Far East Orchard Limited
(Incorporated in the Republic of Singapore)
Company Registration No. 196700511H

55TH ANNUAL GENERAL MEETING TO BE HELD ON 19 APRIL 2023
RESPONSES TO SHAREHOLDERS ON SUBSTANTIAL AND RELEVANT QUESTIONS

1. The Board of Directors (the "**Board**") of Far East Orchard Limited (the "**Company**") would like to thank shareholders for submitting their questions in advance of the Company's 55th Annual General Meeting ("**AGM**"), which will be conducted physically on 19 April 2023, Wednesday at 10.00 a.m. (Singapore time) at the Antica Ballroom, Level 2, Orchard Rendezvous Hotel, Singapore, 1 Tanglin Road, Singapore 247905.

2. Please refer to **Appendix 1** for the Company's responses to the questions received from shareholders as of 10.00 a.m. on 11 April 2023, Tuesday (the "**submission deadline**") that are substantial and relevant to the AGM resolutions. The questions could have been rephrased for clarity of context.

3. The Company will endeavour to address the substantial and relevant questions received after the submission deadline and those received "live" at the AGM, during the AGM itself.

By Order of the Board

Phua Siyu Audrey
Company Secretary
13 April 2023

Appendix 1

Question and Responses 1:
(a) Can management detail what acquisition of hospitality assets was made during the pandemic? Why was management not aggressive in scoping cheap, distressed hospitality assets during the pandemic? Please detail and explain. **(b) I note that the company has launched the FEOR 25 strategy with the aim of growing the hospitality portfolio to 25,000 rooms and PBSA to 5,000 beds. Currently, we have 16,500 rooms and 3,500 beds. It was indicated on page 11 of the Annual Report that "Since the start of the FEOR 25 strategy in 2020, our hospitality expansion has added approximately 3,000 rooms." Given the slow pace of adding rooms to our hospitality portfolio, will the company be able to achieve the goals set out in FEOR 25? Is management presently satisfied with the current progress of FEOR 25? Please elaborate and explain.** **(c) From page 30 of the Annual Report, the performance of Far East Orchard has been less than sterling. Comparing FY2022 with FY2018, NAV has dropped from S$2.89 to S$2.73. The company used to pay 6 cents dividend, but this year the company is only paying 4 cents dividend. Net profit has also dropped from S$33m in FY2018 to S$22m in FY2022. Besides FEOR 25, what other strategies or plans does management have to improve the company's financial performance? Please detail and elaborate.**
<u>Responses to Q1(a)</u> • Since the transformation journey began in 2012, the Group has been reducing our reliance on property development income by building recurring income streams. • Achieved good scaling traction until impacted by the COVID-19 pandemic in early 2020. • In 2020, we redefined ourselves as a real estate company with a lodging platform. • Focus is now on developing a lodging platform focused on the two pillars of hospitality and PBSA business to grow our recurring income base. • Given the Group's hospitality operational capabilities in Far East Hospitality, our strategy to achieve our hospitality target is primarily via hotel management agreements ("HMAs"), an asset-light strategy, and value-accretive acquisitions or selective developments and strategic partnerships. • Since the start of the FEOR 25 strategy in 2020, together with our joint venture, Toga Far East Hotels ("TFE Hotels"), we added 15 hotels under management with approximately 3,300 rooms across Australia, Germany, Japan, Singapore, and New Zealand. • When considering an acquisition, there are many variables and factors, such as geography, maturity of the asset, demand drivers, expected returns, cost of capital etc., to consider. We will continue to take a disciplined approach to ensure that the asset(s) are accretive, in the best interests of shareholders, and would contribute towards the long-term FEOR strategy before acquiring. • In general, there was a lack of availability of suitable hospitality assets that fit with our strategic objectives and criteria for acquisitions.
<u>Responses to Q1(b)</u> • Besides COVID-19's impact on the global economy, FY2022 continued to be a volatile year with pressure from geopolitical tensions, supply chain disruptions, inflationary pressures, foreign currency volatility and rising interest rates. These factors have adversely hampered the Group's progress on acquisitions and potential new developments, such as acquiring new HMAs. Nonetheless, the Group is pushing ahead to achieve the FEOR 25 goals. • In 2023, we expect to open five new managed hotels with more than 750 rooms. • Together with our hospitality joint venture, TFE Hotels, we will continue to look for new growth opportunities and streamline our operations to maximise synergies and efficiencies. • Despite the pandemic, the Group continues to expand and position ourselves for the eventual recovery.

