arising and which requires the attention of the ARC; and
- undertake such other functions and duties as may be required by statute or the SGX-ST Listing Manual, or by such amendments as may be made from time to time.

Access to Information

The ARC has full access and co-operation of management and has been given the resources required for it to discharge its function properly. It also has full discretion to invite any director and executive officer to attend its meetings. The external and internal auditors have unrestricted access to the ARC.

Financial Reporting and Key Audit Matter

One of the key roles of the ARC is to review the financial statements, including the review of significant judgements and accounting estimates so as to ensure the integrity of the financial statements of the Company.

Following discussion with the external auditors, the ARC and the external auditors have determined that the valuation of the Group's freehold land on which the hotels are sited is a key audit matter for FY2018.

Key Audit Matter	ARC's Comment on Key Audit Matter
Freehold lands on which hotels are sited are stated at their fair values based on independent external valuations. The freehold land amounting to $502.6 million account for 62% of total assets at 31 December 2018. The valuation for freehold lands involves significant judgement in determining the appropriate valuation methodology to be used, and in estimating the underlying assumptions to be applied. Certain freehold lands are valued using the direct comparison approach and the key inputs are values per square meter referenced to comparable properties but adjusted for differences such as location, size, configuration and accessibility. Other freehold land are valued using the residual approach. The residual value of the land is estimated after deducting depreciated replacement cost of the hotel from the value of the whole property - land and hotel. The income capitalisation approach is used by the valuer to estimate the value of each whole property. The value of the whole property is sensitive to key inputs such as occupancy rates and revenue per room (which affect the projected earnings before interest, tax, depreciation and amortisation); and the capitalisation rate. A small change to any of the inputs may have a significant impact on the valuation of each of the properties.	For FY2018, the Group recognised in other comprehensive income (page 81 of this Annual Report) net valuation gain of $43.336 million for freehold land on which the hotels are sited. The freehold land amounting to $502.6 million account for 62% of total assets at 31 December 2018. The valuations for freehold land involves significant judgement in determining the appropriate valuation methodology to be used, and in estimating the underlying assumptions to be applied. A small change in the assumptions can have a significant impact to the valuation. The Group engaged reputable valuers with the necessary qualifications, competence and independence. In order to satisfy ourselves that the fair values of freehold land on which the Group's hotels are sited are not materially misstated, the ARC reviewed the various valuation methods, assumptions and inputs with management. The ARC also obtained an understanding on the work performed by the external auditors, including their assessment of the appropriateness of the various valuation methodologies and relevance of the assumptions and inputs. Following these discussions, ARC noted that the engagement of external independent and experienced valuers; the valuation methods, assumptions and inputs used; explanations given by management; and the work performed by the auditors provide a reasonable basis for concluding on the valuation of the freehold land at 31 December 2018. The ARC considered the comments of the Independent Auditors' Report and the disclosures in Note 14 to the financial statements. These are consistent with the results of the above discussions.

Risk Management and Internal Controls

The external and internal auditors conducted annual review to assess the risk profile including the review on the adequacy of the internal controls, addressing financial, operational, compliance risks and information technology. Such review also assessed whether there was reasonable assurance regarding the effectiveness and efficiency of operations, reliability of management and financial reporting, and compliance with internal policies. Any material non-compliance or lapses in internal controls together with corrective measures are reported to the ARC. The timely and proper implementation of all required corrective, preventive or improvement measures are closely monitored.

The Company's internal audit function has been outsourced to Philip Liew & Co. who is independent of the Company's business activities. Both the external and internal auditors report directly to the ARC their findings and recommendations.

On an annual basis, the ARC meets regularly with the Management and external and internal auditors to review auditing and risk management matters and discuss accounting implications of any major transactions including significant financial reporting issues. It also reviews the internal audit functions to ensure that an effective system of internal controls is maintained in the Group. On a quarterly basis, the ARC also reviews the interested person transactions and the financial result announcement before their submission to the Board for approval. The ARC is kept abreast by the Management, the external auditors and the company secretary of changes to accounting standards, listing rules of the SGX-ST and other regulations which could have an impact on the Group's business and financial statements.

In addition, at least once a year, the ARC, together with the Board, reviews the effectiveness and adequacy of the Group's system of internal controls put in place to address key financial, operational, compliance and information technology controls and risk management system affecting the operations.

Based on the Group's framework of internal controls put in place, the internal control policies and procedures established and maintained by the Group, as well as the reviews performed by the external and internal auditors, the Board with the concurrence of the ARC is of the view that the internal control systems of the Group, addressing the financial, operational, compliance, information technology controls and risk management systems are adequate and effective as at 31 December 2018.

The Board acknowledges that it is responsible for the overall internal control and risk management framework. However, it recognises that the system of internal control and risk management established by management provides reasonable but not absolute assurance against human errors, frauds, poor judgement in decision making and other irregularities.

The ARC meets with the internal auditors and external auditors separately and in each case, at least once a year, without the presence of the Management to review any matter that might be raised.

The ARC is satisfied that the appointment of external auditors is in compliance with the requirements of Rule 712 and 715 of the SGX-ST Listing Manual. Accordingly, the ARC has recommended to the directors the nomination of Deloitte & Touche LLP for re-appointment as external auditors of the Company at the forthcoming annual general meeting. Rule 716 of the Listing Manual of the SGX-ST is not applicable as the same auditing firm is appointed for the Company and its subsidiaries.

For FY2018, the Group incurred an aggregate of $504,000 to the external auditors, of which was $459,000 was for audit services and $45,000 was for non audit services.

The ARC, having reviewed the scope and value of non-audit services provided to the Company and Group by the external auditors, are satisfied that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors. The external auditors have also provided a confirmation of their independence to the ARC.

No former partner or director of the Company's existing auditing firm or audit corporation is a member of the ARC.

Members of the ARC abstain from voting on any resolutions and making any recommendation and/or participating in discussion on matters in which they are interested parties.

Whistle-Blowing
The ARC has established a whistle-blowing policy. Allegations on serious matters relating to financial reporting, illegal or unethical conduct can be reported directly to Dr Pang Eng Fong, current Chairman of the NC, for appropriate actions. The whistle-blowing policy which has been endorsed by the ARC has been communicated to all employees in the Group.

Under the whistle-blowing policy, employees of the Group can in good faith and confidence, raise concerns about improper conduct for independent investigation, and that the employees making such reports will be treated fairly and, to the extent possible, protected from reprisal. Anonymous complaints will also be accepted and investigated.

There was no valid whistle-blowing report received for FY2018.

3.4 Internal Audit
Principle 13: The company should establish an effective internal audit function that is adequately resourced and independent of the activities it audits.

The Company has engaged a public accounting company, Philip Liew & Co., to perform the internal audit function. The internal audit work carried out by the internal auditors in FY2018 was guided by the Standards for the Professional Practice of Internal Auditing laid down by the International Professional Practices Framework issued by the Institute of Internal Auditors.

The ARC approves the hiring, removal, evaluation and compensation of the internal auditors.

The internal auditors report directly to the Chairman of the ARC and have full and direct access to the Chairman and members of the ARC at all times.

Their duties encompass reviewing the Group's material internal controls consisting of financial, operational and compliance controls as well as risk management. The internal audit comprises all areas of operations.

The ARC is satisfied that the internal auditors have adequate resources, and are staffed by persons with the relevant qualifications and experience to perform its function effectively.

4. SHAREHOLDER RIGHTS AND RESPONSIBILITIES
4.1 Communication with Shareholders
Principle 14: Companies should treat all shareholders fairly and equitably, and should recognise, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements.

Principle 15: Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.

Disclosure of Information on a Timely Basis
In line with the continuous disclosure obligations of the Company pursuant to the Singapore Exchange Listing Rules and the Singapore Companies Act, it is the Board's policy to ensure that all shareholders are informed regularly, comprehensively and on a timely basis of every significant development that impact on the Group. The Company does not practise preferential and selective disclosure to any group of shareholders.

Pertinent information is communicated to all shareholders on a regular and timely basis through the following means:

- the Company's annual reports;
- notices of and explanatory memoranda for annual general meetings and extraordinary general meetings;
- announcements of quarterly and full-year financial statements containing a summary of the financial information and affairs of the Group for the period. These are disclosed on SGXNET;
- other announcements, where appropriate;
- press releases regarding major developments of the Group; and
- disclosures to the Singapore Exchange Securities Trading Limited.

CORPORATE GOVERNANCE REPORT

The Company notifies the investors' public in advance of the date of the release of its financial results via a SGXNET announcement.

Shareholders are also informed of general meetings through notices contained in annual reports or circulars that are dispatched to shareholders. Such notices are also published in the Business Times and announced via SGXNET. Rules, including voting procedures, that governed general meetings are included in the annual reports or circulars and explained further before the voting process.

All materials on the quarterly and full year financial results, annual report and announcements are also available on the Company's website (www.hotelroyal.com.sg). The website also contains other useful investor-related information.

For ease of communication, shareholders can contact Management via ir@hotelroyal.com.sg. This will allow the Board and Management to gather shareholders' views and inputs, and address shareholders' concern. The contact details of the investor relations function are also set out in the inside cover page of this Annual Report as well as on the Company's website. The Company have procedures in place for responding to investors' queries.

Proxies and Observers
Whilst there is no limit imposed on the number of proxy votes for nominee companies, the Constitution of the Company allows each shareholder to appoint up to two proxies to attend AGMs. Subject to legislative amendment to the Companies Act of the relevant provision regarding appointment of proxies, the Company will consider amending its Constitution to allow corporations which provide nominee or custodial services to appoint more than two proxies so that shareholders who hold shares through such corporations can attend and participate in general meetings as proxies. However, the Company allows shareholders who hold shares through nominees to attend the Annual General Meeting as observers without being constrained by the two-proxy rule.

Dividend Policy
The Company intends to declare an annual dividend amounting to at least one-third of its net profit before fair value adjustments, exceptional and extraordinary items and after income tax. In considering the declaration of dividends, the Company will take into consideration the Group's profit growth, cash position, positive cash flow generated from operations, projected capital requirements for business growth and other factors as the Board may deem appropriate.

A first and final dividend of 5 cents per ordinary share one-tier tax exempt and a special dividend of 1 cent per ordinary share one tier tax exempt for FY2018 have been proposed for shareholders' approval at the coming AGM on 27 April 2019.

4.2 Greater Shareholder Participation

Principle 16: Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

Shareholders are encouraged to be present at the annual general meeting in person so that face-to-face communication can best be achieved. The annual general meeting is the principal forum for dialogue with shareholders. Thus, with greater shareholders participation, it will ensure that they will be kept up to date as to the Group's long-term strategies and goals.

In addition, all the directors (including the various Chairmen of the Board Committees) and senior management are also present at the meeting to address queries and concerns from the shareholders. The external auditors are also present to address shareholders' queries about the conduct of the audit and the preparation and content of the auditors' reports.

The Company prepares minutes of general meetings that include substantial and relevant comments and queries from shareholders relating to the meeting's agenda, and response from the Board and Management. These minutes are available to the shareholders via SGXNET and on the Company's website.

If shareholders are unable to attend the annual general meetings, the Company's Constitution allows a shareholder of the Company to appoint up to two proxies to attend and vote in place of the shareholder.

All resolutions at the Company's Annual General Meeting and Extraordinary General Meeting will be by poll so as to better reflect shareholders' shareholding interest and promote greater transparency. The detailed results showing the number of votes cast for and against each resolution and the respective percentages will be announced immediately at the meeting and also disclosed via SGXNET on the same day.

Voting in absentia and by electronic mail may only be possible following careful study to ensure that integrity of the information and authentication of the identity of shareholders through the web is not compromised and is also subject to legislative amendment to recognise electronic voting.

All resolutions tabled at general meetings are on each substantially separate issue and all resolutions at general meetings requiring shareholders' are proposed as separate resolutions.

ADDITIONAL INFORMATION

5. DEALING IN SECURITIES

The Group has adopted an internal code which prohibits the directors and key executives of the Group from dealing in the Company's share during the period of two weeks and one month immediately preceding the announcement of the Company's quarterly and full-year results respectively or if they are in possession of unpublished price-sensitive information of the Group. In addition, directors and key executives are expected to observe insider trading laws at all times even when dealing in securities within the permitted trading period. They are also discouraged from dealing in the Company's shares on short-term considerations.

6. MATERIAL CONTRACTS

There were no material contracts entered into by the Company or any of its subsidiaries involving the interests of the Chief Executive Officer, any director or controlling shareholder during the year under review or have been entered into since the end of the previous financial year.

7. INTERESTED PERSON TRANSACTIONS

The Company has established procedures to ensure that all transactions with interested persons are reported in a timely manner to the ARC and that transactions are conducted on an arm's length basis and are not prejudicial to the interests of the Company and its non-controlling shareholders.

The Company's disclosure in interested person transactions for FY2018 is set out on page 121 of this Annual Report. There were no interested person transactions in excess of $100,000 per transaction entered into by the Company and Group for the year under review or have been entered into since the end of the previous FY2018.

When a potential conflict arises, the concerned parties do not participate in its deliberation so as to refrain from exercising any influence over other members of the Board.

8. CODE OF CONDUCT AND ETHICS FOR EMPLOYEES

The Group has a Code of Conduct and Ethics for Employees that sets the standards and ethical conducts expected of all employees. This code covers workplace conduct, protection of the Group's assets, information confidentiality, conflict of interests, business conduct, gratuities or bribes and dishonest behaviour.

All employees are expected to maintain a high standard of personal integrity and compliance to Company policies and with the laws and regulations of the countries in which it operates.

9. USE OF PROCEEDS

As at the date of this report, that status of the utilisation of the proceeds raised from the Company's Renounceable Non-Underwritten Rights Issue are as follows:

Use of Rights Issue's Proceeds

	$'000
Total rights issue proceeds	50,227
Less Utilisation*:	
3Q 2018	(45,242)
4Q 2018	Nil
Balance unutilized as at 31 December 2018	4,985

* $44.7 million was utilized to repay part of the Company's bank borrowings and a further amount of $0.542 million was utilized for the major upgrading and purchase of the Baba House.

$4 million was placed in short term fixed deposit and $0.985 million was set aside for working capital.

RISK FACTORS AND RISK MANAGEMENT

Risk management constitutes an integral part of business management. The Group's risk management framework is designed to provide reasonable assurance that its business objectives are met by incorporating management control into its daily operations to safeguard its assets, ensuring compliance with legal and regulatory requirements, and ensuring the integrity of the Group's financial reporting and its related disclosures.

The following set out an overview of the Group's key risks.

Financial Risks

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group does not hold or issue derivative financial instruments for speculative purposes.

1. **Credit Risk**

   The Group's credit risk is primarily attributable to its cash and bank balances, trade and other receivables. Cash and fixed deposits (Note 6) are in the custody of creditworthy financial institutions. Trade receivables are largely from credit card companies, tour agencies, regular corporate clients, hotels and tenants at the properties of the Group. Deposits may be collected to mitigate the credit risks.

   The Group has no significant concentration of credit risk.

   The carrying amounts of financial assets recorded in the financial statements, grossed up for any allowances for losses, represents the Group's maximum exposure to credit risk.

   The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

2. **Interest Rate Risk**

   The Group is exposed to interest rate risk through the impact of rate changes on interest-bearing liabilities and assets.

   Further information related to interest rate and maturities of bank loans is disclosed in Notes 16 and 20 to the financial statements.

3. **Foreign Currency Risk**

   The Group has investments in funds under management of certain banks and cash deposits which are exposed to foreign exchange risk arising from the exchange rate movements of the United States dollar, the Euro, the Australian dollar, the British pound, the Malaysian ringgit, the Hong Kong dollar and the Thai baht vis-à-vis the Singapore dollar. In addition, the Group is exposed to currency translation risk as it has significant subsidiaries operating in New Zealand, Malaysia and Thailand. For the year ended 31 December 2018, approximately 7% (2017: 9%) of the Group's net assets is denominated in Malaysian ringgit and approximately 7% (2017: 8%) and 11% (2017: 14%) are denominated in New Zealand dollars and Thai baht respectively.

4. **Price Risk**

   The Group is exposed to price risks arising from its investments classified as fair value through profit or loss and fair value through other comprehensive income. These investments include equity shares, and instruments whose fair values are subject to volatility in equity and bond prices.

   Further details of these investments can be found in Notes 7 and 8 to the financial statements.

5. **Liquidity Risk**
Liquidity risk reflects the risk that the Group will have insufficient resources to meet its financial liabilities as they fall due.

Management assesses the availability of credit facilities and compliance with loan covenants on an on-going basis and no matters have been drawn to its attention that the roll-over of the short-term financing may not be forthcoming or that covenants have been breached. The Group and the Company have unutilised credit facilities totaling $213.1 million (2017: $172.9 million) and $117.5 million (2017: $75.8 million) respectively.

From time to time, management evaluates the tenure of credit facilities including the need for longer term credit facilities.

6. **Capital Risk**
The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern and returns to shareholders are optimised through a mix of equity, short-term and long-term debts. The capital structure of the Group consists of equity comprising share capital disclosed in Note 22, reserves and retained earnings; and debt which comprise bank borrowings and leases disclosed in Notes 16, 18 and 20.

The Group reviews the capital structure on an annual basis. As a part of this review, the Group considers the cost of capital and the risks and tenure associated with each class of capital.

The Group's overall strategy remains unchanged from 2017. The bank loans require the Group to comply with certain covenants such as debt to security ratio. The Group is compliant with these covenants.

General Business Risks
The Group's businesses are subject to general business risks. They are as follows:

a. War and terrorism, and its adverse effect on business;

b. The spread of contagious diseases and their adverse effect on tourist arrivals;

c. Global recession and its effect on the performance of the local economy; and

d. Changes in government regulations that burden the Group's operating costs or restrict business.

It is recognised that such risks can never be eliminated totally and that the cost controls in minimising these risks may outweigh their potential benefits. Accordingly the Group continues to focus on risk management and incident management. Where appropriate, this is supported by risk transfer mechanism such as insurance.

