



CDL HOSPITALITY TRUSTS

A stapled group comprising:

**CDL HOSPITALITY REAL ESTATE INVESTMENT TRUST**

(a real estate investment trust constituted on 8 June 2006 under the laws of the Republic of Singapore)

**CDL HOSPITALITY BUSINESS TRUST**

(a business trust constituted on 12 June 2006 under the laws of the Republic of Singapore)

**ANNOUNCEMENT**

**ACQUISITION AND LEASE OF HOTEL CERRETANI FLORENCE,  
MGALLERY BY SOFITEL IN ITALY**

**1. INTRODUCTION**

M&C REIT Management Limited, as manager of CDL Hospitality Real Estate Investment Trust (“**H-REIT**”, and the manager of H-REIT, the “**H-REIT Manager**”) and M&C Business Trust Management Limited, as trustee-manager of CDL Hospitality Business Trust (“**HBT**”, and the trustee-manager of HBT, the “**HBT Trustee-Manager**”, and together with the H-REIT Manager, the “**Managers**”, and H-REIT and HBT together, “**CDLHT**”), are pleased to announce that DBS Trustee Limited, as trustee of H-REIT (the “**H-REIT Trustee**”), has today through its wholly-owned subsidiaries, CDLHT CFM One Pte. Ltd. (“**CFM1**”) and CDLHT CFM Two Pte. Ltd. (“**CFM2**” and together with CFM1, the “**Purchasers**”), entered into an agreement (the “**Sale and Purchase Agreement**”) with Cooperative Redwood Grove International U.A. (“**Vendor One**”) and Galaren Invest B.V. (“**Vendor Two**” and together with Vendor One, the “**Vendors**”) in respect of the following acquisitions:

- (i) 90.0% of the issued share capital of Event Hospitality Group III B.V., a Dutch company registered in the Netherlands (“**FI Dutch HoldCo**” and the shares of FI Dutch HoldCo the “**FI Dutch HoldCo Shares**”) from Vendor One. FI Dutch HoldCo wholly-owns Event Hospitality Group III Italy SRL (“**FI HoldCo**”). The FI HoldCo in turn wholly-owns NKS Hospitality III SRL (“**FI PropCo**”), which is the legal owner of Hotel Cerretani Florence, MGallery by Sofitel and the fixtures, furniture and equipment therein (collectively, the “**Property**”);
- (ii) 5.0% of the issued share capital of FI Dutch HoldCo from Vendor Two which currently owns 10.0% of the issued share capital of FI Dutch HoldCo;
- (iii) the shareholder loan (including the accrued interest) which was granted to FI Dutch HoldCo by Vendor One (the “**Vendor One Loan**”); and
- (iv) 50.0% of the shareholder loan (including the accrued interest) which was granted to FI Dutch HoldCo by Vendor Two (the “**Vendor Two Loan**”).

(collectively, the “**Acquisition**”).

CFM2 will be acquiring the Vendor One Loan and the Vendor Two Loan from the Vendors and CFM1 will be acquiring the FI Dutch HoldCo Shares from the Vendors.

Upon completion of the Acquisition (“**Completion**”), CFM1 will own 95.0% of the issued share capital of FI Dutch HoldCo and Vendor Two will continue to own the remaining 5.0% of the issued share capital of FI Dutch HoldCo; and CFM2 will own the Vendor One Loan and the Vendor Two Loan. In addition, FI PropCo will grant a lease to FC Operations Hotel SRL (the “**Lessee**”) (which is affiliated to Vendor Two) in relation to the management and operation of the Property (see paragraph 2 for more details).

On Completion, CFM1 and CFM2 will inject funds of €8.2 million into FI Dutch HoldCo to discharge their *pro rata* share of an existing bank loan (the “**Bank Loan**”) between FI PropCo and Mediocredito Italiano S.p.A. secured by a mortgage over the Property (the “**Mortgage**”, and injection of funds, by CFM1 and CFM2, the “**Bank Loan Redemption**”). This amount, along with a further €2.6 million held by FI PropCo and a *pro rata* contribution from Vendor Two, shall be utilised to discharge the Bank Loan of approximately €11.2 million (including any such payables under the Bank Loan) and redeem the Mortgage shortly after Completion.