- The Group has been transforming our hospitality arm, Far East Hospitality's brands and offerings.
- The Group saw four opportunities that the pandemic has presented:
  1. **Experience creation:** We created elevated experiences for our hotel guests with different brands. For example, in The Clan Hotel, we partner with local artisans and craftsmen to create an authentic stay experience for every guest.

  2. **Expansion into new markets:** We expanded into Japan with two Village hotels in Tokyo and Yokohama, as Japan was the world's fastest-growing travel market with large and dynamic domestic offerings. On 1st April 2023, we opened our third hotel in Tokyo, Japan – Far East Village Hotel Tokyo Asakusa.

  3. **Refurbishment and cross-branding:** We refurbished some legacy properties and did cross-branding with TFE Hotel's Australian brands. For instance, we brought Quincy to Melbourne in 2020, marking Quincy brand's first expansion abroad. In 2022, we brought the Adina and Vibe Hotel brands from Australia into Singapore with the opening of Adina Serviced Apartments Singapore and Vibe Hotel Singapore Orchard.

  4. **Diversify business segments:** In tandem with the opening of Oasia Resort Sentosa in 2021 is the Oasia Spa. It is the Group's first foray into the resort, wellness and spa category.

- We will leverage the strength of our hospitality brands, which offer unique value propositions to key customer segments in the travel and tourism market.

Responses to Q1(c)

- The focus of FEOR 25 is to strengthen the hospitality and PBSA platform to scale up for growth/further expansion beyond 2025.
- The Group is committed to growing a lodging platform that aims to achieve sustainable and recurring income through a diversified and balanced portfolio.
- The pandemic significantly impacted FY2020 and FY2021. The hospitality business has been gradually recovering in FY2022 and is likely to stabilise in 2024/25. The Group will focus on improving its operating performance to return to pre-pandemic levels.
- The PBSA business segment has provided a steady stream of recurring income during the pandemic to mitigate the adverse COVID-19 impact on our hospitality business performance. The Group will continue to manage margins via active rent adjustments and cost management.
- The Group expects 2023 to remain challenging amidst pressures from geopolitical tensions, rising broad base inflation and interest rates.
- From an operation perspective, we are focusing on revenue growth to counter the inflation across our businesses. Our hospitality and PBSA assets are inflationary hedge asset classes with dynamically priced room rates and bed rentals.
- In terms of efficiency and productivity, we are looking from a cost management perspective to counter rising inflation.

Question and Responses 2:

I note that it has been a while since Far East Orchard injected its hospitality assets into its REIT vehicle (Far East Hospitality Trust ("FEHT")).

(a) Please indicate when and what did Far East Orchard last inject a hospitality asset into its REIT, Far East Hospitality Trust?

(b) Are there plans to inject hospitality assets into Far East Hospitality Trust? If so, what property and when?

Responses to Q2(a) and (b)

- In 2012, Village Hotel Albert Court, Village Residence Clark Quay and Orchard Rendezvous Hotel were injected into FEHT.

- The Group adopts a disciplined approach to realise its assets at the best value at the right time to the appropriate party.
- We will continue to focus our efforts on asset management to enhance their value before seeking an exit at the right time.

Far East Orchard Limited
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55TH ANNUAL GENERAL MEETING TO BE HELD ON 19 APRIL 2023
RESPONSES TO QUESTIONS RECEIVED FROM THE SECURITIES INVESTOR ASSOCIATION (SINGAPORE)

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1. The Board of Directors (the "**Board**") of Far East Orchard Limited (the "**Company**") refers to the questions received from the Securities Investors Association (Singapore) ("**SIAS**") in advance of the Company's 55th Annual General Meeting ("**AGM**"), which will be conducted physically on 19 April 2023, Wednesday at 10.00 a.m. (Singapore time) at the Antica Ballroom, Level 2, Orchard Rendezvous Hotel, Singapore, 1 Tanglin Road, Singapore 247905.