FINANCIAL STATEMENTS

Directors' statement	71
Independent auditor's report	74
Statements of financial position	78
Consolidated statement of profit or loss	80
Consolidated statement of profit or loss and other comprehensive income	81
Statements of changes in equity	82
Consolidated statement of cash flows	85
Notes to financial statements	87

DIRECTORS' STATEMENT

The directors present their statement together with the audited consolidated financial statements of the Group and statement of financial position and statement of changes in equity of the Company for the financial year ended 31 December 2018.

In the opinion of the directors, the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company as set out on pages 78 to 152 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2018, and the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year then ended and at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts when they fall due.

1 DIRECTORS

The directors of the Company in office at the date of this statement are:

Dr Lee Keng Thon
Dr Tan Kim Song
Lee Khin Tien
Lee Kin Hong
Dr Pang Eng Fong
Yang Wen-Wei (Appointed on 28 April 2018)

2 ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE BENEFITS BY MEANS OF THE ACQUISITION OF SHARES AND DEBENTURES

Neither at the end of the financial year nor at any time during the financial year did there subsist any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures in the Company or any other body corporate.

3 DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The directors of the Company holding office at the end of the financial year had no interests in the share capital and debentures of the Company and related corporations as recorded in the register of directors' shareholdings kept by the Company under Section 164 of the Singapore Companies Act except as follows:

Name of directors and companies in which interests are held	Shareholdings registered in name of directors		Shareholdings in which directors are deemed to have an interest	
	At beginning of year	At end of year	At beginning of year	At end of year
The Company	Ordinary shares		Ordinary shares	
Dr Lee Keng Thon	534,800	641,760	-	-
Lee Khin Tien	235,200	282,240	-	-
Lee Kin Hong	77,280	92,736	336,000	403,200

The directors' interests as disclosed above remained unchanged at 21 January, 2019.

DIRECTORS' STATEMENT (cont'd)

4 SHARE OPTIONS

(a) *Options to take up unissued shares*

During the financial year, no option to take up unissued shares of the Company or any corporation in the Group was granted.

(b) *Options exercised*

During the financial year, there were no shares of the Company or any corporation in the Group issued by virtue of the exercise of an option to take up unissued shares.

(c) *Unissued shares under option*

At the end of the financial year, there were no unissued shares of the Company or any corporation in the Group under option.

5 AUDIT AND RISK COMMITTEE

Members of the Audit and Risk Committee comprise four directors, namely Dr Tan Kim Song (Chairman of the Audit and Risk Committee), Col (Ret) Rodney How Seen Shing (resigned on 28 April 2018) Yang Wen-Wei (appointed on 28 April 2018), Dr Pang Eng Fong, and Lee Khin Tien.

The Audit and Risk Committee ("ARC") held four meetings during the financial year ended 31 December 2018 and performed the following functions:

(a) Review with external/internal auditors the audit plans, their evaluation of the system of internal accounting controls, and their audit report including the scope and results of the external audit, the independence and objectivity of the external auditors;

(b) Review the consolidated financial statements and statement of financial position and statement of profit or loss of the Company including reviewing the significant financial reporting issues and judgments so as to ensure the integrity of the financial statements of the Group and Company and any announcements relating to the Group and Company's financial performance, before submission to the Board for approval;

(c) Review the Group's financial and operating results and accounting policies;

(d) Review the internal control procedures, its scope and the results and to ensure co-ordination between the external/internal auditors and the Management; and review the assistance given by Management to the external auditors, and discuss problems and concerns, if any, arising from the interim and final audits;

(e) Review and report to the Board at least annually the adequacy and effectiveness of the Company's risk management and system of internal controls;

(f) Review the effectiveness of the Company's internal audit function;

(g) Review and discuss with the external auditors any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on the Group's operating results and/or financial position, and the Management's response;

(h) Make recommendation to the Board on the proposals to the shareholders on the appointment, re-appointment and removal of the external auditors;

(i) Review interested person transactions (if any) falling within the scope of Chapter 9 of the Listing Manual;

(j) Review potential conflicts of interest, if any;

(k) Undertake such other review and projects as may be requested by the Board, and report to the Board its findings from time to time on matters arising and which requires the attention of the ARC; and

(l) Undertake such other functions and duties as may be required by statute or the SGX-ST Listing Manual, or by such amendments as may be made from time to time.

5 AUDIT AND RISK COMMITTEE (cont'd)

The ARC has full access to and co-operation of management and has been given the resources required for it to discharge its function properly. It also has full discretion to invite any director and executive officer to attend its meetings. The external and internal auditors have unrestricted access to the ARC.

The Company's internal audit function has been outsourced to Philip Liew & Co. Both the external auditors and the internal auditors report directly to the ARC their findings and recommendations.

The ARC, having reviewed the scope and value of non-audit services provided to the Company and Group by the external auditors, are satisfied that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors.

The ARC has recommended to the directors the nomination of Deloitte & Touche LLP for re-appointment as external auditors of the Group at the forthcoming annual general meeting of the Company.

6 AUDITORS

The auditors, Deloitte & Touche LLP, have expressed their willingness to accept re-appointment.

ON BEHALF OF THE DIRECTORS

....	....
Dr Lee Keng Thon	Lee Khin Tien

18 March 2019

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF HOTEL ROYAL LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Hotel Royal Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and the statement of changes in equity of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, as set out on pages 78 to 152.

In our opinion, the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards (International) ("SFRS(I)s") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2018 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and of the changes in equity of the Company for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of properties (Note 14 to the financial statements)
Freehold land on which hotels are sited are stated at their fair values based on independent external valuations. The freehold land amounting to $502.6 million account for 62% of total assets at 31 December 2018.

The valuation for freehold land involves significant judgement in determining the appropriate valuation methodology to be used, and in estimating the underlying assumptions to be applied.

Certain freehold land are valued using the direct comparison approach and the key inputs are values per square meter referenced to comparable properties but adjusted for differences such as location, size, configuration and accessibility.

Other freehold land are valued using the residual approach. The residual value of the land is estimated after deducting depreciated replacement cost of the hotel from the value of the whole property - land and hotel. The income capitalisation approach is used by the valuer to estimate the value of each whole property. The value of the whole property is sensitive to key inputs such as occupancy rates and revenue per room (which affect the projected earnings before interest, tax, depreciation and amortisation); and the capitalisation rate.

A small change to any of the inputs may have a significant impact on the valuation of each of the properties.

How our audit addressed the Key Audit Matter
We evaluated the qualifications, competence and independence of the external valuers.

We considered the valuation methodologies used and evaluated the basis and assumptions for the above inputs and sought explanations from the valuers. We considered whether they appear to be in line with the individual hotel's performance or industry norms.

We also considered the adequacy of the disclosures in Note 14 to the financial statements, in describing the inherent degree of subjectivity and key assumptions used in the estimates.

Information Other than the Financial Statements and Auditor's Report Thereon
Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Directors for the Financial Statements
Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and SFRS(I)s, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

(d) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

(e) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Michael Ng Wee Kiat.

Deloitte & Touche LLP
Public Accountants and
Chartered Accountants
Singapore

18 March 2019

STATEMENTS OF FINANCIAL POSITION

31 December 2018

	Note	The Group			The Company		
		31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
		$'000	$'000	$'000	$'000	$'000	$'000
ASSETS							
Current assets							
Cash and bank balances	6	29,269	18,328	14,721	15,654	1,464	2,291
Financial assets at fair value through profit or loss	7	2,987	-	-	978	-	-
Held-for-trading investments	7	-	7,706	6,268	-	1,272	599
Financial assets at fair value through other comprehensive income	8	5,623	-	-	1,540	-	-
Available-for-sale investments	8	-	9,053	8,119	-	2,086	1,720
Trade receivables	9	3,083	3,542	3,629	978	1,288	1,130
Other receivables, deposits and prepaid expenses	10	1,458	1,449	1,363	101	107	216
Inventories		1,092	861	770	240	108	45
Income tax recoverable		3	11	4	-	-	-
Total current assets		43,515	40,950	34,874	19,491	6,325	6,001
Non-current assets							
Subsidiaries	11	-	-	-	184,315	180,585	169,130
Financial assets at fair value through other comprehensive income	8	19,849	-	-	17,066	-	-
Available-for-sale investments	8	-	4,268	3,435	-	1,186	1,055
Other asset	12	543	830	1,147	-	-	-
Goodwill	13	1,920	1,875	1,829	-	-	-
Property, plant and equipment	14	647,679	605,718	590,216	265,498	245,610	243,772
Investment properties	15	93,887	91,222	94,390	23,253	23,638	24,022
Total non-current assets		763,878	703,913	691,017	490,132	451,019	437,979
Total assets		807,393	744,863	725,891	509,623	457,344	443,980
LIABILITIES AND EQUITY							
Current liabilities							
Bank loans	16	7,875	16,929	13,805	-	-	-
Trade payables		3,987	3,274	3,587	1,726	2,021	2,036
Other payables	17	6,185	5,964	4,580	3,713	2,515	2,249
Current portion of finance lease	18	-	-	42	-	-	-
Income tax payable		2,716	2,564	2,591	1,618	1,444	1,156
Total current liabilities		20,763	28,731	24,605	7,057	5,980	5,441

See accompanying notes to financial statements.

	Note	The Group			The Company		
		31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
		$'000	$'000	$'000	$'000	$'000	$'000
Non-current liabilities							
Other payables	17	49	1,733	95	27,498	23,890	23,274
Retirement benefit obligations	19	772	773	663	-	-	-
Long-term bank loans	20	97,158	135,842	137,858	32,281	74,064	66,864
Deferred tax liabilities	21	19,301	19,450	19,803	989	750	562
Total non-current liabilities		117,280	157,798	158,419	60,768	98,704	90,700
Capital and reserves							
Share capital	22	150,665	100,438	100,438	150,665	100,438	100,438
Asset revaluation reserve		407,913	364,577	354,185	234,208	213,108	210,108
Employee benefit reserve		190	180	198	-	-	-
Fair value reserve		16,755	3,707	2,075	15,608	759	465
Translation reserve		123	90	-	-	-	-
Retained earnings		93,704	89,342	85,971	41,317	38,355	36,828
Total equity		669,350	558,334	542,867	441,798	352,660	347,839
Total liabilities and equity		807,393	744,863	725,891	509,623	457,344	443,980

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Note	The Group 2018 $'000	The Group 2017 $'000
Revenue	23	60,080	61,483
Cost of sales		(29,836)	(30,326)
Gross profit		30,244	31,157
Distribution costs		(1,218)	(1,126)
Administrative expenses		(12,815)	(12,892)
Other income	24	954	1,941
Other expenses		(2,625)	(3,382)
Finance costs	25	(4,228)	(4,498)
Profit before income tax	26	10,312	11,200
Income tax expense	27	(3,370)	(3,629)
Profit for the year attributable to owners of the Company		6,942	7,571
Basic earnings per share	28	7.52 cents	8.88 cents

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Note	The Group 2018 $'000	The Group 2017 $'000
Profit for the year		6,942	7,571
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Net fair value loss on investments in equity instruments designated as at Fair Value Through Other Comprehensive Income		(208)	-
Re-measurement of defined benefit obligation		10	(18)
Increase in valuation of freehold land - hotels	14	43,336	10,295
Deferred tax relating to revaluation on freehold land		-	97
Total		43,138	10,374
Items that may be reclassified subsequently to profit or loss			
Available-for-sale investments:			
Fair value gain recognised in fair value reserve		-	2,321
Transfer from fair value reserve to profit or loss upon disposal of available-for-sale investments		-	(689)
Exchange differences on translation of foreign operations		33	90
		33	1,722
Other comprehensive income for the year, net of tax		43,171	12,096
Total comprehensive income for the year attributable to owners of the Company		50,113	19,667

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN EQUITY

Year ended 31 December 2018

The Group	Share capital $'000	Asset revaluation reserve $'000	Employee benefit reserve $'000	Fair value reserve $'000	Translation reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2017	100,438	354,185	198	2,075	-	85,971	542,867
Total comprehensive income for the year:							
Profit for the year	-	-	-	-	-	7,571	7,571
Other comprehensive income for the year	-	10,392	(18)	1,632	90	-	12,096
Total	-	10,392	(18)	1,632	90	7,571	19,667
Transactions with owners, recognised directly in equity:							
Final dividends (Note 33)	-	-	-	-	-	(4,200)	(4,200)
Balance at 31 December 2017	100,438	364,577	180	3,707	90	89,342	558,334

See accompanying notes to financial statements.

The Group	Share capital $'000	Asset revaluation reserve $'000	Employee benefit reserve $'000	Fair value reserve $'000	Translation reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2018	100,438	364,577	180	3,707	90	89,342	558,334
Effect on adoption of SFRS(I) 9 (Note 34)	-	-	-	14,084	-	792	14,876
Adjusted balance at 1 January 2018	100,438	364,577	180	17,791	90	90,134	573,210
Total comprehensive income for the year:							
Profit for the year	-	-	-	-	-	6,942	6,942
Other comprehensive income for the year	-	43,336	10	(1,036)	33	828	43,171
Total	-	43,336	10	(1,036)	33	7,770	50,113
Transactions with owners, recognised directly in equity:							
Issuance of share capital (Note 22)	50,227	-	-	-	-	-	50,227
Final dividends (Note 33)	-	-	-	-	-	(4,200)	(4,200)
Total	50,227	-	-	-	-	(4,200)	46,027
Balance at 31 December 2018	150,665	407,913	190	16,755	123	93,704	669,350

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN EQUITY (cont'd)

Year ended 31 December 2018

	Share capital $'000	Asset revaluation reserve $'000	Fair value reserve $'000	Retained earnings $'000	Total $'000
The Company					
Balance at 1 January 2017	100,438	210,108	465	36,828	347,839
Profit for the year, representing total comprehensive income for the year	-	3,000	294	5,727	9,021
Final dividends (Note 33), representing transactions with owners, recognised directly in equity	-	-	-	(4,200)	(4,200)
Balance at 31 December 2017	100,438	213,108	759	38,355	352,660
Effect on adoption of SFRS(I) 9 (Note 34)	-	-	14,478	398	14,876
Adjusted balance as at 1 January 2018	100,438	213,108	15,237	38,753	367,536
Total comprehensive income for the year:					
Profit for the year	-	-	-	6,206	6,206
Other comprehensive income for the year	-	21,100	371	558	22,029
Total	-	21,100	371	6,764	28,235
Transactions with owners, recognised directly in equity:					
Issuance of share capital (Note 22)	50,227	-	-	-	50,227
Final dividends (Note 33)	-	-	-	(4,200)	(4,200)
Total	50,227	-	-	(4,200)	46,027
Balance at 31 December 2018	150,665	234,208	15,608	41,317	441,798

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	The Group	
	2018	2017
	$'000	$'000
Operating activities		
Profit before income tax	10,312	11,200
Adjustments for:		
Allowance for expected credit losses	70	77
Bad debt expense	4	33
Depreciation expense	8,680	9,023
Dividend income	(415)	(448)
Fair value gain on held-for-trading investments	-	(46)
Fair value loss on financial assets at fair value through profit or loss	433	-
Gain on disposal of available-for-sale investments	-	(689)
(Gain) Loss on disposal of property, plant and equipment	(21)	12
Impairment loss on available-for-sale investments	-	16
Impairment loss on leasehold land and building	-	775
Interest expense	4,228	4,498
Interest income	(69)	(67)
Write back of allowance for doubtful receivables	(87)	(150)
Operating cash flows before movements in working capital	23,135	24,234
Financial assets at fair value through other comprehensive income	(10)	-
Held-for-trading investments	-	(1,392)
Financial assets at fair value through profit or loss	4,286	-
Inventories	(232)	(91)
Trade and other payables	(797)	2,022
Trade and other receivables	777	408
Cash generated from operations	27,159	25,181
Dividend received	415	448
Interest paid	(4,228)	(4,498)
Interest received	69	67
Income tax paid	(2,938)	(3,385)
Net cash from operating activities	20,477	17,813

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)

Year ended 31 December 2018

	The Group	
	2018	2017
	$'000	$'000
Investing activities		
Additions to investment properties	(5,845)	(899)
Additions to property, plant and equipment	(3,693)	(9,217)
Proceeds from disposal of available-for-sale investments	-	3,396
Proceeds from disposal of financial assets held at fair value through other comprehensive income	7,135	-
Proceeds from disposal of property, plant and equipment	77	100
Purchase of available-for-sale investments	-	(2,858)
Purchase of financial assets held at fair value through other comprehensive income	(4,608)	-
Net cash used in investing activities	(6,934)	(9,478)
Financing activities		
Dividends paid	(4,200)	(4,200)
Fixed deposits pledged to banks	-	(448)
Proceeds from bank loans	3,000	8,761
Repayment of bank loans	(51,556)	(9,044)
Proceeds from rights issue	50,227	-
Repayment of finance lease	-	(42)
Net cash used in financing activities	(2,529)	(4,973)
Net increase in cash and cash equivalents	11,014	3,362
Cash and cash equivalents at beginning of year	17,248	14,089
Effect of currency exchange adjustment	(73)	(203)
Cash and cash equivalents at end of year (Note 6)	28,189	17,248

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1 GENERAL

The Company (Registration No. 196800298G) is incorporated in Singapore with its registered office and its principal place of business at 36 Newton Road, Singapore 307964. The financial statements are expressed in Singapore dollars, which is the functional currency of the Company.

The principal activity of the Company is that of a hotelier and investment holding. The principal activities of the subsidiaries are disclosed in Note 11.

On 2 December 1968, the Company was listed on the Main Board of Singapore Exchange Securities Trading Limited ("SGX-ST").

The financial statements of the Group and the statement of financial position and statement of changes in equity of the Company for the year ended 31 December 2018 were authorised for issue by the board of directors on 18 March 2019.

For all periods up to and including the year ended 31 December 2017, the financial statements were prepared in accordance with the previous framework, Financial Reporting Standards in Singapore ("FRSs"). These financial statements for the year ended 31 December 2018 are the first set that the Group and the Company have prepared in accordance with Singapore Financial Reporting Standards (International) ("SFRS(I)"). Details of first-time adoption of SFRS(I) are included in Note 34.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING - The financial statements have been prepared in accordance with the historical cost basis, except as disclosed in the accounting policies below, and are drawn up in accordance with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards (International) ("SFRS(I)s").

