FAR EAST HOSPITALITY TRUST

FEO Hospitality Asset Management Pte. Ltd. Co. Reg. No.: 201102629K
FEO Hospitality Trust Management Pte. Ltd. Co. Reg. No.: 201210698W
1 Tanglin Road #05-01, Orchard Rendezvous Hotel, Singapore 247905
Tel: +65 6833 6688 Fax: +65 6833 6622 www.fehtrust.com

FAR EAST HOSPITALITY TRUST

A stapled group comprising:

Far East Hospitality Real Estate Investment Trust
(a real estate investment trust constituted on 1 August 2012 under the laws of the Republic of Singapore)

Far East Hospitality Business Trust
(a business trust constituted on 1 August 2012 under the laws of the Republic of Singapore)

ANNOUNCEMENT

Annual General Meeting held on 20 April 2023
Responses to Substantial and Relevant Questions

FEO Hospitality Asset Management Pte. Ltd., as manager of Far East Hospitality Real Estate Investment Trust ("**Far East H-REIT**", and the manager of Far East H-REIT, the "**REIT Manager**"), and FEO Hospitality Trust Management Pte. Ltd. as trustee-manager of Far East Hospitality Business Trust ("**Far East H-BT**", and the trustee-manager of Far East H-BT, the "**Trustee-Manager**", and together with the REIT Manager, the "**Managers**", and Far East H-REIT and Far East H-BT together, "**Far East H-Trust**") would like to thank all stapled securityholders of Far East H-Trust ("**Stapled Securityholders**") who have submitted their questions in advance of our Annual General Meeting ("**AGM**") to be held at Antica Ballroom, Orchard Rendezvous Hotel, 1 Tanglin Road, Singapore 247905 on Thursday, 20 April 2023 at 2.30 p.m.. The Managers have also received a set of questions from the Securities Investors Association (Singapore) ("**SIAS**") in relation to Far East H-Trust's annual report for the financial year ended 31 December 2022.

Questions that are similar in nature are grouped together as shown below. Please refer to the subsequent pages for responses to the list of substantial and relevant questions.

A. Business Performance

1. As noted in the chairman's statement, the group has maintained a prudent capital management strategy in light of the rising interest rate environment, despite its strong underlying operational performance.

The divestment of Central Square was completed on 24 March 2022 at an exit yield of 1.8%. As a result, the group is now in a much stronger financial position, with a gearing ratio of 32%, an interest coverage ratio of 3.8 times, and a weighted average debt maturity of 3.1 years. The board has also decided to distribute a portion of divestment gains at a rate of approximately S$8.0 million per year over three years while exploring new yield-accretive investment opportunities. On 27 March 2023, the managers announced that the group has received an additional payment of S$18.0 million, being the maximum amount of the incentive fee, related to the redevelopment of Central Square.

The group has also completed several rejuvenation projects, including the asset enhancement works of Orchard Rendezvous Hotel, as well as the rebranding of Regency House as Adina Serviced Apartments Singapore Orchard and The Elizabeth Hotel as Vibe Hotel Singapore Orchard.

i. **To what extent has the rebranding of Regency House and The Elizabeth Hotel disrupted operations?**

Manager's Response: The REIT Manager took the opportunity during the downturn caused by the COVID-19 pandemic to undertake some rejuvenation and strategic asset enhancement initiatives to better position the properties to compete and benefit from the recovery in the hospitality sector. The disruptions were therefore minimised, and lesser than if they were carried out when the industry is in full recovery.

For the rebranding of Regency House to Adina Serviced Apartments Singapore Orchard ("**ASO**"), the disruptions to the operations were minimal as the refurbishment works were at the reception as well as the common areas.

At The Elizabeth Hotel, the renovation was more extensive due to the age of the property. To expedite the work, the hotel was closed for 6 months from early 2022. Upon completion, all the guestrooms and common areas were upgraded with new furnishings, and the hotel was rebranded to Vibe Hotel Singapore Orchard ("**VHSO**"). During the closure, Far East H-REIT continued to receive fixed rent income from the master lessee as part of the master lease structure.

ii. **What strategic considerations led to the decision to rebrand the properties? Were other major hotel brands considered when evaluating the options?**

Manager's Response: The REIT Manager actively reviews and regularly discusses with the Operator on the performance of each of the properties within the portfolio.

The decision to rebrand both Regency House and The Elizabeth Hotel was an effort to maximise the pricing potential of both properties which are well located in Orchard, the iconic shopping belt of Singapore.