2. Please refer to **Appendix 1** below for the list of questions received from SIAS and the Company's responses to these questions.

3. The Company's responses to the questions from SIAS can also be found on SIAS' website at https://sias.org.sg/qa-on-annual-reports/.

By Order of the Board

Phua Siyu Audrey
Company Secretary
15 April 2023

Appendix 1 – Responses to Questions from SIAS

Question and Responses 1:

As mentioned in the Chair's statement, there was a boardroom leadership transition as the former Chairman, Mr Koh Boon Hwee, retired from the Board in April 2022. Mr Koh Boon Hwee was credited for his leadership and steering the Group on its transformation to hospitality and student accommodation, that enabled the Group to "build an enduring business that continues to create shareholder value".

In addition, there have also been other changes on the board, with the retirement of Ms Chua Kheng Yeng, Jennie as a director on 31 December 2022.

(i) Would the Board help shareholders better understand how the Group's strategy would be refreshed going forward as the world emerges from a pandemic that has disrupted lives for the past three years?

(ii) What is the total shareholder return for the period from 2013 to 2022?

(iii) With 2025 less than two years away, is the board planning to review and refresh the group's FEOR 25 strategy? What are the operational and financial priorities that the board has set for management in the next 18-24 months?

(iv) In particular, has the board conducted a review of the group's financial performance, including metrics such as return on equity, return on assets, and return on invested capital, return on capital employed? Is the board satisfied with the group's performance to create shareholder value, and what targets have been set for the future?

Responses to Q1(i)

- The Board, under the leadership of the former Chairman, Mr Koh Boon Hwee, approved the FEOR 25 strategy in 2020. Since then, the Group has performed an annual review of the strategy.
- Under the current leadership of Ms Koh Kah Sek, the Board and Management conducted a detailed strategic review and reaffirmed the Group's commitment to executing the FEOR 25 strategy, that is, to continue growing our sustainable and recurring income through a lodging platform built on the two pillars of growth – hospitality and purpose-built student accommodation ("PBSA") businesses.
- During the pandemic, the Group continued to expand and position ourselves for the eventual recovery.
- The Group saw four opportunities that the pandemic has presented for its hospitality business:
  1. **Experience creation**: We created elevated experiences for our hotel guests with different brands. For example, in The Clan Hotel, we partner with local artisans and craftsmen to create an authentic stay experience for every guest.
  2. **Expansion into new markets**: We expanded into Japan with two Village hotels in Tokyo and Yokohama, as Japan is the world's fastest-growing travel market with large and dynamic domestic offerings. On 1st April 2023, we opened our third hotel in Tokyo, Japan – Far East Village Hotel Tokyo Asakusa. We now have more than 700 rooms in Japan.
  3. **Refurbishment and cross-branding**: We refurbished some legacy properties and did cross-branding with TFE Hotel's Australian brands. For instance, we brought Quincy to Melbourne in 2020, marking Quincy brand's first expansion abroad. In 2022, we brought the Adina and Vibe Hotel brands from Australia into Singapore with the opening of Adina Serviced Apartments Singapore and Vibe Hotel Singapore Orchard. These two Australian brands will provide an Australian twist to what Singapore, as a destination, has to offer.
  4. **Diversify business segments**: In tandem with the opening of Oasia Resort Sentosa in 2021 is the Oasia Spa. It is the Group's first foray into the resort and spa category.
- The Group will continually review its strategic direction as we head towards our 2025 goal and will communicate at the appropriate time if there are any changes in the strategic directions.