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability which market participants would take into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of SFRS(I) 1-17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in SFRS(I) 1-2 *Inventories* or value in use in SFRS(I) 1-36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety. These levels are described below:

- Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

BASIS OF CONSOLIDATION - The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved where the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the company's voting rights in an investee are sufficient to give it power, including:

- The size of the company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to any non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and any non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable SFRS(I)s). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under SFRS(I) 9 *Financial Instruments*.

In the Company's separate financial statements, investments in subsidiaries are carried at cost less any impairment in net recoverable value that has been recognised in profit or loss.

BUSINESS COMBINATIONS - Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the acquisition date fair values of assets given, liabilities incurred by the Group to the former owners of the acquiree, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates at fair value, with changes in fair value recognised in profit or loss.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under the SFRS(I) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with SFRS(I) 1-12 *Income Taxes* and SFRS(I) 1-19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment awards transactions with share-based payment awards transactions of the acquirer in accordance with the method in SFRS(I) 2 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with SFRS(I) 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another SFRS(I).

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date - and is subject to a maximum of one year from acquisition date.

FINANCIAL INSTRUMENTS - Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial assets (Before 1 January 2018)

Investments are recognised and de-recognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss", "available-for-sale" financial assets and "loans and receivables". The classification depends on the nature and purpose of financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts to present value, the estimated future cash receipts or payments through the expected life of the financial instrument, or where appropriate, a shorter period. Income and expense are recognised on an effective interest rate basis for debt instruments other than those financial instruments "at fair value through profit or loss".

Financial assets at fair value through profit or loss (FVTPL)

Financial assets are classified as at FVTPL where the financial asset is either held-for-trading or it is designated as at FVTPL.

A financial asset is classified as held-for-trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held-for-trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and FRS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 4(d)(vi).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Available-for-sale financial assets

Certain shares held by the Group are classified as available-for-sale and are stated at fair value. Fair value is determined in the manner described in Note 4(d)(vi). Gains and losses arising from changes in fair value are recognised in other comprehensive income with the exception of any impairment loss and foreign exchange gains and losses which are recognised directly in profit or loss. Where the investment is disposed or is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income and accumulated in the fair value reserve is reclassified in profit or loss for the period. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payments is established. The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at reporting date.

Investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment losses recognised when the investment's carrying amount exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables". Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate method, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For available-for-sale equity instruments, a significant or prolonged decline in the fair value of the investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables where the carrying amount is reduced through the use of an allowance account. When a trade or other receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss, is recognised directly in other comprehensive income.

In respect of available-for-sale equity instruments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any subsequent increase in fair value after an impairment loss is recognised in other comprehensive income. In respect of available-for-sale debt instruments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the assets and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial assets (From 1 January 2018)

All financial assets are recognised and de-recognised on a trade date basis where the purchase or sale of financial assets is under a contract whose terms require delivery of assets within the time frame established by the market concerned.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

By default, all other financial assets are subsequently measured at fair value through profit or loss (FVTPL).

Despite the aforegoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial instruments other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in profit or loss and is included in the "revenue" line item.

Equity instruments designated as at FVTOCI

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination to which SFRS(I) 3 *Business Combinations* applies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

The Group has designated all investments in equity instruments that are not held for trading as at FVTOCI on initial application of SFRS(I) 9 (see Note 8).

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "investment revenue" line item in profit or loss.

<u>Financial assets at FVTPL</u>
Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.
- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value as at each reporting date, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss is included in the "other income or other expenses" line item and any dividend or interest earned on the financial asset is included in the "revenue" line item. Fair value is determined in the manner described in Note 4(d)(vi).

<u>Foreign exchange gains and losses</u>
The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate as at each reporting date. Specifically,

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the "other income or other expenses" line item;
- for financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the "other income or other expenses" line item; and
- for equity instruments measured at FVTOCI, exchange differences are recognised in other comprehensive income in the fair value reserve.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses ("ECL") on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, as well as on loan commitments and financial guarantee contracts. No impairment loss is recognised for investments in equity instruments. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Despite the aforegoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definition.

For loan commitments and financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of a default occurring on the loan to which a loan commitment relates; for financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

a) significant financial difficulty of the issuer or the borrower;
b) a breach of contract, such as a default or past due event;
c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
e) the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for loan commitments and financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with SFRS(I) 1-17 *Leases*.

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables, finance lease receivables and amounts due from customers are each assessed as a separate group. Loans to related parties are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

<u>Derecognition of financial assets</u>

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a Group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Repurchase of the company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, financial guarantee contracts issued by the Group, and commitments issued by the Group to provide a loan at below-market interest rate are measured in accordance with the specific accounting policies set out below.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is 1) contingent consideration of an acquirer in a business combination to which SFRS(I) 3 applies, 2) held for trading, or 3) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a Group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial liabilities at FVTPL are stated at fair value with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liabilities and is included in the "other income or other expenses" line item.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Gains or losses on financial guarantee contracts and loan commitments issued by the Group that are designated by the Group as at fair value through profit or loss are recognised in profit or loss. Fair value is determined in the manner described in Note 4(d)(vi).

<u>Financial liabilities subsequently measured at amortised cost</u>
Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

<u>Financial guarantee contracts</u>
A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a Group entity are initially measured at their fair values and, if not designated as at FVTPL and do not arise from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with SFRS(I) 9; and
- the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the revenue recognition policies.

<u>Foreign exchange gains and losses</u>
For financial liabilities that are denominated in a foreign currency and are measured at amortised cost as at each reporting date, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in the "other income or other expenses" line item in profit or loss.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognised in profit or loss for financial liabilities that are not part of a designated hedging relationship.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Offsetting arrangements

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when the Company and the Group has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. A right to set-off must be available today rather than being contingent on a future event and must be exercisable by any of the counterparties, both in the normal course of business and in the event of default, insolvency or bankruptcy.

INVENTORIES - Inventories comprising mainly consumables are stated at the lower of cost (weighted average method) and net realisable value. Cost includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs.

PROPERTY, PLANT AND EQUIPMENT - Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses except for freehold land on which certain hotels are sited, which are stated at revalued amounts.

Revaluations of freehold hotel land is performed with sufficient regularity such that the carrying amounts do not differ materially from those which would be determined using fair values at the end of the reporting period.

Any revaluation increase arising on the revaluation of freehold hotel land is recognised in other comprehensive income and accumulated in the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of freehold hotel land is charged to profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation increase of that asset.

Properties, plant and equipment in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any accumulated impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

On subsequent sale or retirement of a revalued freehold hotel land, the attributable revaluation surplus remaining in the asset revaluation reserve is transferred directly to retained earnings.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Depreciation is charged so as to write off the cost of assets, other than freehold land, over their estimated useful lives, using the straight-line method except for linen, china, glassware, silver and uniforms where the original expenditure has been written down to approximately one-half of the original cost and all subsequent purchases have been written off as replacements. The estimated useful lives are as follows:

	Number of years
Leasehold land	Over the remaining terms of the leases (92 to 96)
Hotel buildings	45 to 92
Building improvements - hotels	10 to 25
Plant and equipment	3 to 10

Depreciation is not provided on freehold land, which is recorded at fair value.

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognised.

Fully depreciated assets still in use are retained in the financial statements.

INVESTMENT PROPERTIES - Investment properties are held on a long-term basis for income and potential investment gains. Investment properties are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost, other than freehold land, over their estimated useful lives of 50 to 80 years, using the straight-line method. Acquired leasehold buildings are depreciated over the shorter of remaining useful life or the terms of the relevant lease.

The estimated useful lives and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on disposal or retirement of an item of investment property is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

GOODWILL - Goodwill arising in business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over net amounts of the identifiable assets acquired and liabilities assumed, at the acquisition date.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as bargain purchase gain.

2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or the relevant cash generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

IMPAIRMENT OF NON FINANCIAL ASSETS EXCLUDING GOODWILL - At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

PROVISIONS - Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

GOVERNMENT GRANTS - Government grants are not recognised until there is reasonable assurance that the group will comply with the conditions attaching to them and the grants will be received. The benefit of a government loan at below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates. Government grants whose primary condition is that the group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the group with no future related costs are recognised in profit or loss in the period in which they become receivable.

LEASES - Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

<u>The Group as lessor</u>

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred in negotiating and arranging an operating lease are recognised in profit or loss on a straight-line basis over the lease term.

<u>The Group as lessee</u>

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

REVENUE RECOGNITION – The Group recognises revenue from the following major sources:

- Hotel; and
- Investment properties

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset.

Revenue from hotel operations

Revenue from operations of a hotel is recognised from the following major sources: hotel stays, carpark and spa services, and sales of food and beverages.

Revenue for hotel operations is recognised at a point in time when the services are rendered, This is also the point where the Group is entitled to payment.

Revenue from sales of food and beverages are recognised when control of the goods has transferred, being at the point in time when the food and beverages are consumed. This is also the point where the Group is entitled to payment.

Other hotel related revenue like spa and car park revenue are recognised when the services are rendered to the customers. Payment is due immediately when the customer consumes the service.

Rental income

Rental income recognition is described above in LEASES note.

Financial investment income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income from investments is recognised when the right to receive payment is established.

Income from providing financial guarantee is recognised in profit or loss over the guarantee period on a straight line basis.

BORROWING COSTS - Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, namely assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of these assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

EMPLOYEE LEAVE ENTITLEMENT - Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

RETIREMENT BENEFIT COSTS - Payments to defined contribution retirement benefit plans are charged as an expense in profit or loss as they fall due. Payments made to state-managed retirement benefit schemes, such as the Singapore Central Provident Fund and Malaysia Employee Provident Fund are dealt with as payments to defined contribution plans.

Defined benefit costs are categorised as follows:

- Service cost (including current service cost, as well as gains and losses on curtailments and settlements);
- Net interest expense or income; and
- Remeasurement.

The Group presents the first two components of defined benefit costs in profit or loss as employee benefits expense. Curtailment gains or losses are accounted for as past service costs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Subsidiaries in Thailand and Malaysian operate unfunded, defined benefit Retirement Benefit Schemes ("the Schemes") for their eligible employees. The cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations carried out at the end of each reporting period. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is reflected immediately with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement gains and losses are recognised in other comprehensive income and accumulated in employee benefit reserve. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

The retirement benefit obligation recognised in the statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plan.

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

INCOME TAX - Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the profit and loss statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Group's liability for current tax is calculated using tax rates and tax laws that have been enacted or substantively enacted in countries where the Company and subsidiaries operate by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary difference associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited outside profit or loss (either in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss (either in other comprehensive income or directly in equity), or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2018

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

FOREIGN CURRENCY TRANSACTIONS AND TRANSLATION - The individual financial statements of each group entity are measured and presented in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are presented in Singapore dollars, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the date of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised in other comprehensive income.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Singapore dollars using exchange rates prevailing on the end of the reporting period. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a separate component of equity under the header of translation reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognised, but they are not reclassified to profit or loss.

In the case of a partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities (including monetary items that, in substance, form part of the net investment in foreign entities), and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income and accumulated in translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

CASH AND CASH EQUIVALENTS IN THE STATEMENT OF CASH FLOW - Cash and cash equivalents comprise cash on hand and demand deposits, bank overdrafts, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2 above, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

Management is of the opinion that any instances of application of judgements are not expected to have a significant effect on the amounts recognised in the financial statements (apart from those involving estimates which are dealt with below).

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

<u>Recoverable amount of investments in subsidiaries in the Company's statement of financial position</u>

The carrying amounts of investments in subsidiaries, including additional funds provided to subsidiaries and deemed investments are disclosed in Note 11. Management has evaluated whether there is any indication of impairment by considering both internal and external sources of information, and are satisfied that the carrying amounts of investments are recoverable.

<u>Freehold hotel land at revalued amounts (Note 14)</u>

The valuation for freehold land involves significant judgement in determining the appropriate valuation methodology to be used, and in estimating the underlying assumptions to be applied.

Certain freehold land are valued using the direct comparison approach and the key inputs are values per square meter referenced to comparable properties but adjusted for differences such as location, size, configuration and accessibility.

Other freehold land are valued using the residual approach. The residual value of the land is estimated after deducting depreciated replacement cost of the hotel from the value of the whole property - land and hotel. The income capitalisation approach is used by the valuer to estimate the value of each whole property. The value of the whole property is sensitive to key inputs such as occupancy rates and revenue per room (which affect the projected earnings before interest, tax, depreciation and amortisation); and the capitalisation rate.

A small change to any of the inputs can have a significant impact on the valuation of each of the properties. Additional information about inputs are described in Note 14.

<u>Useful lives of investment properties and property, plant and equipment</u>

Depreciation is provided to write off the cost of investment properties (Note 15) and property, plant and equipment (Note 14) over their estimated useful lives, using the straight-line method. Management exercises judgement in estimating the useful lives of the depreciable assets which take into consideration the physical conditions of the assets, including structural reports from third party engineers, their lease term where applicable, and the Group's intent for maintenance and upgrade when necessary to maintain the physical and economic viability of buildings.

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT

(a) *Categories of financial instruments*

The following table sets out the financial instruments as at the end of the reporting period:

	The Group			The Company		
	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets						
Financial assets at amortised cost	32,772	22,303	18,871	111,609	117,458	108,048
Held-for-trading investments	-	7,706	6,268	-	1,272	599
Available-for-sale investments	-	13,321	11,554	-	3,272	2,775
Financial assets designated as at FVTPL	2,987	-	-	978	-	-
Equity instruments designated as at FVTOCI	25,472	-	-	18,606	-	-
Financial liabilities						
Financial liabilities at amortised cost	115,254	163,742	159,967	61,824	100,239	92,614
Financial guarantee	-	-	-	3,394	2,251	1,809

(b) *Financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements*

The Group and the Company do not have financial instruments which are subject to enforceable master netting arrangements or similar netting agreements.

(c) *Financial risk management policies and objectives*

The Group's overall financial risk management programme seeks to minimise potential adverse effects of financial performance of the Group arising from exposure to financial risks such as changes in foreign currency exchange rates, interest rates and equity prices. There has been no change to the Group's exposure to financial risks or the manner in which it manages and measures the risks.

The investments in bonds, fixed income funds and equity shares as disclosed in Notes 7 and 8 are subject to a variety of financial risks, including credit risk of counterparties, liquidity risk, interest rate risk, foreign currency risk, and other market risks related to prices of equity. The Group engages professional investment managers from banks to manage the risks and returns from certain financial investments classified as held for trading. All investment accounts opened with professional investment managers from banks are approved by the board of directors. Investment managers from the banks are given discretionary powers to make investment decisions on behalf of management based on specified guidelines for managed funds.

(d) *Exposure to financial risks*

(i) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. As at 31 December 2018, the Group's maximum exposure to credit risk without taking into account any collateral held or other credit enhancements, which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group arises from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position; and
- the maximum amount the Group would have to pay if the financial guarantee is called upon, irrespective of the likelihood of the guarantee being exercised as disclosed in Note 4(d)(v). The related loss allowance is disclosed in the respective notes to the financial statements.

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT (cont'd)

(d) *Exposure to financial risks* (cont'd)

(i) Credit risk management (cont'd)

In order to minimise credit risk, the Group has tasked its credit management committee to develop and maintain the group's credit risk gradings to categorise exposures according to their degree of risk of default. The credit rating information is supplied by independent rating agencies where available and, if not available, the credit management committee uses other publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising expected credit losses (ECL)
Performing	The counterparty has a low risk of default and does not have any past-due amounts.	12-month ECL
Doubtful	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition.	Lifetime ECL – not credit-impaired
In default	Amount is >90 days past due or there is evidence indicating the asset is credit-impaired.	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery.	Amount is written off

The tables below detail the credit quality of the Group's financial assets, as well as maximum exposure to credit risk by credit rating grades:

	Note	Internal credit rating	12-month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
Group				$'000	$'000	$'000
31 December 2018						
Trade receivables	9	(i)	Lifetime ECL (simplified approach)	3,279	(196)	3,083
Other receivables and refundable deposits	10	Performing	12-month ECL	727	-	727
					(196)	
Company						
31 December 2018						
Trade receivables	9	(i)	Lifetime ECL (simplified approach)	1,023	(45)	978
Other receivables and refundable deposits	10	Performing	12-month ECL	70	-	70
					(45)	

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT (cont'd)

(d) Exposure to financial risks (cont'd)

(i) Credit risk management (cont'd)

(i) For trade receivables, the Group has applied the simplified approach in SFRS(I) 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Note 9 includes further details on the loss allowance for these trade receivables.

In order to minimise credit risk, the Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above and investments in these instruments, where the counterparties have minimum BBB - credit rating, are considered to have low credit risk for the purpose of impairment assessment. The credit rating information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Before accepting any new customer, management assesses the potential customer's credit quality and defines credit limits by customer. The review of customer credit limits is conducted annually. There is no single customer who accounts for 10% or more of the Group's trade receivables.

Credit approvals and other monitoring procedures are also in place to ensure that follow-up action is taken to recover overdue debts. Furthermore, the Group reviews the recoverable amount of each trade debt on an individual basis at the end of the reporting period to ensure that adequate loss allowance is made for irrecoverable amounts. In this regard, management considers that the Group's credit risk is significantly reduced.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Group's credit risk is primarily attributable to its cash and bank balances, trade and other receivables. Cash and fixed deposits (Note 6) are in the custody of creditworthy financial institutions. Trade receivables are largely from credit card companies, tour agencies, regular corporate clients, hotels and tenants at the properties of the Group. Deposits may be collected to mitigate the credit risks.

The Group has no significant concentration of credit risk.

The carrying amounts of financial assets recorded in the financial statements, grossed up for any allowances for losses represent the Group's maximum exposure to credit risk.