## 2. THE PROPERTY

The Property is a 4-star hotel situated on three freehold land plots located in Florence, Italy. The Property underwent an extensive phased refurbishment for approximately €5.3 million in 2016, including a full renovation of its 86 guest rooms, restaurant, bar and public areas.

Upon Completion, the Property will continue to be marketed under the “MGallery by Sofitel” brand pursuant to an existing franchise agreement with AccorHotels, a leading hotel group operating approximately 4,500 hotels in 100 countries<sup>1</sup>. In addition, the Property will continue to be leased and operated by the Lessee which is affiliated to Vendor Two and EVENT Hotels. Vendor Two will continue to hold a 5.0% indirect interest in the Property through its remaining 5.0% shareholding of the issued share capital of FI Dutch HoldCo. Vendor Two is a subsidiary of EVENT Hotels, which is the largest fully integrated hotel management platform in Germany and owns, operates and manages 80 hotels with approximately 14,100 keys throughout Europe.

## 3. RATIONALE FOR THE ACQUISITION

### 3.1 Accretive Acquisition

The Managers are of the view that the Acquisition is accretive to the holders of Stapled Securities (the “**Stapled Security Holders**”) based on the pro forma historical basis on the distribution per Stapled Security (“**DPS**”) of CDLHT for the period from 1 January 2017 to 31 December 2017.

Based on the price of a 95.0% interest in the Property, being €40.6 million (approximately S\$63.6 million<sup>2</sup>)(the “**Property Price**”), the annualised net property income yield of the

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1 Source: AccorHotels Website, accessed 8 November 2018 (<https://www.accorhotels.group/group/who-we-are/accorhotels-in-brief>).

2 Unless otherwise stated in this announcement, all conversions are based on an assumed exchange rate of €1.00 = S\$1.5661.

Property for the nine months ended 30 September 2018 will be 4.6%<sup>3</sup>.

### **3.2 Hospitality Market with Growth Potential and High Barriers to Entry**

Florence ranks amongst Italy's most visited cities and is famed for its UNESCO protected old town, numerous museums and galleries, as well as its Renaissance art and architecture. The city also has a strong fashion district where prime luxury brands including Roberto Cavalli, Salvatore Ferragamo, Gucci and Emilio Pucci are based in the greater Florence area<sup>4</sup>. There is also a vibrant exhibition and fair calendar including the "Pitti Immagine Uomo" – a biannual international fashion exhibition which attracted more than 30,000 visitors in June 2018<sup>5</sup>.

On the supply side, there is limited future room stock due to high barriers to entry stemming from new urban planning regulations prohibiting new hotel developments in the city centre<sup>6</sup>.

### **3.3 High Quality Asset with Exceptional Location**

The Managers are of the view that the Acquisition is a rare opportunity to penetrate a highly sought-after market, and to own a recently refurbished asset with an excellent location in the heart of Florence's historic city centre.

The Property is within walking distance to many key tourist attractions including the Cathedral of Santa Maria del Fiore (Il Duomo), Ponte Vecchio, Uffizi Gallery and the Galleria dell'Accademia. The Property also boasts convenient accessibility, with the city's main train station within an 8-minute walk and Florence International Airport within a 25-minute drive. In addition, construction of a new tramway service to connect the city centre to the airport has been completed and tests are underway before official service commencement<sup>7</sup>, which will further enhance the city's connectivity.

### **3.4 Capitalising on Low Funding Environment in Europe**

The Acquisition enables CDLHT to capitalise on the window of opportunity afforded by the low funding environment in Europe to enjoy an attractive spread between the property yield and borrowing rates.

### **3.5 Broadening Earnings Base and Strengthening Portfolio through Diversification**

The Property will provide Stapled Security Holders the benefit of geographical diversification through expanding CDLHT's foot print in Europe. The Acquisition is also expected to benefit Stapled Security Holders by broadening CDLHT's earnings base.

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3 Based on the annualised net property income of the Property for the nine months ended 30 September 2018 of €1.9 million (approximately S\$2.9 million), as a percentage of the Property Price of €40.6 million (approximately S\$63.6 million). Taking into account the transaction costs of €1.6 million (approximately S\$2.6 million), the annualised net property income yield will be 4.4%. The Property Price and net property income figures provided are pro-rated based on a 95.0% interest in the Property.