Responses to Q1(ii)

- Total shareholder return for 2013 to 2022 is -28.3%, generally in line with our development and hospitality peers.
- The 3-year total shareholder return (over the pandemic) is 2.4%, better than our peers.
- We will focus on strengthening our lodging platforms and building core capabilities to reinforce the foundation of our business.
- Meanwhile, we will continue with disciplined capital management to execute the FEOR 25 strategy efficiently and deliver steadfast growth to shareholders.

Responses to Q1(iii)

- While there are clear goals of 25,000 rooms and 5,000 student beds set for 2025, the Group continues to initiate, review, and take advantage of opportunities that strengthen the platform and position us for sustainable growth in the future.
- Given the Group's hospitality operational capabilities in Far East Hospitality, our strategy to achieve our hospitality target is primarily via hotel management agreements, an asset-light strategy, and value-accretive acquisitions or/and selective developments and strategic partnerships.
- Since the start of the FEOR 25 strategy in 2020, together with our joint venture, Toga Far East Hotels ("TFE Hotels"), we have added 15 hotels under management with approximately 3,300 rooms across Australia, Germany, Japan, Singapore, and New Zealand.
- In 2023, we expect to open five new managed hotels with more than 750 rooms.
- The Group's focus for our PBSA expansion remains in the UK, leveraging on our existing presence to build further depth in this sector. The UK PBSA market has a structural supply/demand gap, making it a favourable market to continue exploring.

Operational priorities:

- To grow the hospitality portfolio to 25,000 beds primarily via an asset-light strategy (refer to Q1(iii) point 2), and to deepen our presence in countries such as Singapore, Australia and Japan and expand our geographical footprint in the region.
- To grow the PBSA portfolio to 5,000 beds, focusing on cities in the UK with high-tariff universities and strong student growth.
- Increase focus by the Group on asset management to drive stronger performance, and some initiatives undertaken are also linked to achieving progress in the Group's sustainability goals.
- Adopt a disciplined approach to evaluating all opportunities to ensure yields from acquired assets meet our objectives of building a recurring income.

Financial priorities:

- The pandemic significantly impacted FY2020 and FY2021. The hospitality business has been gradually recovering in FY2022 and is likely to stabilise in 2024/25. The Group will focus on improving its operating performance to return to the pre-pandemic level.
- The PBSA business segment has provided a steady stream of recurring income during the pandemic to mitigate the adverse COVID-19 impact on our hospitality business performance. The Group will continue to manage margins via active rent adjustments and cost management.
- In a rising interest rate environment, to continue actively managing the impact of the rising interest rates via interest rate hedging, repayment of borrowings and maintaining a healthy gearing ratio.

Responses to Q1(iv)

- Yes, the Board has conducted a review of these metrics. For example, return on assets is 0.83% in FY2022 as the hospitality business segment has not fully recovered from the COVID-19 impact.
- Certain metrics, such as the Cost of Equity and Weighted Average Cost of Capital, are updated on an annual basis.
- The Group adopts a disciplined and prudent approach towards evaluating new investments, considering potential operational synergies and shareholder value enhancement.

- Internal hurdle rates are applied for each investment based on its respective risk profiles, and these hurdle rates are reviewed at least annually.
- Regularly evaluates its investments against expected returns, available liquidity and leverage and cost of capital, with adjustments made to reflect the risk of the relevant industry and market.
- We remain committed to the FEOR 25 strategy and will continue to focus on improving core operational and financial performance.

Question and Responses 2:

Would the board/management provide shareholders greater clarity on the following operational and financial matters? Specifically:

(i) **Hospitality:** The Group will celebrate the 10th anniversary of its joint venture with The Straits Trading Company Limited (STC) and Toga Group. The strategic formation of the two milestones joint ventures – FEHH Group and TFE Hotels, in 2013 expanded the Group's geographical reach of its hospitality business beyond Singapore and Malaysia. **Could Management provide an overview of the key achievements and milestones of the partnership? Has the management conducted any benchmarking exercises with its peers to evaluate the success of these partnerships?**

(ii) **UK PBSA: Regarding the newly acquired site in Bristol, could management share the group's involvement in the development process?**