The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT (cont'd)

(d) *Exposure to financial risks* (cont'd)

(ii) Interest rate risk management

The Group is exposed to interest rate risk through the impact of rate changes on interest-bearing liabilities and assets. Information on variable interest rate instruments are in section (v) below, and in Notes 16 and 20.

Interest rate sensitivity

The sensitivity analyses below is based on the exposure to variable interest rates for financial assets and financial liabilities at the end of the reporting period.

If interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's profit would decrease/increase by approximately $0.5 million (2017 : decrease/increase by approximately $0.8 million).

The above analysis excludes the effects that changes in interest rates would have on the fair value of fixed rate bonds, fixed income funds and money market funds. Generally, increases and decreases in interest rates will have inverse impact on the fair value of investments which have fixed interest rates.

(iii) Foreign currency risk management

At the reporting date, the carrying amounts of financial assets denominated in currencies other than the functional currency of the respective entities in the Group are as follows:

	The Group			The Company		
	Assets			Assets		
	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
	$'000	$'000	$'000	$'000	$'000	$'000
United States dollar	4,967	8,627	4,951	2,267	2,146	1,150
Euro	528	997	521	-	-	-
Australian dollar	-	492	588	-	-	-
British pound	-	181	137	-	-	-
Malaysian ringgit	287	372	352	-	-	-
Hong Kong dollar	86	777	691	-	361	327
Thai baht	98	96	91	98	96	91

The above amounts include balances of subsidiaries which are eliminated on consolidation in the statement of financial position but will continue to contribute to foreign currency exposures in the statement of profit or loss and other comprehensive income.

There are no significant financial liabilities denominated in currencies other than the functional currency of the respective entities.

Foreign currency sensitivity

The following table details the sensitivity to a 5% increase and decrease in the relevant foreign currencies against the functional currency of each entity in the Group using the monetary amounts denominated in foreign currency at the period.

If the relevant foreign currency strengthens or weakens by 5% against the functional currency of each Group entity:

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT (cont'd)

(d) Exposure to financial risks (cont'd)

(iii) Foreign currency risk management (cont'd)

(a) Profit will increase or decrease respectively by approximately:

	The Group		
	31 December 2018	31 December 2017	1 January 2017
	$'000	$'000	$'000
Impact arising from			
Thai baht	5	5	-
Hong Kong dollar	-	17	-
United States dollar	101	169	96
Australian dollar	-	20	20

(b) Other comprehensive income will increase or decrease respectively by approximately:

	The Group		
	31 December 2018	31 December 2017	1 January 2017
	$'000	$'000	$'000
Impact arising from			
Australian dollar	-	5	-
British pound	-	9	-
United States dollar	147	262	151
Euro	26	50	26
Hong Kong dollar	4	22	32
Malaysian ringgit	14	19	18

Changes in exchange rates of other currencies do not have a significant effect on profit or loss, and other comprehensive income.

Additionally, the Group is exposed to currency translation risk arising from net assets of subsidiaries operating in Malaysia, New Zealand and Thailand which are denominated in their respective domestic currencies which is also their functional currencies.

At the end of the year, net assets in the following countries, expressed as a percentage of net assets of the Group were as follows:

	The Group		
	31 December 2018	31 December 2017	1 January 2017
	%	%	%
Malaysia	7	9	9
New Zealand	7	8	8
Thailand	11	14	14

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT (cont'd)

(d) Exposure to financial risks (cont'd)

(iv) Equity price risk management

The Group is exposed to equity risks arising from equity investments at FVTPL and at FVTOCI (2017 : held-for-trading and available-for-sale). Equity investments measured at FVTOCI (2017 : available-for-sale) are held for strategies rather than trading purposes. The Group does not actively trade such investments.

Further details of these equity investments can be found in Notes 7 and 8.

Equity price sensitivity

The sensitivity analyses below have been determined based on the exposure to equity price risks at the end of the reporting period.

In respect of equity instruments at FVTOCI (2017 : available-for-sale), if equity price had been 10% higher/lower while all other variables were held constant:

- The Group's net profit for the year ended 31 December 2018 would have been unaffected as the equity investments are classified as at FVTOCI; and

- The Group's fair value reserves would increase/decrease by approximately $2.6 million (2017 : $1.3 million).

  In respect of equity investments at FVTPL (2017 : held-for-trading), if equity price had been 10% higher/lower while all other variables were held constant:

- The Group's net profit for the year ended 31 December 2018 would have been increased or decreased by approximately $0.3 million (2017 : $0.8 million).

(v) Liquidity risk management

At the end of the year, the Group and the Company have unutilised credit facilities totaling $213.1 million (2017 : $172.9 million) and $117.5 million (2017 : $75.8 million) respectively.

From time to time, management evaluates the tenure of credit facilities. Both the Company and the Group have adequate resources to discharge obligations as and when they fall due.

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT (cont'd)

(d) *Exposure to financial risks* (cont'd)

(v) Liquidity risk management (cont'd)

Liquidity and interest risk analyses

Financial liabilities

The following table details the remaining contractual maturity for financial liabilities. The undiscounted cash flows of financial liabilities stated below are based on the earliest date on which the Group and Company can be required to pay interest and principal cash flows. The adjustment column represents future interest which is not included in the carrying amounts of the financial liabilities in the statements of financial position.

	Weighted average effective interest rate			On demand or within 1 year		
	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
	%p.a.	%p.a.	%p.a.	$'000	$'000	$'000
Financial Liabilities						
The Group						
Non-interest bearing	NA	NA	NA	10,172	9,238	8,167
Finance lease liability (Fixed rate)	-	-	4.26	-	-	43
Variable interest rate instruments	2.88	2.66	2.75	8,487	17,239	14,921
The Company						
Non-interest bearing	NA	NA	NA	8,463	4,536	8,167
Variable interest rate instruments	2.20	2.07	4.26	1,381	2,106	43

NA: not applicable.

Within 2 to 5 years			Adjustment			Total		
31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
49	1,733	95	-	-	-	10,221	10,971	8,262
-	-	-	-	-	(1)	-	-	42
99,065	140,690	138,964	(2,519)	(5,158)	(2,222)	105,033	152,771	151,663
-	-	95	-	-	-	8,463	4,536	8,262
62,080	106,377	-	(6,706)	(10,529)	(1)	56,755	97,954	42

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT (cont'd)

(d) *Exposure to financial risks* (cont'd)

(v) Liquidity risk management (cont'd)

Liquidity and interest risk analyses (cont'd)

Financial assets

The following table details the expected maturity for financial assets. The amounts are based on the contractual maturities of the financial assets including future interest that will be earned on those assets except where the Group and the Company anticipates that the cash flow will occur in a different period. The adjustment column represents future interest which is not included in the carrying amounts of the financial assets on the statements of financial position.

	Weighted average effective interest rate			On demand or within 1 year		
	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
	%p.a.	%p.a.	%p.a.	$'000	$'000	$'000
Financial Assets						
The Group						
Non-interest bearing	NA	NA	NA	27,918	37,362	32,031
Fixed interest rate instruments	1.75	2.71	2.51	13,488	1,722	1,246
The Company						
Non-interest bearing	NA	NA	NA	7,531	6,212	5,909
Fixed interest rate instruments	1.59	-	-	11,833	-	-
Variable interest rate instruments	3.42	3.17	3.18	1,842	1,691	1,593

Within 2 to 5 years			Adjustment			Total		
31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
19,850	4,268	3,435	-	-	-	47,768	41,630	35,466
-	-	-	(25)	(22)	(19)	13,463	1,700	1,227
17,066	1,186	1,055	-	-	-	24,597	7,398	6,964
-	-	-	(97)	-	-	11,736	-	-
102,228	121,369	110,829	(9,210)	(8,456)	(7,964)	94,860	114,604	104,458

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT (cont'd)

(d) Exposure to financial risks (cont'd)

(vi) Fair value of financial assets and financial liabilities

The Group and the Company determines fair values of financial assets and financial liabilities in the following manner:

(a) *Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)*

The carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values due to the relatively short term maturity of these financial instruments. The carrying amounts of long term borrowings approximate their fair values as interest rates float with market rates.

(b) *Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis*

The following financial assets are measured at fair value at the end of each reporting period. Fair values belong to the following levels in the fair value hierarchy.

	Level 1			Level 3		
	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
	$'000	$'000	$'000	$'000	$'000	$'000
The Group						
Financial assets at fair value through profit or loss / Held-for-trading investments						
- Quoted bonds	2,955	4,487	1,533	-	-	-
- Quoted fixed income funds	-	3,183	2,295	-	-	-
- Quoted commodity index	-	-	100	-	-	-
- Unquoted managed funds	-	-	-	32	36	2,340
Financial assets at fair value through other comprehensive income / Available-for sale investments						
- Quoted equity shares	9,010	12,825	11,058	-	-	-
- Unquoted equity shares	-	-	-	16,462	496	496
The Company						
Financial assets at fair value through profit or loss / Held-for-trading investments						
- Quoted bonds	949	1,239	515	-	-	-
- Unquoted managed funds	-	-	-	29	33	84
Financial assets at fair value through other comprehensive income / Available-for sale investments						
- Quoted equity shares	2,144	2,776	2,279	-	-	-
- Unquoted equity shares	-	-	-	16,462	496	496

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT (cont'd)

(d) Exposure to financial risks (cont'd)

Fair values of investments classified as Level 1 of the fair value hierarchy are based on publicly available quoted prices. Level 3 investments are measured based on net assets of the unquoted funds as provided by the fund managers and measured based on adjusted net assets of the unquoted equity shares. There is no investment falling within Level 2 of the fair value hierarchy.

Reconciliation of Level 3 fair value measurement:

	Financial assets at FVTPL (Unquoted managed funds) $'000	Financial assets at FVTOCI (Unquoted equity shares) $'000	Total $'000
2018			
Group			
Opening balance	36	496	532
Purchases	55	-	55
Disposals	(90)	-	(90)
Total gains or loss:			
- In profit or loss *	31	-	31
- In other comprehensive income	-	15,966	15,966
Closing balance	32	16,462	16,494
Company			
Opening balance	33	496	529
Purchases	55	-	55
Disposals	(90)	-	(90)
Total gains or loss:			
- In profit or loss *	31	-	31
- In other comprehensive income	-	15,966	15,966
Closing balance	29	16,462	16,491

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL MANAGEMENT (cont'd)

(d) *Exposure to financial risks* (cont'd)

	Held-for-Trading investments $'000	Available-for-Sale investments $'000	Total $'000
2017			
Group			
Opening balance	2,340	-	2,340
Disposals	(2,254)	-	(2,254)
Total gains or loss:			
- In profit or loss *	(50)	-	(50)
Closing balance	36	-	36
Company			
Opening balance	84	-	84
Total gains or loss:			
- In profit or loss *	(51)	-	(51)
Closing balance	33	-	33

* Included as part of "other income or other expense" in profit or loss

All gains and losses included in other comprehensive income relate to unlisted shares held at the end of the reporting period and are reported as changes of "fair value reserves".

(e) *Capital management policies and objectives*

The Group's overall strategy for managing capital remains unchanged from prior year. Capital of the Group is managed to ensure that entities in the Group will be able to continue as going concern and returns to stakeholders are optimised through a mix of equity, short-term and long-term debts.

The capital structure of the Group consists of equity comprising share capital (Note 22), reserves and retained earnings; and debt which comprise bank loans and leases (Notes 16, 18 and 20).

Management reviews the capital structure at least once a year, taking into consideration the cost of capital, the risks and tenure associated with each class of capital. The bank loans require the Group to comply with certain covenants such as debt to security ratio. The Group is in compliance with these covenants.

Information on aggregate debts as a ratio of total assets and equity are as follows:

	The Group		
	31 December 2018 $'000	31 December 2017 $'000	1 January 2017 $'000
Total debt	105,033	152,771	151,705
Total assets	807,393	744,863	725,891
Total equity	669,350	558,334	542,867
Debt-to-total assets ratio	13%	21%	21%
Debt-to-total equity ratio	16%	27%	28%

5 RELATED PARTY TRANSACTIONS

Compensation of directors and key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	The Group	
	2018	2017
	$'000	$'000
Short-term benefits	952	779
Post-employment benefits	10	10
	962	789

The remuneration of directors and key management personnel is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

Other related party transactions comprise:

	The Group	
	2018	2017
	$'000	$'000
Fees paid to a medical practice owned by a director	33	43
Commission paid to a related party for property management services	27	31
Sales of food and beverage to a related party *	(11)	(13)
Advertising expenses paid to a related party *	11	20

* Entities in which certain directors of the Company have equity interest, hold significant influence and are key management personnel of the entities.

6 CASH AND BANK BALANCES

	The Group			The Company		
	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
	$'000	$'000	$'000	$'000	$'000	$'000
Cash on hand	174	166	156	62	74	63
Cash at bank	15,632	16,462	13,338	3,856	1,390	2,228
Fixed deposits	13,463	1,700	1,227	11,736	-	-
Total	29,269	18,328	14,721	15,654	1,464	2,291
Less: Fixed deposits pledged	(1,080)	(1,080)	(632)	-	-	-
Cash and cash equivalents	28,189	17,248	14,089	15,654	1,464	2,291

Fixed deposits of a subsidiary are pledged for a loan facility (Note 20).

The Group and the Company fixed deposits earn interest ranging from 1.38% to 3.25% and 1.38% to 1.73% (2017 : 1.95% to 3.00% and Nil) per annum respectively and for terms ranging from 30 to 270 days and 30 to 90 days (2017 : 30 to 270 days and Nil) respectively.

7 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS / HELD-FOR-TRADING INVESTMENTS

On 1 January 2018, the Group designated the investments shown below as at FVTPL because these represent investments that offer the Group the opportunity for return through dividend income and fair value gains. In 2017, these investments were classified as held-for-trading.

	The Group			The Company		
	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
	$'000	$'000	$'000	$'000	$'000	$'000
Quoted bonds	2,955	4,487	1,533	949	1,239	515
Quoted fixed income funds	-	3,183	2,295	-	-	-
Quoted commodity index	-	-	100	-	-	-
Unquoted managed funds	32	36	2,340	29	33	84
	2,987	7,706	6,268	978	1,272	599

The investments above offer the Group the opportunity for return through dividend income and fair value gains. They have no fixed maturity or coupon rate. The fair values of these securities are based on closing quoted market prices on the last market day of the financial year.

Unquoted managed funds are measured at fair value through profit or loss in accordance with SFRS(I) 9 *Financial Instruments*, as they represent an identified portfolio of investments which the group manages together with an intention of profit taking when the opportunity arises.

Changes in the fair value of financial assets at fair value through profit or loss, amounting to loss of $433,000 (2017 : gain of $46,000) have been included in profit or loss for the year as part of "other expenses/ other income".

8 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME / AVAILABLE-FOR-SALE INVESTMENTS

On 1 January 2018, the Group designated the investments shown below as equity investments as at FVTOCI because these equity investments represent investments that the Group intends to hold for the long-term for strategic purposes. In 2017, these investments were classified as available-for-sale.

	The Group			The Company		
	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
	$'000	$'000	$'000	$'000	$'000	$'000
Current assets						
Quoted equity shares	5,623	9,053	8,119	1,540	2,086	1,720
Non-current assets						
Quoted equity shares	3,387	3,772	2,939	604	690	559
Unquoted equity share	16,462	496	496	16,462	496	496
	19,849	4,268	3,435	17,066	1,186	1,055
Total	25,472	13,321	11,554	18,606	3,272	2,775

The investments above offer the Group the opportunity for return through dividend income and fair value gains.

8 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS (cont'd)

The financial assets held at fair value through other comprehensive income (2017 : available-for-sale investments) presented as current assets are those held in investment accounts managed on behalf of the Group by professional fund managers and subject to changes in components of investments within the portfolio. The financial assets held at fair value through other comprehensive income (2017 : available-for-sale investments) presented as non-current assets are those managed directly by the Group and are held for long-term investments.

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, management has elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

9 TRADE RECEIVABLES

	The Group			The Company		
	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
	$'000	$'000	$'000	$'000	$'000	$'000
Trade receivables	3,279	3,735	3,930	1,023	1,325	1,316
Related parties [1]	-	20	27	-	-	-
	3,279	3,755	3,957	1,023	1,325	1,316
Less: Loss allowance / allowance for doubtful receivables	(196)	(213)	(328)	(45)	(37)	(186)
	3,083	3,542	3,629	978	1,288	1,130

[1] Entities in which certain directors of the Company have equity interest, hold significant influence and are key management personnel of the entities.

The credit period granted to customers is generally 30 days (2017 : 30 days). No interest is charged on any overdue trade receivables. No interest is charged on the outstanding trade receivables. Loss allowance for trade receivables has always been measured at an amount equal to lifetime expected credit losses (ECL). The ECL on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Group has recognised a loss allowance of 100% against all receivables over a year past due because historical experience has indicated that these receivables are generally not recoverable.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

9 TRADE RECEIVABLES (cont'd)

A trade receivable is written off when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier. None of the trade receivables that have been written off is subject to enforcement activities.

In 2018, the age of receivables past due but not impaired amounted to $0.9 million and ranged from 31 to 60 days. The Group has recognised a loss allowance of 100% against all receivables over a year past due of $196,000 because historical experience has indicated that these receivables are generally not recoverable.

	The Group $'000	The Company $'000
Balance at beginning of the year	213	37
Loss allowance recognized in profit or loss during the year on:		
- Assets originated	70	8
- No longer required	(87)	-
Balance at end of the year	196	45

<u>Previous accounting policy for allowance for trade receivables</u>

In 2017, the allowance for estimated irrecoverable amount was determined based on on-going evaluation of recoverability and aging analysis of individual receivables. The age of receivables past due but not impaired amounted to $1.4 million ranged from 31 to 60 days. In determining the recoverability of a trade receivable, the Group considered any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Management believed that no further allowance is required. The Group did not hold any collateral over these balances.