4 Source: Hospitality Net, "In Focus: Florence, Italy", 13 March 2017

5 Source: Pitti Immagine Uomo, "PITTI IMMAGINE UOMO 94: FINAL FIGURES", 14 September 2018

6 Source: JLL Hotel Intelligence Florence March 2018

7 Source: HVS Valuation Report dated 8 November 2018

## 4. CERTAIN PRINCIPAL TERMS OF THE ACQUISITION

### 4.1 Purchase Consideration

Pursuant to the terms of the Sale and Purchase Agreement, the purchase consideration for the Acquisition of €33.0 million (approximately S\$51.7 million)<sup>8</sup>, (the “**Purchase Consideration**”) comprises:

- (i) €40.6 million (approximately S\$63.6 million), being the Property Price based on a 95.0% interest in the Property;
- (ii) payment of approximately €3.1 million (approximately S\$4.8 million) based on H-REIT’s 95.0% interest in the estimated net working capital and cash of the consolidated FI Dutch HoldCo group as at Completion; and
- (iii) less €10.7 million (approximately S\$16.7 million), being 95.0% of the total Bank Loan Redemption of €11.2 million (approximately S\$17.6 million).

The Purchase Consideration was arrived at on a willing-buyer and willing-seller basis following a tender exercise conducted by the Vendors, and took into account the independent valuation of the market value of the Property of €43.8 million (approximately S\$68.6 million) by an independent property valuer, HVS Global Hospitality Services (“**HVS**”), in its valuation report dated 8 November 2018.

A refundable deposit of 10.0% of the Purchase Consideration was paid by the Purchasers upon execution of the Sale and Purchase Agreement.

### 4.2 Estimated Total Acquisition Cost

The current estimated total cost of the Acquisition and the Bank Loan Redemption (“**Total Acquisition Cost**”) is approximately €42.9 million (approximately S\$67.2 million), comprising:

- (i) the Purchase Consideration of €33.0 million (approximately S\$51.7 million);
- (ii) the H-REIT Manager’s acquisition fee in respect of the Acquisition (the “**Acquisition Fee**”) under the H-REIT Trust Deed<sup>9</sup> which amounts to €0.4 million (approximately S\$0.6 million);
- (iii) the estimated professional fees and other expenses incurred by H-REIT in connection with the Acquisition, which amount to approximately €1.2 million (approximately S\$1.9 million); and
- (iv) the Bank Loan Redemption of €8.2 million (approximately S\$12.9 million).

The Total Acquisition Cost of €42.9 million (including the Acquisition Fee) will be paid wholly in cash and will initially be funded either through internal sources or offshore debt or a combination of both.

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8 The purchase consideration will be subject to post-completion adjustments based on actual net working capital and cash of the consolidated FI Dutch HoldCo group (“**Post-Completion Adjustments**”).

9 The trust deed constituting H-REIT dated 8 June 2006 as amended, varied and supplemented from time to time.

### 4.3 Other Agreements on Completion

The following agreements will become effective upon Completion:

#### 4.3.1 Shareholders' Agreement

The shareholders' agreement entered into between CFM1 and Vendor Two on the date of this announcement, which sets out the parties' respective rights and obligations as shareholders of the FI Dutch HoldCo, will be effective upon completion.

#### 4.3.2 Management Lease Agreement

The FI PropCo and the Lessee will enter into a management lease agreement in relation to the management and operation of the Property by the Lessee (the "**Management Lease Agreement**").

The term of the Management Lease Agreement will be for 20 years commencing from the date of Completion. The FI PropCo will receive rent of around 93.0% of the net operating profit of the Property, subject to a base rent of €1.3 million per annum. This arrangement will provide both downside protection and upside participation to FI PropCo.

#### 4.3.3 Management Services Agreement

The FI PropCo, the Lessee, and the existing manager of the Property, Art Management GmbH, will enter into a management services agreement in relation to the management and operation of the Property (the "**Management Services Agreement**").

The term of the Management Services Agreement will be for 20 years commencing from the date of Completion, and will co-terminate upon the termination of the Lease Agreement. The Management Services Agreement will provide the FI PropCo with oversight over the Property's budget, information rights to the accounts of the Property, and veto rights over the appointment of key employees.