(iii) **Goodwill impairment:** An impairment of S$5.1 million was recognised on goodwill on the Australia property ownership business. The goodwill recognised at the point of the acquisition was S$17.6 million, which has now been entirely written off. **Could management provide more information on the underlying assets and the reason behind the impairment? In light of the recent rise in interest rates, is the management reviewing its acquisition strategy and evaluating the potential impact on the profitability of future investments?**

(iv) **Interest rate: Can management provide more information on the group's level of interest rate hedging?**

(v) **Lease liabilities: What are the reasons for the derecognition of lease liabilities that lead to a gain of S$7.6 million in FY2022 (as mentioned in the Group CEO's message)? Can management also help shareholders understand how the group benefitted from the lease modification that reduced lease liabilities by S$26.7 million in FY2021?**

Responses to Q2(i)

Geographical Expansion and Synergies

- Over the past 10 years, our strategic partnership has expanded the Group's hospitality geographical footprint beyond Singapore and Malaysia, to Australia, Denmark, Germany, Hungary and New Zealand; growing from 3,600 rooms in 2012 to close to 16,500 rooms today.
- With both joint ventures ("JV"), we were able to create a strong presence in Australia, New Zealand and Europe, increase scale, efficiency and recurring income and increase growth opportunities to build a stronger and enlarged portfolio.
- The hospitality JVs have further expanded to new geographies such as Japan and Austria, and in March 2023, debuted a 140-key Adina Apartment Hotel Geneva, Switzerland.
- The JVs achieved good scaling traction until the COVID-19 pandemic impacted them in early 2020.

Cross-branding

- We did cross-branding with TFE Hotel's Australian brands. Refer to Q1(i) above.
- Together with our hospitality JV, TFE Hotels, we will continue to look for new growth opportunities and streamline our operations to maximise synergies and efficiencies.

Responses to Q2(ii)

- The Bristol development is a JV between us, Woh Hup Holdings (Private) Limited ("Woh Hup") and Way Assets Pte. Ltd..
- Woh Hup is one of Singapore's largest privately owned construction and civil engineering specialist and has investments in development projects in the UK and construction projects in India.
- The JV has appointed a UK-based development manager for this development.
- We are actively working with Woh Hup to monitor and review the development's progress. This includes review of the development design scheme, construction procurement strategy and active identification of potential risks that could delay development returns and the mitigation strategies thereon.

Responses to Q2(iii)

- The goodwill was recognised on the acquisition of the hospitality property ownership business in Australia in 2013, which includes the freehold land and buildings in Australia. An impairment charge of S$8.8m was recognised in FY2020 due to the expected reduction in cash flows for the period of 2021-2023, impacted by COVID-19.
- A further S$5.1m was recognised in FY2022. While the long-term cash flow projections from the hospitality property ownership business in Australia have improved with the gradual recovery from the pandemic, an impairment charge was recognised due to the higher discount rate (an increase from 8.2% to 10.5% as disclosed on page 130 of the Annual Report) due to the higher interest rate for borrowings and higher risk-free rate as compared to 31 December 2021.
- When considering an acquisition, there are many variables and factors, such as geography, maturity of the asset, demand drivers etc., to consider. As mentioned in Question 1(v) above, internal hurdle rates are applied for each investment based on its respective risk profiles, and these hurdle rates are reviewed at least annually. We will continue to take a disciplined approach to ensure that the asset(s) are accretive, in the best interests of shareholders, and would contribute towards the long-term FEOR strategy before acquiring.

Responses to Q2(iv)

- As at 31 December 2022, one-third of the Group's borrowings are hedged.
- The Group will continue to monitor the market and evaluate the floating-to-fixed swaps cost. The Group will increase the level of hedges when it makes economic sense to do so.
- In addition, generally, the Group manages its currency exposure to the net assets of its foreign operations through borrowings denominated in the relevant foreign currencies, i.e., natural hedging.