Movement in the allowance for doubtful trade receivables:

	2017	
	The Group $'000	The Company $'000
Balance at beginning of the year	328	186
Increase in allowance	77	-
Write-back of allowance	(150)	(105)
Bad debt written off	(45)	(44)
Exchange adjustment	3	-
Balance at end of the year	213	37

10 OTHER RECEIVABLES, DEPOSITS AND PREPAID EXPENSES

	The Group			The Company		
	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
	$'000	$'000	$'000	$'000	$'000	$'000
Outside parties	339	387	406	70	74	160
Refundable deposits	388	353	449	-	-	-
Prepaid expenses	731	709	508	31	33	56
	1,458	1,449	1,363	101	107	216

For purpose of impairment assessment, other receivables are considered to have low credit risk as they are not due for payment at the end of the reporting period and there has been no significant increase in the risk of default on the receivables since initial recognition. Accordingly, for the purpose of impairment assessment for these receivables, the loss allowance is measured at an amount equal to 12-month expected credit losses (ECL).

In determining the ECL, management has taken into account the historical default experience and the financial position of the counterparties, adjusted for factors that are specific to the debtors and general economic conditions of the industry in which the debtors operate, in estimating the probability of default of each of these financial assets occurring within their respective loss assessment time horizon, as well as the loss upon default in each case.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for other receivables.

11 SUBSIDIARIES

	The Company		
	31 December 2018	31 December 2017	1 January 2017
	$'000	$'000	$'000
Unquoted equity shares - at cost	77,980	56,564	56,564
Additional funds provided to subsidiaries	94,907	114,632	104,467
Deemed investment in subsidiaries arising from fair value of corporate guarantees given to banks which extend credit facilities to the subsidiaries	11,428	9,389	8,099
	184,315	180,585	169,130

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2018

11 SUBSIDIARIES (cont'd)

The details of the Company's subsidiaries are as follows:

Name of subsidiary	Country of incorporation and operation	Proportion of ownership interest			Proportion of voting power held			Principal activities
		31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017	
		%	%	%	%	%	%	
Royal Properties Investment Pte Ltd	Singapore	100	100	100	100	100	100	Investment in properties and subsidiaries
Royal Capital Pte Ltd	Singapore	100	100	100	100	100	100	Investment in financial assets
Castle Mall Properties Pte Ltd (wholly owned subsidiary of Royal Properties Investment Pte Ltd)	Singapore	100	100	100	100	100	100	Provision of intercompany loans
Hotel Royal @ Queens (Singapore) Pte Ltd (wholly owned subsidiary of Royal Properties Investment Pte Ltd)	Singapore	100	100	100	100	100	100	Owns and manages a hotel
Hotel Royal (Thailand) Private Limited	Singapore	100	100	100	100	100	100	Investment in subsidiaries
Prestige Properties Sdn. Bhd. (1)	Malaysia	100	100	100	100	100	100	Investment in subsidiaries
Faber Kompleks Sdn. Bhd. (1) (wholly owned subsidiary of PrestigeProperties Sdn. Bhd.)	Malaysia	100	100	100	100	100	100	Owns and manages a hotel and commercial properties

11 SUBSIDIARIES (cont'd)

Name of subsidiary	Country of incorporation and operation	Proportion of ownership interest			Proportion of voting power held			Principal activities
		31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017	
		%	%	%	%	%	%	
Premium Lodge Sdn.Bhd. [(1)] (wholly owned subsidiary of Prestige Properties Sdn. Bhd.)	Malaysia	100	100	100	100	100	100	Owns and manages a hotel
Baba Residences Sdn. Bhd. [(1)] (wholly owned subsidiary of Prestige Properties Sdn. Bhd.)	Malaysia	100	100	100	100	100	100	Owns and manages a hotel
Grand Complex Properties Ltd [(1)] (wholly owned subsidiary of Royal Properties Investment Pte Ltd)	New Zealand	100	100	100	100	100	100	Investment in commercial properties
Hotel Royal Bangkok (Thailand) Co., Ltd [(1)(2)] (shares held by Hotel Royal (Thailand) Private Limited)	Thailand	40	40	40	87	87	87	Owns and manages a hotel
Excellent Hotel (Thailand) Co., Ltd. [(1)(3)] (shares held by Hotel Royal (Thailand) Private Limited)	Thailand	49	49	49	91	91	91	Investment in subsidiary
Panali Co., Ltd. [(1)(4)]	Thailand	74	74	74	100	100	100	Owns a hotel

11 SUBSIDIARIES (cont'd)

All the subsidiaries are audited by Deloitte & Touche LLP, Singapore except as indicated below:

(1) Audited by overseas practices of Deloitte Touche Tohmatsu Limited.

(2) Hotel Royal (Thailand) Private Limited (a wholly-owned subsidiary in the Group) holds 40% of all shares in Hotel Royal Bangkok (Thailand) Co., Ltd and controls 87% of all votes exercisable by shareholders of Hotel Royal Bangkok (Thailand) Co., Ltd. The Articles of Association of Hotel Royal Bangkok (Thailand) Co., Ltd specifies that Hotel Royal (Thailand) Private Limited is responsible for all liabilities, assets and retained earnings of Hotel Royal Bangkok (Thailand) Co., Ltd. The consolidated financial statements of the Group thus includes all liabilities, assets and retained earnings of Hotel Royal Bangkok (Thailand) Co., Ltd.

(3) Hotel Royal (Thailand) Private Limited (a wholly-owned subsidiary in the Group) holds 49% of all shares in Excellent Hotel (Thailand) Co., Ltd and controls 91% of all votes exercisable by shareholders of Excellent Hotel (Thailand) Co., Ltd. The Articles of Association of Excellent Hotel (Thailand) Co., Ltd specifies that Hotel Royal (Thailand) Private Limited is responsible for all liabilities, assets and retained earnings of Excellent Hotel (Thailand) Co., Ltd. The consolidated financial statements of the Group thus includes all liabilities, assets and retained earnings of Excellent Hotel (Thailand) Co., Ltd.

(4) The Company's subsidiaries, Hotel Royal (Thailand) Private Limited and Excellent Hotel (Thailand) Co., Ltd hold an aggregate of 100% of the equity shares of Panali Co., Ltd.

The amounts owing by subsidiaries to the Company are unsecured, not expected to be repaid within the next 12 months. The outstanding amount of $94.9 million (31 December 2017 : $114.6 million, 1 January 2017 : $104.5 million) bear interest ranging from 2.42% to 3.55% (31 December 2017 : 1.89% to 3.35%, 1 January 2017 : 1.80% to 3.34%) per annum which approximate market interest rate. Hence, the carrying amounts approximate their respective fair values.

The Company undertakes to provide financial support to certain subsidiaries with net current liabilities to ensure that subsidiaries can meet their contractual obligations when they fall due.

12 OTHER ASSET

	The Group		
	31 December 2018	31 December 2017	1 January 2017
	$'000	$'000	$'000
Lease incentives	778	1,027	1,366
Less: Current portion included in trade receivables	(307)	(307)	(334)
Non-current portion	471	720	1,032
Deposits	72	110	115
	543	830	1,147

Lease incentives refer to non-cash incentives provided to tenants for entering into rental agreements for properties owned by the Group. The incentives are recognised as a reduction of rental income over the lease term on a straight-line basis.

Deposits represent payments made to suppliers for the purchase of property, plant and equipment.

13 GOODWILL

	The Group		
	31 December 2018	31 December 2017	1 January 2017
	$'000	$'000	$'000
At beginning of the year	1,875	1,829	1,783
Exchange adjustment	45	46	46
At end of the year	1,920	1,875	1,829

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units (CGUs) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated to hotel operations.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGU are determined at the higher of net realisable value and value in use calculations. The key assumptions for the value in use calculations are growth in room rates, occupancy rates, operating costs and the rate to discount future net cash flows to present value (the discount rate). Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and risks specific to the CGU. Changes in room rates and direct costs are based on expectations of specific to the CGU as well as the industry at large.

The Group prepares cash flow forecasts derived from budgets approved by management and extrapolates cash flows for the following years based on long-term growth rate of 2.00% to 3.00% (2017 : 2.00% to 3.00%) per annum.

The rate used to discount the forecast cash flows to present values range is 10.00% to 10.50% (2017 : 10.00% to 10.50%) per annum.

As at 31 December 2018, any reasonably possible change to the key assumptions applied not likely to cause the recoverable amounts to be below the carrying amounts of the CGU.

14 PROPERTY, PLANT AND EQUIPMENT

	Freehold land - hotels	Leasehold land	Hotel buildings	Building improvements - hotels	Plant and equipment	Linen, china glassware, silver and uniform	Construction in progress	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
The Group								
Cost or valuation:								
As at 1 January 2017	444,732	725	134,106	9,850	52,915	942	-	643,270
Additions	-	2,651	2,399	2,531	1,633	3	-	9,217
Disposals	-	-	-	-	(189)	-	-	(189)
Revaluation gain	10,295	-	-	-	-	-	-	10,295
Exchange adjustment	1,656	91	2,300	6,708	(5,809)	26	-	4,972
As at 31 December 2017	456,683	3,467	138,805	19,089	48,550	971	-	667,565
Additions	171	671	121	1,013	1,253	82	382	3,693
Disposals	-	-	-	(10)	(415)	(11)	-	(436)
Reclassification	1,371	(1,425)	-	-	(460)	-	-	(514)
Revaluation gain	43,336	-	-	-	-	-	-	43,336
Exchange adjustment	995	10	1,241	144	161	11	-	2,562
As at 31 December 2018	502,556	2,723	140,167	20,236	49,089	1,053	382	716,206
Comprising:								
31 December 2018								
At valuation	502,556	-	-	-	-	-	-	502,556
At cost	-	2,723	140,167	20,236	49,089	1,053	382	213,650
Total	502,556	2,723	140,167	20,236	49,089	1,053	382	716,206
31 December 2017								
At valuation	456,683	-	-	-	-	-	-	456,683
At cost	-	3,467	138,805	19,089	48,550	971	-	210,882
Total	456,683	3,467	138,805	19,089	48,550	971	-	667,565
1 January 2017								
At valuation	444,732	-	-	-	-	-	-	444,732
At cost	-	725	134,106	9,850	52,915	942	-	198,538
Total	444,732	725	134,106	9,850	52,915	942	-	643,270

14 PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Freehold land - hotels	Leasehold land	Hotel buildings	Building improvements - hotels	Plant and equipment	Linen, china glassware, silver and uniform	Construction in progress	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
The Group								
Accumulated depreciation:								
As at 1 January 2017	-	29	18,703	4,196	29,669	457	-	53,054
Charge for the year	-	44	1,821	1,269	4,493	102	-	7,729
Disposals	-	-	-	-	(77)	-	-	(77)
Exchange adjustment	-	2	167	1,744	(1,512)	(56)	-	345
As at 31 December 2017	-	75	20,691	7,209	32,573	503	-	61,051
Charge for the year	-	38	1,765	1,160	4,212	234	-	7,409
Disposals	-	-	-	-	(369)	(11)	-	(380)
Reclassification	-	(54)	-	-	(460)	-	-	(514)
Exchange adjustment	-	1	46	25	87	6	-	165
As at 31 December 2018	-	60	22,502	8,394	36,043	732	-	67,731
Accumulated impairment loss:								
As at 1 January 2017	-	-	-	-	-	-	-	-
Charge for the year	-	390	385	-	-	-	-	775
Exchange adjustment	-	11	10	-	-	-	-	21
As at 31 December 2017 and 31 December 2018	-	401	395	-	-	-	-	796
Carrying amount:								
As at 31 December 2018	502,556	2,262	117,270	11,842	13,046	321	382	647,679
As at 31 December 2017	456,683	2,991	117,719	11,880	15,977	468	-	605,718
As at 1 January 2017	444,732	696	115,403	5,654	23,246	485	-	590,216

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2018

14 PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Freehold land - hotels	Hotel buildings	Building improvements - hotels	Plant and equipment	Linen, China glassware, silver and uniform	Construction in progress	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
The Company							
Cost or valuation:							
As at 1 January 2017	232,000	7,985	3,249	24,372	398	-	268,004
Additions	-	-	-	433	-	-	433
Disposals	-	-	-	(13)	-	-	(13)
Revaluation gain	3,000	-	-	-	-	-	3,000
As at 31 December 2017	235,000	7,985	3,249	24,792	398	-	271,424
Additions	-	-	-	234	-	141	375
Disposals	-	-	-	(115)	-	-	(115)
Revaluation gain	21,100	-	-	-	-	-	21,100
As at 31 December 2018	256,100	7,985	3,249	24,911	398	141	292,784
Comprising:							
31 December 2018							
At valuation	256,100	-	-	-	-	-	256,100
At cost	-	7,985	3,249	24,911	398	141	36,684
Total	256,100	7,985	3,249	24,911	398	141	292,784
31 December 2017							
At valuation	235,000	-	-	-	-	-	235,000
At cost	-	7,985	3,249	24,792	398	-	36,424
Total	235,000	7,985	3,249	24,792	398	-	271,424
1 January 2017							
At valuation	232,000	-	-	-	-	-	232,000
At cost	-	7,985	3,249	24,372	398	-	36,004
Total	232,000	7,985	3,249	24,372	398	-	268,004

14 PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Freehold land- hotels	Hotel buildings	Building improvements - hotels	Plant and equipment	Linen, china glassware, silver and uniform	Construction in progress	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
The Company							
Accumulated depreciation:							
As at 1 January 2017	-	7,070	3,121	13,824	217	-	24,232
Charge for the year	-	27	13	1,551	-	-	1,591
Disposals	-	-	-	(9)	-	-	(9)
As at 31 December 2017	-	7,097	3,134	15,366	217	-	25,814
Charge for the year	-	28	13	1,537	-	-	1,578
Disposals	-	-	-	(106)	-	-	(106)
As at 31 December 2018	-	7,125	3,147	16,797	217	-	27,286
Carrying amount:							
As at 31 December 2018	256,100	860	102	8,114	181	141	265,498
As at 31 December 2017	235,000	888	115	9,426	181	-	245,610
As at 1 January 2017	232,000	915	128	10,548	181	-	243,772

Property, plant and equipment of the Group and the Company with carrying amounts of $633.9 million and $257.1 million (31 December 2017 : $589.3 million and $236.0 million, 1 January 2017 : $566.5 million and $233.0 million) respectively are pledged as securities for the Group's and the Company's bank loans as disclosed in Notes 16 and 20.

During the financial year, certain leasehold land has been reclassified to freehold land as the revised title deed issued has been converted to freehold.

14 PROPERTY, PLANT AND EQUIPMENT (cont'd)

In 2017, the Group carried out a review of the recoverable amount of its leasehold land and building. The review led to the recognition of an impairment loss of $0.8 million based on valuation performed by independent appraiser, C H Williams Talhar & Wong Sdn Bhd on open market basis as at 31 December 2017.

Fair value measurement of freehold land

Revaluation increase/decrease is recognised only for freehold hotel land in accordance with the Group's accounting policies.

The Group engaged independent professional valuers to assist management in assessing the fair values of freehold land. Information relating to significant estimates involved in valuation of freehold land are provided in Note 3. The estimated fair values as at the end of each reporting period of the Group's freehold land are as follows:

	31 December 2018	31 December 2017	1 January 2017
	$'000	$'000	$'000
The Group			
Freehold land:			
- Singapore	428,900	388,000	378,300
- Malaysia	28,590	27,068	28,312
- Thailand	45,066	41,615	38,120
The Company			
Freehold land	256,100	235,000	232,000

As at 31 December 2018, had freehold hotel land been carried at historical cost, their aggregate carrying amount would have been approximately $73.1 million (31 December 2017 : $73.1 million, 1 January 2017 : $73.1 million) for the Group and $1.0 million (31 December 2017 : $1.0 million, 1 January 2017 : $1.0 million) for the Company.

At 31 December 2018, 31 December 2017 and 1 January 2017, fair values of the Group's freehold and leasehold land and hotel buildings were estimated using inputs which are considered as Level 3 in the fair value hierarchy. Details of valuation techniques and significant unobservable inputs used in the fair value measurement as at 31 December 2018, 31 December 2017 and 1 January 2017 are as follows:

	Valuation Methodology	Significant unobservable inputs (Level 3)	Inputs		
			31 December 2018	31 December 2017	1 January 2017
Freehold land and hotel buildings in Singapore	Income capitalisation for land and building	Occupancy rate [1]	80% to 90%	80% to 90%	80% to 90%
		Room rate per day [1]	$106 to $110	$126 to $150	$128 to $155
		Capitalisation rate [2]	4.25% to 4.50%	4.50%	4.50%
	Residual method for land	Depreciated replacement cost per room [1]	$230,000 to $330,000	$220,000 to $335,000	$220,000 to $335,000

14 PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Valuation Methodology	Significant unobservable inputs (Level 3)	Inputs		
			31 December 2018	31 December 2017	1 January 2017
Freehold and leasehold land in Malaysia	Direct Comparison Method for land	Price per square metre - after adjustment for differences such as location and size [(1)]			
		- Hotel Royal Kuala Lumpur	$13,875	$13,875	$12,911
		- Penang	$2,517	$2,517	$2,940
		- Baba Residences (including Baba Mansion)	$2,669	$2,608	$2,401
Freehold land in Thailand	Direct Comparison Method for land	Price per square metre - after adjustment for differences such as location, size, configuration and accessibility [(1)]			
		- Bangkok	$14,700	$13,325	$11,000
		- Phuket	$3,469	$3,258	$3,250

(1) Any significant isolated increases (decreases) in these inputs can result in a significantly higher (lower) fair value measurement.

(2) Any significant isolated increases (decreases) in these inputs can result in a significantly lower (higher) fair value measurement.