### 4.4 Incorporation and Constitution of Subsidiaries

The following subsidiaries have been established:

| Name of Company         | Country of Incorporation / Establishment | Issued and Paid Up Share Capital | Purpose            |
|-------------------------|--|----------------------------------|--------------------|
| CDLHT CFM One Pte. Ltd. | Republic of Singapore                    | €2                               | Investment holding |
| CDLHT CFM Two Pte. Ltd. | Republic of Singapore                    | €2                               | Investment holding |

## **5. VALUATION**

The Managers and the H-REIT Trustee have commissioned an independent property valuer, HVS, to value the Property. HVS, in its valuation report dated 8 November 2018, stated that the market value of the Property is €43.8 million (approximately S\$68.6 million). HVS used the discounted cash flow methodology in arriving at its valuation of the Property.

## **6. FINANCIAL EFFECTS**

The Acquisition is not expected to have any material impact on the net tangible assets, earnings per stapled security or DPS of CDLHT for the current financial year.

## **7. INTERESTS OF DIRECTORS AND SUBSTANTIAL STAPLED SECURITY HOLDERS**

Based on the information available to the Managers as at the date of this announcement, none of the directors of the Managers and Substantial Stapled Security Holders have any interest, direct or indirect, in relation to the Acquisition.

## **8. DOCUMENTS FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the registered office of the Managers at 9 Raffles Place, #12-01 Republic Plaza, Singapore 048619<sup>10</sup> from the date of this announcement up to and including the date falling three months thereafter:

- (i) Sale and Purchase Agreement; and
- (ii) the valuation report of the Property by HVS.

The H-REIT Trust Deed and HBT Trust Deed will also be available for inspection at the registered office of the Managers for so long as H-REIT and HBT are in existence.

### **BY ORDER OF THE BOARD**

Vincent Yeo Wee Eng  
Chief Executive Officer  
M&C REIT Management Limited  
(Company Registration Number 200607091Z)  
as manager of CDL Hospitality Real Estate Investment Trust

### **BY ORDER OF THE BOARD**

Vincent Yeo Wee Eng  
Chief Executive Officer  
M&C Business Trust Management Limited  
(Company Registration Number 200607118H)  
as trustee-manager of CDL Hospitality Business Trust

16 November 2018

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<sup>10</sup> Prior appointment with the Managers will be appreciated.

## IMPORTANT NOTICE

This announcement may contain forward-looking statements that involve risks and uncertainties. Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements as a result of a number of risks, uncertainties and assumptions. Representative examples of these factors include (without limitation) general industry and economic conditions, interest rate trends, cost of capital and capital availability, competition from other companies, shifts in customer demands, customers and partners, changes in operating expenses (including employee wages, benefits and training costs, governmental and public policy changes and the continued availability of financing in the amounts and the terms necessary to support future business. Investors are cautioned not to place undue reliance on these forward-looking statements, which are based on the current view of the Managers on future events.

While the Manager has taken reasonable actions to ensure that the information from the relevant sources cited in footnotes 1, 4, 5 and 6 are reproduced in their proper form and context, and that the information is extracted accurately and fairly from such sources, neither the Manager, nor any other party has conducted an independent review of the information contained in such sources or verified the accuracy of the contents of the relevant information.

The value of Stapled Securities and the income derived from them may fall as well as rise. Stapled Securities are not obligations of, deposits in, or guaranteed by, the H-REIT Manager, the HBT Trustee-Manager or any of their respective affiliates. An investment in Stapled Securities is subject to investment risks, including the possible loss of the principal amount invested.

Investors have no right to request that the H-REIT Manager and the HBT Trustee-Manager or any of their respective affiliates redeem or purchase their Stapled Securities while the Stapled Securities are listed. It is intended that the holders of Stapled Securities may only deal in their Stapled Securities through trading on Singapore Exchange Securities Trading Limited (the “**SGX-ST**”). Listing of the Stapled Securities on the SGX-ST does not guarantee a liquid market for the Stapled Securities.

The past performance of CDL Hospitality Trusts is not necessarily indicative of the future performance of CDL Hospitality Trusts.

Any discrepancies in the tables included in this announcement between the listed amounts and total thereof are due to rounding.