Responses to Q2(v)

- In FY2022, the derecognition of lease liabilities was recognised by the Group's joint venture in Australia as a result of the termination of the lease agreements for a portfolio of hospitality assets owned by a third party ("Owner") subsequent to the sales of the portfolio by the Owner. As a result of the termination of the lease agreements, the lease liability was derecognised with a corresponding adjustment to the right-of-use asset. The Group recognised the share of the net gain of S$7.6 million from the derecognition of the lease liabilities.
- On 2 December 2021, the Group, through its wholly owned subsidiary, entered into a put and call option agreement for the sale of the Group's reversionary interest in Village Residences Clarke Quay ("VRCQ"). At the completion of the sale, the master lease agreement of VRCQ will be terminated. As a result, as disclosed in the annual report on page 108 under Note 8(a), the lease liabilities were remeasured (reduction of S$26.7 million) with a corresponding adjustment of S$21.6 million to the right-of-use asset as at 31 December 2021. A gain of S$5.1 million, being the amount exceeding the carrying value of the right-of-use asset, was recognised for the year ended 31 December 2021 accordingly.

<u>Question and Responses 3:</u>

The company has a principle-based dividend policy as follows:

The company is committed to achieving sustainable income and long-term capital growth for the benefit of shareholders. This means the company will balance the retention of profits for future investments with the distribution of profits as dividend payments to shareholders.

The company will strive to provide consistent and sustainable ordinary dividend payments to its shareholders on an annual basis. In considering any recommendation for dividend payment and any appropriate level of dividend, the Board will take into consideration various factors, including but not limited to the Group's level of cash, gearing, retained earnings, actual and projected financial performance, capital requirements, strategic plans, general economic conditions, and outlook. Any declaration of dividends by the company will be tabled at the Company's Annual General Meeting for shareholders' approval.

The company has a scrip dividend scheme. If the scrip dividend scheme is applied to any dividend, payment will be made in compliance with the Listing Rules.

The Board will review and refresh this dividend policy from time to time.

(i) Just prior to the pandemic, the company was consistently paying dividends of 6 cents. **What were the deliberations by the board on the dividends for FY2022?**

(ii) Can the board also help shareholders better understand the rationale of issuing scrip dividend?

(iii) In terms of capital efficiency, the group had cash and cash equivalents of S$233.2 million and total borrowings of S$602.2 million as at 31 December 2022. Interest expense on bank borrowings doubled from S$7.56 million in 2021 to S$15.1 million in 2022. **Is the group able to reduce the working capital in the business and optimise the cash holding to reduce interest expense in light of the current high-interest rate environment?**

<u>Responses to Q3(i)</u>

- For FY2022, FEOR's Board recommended a total dividend of 4.0 Singapore cents per share, comprising a first and final dividend of 3.0 cents per share and a special dividend of 1.0 cents per share, after taking into consideration:
    - the improved business performance as compared to 2021 and 2020;
    - one-off gain from the sale of Tanglin Shopping Centre;
    - funding requirements for future business growth and expansion and to ensure the Group maintains financial flexibility amidst the ongoing volatile and uncertain macroeconomic environment.

<u>Responses to Q3(ii)</u>

- The company has a scrip dividend scheme that allows shareholders to elect to receive shares in lieu of the cash amount of any declared dividend.
- Thus, shareholders will be able to acquire additional shares without incurring transactions or other related costs.
- The Company will also benefit from the participation by shareholders in the scrip dividend scheme to the extent that shareholders elect to receive a qualifying dividend in the form of new shares, the cash which would otherwise be payable for such dividend may be retained to fund the continuing growth and expansion of the Company and its subsidiaries.
- At the company's forthcoming AGM, if shareholders pass the resolutions to approve the FY2022 dividend and for the company to allot and issue shares, the scrip dividend scheme can be applied to the FY2022 dividend.

Responses to Q3(iii)

- With the cash balance and unutilised banking facilities, the Group maintains sufficient liquidity to meet our operations and financial commitments.
- The Group has and will continue to actively manage the impact of the rising interest rates via interest rate hedging, repayment of borrowings and maintaining a healthy gearing ratio.
- The Group will continue to identify opportunities to mitigate the rising interest rates.