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2018

15 INVESTMENT PROPERTIES

	Freehold land $'000	Freehold buildings $'000	Leasehold buildings $'000	Total $'000
The Group				
Cost:				
As at 1 January 2017	31,419	77,303	1,456	110,178
Additions	-	899	-	899
Exchange adjustment	(621)	(2,751)	-	(3,372)
As at 31 December 2017	30,798	75,451	1,456	107,705
Additions	-	5,845	-	5,845
Exchange adjustment	(402)	(1,938)	-	(2,340)
As at 31 December 2018	30,396	79,358	1,456	111,210
Accumulated depreciation:				
As at 1 January 2017	-	15,239	549	15,788
Charge for the year	-	1,276	18	1,294
Exchange adjustment	-	(599)	-	(599)
As at 31 December 2017	-	15,916	567	16,483
Charge for the year	-	1,253	18	1,271
Exchange adjustment	-	(431)	-	(431)
As at 31 December 2018	-	16,738	585	17,323
Carrying amount:				
As at 31 December 2018	30,396	62,620	871	93,887
As at 31 December 2017	30,798	59,535	889	91,222
As at 1 January 2017	31,419	62,064	907	94,390

Certain investment properties of the Group with carrying amounts of $71.8 million (31 December 2017 : $68.6 million, 1 January 2017 : $71.1 million) are pledged as securities for the Group's bank loans (Notes 16 and 20).

The property rental income from the Group's investment properties amounted to $7.7 million (2017 : $8.8 million). Direct operating expenses (including repairs and maintenance) arising from the rental-generating properties amounted to $4.7 million (2017 : $4.5 million).

Investment properties are recorded at cost less accumulated depreciation. Fair value increases/decreases are not recognised for investment properties. The following estimates of fair values of investment properties are provided as information.

15 INVESTMENT PROPERTIES (cont'd)

Estimated fair values of investment properties

	31 December 2018	31 December 2017	1 January 2017
	$'000	$'000	$'000
Freehold land and buildings in New Zealand	60,568	55,713	62,441
Freehold land and buildings in Malaysia	27,661	27,661	26,990
Freehold buildings in Singapore	7,300	6,750	7,290
Leasehold buildings in Singapore	8,290	7,800	8,700
Freehold land and building in Singapore	33,445	31,612	29,322
	137,264	129,536	134,743

Fair values of investment properties are generally assessed with reference to open market values of comparable properties and making adjustments for differences between the investment properties and the comparable properties.

At 31 December 2018, 31 December 2017 and 1 January 2017, fair values of the Group's investment properties (disclosed above but not used as a basis of accounting in the statement of financial position) were estimated using inputs which are considered as Level 3 in the fair value hierarchy. The fair values for the properties were estimated after considering the results of various valuation techniques. Details of valuation techniques and significant unobservable inputs used in the fair value measurement as at 31 December 2018, 31 December 2017 and 1 January 2017 were as follows:

	Valuation Methodology	Significant unobservable inputs (Level 3)
Freehold land and buildings in New Zealand	Investment Method	Capitalisation rate on adopted market rental profile (2) Growth rate (1) Rates to discount cash flows to present value (2)
Freehold land and buildings in Malaysia	Direct Comparison Method	Price per square metre of gross floor area (1)
Freehold and leasehold land and buildings in Singapore	Direct Comparison Method	Price per square metre of strata floor area (1)

(1) Any significant isolated increases (decreases) in these inputs can result in a significantly higher (lower) fair value measurement.

(2) Any significant isolated increases (decreases) in these inputs can result in a significantly lower (higher) fair value measurement.

15 INVESTMENT PROPERTIES (cont'd)

	Freehold land $'000	Freehold buildings $'000	Total $'000
The Company			
Cost:			
As at 1 January 2017	15,080	10,909	25,989
Additions	-	2	2
As at 31 December 2017 and 31 December 2018	15,080	10,911	25,991
Accumulated depreciation:			
As at 1 January 2017	-	1,967	1,967
Charge for the year	-	386	386
As at 31 December 2017	-	2,353	2,353
Charge for the year	-	385	385
As at 31 December 2018	-	2,738	2,738
Carrying amount:			
As at 31 December 2018	15,080	8,173	23,253
As at 31 December 2017	15,080	8,558	23,638
As at 1 January 2017	15,080	8,942	24,022

16 BANK LOANS

	The Group		
	31 December 2018 $'000	31 December 2017 $'000	1 January 2017 $'000
Short-term bank loans (secured)	3,700	3,514	6,649
Long-term bank loans (secured)			
- current portion (Note 20)	4,175	13,415	7,156
	7,875	16,929	13,805

Short term bank loans of the Group bear variable interest ranging from approximately 2.25% to 4.82% (2017 : 1.79% to 4.67%) per annum. The above bank facilities are secured on mortgages of subsidiaries' freehold land and buildings, leasehold land, and certain investment properties with aggregate carrying amounts as disclosed in Notes 14 and 15.

17 OTHER PAYABLES

	The Group			The Company		
	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
	$'000	$'000	$'000	$'000	$'000	$'000
Outside parties	6,234	7,697	4,675	319	264	440
Subsidiaries	-	-	-	27,498	23,890	23,274
Financial guarantee contract liabilities	-	-	-	3,394	2,251	1,809
	6,234	7,697	4,675	31,211	26,405	25,523
Less: Amount payable within 12 months (shown under current liabilities)	(6,185)	(5,964)	(4,580)	(3,713)	(2,515)	(2,249)
Amount payable after 12 months	49	1,733	95	27,498	23,890	23,274

Other payables comprise mainly amounts outstanding for ongoing costs.

Amounts owing to subsidiaries are unsecured and bear interest at 2.42% (2017 : 1.89%) per annum.

18 FINANCE LEASE

	Minimum lease payments			Present value of minimum lease payments		
	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
	$'000	$'000	$'000	$'000	$'000	$'000
The Group						
Amount payable under finance lease:						
- Within one year	-	-	44	-	-	42
- In the second to fifth year inclusive	-	-	(1)	-	-	-
	-	-	43	-	-	42
Less: Future finance charges	-	-	(1)	NA	NA	NA
- Present value of lease obligations	-	-	42		-	42
Less: Amount due for settlement within 12 months (shown under current liabilities)				-	-	(42)
Amount due for settlement after 12 months				-	-	-

18 FINANCE LEASE (cont'd)

The lease terms range from 3 to 5 years. Average effective interest rate approximates 5.25% per annum. Interest rates are fixed on inception of leases and there are no contingent rental payments. The finance lease had been fully repaid in 2017.

The fair values of the Group's lease obligations approximate their carrying amounts.

The Group's obligations under finance leases are secured by the lessor's title to the leased assets.

19 RETIREMENT BENEFIT OBLIGATIONS

The subsidiaries operate unfunded, defined benefit retirement benefit schemes (the "Schemes") in Malaysia and Thailand. Under the Schemes, eligible employee of the subsidiaries are entitled to retirement benefits based on 83% to 100% of their last drawn basic salary for Malaysian and Thailand employees respectively, multiplied by the years of service on attainment of the normal retirement age of 55 years old in Thailand and 60 years old in Malaysia.

The amounts recognised in the statement of financial position are as follows:

	The Group		
	31 December 2018	31 December 2017	1 January 2017
	$'000	$'000	$'000
Present value of unfunded defined benefit obligations	772	773	663
Payable:			
Within 1 year	45	78	14
Later than 1 year but not later than 2 years	65	81	42
Later than 2 years but not later than 5 years	357	384	104
Later than 5 years	305	230	503
	772	773	663

Changes in the present values of the defined benefit obligations since the beginning of year arise from changes in current service costs incurred, less benefits paid. Such changes are recorded in the statement of profit or loss.

Defined benefit obligations as at 31 December 2018, 31 December 2017 and 1 January 2017 for subsidiaries in Malaysia and Thailand have been valued by qualified independent actuaries in December 2018 and December 2017 respectively. The projected unit credit method is used in the valuations.

Principal actuarial assumptions used for the purpose of the actuarial valuations were as follows:

	The Group		
	31 December 2018	31 December 2017	1 January 2017
	%	%	%
Discount rate	2.75 to 5.25	2.75 to 5.25	2.25 to 5.25
Expected rate of salary increases	3.0 to 6.0	3.0 to 6.0	3.0 to 6.0

20 LONG-TERM BANK LOANS

	The Group			The Company		
	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
	$'000	$'000	$'000	$'000	$'000	$'000
Bank Loans	101,333	149,257	145,014	32,281	74,064	66,864
Less: Amount due for settlement within 12 months (Note 16)	(4,175)	(13,415)	(7,156)	-	-	-
Amount due for settlement after 12 months	97,158	135,842	137,858	32,281	74,064	66,864

During the year, the Group's and the Company's long-term bank loans bear interest ranging from 2.25% to 4.91% (2017 : 1.79% to 4.67%) per annum.

The Group's and the Company's long-term bank loans are secured against the land and buildings (Note 14) and investment properties (Note 15).

The borrowing rates for the bank loans are repriced monthly or quarterly based on benchmark market rates. Management is of the view that the carrying amounts of these bank loans approximate their fair values.

21 DEFERRED TAX LIABILITIES

	The Group		The Company	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
	$'000	$'000	$'000	$'000
Movement in deferred tax balance during the year				
Balance at beginning of year	19,450	19,803	750	562
Arising from revaluation of freehold hotel land	-	(97)	-	-
Charge to profit or loss for the year	91	167	11	188
Under provision in prior year	181	111	228	-
Exchange adjustment	(421)	(534)	-	-
Balance at end of year	19,301	19,450	989	750

Components of deferred tax balance	Accelerated tax depreciation	Others	Total
	$'000	$'000	$'000
The Group			
At 1 January 2017	14,571	5,232	19,803
Arising from revaluation of freehold hotel land	-	(97)	(97)
Charge to profit or loss for the year	167	111	278
Exchange adjustment	-	(534)	(534)
At 31 December 2017	14,738	4,712	19,450
Charge to profit or loss for the year	91	181	272
Exchange adjustment	-	(421)	(421)
At 31 December 2018	14,829	4,472	19,301

21 DEFERRED TAX LIABILITIES (cont'd)

	Accelerated tax depreciation $'000
The Company	
At 1 January 2017	562
Charge to profit or loss for the year	188
At 31 December 2017	750
Charge to profit or loss for the year	239
At 31 December 2018	989

Subsidiaries have unutilised tax losses and capital allowances carryforward of approximately $44.6 million (31 December 2017 : $42.3 million, 1 January 2017 : $38.9 million) which are available for offset against future taxable profits of the subsidiaries, subject to the approval by the Malaysian and Thailand tax authorities. As at 31 December 2018 , 31 December 2017 and 1 January 2017, no deferred tax asset is recorded as there is no reasonable assurance of the ability to utilise the tax losses in the foreseeable future.

No deferred tax liability has been recognised in respect of undistributed earnings of foreign subsidiaries which would be subject to withholding tax if transferred out of the country. The Group is in a position to control the timing of the transfer of these retained earnings and do not expect the retained earnings to be remitted such as to attract withholding tax in the foreseeable future.

22 SHARE CAPITAL

	The Group and the Company					
	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
	Number of ordinary shares ('000)			$'000	$'000	$'000
Issued and fully paid:						
At beginning of year	84,000	84,000	84,000	100,438	100,438	100,438
Issue of new ordinary shares under rights issue	16,800	-	-	50,227	-	-
At end of year	100,800	84,000	84,000	150,665	100,438	100,438

Fully paid ordinary shares, which have no par value, carry one vote per share and a right to dividends as and when declared by the Company.

During the financial year, an aggregate rights issue of 16,800,000 new ordinary shares in the capital of the Company at an issue price of $3.00 for each rights share on the basis of one rights share for every five shares in the capital of the Company held by the Shareholders.

The rights shares rank *pari passu* in all respects with the then existing shares for any dividends, rights, allotments or other distributions.

23 REVENUE

The Group derives its revenue from the transfer of goods and services at a point in time in the following major product lines. This is consistent with the revenue information that is disclosed for each reportable segment under SFRS(I) 8 *Operating Segments* (see Note 29).

23 REVENUE (cont'd)

	The Group	
	2018	2017
	$'000	$'000
Hotel operations:		
Room revenue	36,502	36,184
Food and beverage revenue	9,422	9,840
Spa revenue	1,218	1,281
Car park revenue	1,217	1,297
Properties investments - Rental income from:		
- Investment properties	7,689	8,769
- Premises within hotels	2,904	2,973
Financial investments:		
Interest income from fixed deposits and investments	69	67
Dividend income from:		
- Quoted equity investments	371	408
- Unquoted equity investments	44	40
Others	644	624
	60,080	61,483

Room revenue, food and beverage revenue, spa revenue, and car park revenue are recorded at a point in time.

As of 31 December 2018, there was no performance obligation that was unsatisfied or partially satisfied, other than performance obligations to be rendered during the remaining period, which generally cover a period of a year. As the Group has the right to invoice the customers based on the length of stay of the customers, the Group has applied the practical expedient to not disclose the related unsatisfied performance obligation.

24 OTHER INCOME

	The Group	
	2018	2017
	$'000	$'000
Gain on disposal of available-for-sale investments	-	689
Gain on disposal of property, plant and equipment	21	-
Fair value gain on held-for-trading investments	-	46
Foreign exchange adjustment gain	406	606
Allowance for expected credit losses no longer required	87	150
Other income	440	450
	954	1,941

25 FINANCE COSTS

	The Group	
	2018	2017
	$'000	$'000
Interest on bank loans	4,228	4,498

NOTES TO FINANCIAL STATEMENTS (cont'd)

31 December 2018

26 PROFIT BEFORE INCOME TAX

In addition to the charges and credits disclosed elsewhere in the notes to the financial statements, this item includes the following charges (credits):

	The Group	
	2018	2017
	$'000	$'000
Staff costs (including directors' remuneration)	15,387	15,247
Cost of defined contribution plans included in staff costs	888	867
Directors' remuneration:		
- Directors of the subsidiaries (key management personnel)	607	442
Proposed directors' fee:		
- Directors of the Company	233	226
- Directors of the subsidiaries (key management personnel)	122	121
Audit fees paid to:		
- Auditors of the Company	280	246
- Other auditors	179	145
Non-audit fees paid to:		
- Auditors of the Company	35	28
- Other auditors	10	13
Depreciation of property, plant and equipment	7,409	7,729
Depreciation of investment properties	1,271	1,294
Loss (Gain) on disposal of:		
- Property, plant and equipment *	-	12
- Available-for-sale investments	-	(689)
Impairment loss on available-for-sale investments *	-	16
Impairment loss on leasehold land and building *	-	775
Allowance for expected credit losses *	70	77
Fair value gain on held-for-trading investments	-	(46)
Fair value loss on financial assets at fair value through profit or loss *	433	-
Net foreign exchange adjustment gain	(276)	(157)
Bad debt expense *	4	33

* Included in other expenses in the consolidated statement of profit or loss.

27 INCOME TAX EXPENSE

	The Group	
	2018	2017
	$'000	$'000
Current tax	3,155	3,192
Withholding tax	190	148
Deferred tax	91	167
	3,436	3,507
(Over) Under provision in prior years		
- current tax	(247)	11
- deferred tax	181	111
	(66)	122
Total income tax expense	3,370	3,629

The income tax expense varied from the amount of income tax expense determined by applying the Singapore income tax rate of 17% (2017 : 17%) to profit before income tax as a result of the following differences:

	The Group	
	2018	2017
	$'000	$'000
Income tax expense at 17% rate	1,753	1,904
Difference due to foreign tax rates	92	341
Non-deductible items	1,058	672
Withholding tax	190	148
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	436	606
(Over) Under provision in prior years	(66)	122
Tax exemption and rebate	(112)	(108)
Other items	19	(56)
Total income tax expense	3,370	3,629

28 EARNINGS PER SHARE

Basic earnings per share is calculated on the Group profit after tax of $6.942 million (2017 : $7.571 million) divided by weighted average number of 92,345,000 (2017 : 85,292,000) ordinary shares.

There are no dilutive potential ordinary shares and diluted earnings per share is therefore not applicable to the Group.

29 SEGMENT INFORMATION

Products and services of the Group

The Group is primarily engaged in the following operations:

- Owning and operating hotels and providing ancillary services ("hotel operations")
- Owning and letting out investment properties ("property investments")
- Holding financial investments such as shares, bonds and funds to generate income through interest and dividends, and also for potential capital appreciation ("financial investments")

29 SEGMENT INFORMATION

Definition of operating segments and reportable segments of the Group

For the purpose of reporting to the Group's chief operating decision-maker for resource allocation and assessment of operational performance, the information is organised in the following manner:

- Hotel operations - information is reported on individual hotel basis
- Property investments - information is reported on individual property basis
- Financial investments - information is reported on overall performance of the investment portfolio

The above forms the basis of determining an operating segment of the Group. For the purpose of reporting segment information externally, the following reportable segments are identified:

- Hotel operations
  - Singapore
  - Malaysia
  - Thailand

- Property investments
  - Singapore
  - New Zealand
  - Malaysia

- Financial investments

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 2. Segment profits represent profits earned by each segment without allocation of the finance costs and income tax expense. All assets are allocated to reportable segments except for fixed deposits and income tax recoverable. Segment liabilities represent operating liabilities attributable to each reportable segment. Bank borrowings, deferred tax liabilities and tax liabilities are not allocated. Information regarding the Group's reportable segments is presented below:

I Revenue

	External		Inter-segment		Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Hotel operations						
Singapore	25,348	25,462	-	-	25,348	25,462
Malaysia	9,000	8,741	-	-	9,000	8,741
Thailand	16,842	17,187	-	-	16,842	17,187
	51,190	51,390	-	-	51,190	51,390
Property investments						
Singapore	1,118	1,397	112	117	1,230	1,514
New Zealand	6,282	7,270	-	-	6,282	7,270
Malaysia	1,006	911	-	-	1,006	911
	8,406	9,578	112	117	8,518	9,695
Financial investments	484	515	1,475	1,426	1,959	1,941
Segments total	60,080	61,483	1,587	1,543	61,667	63,026

29 SEGMENT INFORMATION (cont'd)

II Net profit

	Total 2018 $'000	Total 2017 $'000
Hotel operations		
Singapore	7,111	6,612
Malaysia	(628)	(1,767)
Thailand	4,118	4,614
	10,601	9,459
Property investments		
Singapore	753	1,092
New Zealand	2,283	3,632
Malaysia	828	658
	3,864	5,382
Financial investments *	75	857
Segments total	14,540	15,698
Finance costs	(4,228)	(4,498)
Profit before income tax	10,312	11,200
Income tax expense	(3,370)	(3,629)
Profit after income tax	6,942	7,571

* Inclusive of net gain on disposal of available-for-sale investments recorded in 'other income' in 2017 (Note 24).

29 SEGMENT INFORMATION (cont'd)

III Segment assets and liabilities

	Segment assets			Segment liabilities		
	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
	$'000	$'000	$'000	$'000	$'000	$'000
Hotel operations						
Singapore	500,994	457,830	447,704	2,416	3,541	3,163
Malaysia	58,473	58,201	50,092	3,107	3,775	1,422
Thailand	107,565	107,029	103,240	3,329	3,401	3,312
	667,032	623,060	601,036	8,852	10,717	7,897
Property investments						
Singapore	26,724	27,166	30,155	174	166	198
New Zealand	59,718	59,348	60,078	1,112	523	490
Malaysia	11,407	11,584	14,376	835	318	319
	97,849	98,098	104,609	2,121	1,007	1,007
Financial investments	29,046	21,994	19,015	20	20	21
Segments total	793,927	743,152	724,660	10,993	11,744	8,925
Unallocated items	13,466	1,711	1,231	127,050	174,785	174,099
Consolidated total	807,393	744,863	725,891	138,043	186,529	183,024

IV Other segment information

	Depreciation			Additions to non-current assets		
	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
	$'000	$'000	$'000	$'000	$'000	$'000
Hotel operations						
Singapore	3,023	3,210	3,323	775	938	2,742
Malaysia	2,119	2,177	2,032	2,298	7,774	1,562
Thailand	2,267	2,342	2,220	620	505	1,086
	7,409	7,729	7,575	3,693	9,217	5,390
Property investments						
Singapore	444	444	468	-	-	189
New Zealand	646	676	663	5,845	897	139
Malaysia	181	174	181	-	2	-
	1,271	1,294	1,312	5,845	899	328
Consolidated total	8,680	9,023	8,887	9,538	10,116	5,718

29 SEGMENT INFORMATION (cont'd)

V Geographical information

Information about the Group's revenue and non-current assets by geographical location are described below:

	Revenue from external customers		Non-current assets		
	2018	2017	31 December 2018	31 December 2017	1 January 2017
	$'000	$'000	$'000		$'000
Singapore	26,904	27,364	513,957	482,587	452,381
Malaysia	10,033	9,662	89,710	67,167	84,596
New Zealand	6,289	7,270	56,577	53,539	56,683
Thailand	16,854	17,187	103,634	100,620	97,357
	60,080	61,483	763,878	703,913	691,017

30 OPERATING LEASE ARRANGEMENTS

<u>The Group and Company as lessor</u>

The Group and Company rents out its office premises and shop space under operating lease to third parties. The office premises and shop space held have committed tenancy ranging from 1 to 8 years.

At the end of the reporting period, the Group and Company have contracted with tenants for the following future minimum lease receipts for the following periods:

	The Group			The Company		
	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
	$'000	$'000	$'000	$'000	$'000	$'000
Within one year	7,441	9,299	10,308	798	1,179	902
In the second to fifth years inclusive	9,723	13,847	21,841	1,046	270	586
After fifth year	3,345	3,863	3,770	-	-	-
	20,509	27,009	35,919	1,844	1,449	1,488

31 CONTINGENT LIABILITIES

<u>Guarantees given</u>

The Company is a guarantor for banking facilities totaling $98.7 million (2017 : $114.5 million) obtained by subsidiaries. The fair values of the financial guarantee is about $3.4 million (2017 : $2.2 million). The maximum amount that the Company could be obliged to settle in the event that the guarantees are called upon is $72.7 million (2017 : $79.0 million) based on facilities used by the subsidiaries at the end of the year.

32 CAPITAL EXPENDITURE COMMITMENTS

	The Group			The Company		
	31 December 2018	31 December 2017	1 January 2017	31 December 2018	31 December 2017	1 January 2017
	$'000	$'000	$'000	$'000	$'000	$'000
Estimated amounts committed for future capital expenditure but not provided for in the financial statements	10,389	7,989	885	-	-	-

33 DIVIDENDS

In 2018, the Company declared and paid a first and final tax-exempt dividend of $0.05 per share on the ordinary shares of the Company totaling $4.2 million in respect of the financial year ended 31 December 2017.

In 2017, the Company declared and paid a first and final tax-exempt dividend of $0.05 per share on the ordinary shares of the Company totaling $4.2 million in respect of the financial year ended 31 December 2016.

Subsequent to 31 December 2018, the directors of the Company recommended that a first and final tax-exempt and special dividend be paid at $0.05 and $0.01 per ordinary share respectively totaling $6.048 million for the financial year just ended on the ordinary shares of the Company. The dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as liability in these financial statements.

34 ADOPTION OF A NEW FINANCIAL REPORTING FRAMEWORK

The Group and the Company adopted the new financial reporting framework – Singapore Financial Reporting Standards (International) ("SFRS(I)") for the first time for financial year ended 31 December 2018 and SFRS(I) 1 *First-time Adoption of Singapore Financial Reporting Standards (International)* has been applied in the first set of SFRS(I) financial statements. SFRS(I) is identical to the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB).

As a first-time adopter of SFRS(I), the Group and the Company have applied retrospectively, accounting policies based on each SFRS(I) effective as at end of the first SFRS(I) reporting period (31 December 2018), except for areas of exceptions and optional exemptions set out in SFRS(I) 1. In the first set of SFRS(I) financial statements for the financial year ended 31 December 2018, an additional opening statement of financial position as at date of transition (1 January 2017) is presented, together with related notes. Reconciliation statements from previously reported FRS amounts are presented for equity as at date of transition (1 January 2017) and as at end of last financial period under FRS (31 December 2017). Reconcilliation statements from previously reported FRS amounts are not presented for total comprehensive income and cash flows reported for the last financial period under FRS (for the year ended 31 December 2017) as there were no changes compared to amounts previously reported. Additional disclosures are made for specific transition adjustments if applicable.

On transition to SFRS(I), the Group elected the following options:

(i) To reset the translation reserve to zero on 1 January 2017 and accordingly, the Group has reclassified an amount of $12.960 million from translation reserve to the opening retained earnings as at 1 January 2017. After the date of transition, any gain or loss on disposal of any foreign operation will exclude translation differences that arose before the date of transition.

(ii) In compliance with SFRS(I) 9 *Financial Instruments*, the Group elected the option at initial recognition, to measure equity investments that is not held-for-trading at fair value through other comprehensive income ("FVTOCI"), which only dividend income recognised in profit or loss and not to restate information for 2017. Accordingly, the information presented for 2017 is presented, as previously reported, under FRS 39 *Financial Instruments: Recognition and Measurement*. For quoted financial assets held at FVTOCI, the effect on adoption of SFRS(I) 9 has resulted in a decrease of $0.792 million and $0.398 million respectively in fair value reserve and a corresponding increase in retained earnings of the Group and of the Company as at 1 January 2018. For unquoted financial assets held at FVTOCI, the difference in the carrying amount of $14.876 million on the adoption of SFRS(I) 9 is recognised in fair value reserve as at 1 January 2018.

34 ADOPTION OF A NEW FINANCIAL REPORTING FRAMEWORK (cont'd)

(iii) SFRS(I) 3 *Business Combinations* has not been applied to acquisitions of subsidiaries that are considered businesses under SFRS(I) that occurred before 1 January 2017. The FRS carrying amounts of assets and liabilities determined in that business combination, that are required to be recognised under SFRS(I), are the deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with SFRS(I). Assets and liabilities that do not qualify for recognition under SFRS(I) are excluded from the opening SFRS(I) statement of financial position. The Group did not recognise or exclude any previously recognised amounts as a result of SFRS(I) recognition requirements.

SFRS(I) 1 also requires that the FRS carrying amount of goodwill must be used in the opening SFRS(I) statement of financial position (apart from adjustments for goodwill impairment and recognition or derecognition of intangible assets).

The transition to SFRS(I) and the initial application of SFRS(I) 9 and SFRS(I) 15 have not had a material impact on the statement of cash flows.

Reconciliation of equity

The effect of transition to SFRS(I) is presented and explained below.

Impact on the Statement of Financial Position as at 1 January 2017 (date of transition to SFRS(I)).

	As previously reported under FRS	Application of SFRS(I) 1	As adjusted under SFRS(I)
	$'000	$'000	$'000
Capital and reserves			
Share capital	100,438	-	100,438
Asset revaluation reserve	354,185	-	354 185
Employee benefit reserve	198	-	198
Fair value reserve	2,075	-	2,075
Translation reserve	(12,960)	12,960	-
Retained earnings	98,931	(12,960)	85,971
Total	542,867	-	542,867

Impact on the Statement of Financial Position as at 31 December 2017 (end of last period under FRS)

	As previously reported under FRS	Application of SFRS(I) 1	As adjusted under SFRS(I)
	$'000	$'000	$'000
Capital and reserves			
Share capital	100,438	-	100,438
Asset revaluation reserve	364,577	-	364,577
Employee benefit reserve	180	-	180
Fair value reserve	3,707	-	3,707
Translation reserve	(12,870)	12,960	90
Retained earnings	102,302	(12,960)	89,342
Total	558,334	-	558,334

Other than the impact disclosed above, there is no further impact to the financial statements upon the initial adoption of SFRS(I).

34 ADOPTION OF A NEW FINANCIAL REPORTING FRAMEWORK (cont'd)

There are no further changes to the Group's and the Company's previous accounting policies under FRS or material adjustments on the initial transition to the new framework other than those arising from the application of SFRS(I) 1 and SFRS(I) 9 as listed above, as (i) the application of the SFRS(I) 9 impairment requirements has not resulted in additional loss allowance to be recognised, and (ii) no changes to the revenue recognition policy was assessed to be required upon application of SFRS(I) 15.

35 STANDARDS ISSUED BUT NOT EFFECTIVE

At the date of authorisation of these financial statements, the following SFRS(I) pronouncements were issued but not effective and are expected to have an impact to the Group and the Company in the periods of their initial application.

SFRS(I) 16 *Leases*

Effective for annual periods beginning on or after 1 January 2019

The Standard provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. The identification of leases, distinguishing between leases and service contracts, are determined on the basis of whether there is an identified asset controlled by the customer.

Significant changes to lessee accounting are introduced, with the distinction between operating and finance leases removed and assets and liabilities recognised in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets). The Standard maintains substantially the lessor accounting approach under the existing framework.

SFRS(I) 1-17 does not require the recognition of any right-of-use asset or liability for future payments for the operating leases the Group enters into. Under SFRS(I) 16, the Group may be required to recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of SFRS(I) 16. Additional disclosures may also be made with respect to leases, including any significant judgement and estimation made in distinguishing between leases and service contracts, on the basis of whether an identified asset controlled by the customer exists. Management has performed a detailed analysis of the requirements of the initial application of SFRS(I) 16.

The Group currently does not have any significant lease to which the above lessee accounting applies. SFRS(I) 16 will not impact the Group's accounting as a lessor.

36 SUBSEQUENT EVENTS

On 19 February 2019, the Company had its offer of RM197 million (the "Consideration") accepted by Boustead Hotels and Resorts Sdn Bhd ("Boustead") to purchase the 400-room Royale Chulan Bukit Bintang Hotel, a hotel situated along Jalan Bukit Bintang, Kuala Lumpur, Malaysia, the established entertainment and shopping district within Kuala Lumpur's Golden Triangle or the Orchard Road of Kuala Lumpur. An amount of RM3.94 million representing 2% of the Consideration has been paid by the Company as earnest deposit upon the acceptance by Boustead.

On 15 March 2019, the Group's newly incorporated and wholly-owned subsidiary, Every Room A Home Sdn Bhd has entered into a conditional Sale and Purchase Agreement ("SPA") with Boustead. A further 8% of the Consideration was paid upon signing of the SPA.

Completion is set at one month after all the conditions precedent are met and the SPA becomes unconditional. As such, barring unforeseen circumstances, the latest completion date should be in mid-July 2019. The balance 90% of the Consideration is payable on completion day.

Purchase price allocation for this acquisition will be performed upon the completion of the acquisition.

STATISTICS OF SHAREHOLDINGS

As at 18 March 2019

Issued and fully paid-up capital	:	$151,129,496.00
No. of shares issued	:	100,800,000
Class of shares	:	Ordinary shares
Voting rights	:	One vote per share
No. of treasury shares and subsidiary holdings	:	Nil

** This is based on records kept with the Accounting & Corporate Regulatory Authority ("ACRA") and differs from the accounting records of the Company which is $150,665,201 due to certain share issue expenses.

Size of Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Shares
1 - 99	61	4.58	348	0.00
100 - 1,000	276	20.74	106,160	0.10
1,001 - 10,000	677	50.86	2,919,429	2.90
10,001 - 1,000,000	307	23.07	22,665,249	22.49
1,000,001 and above	10	0.75	75,108,814	74.51
Total	1,331	100.00	100,800,000	100.00

Based on the information provided and to the best knowledge of the Directors, approximately 24.43% of the issued ordinary shares of the Company is held in the hands of the public as at 18 March 2019 and therefore Rule 723 of the Listing Manual of Singapore Exchange Securities Trading Limited is complied with.

TOP TWENTY SHAREHOLDERS AS AT 18 MARCH 2019

Name of Shareholders	No. of Shares	% of Shares
Aik Siew Tong Ltd	24,343,200	24.15
Great Eastern Life Assurance Co Ltd - Participating Fund	11,168,414	11.08
Hock Tart Pte Ltd	10,979,680	10.89
Melodies Limited	9,576,000	9.50
Asia Building Berhad	8,250,480	8.19
Singapore-Johore Express Pte Ltd	4,289,040	4.25
Hong Leong Finance Nominees Pte Ltd	1,920,000	1.90
Chan Tai Moy	1,653,500	1.64
Oversea Chinese Bank Nominees Pte Ltd	1,542,500	1.53
Chip Keng Holding Berhad	1,386,000	1.38
Wee Aik Koon Pte Ltd	991,500	0.98
Citibank Nominees Singapore Pte Ltd	921,899	0.91
The Great Eastern Trust Private Limited	889,279	0.88
DBS Nominees Pte Ltd	884,429	0.88
Morph Investments Ltd	762,000	0.76
Season Holdings Pte Ltd	720,960	0.72
OCBC Securities Private Ltd	683,011	0.68
Liu Ping-Nan Phyllis	505,500	0.50
Sib Nominees Pte. Ltd.	500,000	0.50
Tan Cheh Tian (Chen Jingzhen)	496,000	0.49
Total	**82,463,392**	**81.81**

STATISTICS OF SHAREHOLDINGS (cont'd)

As at 18 March 2019

SUBSTANTIAL SHAREHOLDERS AS AT 18 MARCH 2019 AS SHOWN IN THE REGISTER OF SUBSTANTIAL SHAREHOLDERS

Substantial Shareholders	Direct Interest		Deemed Interest	
	No. of shares	%	No. of shares	%
Lee Chou Hor George [(1)]	42,000	0.04	12,993,680	12.89
Lee Chou Tart [(2)]	-	-	12,979,680	12.88
Aik Siew Tong Ltd [(3)]	24,343,200	24.15	13,865,040	13.76
Hock Tart Pte Ltd [(4)]	10,979,680	10.89	26,343,200	26.13
The Great Eastern Life Assurance Co Ltd [(5)]	11,172,446	11.08	-	-
Great Eastern Holdings Limited [(6)]	-	-	12,065,757	11.97
Oversea-Chinese Banking Corporation Limited [(7)]	-	-	12,065,757	11.97
Asia Building Bhd [(8)]	8,250,480	8.19	1,386,000	1.38
Melodies Limited [(3)]	9,576,000	9.50	-	-
Other Shareholders				
The Singapore-Johore Express (Private) Limited [(3)]	4,289,040	4.25	-	-
Chip Keng Holding Bhd [(8)]	1,386,000	1.38	-	-

Note:

(1) Lee Chou Hor George owns 24.84% of the share capital of Hock Tart Pte Ltd ("Hock Tart"). He is deemed interested in the shares held by Hock Tart. Additionally, Lee Chou Hor George is deemed interested in the shares held by his spouse.

(2) Lee Chou Tart owns 24.84% of the share capital of Hock Tart. He is deemed interested in the shares held by Hock Tart.

(3) Aik Siew Tong Ltd ("AST") holds 83.4% and 69.1% of the share capital of Melodies Limited ("Melodies") and The Singapore-Johore Express (Private) Limited ("S-J Express") respectively and is deemed to be interested in the 9,576,000 shares and 4,289,040 shares held by Melodies and S-J Express respectively.

(4) Hock Tart Pte Ltd holds 31.7% of the share capital of AST and is therefore deemed interested in the shares held by AST. Hock Tart is also deemed to have an interest of 2,000,000 shares held by its nominee, Oversea-Chinese Bank Nominees Pte Ltd.

(5) The Great Eastern Life Assurance Co Ltd is the wholly-owned subsidiary of Great Eastern Holdings Limited. Great Eastern Holdings Limited is therefore deemed interested in the 11,172,446 shares (of which 4,032 shares are registered in the name of DBS Nominees (Private) Limited).

(6) Great Eastern Holdings Limited is deemed interested in the 12,065,757 shares which made up of 11,172,446 shares as aforementioned; 889,279 shares registered in the name of its subsidiary, The Great Eastern Trust Private Limited; and 4,032 shares registered in the name of DBS Nominees (Private) Limited (for the beneficial interest of The Great Eastern Trust Private Limited).

(7) Oversea-Chinese Banking Corporation Limited is deemed to be interested in the shares held by Great Eastern Life Assurance Company Ltd through Great Eastern Holdings Ltd.

(8) Chip Keng Holding Bhd is the wholly-owned subsidiary of Asia Building Bhd. Asia Building Bhd is deemed interested in the 1,386,000 shares held by Chip Keng Holding Bhd.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 50th Annual General Meeting of Hotel Royal Limited will be held at the Hotel Royal @ Queens, Queen's Room, Level 3, 12 Queen Street, Singapore 188553 on Saturday, 27 April 2019 at 2.30 p.m. for the following purposes:-

As Ordinary Business

1. To receive and adopt the Directors' Statement and the Audited Financial Statements for the financial year ended 31 December 2018 together with the Auditors' Report thereon. **(Resolution 1)**

2. To declare a First and Final Dividend of 5 cents per ordinary share one-tier tax exempt for the financial year ended 31 December 2018. (FY2017 : 5 cents per ordinary share) **(Resolution 2)**

3. To declare a Special Dividend of 1 cent per ordinary share one-tier tax exempt for the financial year ended 31 December 2018. (FY2017 : Nil) **(Resolution 3)**

4. To approve the payment of Directors' fees of $233,250 for the financial year ended 31 December 2018. (FY2017 : $225,500) **(Resolution 4)**

5. To note the retirement of Dr Lee Keng Thon who is retiring pursuant to Article 117 of the Company's Constitution.

   Dr Lee Keng Thon will not seek re-election and will retire as Director of the Company on 27 April 2019 at the close of the Annual General Meeting. Accordingly, Dr Lee Keng Thon will relinquish his position as the Chairman of the Board.

6. To re-elect Dr Pang Eng Fong who is retiring in accordance with Article 117 of the Company's Constitution and who, being eligible, offers himself for re-election, as Director of the Company. **[See Explanatory Note 1]** **(Resolution 5)**

7. To re-elect Mr Yang Wen-Wei who is retiring in accordance with Article 102 of the Company's Constitution and who, being eligible, offers himself for re-election, as Director of the Company. **[See Explanatory Note 2]** **(Resolution 6)**

8. To re-appoint Deloitte & Touche LLP as the Auditors of the Company and to authorise the Directors of the Company to fix their remuneration. **(Resolution 7)**

9. To transact any other ordinary business of an Annual General Meeting of which due notice shall have been given.

As Special Business

To consider and, if thought fit, to pass the following resolutions, with or without amendments, as Ordinary Resolutions:

10. **Authority to Issue Shares**

    "That, pursuant to Section 161 of the Companies Act, Cap. 50 and the rules, guidelines and measures issued by the Singapore Exchange Securities Trading Limited ("**SGX-ST**"), authority be and is hereby given to the Directors of the Company to:

    (A) (i) issue shares in the capital of the Company whether by way of rights, bonus or otherwise;

    (ii) make or grant offers, agreements, or options (collectively, "**Instruments**") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into shares,

    (iii) issue additional Instruments arising from adjustments made to the number of Instruments previously issued in the event of rights, bonus or capitalization issues,

    at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit; and

NOTICE OF ANNUAL GENERAL MEETING (cont'd)

(B) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue Shares in pursuance of any Instruments made or granted by the Directors while this Resolution was in force,

provided that:

(a) the aggregate number of shares to be issued pursuant to this Resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed 50 per cent of the total number of issued shares excluding treasury shares and subsidiary holdings (as calculated in accordance with sub-paragraph (b) below), and provided further that where shareholders of the Company are not given the opportunity to participate in the same on a pro rata basis, then the aggregate number of shares to be issued under such circumstances (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed 20 per cent of the total number of issued shares excluding treasury shares and subsidiary holdings (as calculated in accordance with sub-paragraph (b) below); and

(b) (subject to such manner of calculation and adjustments as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (a) above, the percentage of issued shares shall be based on the total number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company at the time this Resolution is passed, after adjusting for:

    (i) new shares arising from the conversion or exercise of convertible securities;

    (ii) (where applicable) new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time of the passing of this Resolution, provided the options or awards were granted in compliance with the Listing Manual of the SGX-ST; and

    (iii) any subsequent bonus issue, consolidation or subdivision of shares;

(c) in exercising the authority conferred by this Resolution, the Company shall comply with the rules, guidelines and measures issued by the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Constitution for the time being of the Company; and

(d) (unless revoked or varied by the Company in general meeting) the authority conferred by this Resolution shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier."
[See Explanatory Note 3] **(Resolution 8)**

By Order of the Board

Sin Chee Mei
Company Secretary

Singapore,
11 April 2019

EXPLANATORY NOTES:

(1) Dr Pang Eng Fong will, upon re-election as a Director of the Company, remain as a Chairman of Nominating Committee and a member of the Audit and Risk Committee and Remuneration Committee. He is considered to be independent pursuant to Rule 704(8) the Listing Manual of the Singapore Exchange Securities Trading Limited. There are no relationships including immediate family relationships between Dr Pang Eng Fong and the other Directors or its 10% shareholders. Detailed information on Dr Pang Eng Fong can be found under the "Board of Directors", "Corporate Governance Report" and "Disclosure of information on Directors seeking re-election" section in the Company's Annual Report.

(2) Mr Yang Wen-Wei will, upon re-election as a Director of the Company remain as a Director of the Company and continue to serve as the Chairman of Remuneration Committee and a member of the Audit and Risk Committee and Nominating Committee. He is considered to be independent pursuant to Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited. There are no relationships including immediate family relationships between Mr Yang Wen-Wei and the other Directors or its 10% shareholders. Detailed information on Mr Yang Wen-Wei can be found under the "Board of Directors", "Corporate Governance Report" and "Disclosure of information on Directors seeking re-election" section in the Company's Annual Report.

(3) Ordinary Resolution 8, if passed, will authorize and empower the Directors from the date of the Annual General Meeting until the date of the next Annual General Meeting, to issue further shares and to make or grant convertible securities convertible into shares, and to issue shares in pursuance of such instruments, up to an amount not exceeding in aggregate 50 per cent of the total number of issued shares excluding treasury shares and subsidiary holdings of which the total number of shares and convertible securities issued other than on a pro-rata basis to existing shareholders shall not exceed 20 per cent of the total number of issued shares excluding treasury shares and subsidiary holdings of the Company at the time the resolution is passed, for such purposes as they consider would be in the interests of the Company. This authority will, unless revoked or varied at a general meeting, expire at the next Annual General Meeting of the Company.

NOTES:

1. A member (other than a Relevant Intermediary) is entitled to appoint not more than two proxies to attend and vote at the Annual General Meeting. Where such member appoints more than one (1) proxy, the proportion of the shareholding concerned to the represented by each proxy shall be specified in the form of the proxy.

2. A member who is a Relevant Intermediary is entitled to appoint more than two (2) proxies to attend and vote in his/her stead at the Annual General Meeting, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member appoints more than two (2) proxies, the number and class of shares to be represented by each proxy must be stated.

   "**Relevant Intermediary**" means:

   (a) a banking corporation licensed under the Banking Act, Chapter 19 of Singapore or a wholly owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity;

   (b) a person holding a capital markets services license to provide custodial services for securities under the Securities and Futures Act, Chapter 289 of Singapore and who holds shares in that capacity; or

   (c) the Central Provident Fund Board ("CPF Board") established by the Central Provident Fund Act, Chapter 36 of Singapore, in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the CPF Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

3. A proxy need not be a member of a company.

4. A member of the Company which is a corporation is entitled to appoint its authorized representatives or proxies to vote on his behalf.

5. The instrument appointing a proxy duly executed must be deposited at the Registered Office of the Company at 36 Newton Road, Singapore 307964 not less than forty-eight (48) hours before the time for holding the Annual General Meeting.

PERSONAL DATA PRIVACY

Where a member of the Company submits an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, proxy lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"); (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes; and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

DISCLOSURE OF INFORMATION ON DIRECTORS SEEKING RE-ELECTION

Dr Pang Eng Fong and Mr Yang Wen-Wei are the Directors seeking re-election at the forthcoming Annual General Meeting of the Company to be convened on 27 April 2019 ("AGM") (collectively, the "Retiring Directors" and each a "Retiring Director"). The Nominating Committee has also recommended Dr Lee Keng Thon be subject to retirement by rotation at the AGM, Dr Lee Keng Thon will not seek re-election and will retire as Director of the Company at the close of the AGM.

Pursuant to Rule 720(6) of the Listing Manual of the SGX-ST, the following is the information relating to the Retiring Directors as set out in Appendix 7.4.1 to the Listing Manual of the SGX-ST:

	DR PANG ENG FONG	MR YANG WEN-WEI
Date of Appointment	5 December 2011	28 April 2018
Date of last re-appointment	30 April 2016	N.A.
Age	75	47
Country of principal residence	Singapore	Singapore
The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process)	The Board of Directors of the Company has considered, among others, the recommendation of the Nominating Committee ("NC") and has reviewed and considered the contribution and performance, attendance, preparedness, participation, candour and suitability of Dr Pang Eng Fong for re-appointment as Independent Non-Executive Director of the Company. The Board have reviewed and concluded that Dr Pang Eng Fong possess the experience, expertise, knowledge and skills to contribute towards the core competencies of the Board.	The Board of Directors of the Company has considered, among others, the recommendation of the Nominating Committee ("NC") and has reviewed and considered the contribution and performance, attendance, preparedness, participation, candour and suitability of Mr Yang Wen-Wei for re-appointment as Independent Non-Executive Director of the Company. The Board have reviewed and concluded that Mr Yang Wen-Wei possess the experience, expertise, knowledge and skills to contribute towards the core competencies of the Board.
Whether appointment is executive, and if so, the area of responsibility	Non-Executive	Non-Executive
Job Title (e.g.) Lead ID, AC Chairman, AC Member etc.)	Lead Independent Non-Executive Director, Chairman of the Nominating Committee and a member of the Audit and Risk Committee and Remuneration Committee	Independent Non-Executive Director, Chairman of the Remuneration Committee and a member of the Audit and Risk Committee and Nominating Committee
Professional qualifications	Bachelor of Arts (Honours) in Economics from the University of Singapore Ph.D from University of Illinois	Master of Science, Electrical Engineering (Wireless Engineering) from Northeastern University, Boston, MA, USA

DISCLOSURE OF INFORMATION ON DIRECTORS SEEKING RE-ELECTION (cont'd)

	DR PANG ENG FONG	MR YANG WEN-WEI
Working experience and occupation(s) during the past 10 years	Professor of Strategic Management (Practice) in the Lee Kong Chian School of Business, Singapore Management University (2002 – 2018)	Director of Business Development, Hewlett Packard (2008 – 2011) Founder & Business Owner, Kapstone Asia Pte Ltd (2011 – 2017) Executive Operating Officer, Merdeka Construction Company Pte. Ltd. (2018 – Present)
Shareholding interest in the listed issuer and its subsidiaries	No	No
Any relationship (including immediate family relationships) with any existing director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries.	No	No
Conflict of Interest (including any competing business)	No	No
Undertaking (in the format set out in Appendix 7.7) under Rule 720(1) has been submitted to the listed issuer	Yes	Yes
Other Principal Commitments Including Directorships Past (for the last 5 years)	Nil	Kapstone Asia Pte Ltd
Present	Professor Emeritus of Strategic Management (Practice) in the Lee Kong Chian School of Business, Singapore Management University	Merdeka Construction Company Pte. Ltd.

		DR PANG ENG FONG	MR YANG WEN-WEI

Disclose the following matters concerning an appointment of director, chief executive officer, chief financial officer, chief operating officer, general manager or other officer of equivalent rank. If the answer to any question is "yes", full details must be given.

		DR PANG ENG FONG	MR YANG WEN-WEI
a)	Whether at any time during the last 10 years, an application or petition under any bankruptcy law of any jurisdiction was filed against him or against a partnership of which he was a partner at the time when he was a partner or any time within 2 years from the date he ceased to be a partner?	No	No
b)	Whether at any time during the last 10 years, an application or a petition under any law of any jurisdiction was filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within 2 years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or whether that entity is the trustee of a business trust, that business trust, on the group of insolvency?	No	No
c)	Whether there is any unsatisfied judgement against him?	No	No
d)	Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving fraud of dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose?	No	No
e)	Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such breach?	No	No
f)	Whether at any time during the last 10 years, judgement has been entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law of regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or he has been the subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation of dishonesty on his part?	No	No
g)	Whether he has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust?	No	No

		DR PANG ENG FONG	MR YANG WEN-WEI
h)	Whether he has ever been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust?	No	No
i)	Whether he has ever been the subject of any order, judgment or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity?	No	No
j)	Whether he has ever, to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of:- i. any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or ii. any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; or iii. any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or iv. any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere in connection with any matter occurring or arising during that period when he was so concerned with the entity or business trust?	No	No
k)	Whether he has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere?	No	No

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

ANNUAL GENERAL MEETING
PROXY FORM

IMPORTANT
1. A relevant intermediary may appoint more than two proxies to attend the Annual General Meeting and vote (please see note 2 for the definition of "relevant intermediary").
2. For investors who have used their CPF monies to buy the Company's shares, this Annual Report is forwarded to them at the request of their CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
3. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

I/We, ______________________________ (Name), NRIC/Passport No. __________________ of

____ (Address)

being a member/members of **HOTEL ROYAL LIMITED** (the "Company") hereby appoint:

Name	Address	NRIC/ Passport Number	Proportion of Shareholdings (%)

and/or (delete as appropriate)

Name	Address	NRIC/ Passport Number	Proportion of Shareholdings (%)

or failing him/her, the Chairman of the Meeting, as my/our proxy/proxies to vote for me/us on my/our behalf, at the 50th Annual General Meeting ("AGM") of the Company, to be held at the Hotel Royal @ Queens, Queen's Room, Level 3, 12 Queen Street, Singapore 188553 on Saturday, 27 April 2019 at 2.30 p.m. and at any adjournment thereof.

I/We direct my/our proxy/proxies to vote for or against the Resolutions to be proposed at the AGM as indicated hereunder. If no specific directions as to voting is given or in the event of any item arising not summarised below, the proxy/proxies will vote or abstain from voting at his/their discretion.

No.	Resolutions	For*	Against*
1.	Adoption of Directors' Statement, Audited Financial Statements and Auditors' Report for the financial year ended 31 December 2018		
2.	Declaration of First and Final Dividend		
3.	Declaration of Special Dividend		
4.	Approval of payment of Directors' Fees		
5.	Re-election of Dr Pang Eng Fong as Director		
6.	Re-election of Mr Yang Wen-Wei as Director		
7.	Re-appointment of Auditors and fixing their remuneration		
8.	Authority to Issue Shares		

* NOTES: If you wish to exercise all your votes "For" or "Against", please tick within the box provided. Alternatively, please indicate the number of votes "For" or "Against" for each resolution.

Dated this ________ day of ________________ 2019

Total Number of Shares held in:	No. of Shares
(a) CDP Register	
(b) Register of Members	

____

Signature(s) of Member(s)/
and, Common Seal of Corporate Shareholder

IMPORTANT: PLEASE READ NOTES OVERLEAF

NOTES

1. A member of the Company (other than a Relevant Intermediary) is entitled to appoint not more than two proxies to attend and vote in his stead. Where such member's form of proxy appoints more than one proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the form of proxy.

2. A member of the Company who is a Relevant Intermediary entitled to attend and vote at the Annual General Meeting of the Company is entitled to appoint more than two (2) proxies to attend and vote in his/her stead, but each proxy must be appointed to exercise the rights attached to a different share or shares held by such member. Where such member appoints more than two (2) proxies, the number and class of shares to be represented by each proxy must be stated.

   "Relevant Intermediary" means:

   (a) a banking corporation licensed under the Banking Act, Chapter 19 of Singapore or a wholly owned subsidiary of such a banking corporation, whose business includes the provision of nominee services and who holds shares in that capacity;

   (b) a person holding a capital markets services license to provide custodial services for securities under the Securities and Futures Act, Chapter 289 of Singapore and who holds shares in that capacity; or

   (c) the Central Provident Fund Board ("CPF Board") established by the Central Provident Fund Act, Chapter 36 of Singapore, in respect of shares purchased under the subsidiary legislation made under that Act providing for the making of investments from the contributions and interest standing to the credit of members of the Central Provident Fund, if the CPF Board holds those shares in the capacity of an intermediary pursuant to or in accordance with that subsidiary legislation.

3. A proxy need not be a member of the Company.

4. Where a member appoints more than one proxy, he/she shall specify the proportion of his/her shareholdings (expressed as a percentage of the whole) to be represented by each proxy. If no such proportion or number is specified, the first named proxy may be treated as representing 100% of the shareholding and any second named proxy as an alternate to the first named.

5. A member should insert the total number of shares held. If the member has shares entered against his/her name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289 of Singapore), he/she should insert that number of shares. If the member has shares registered in his/her name in the Register of Members of the Company, he/she should insert that number of shares. If the member has shares entered against his/her name in the Depository Register and registered in his name in the Register of Members, he/she should insert the aggregate number of shares. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all shares held by the member.

6. The instrument appointing a proxy or proxies must be deposited at the Company's Registered Office at 36 Newton Road, Singapore 307964 not less than forty-eight (48) hours before the time for holding the Meeting.

7. The instrument appointing a proxy or proxies must be under the hand of the appointor or his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its Seal or under the hand of its attorney or a duly authorised officer. The dispensation of the use of common seal pursuant to the Companies Act, Chapter 50 of Singapore effective from 30 March 2017 is applicable at this Annual General Meeting.

8. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof shall (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.

9. A corporation which is a member may by resolution of its directors or other governing body authorise such person as it thinks fit to act as its representative at the Annual General Meeting.

10. The Company shall be entitled to reject the instrument appointing a proxy or proxies which is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointer specified in the instrument appointing a proxy or proxies. In addition, in the case of shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member being the appointer, is not shown to have shares entered against his name in the Deposit Register as at 72 hours before the time appointed for holding the Annual General Meeting, as certified by The Central Depository (Pte) Limited to the Company.

PERSONAL DATA PRIVACY

By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 11 April 2019.

京华

Hotel Royal

36 Newton Road Singapore 307964
Fax : +65 6253 8668
Phone : +65 6426 0168
Email : royal@hotelroyal.com.sg
ir@hotelroyal.com.sg
Company Reg. No. 196800298G