A key consideration was to tap on well-received lifestyle brands that are already managed by our Operator's JV partner, the TOGA group which has properties across Australia, New Zealand and Europe. Other considerations also included the familiarity of brands with the intended target markets, product and experience differentiators, and synergy with the overall portfolio.

With ASO and VHSO, Far East H-REIT now offers two reputable Australian-branded accommodations to cater to both transient and long-stay guests.

iii. **Looking ahead**, **how does the manager plan to position the properties to take advantage of the expected recovery in the hospitality sector?**

Manager's Response: The REIT Manager keeps up to date with the latest developments as well as competition in the hospitality sector and works closely with the Operator to ensure that the properties are marketed effectively to secure bookings from a diverse set of corporate and independent travellers. The REIT Manager actively monitors and reviews the operational performance of each of its property segment, against benchmarked peers in the hospitality industry.

iv. **How is the group addressing the challenges posed by the tight labour market?**

Manager's Response: The tight labour market has been a key topic of concern amongst companies within the hospitality industry, as well as many other industries in Singapore.

Far East H-REIT benefits from an economy of scale with 12 properties in Singapore, all managed by the same Operator. This enables centralisation of some key functions that help to improve productivity and the ability to hire more qualified personnel. It also allows for better pooling and allocation of resources amongst the different properties when the need arises.

In addition, F&B services which are labour-intensive, are outsourced to tenants that are able to provide all-day dining for our hotel guests. This model helps to keep the manning at our hotels lean.

	With our Operator as a sizeable industry player headquartered in Singapore, it is also able to offer a better career path for employees with the added opportunity of progressing into positions within the larger group of our Sponsor.
2.	**The group's 30% owned joint venture, Fontaine Investment Pte. Ltd. ("FIPL"), developed the three hotels, namely Village Hotel Sentosa, The Outpost Hotel, and The Barracks Hotel. As shown in Note 5 (Joint venture; pages 163 & 164) of the 2022 Annual Report, revenue increased to S$38.1 million but the total comprehensive loss was S$(16.38) million in FY 2022.** **FIPL is in a negative equity position of S$(16.5) million.** **i. What is the manager's view on the progress of the three new hotels?** **Manager's Response:** The Sentosa development has a total of 839 guest rooms across three hotels, namely Village Hotel Sentosa ("VHS") and The Outpost Hotel ("TOH") which officially opened in April 2019, and The Barracks Hotel ("TBH") which officially opened in December 2019. In addition, the development has four blocks of commercial spaces, a ballroom and an event centre. These three hotels were well received when they opened, attracting a good mix of local and foreign guests. Unfortunately, the untimely arrival of the COVID-19 pandemic in early 2020 and the subsequent closure of international borders disrupted the momentum and performance of our Sentosa hotels. A decision was made to contract both VHS and TOH to the Government for isolation purposes in March 2020 so that both hotels could continue to generate cashflow and retain their employees. TBH, with its luxury positioning within a heritage setting, was kept open to the market to tap the staycation market, and it performed very well during the period. Since the reopening of Singapore's borders, both VHS and TOH have returned to the market in August 2022 to capture pent-up demand from leisure travellers. Despite the short return to the market, RevPAR performance has shown consecutive month-on-month growth. The REIT Manager remains positive on our Sentosa hotels as they continue to progress towards a steady state of growth. **ii. Does FIPL require any capital injection?** **Manager's Response:** At the onset of signing the joint venture agreement in September 2014, there were commitments to provide funding to the joint venture. As part of these commitments, Far East H-REIT had provided loans of S$1.5 million in January 2022 to help FIPL with its cashflow as VHS, TOH and TBH were still recovering from the effects of the COVID-19 pandemic and no equity injection was provided in 2022. As at 31 December 2022, the remaining untapped commitments are S$10.5 million. **iii. Has the board/manager considered increasing its stake in FIPL at the right valuation if FIPL is considered strategic to the group's long-term growth plans?** **Manager's Response:** Due to the disruption of operations arising from the COVID-19 pandemic, both the REIT Manager and Sponsor would require performance of FIPL to reach a stable state before discussions and negotiations can take place on an arm's length basis. The REIT Manager will consider increasing its stake in FIPL at an appropriate time, provided that it is yield accretive and meets Far East H-REIT's investment criteria so as to maximise value for Stapled Securityholders. However, as any increase in stake in FIPL will constitute an interested party transaction, it will be subject to the necessary approvals as set out in the SGX Listing Manual, including the approval of unitholders at an extraordinary general meeting, if required.

iv. **What are the properties under the right of first refusal ("ROFR") with the sponsor?**

Manager's Response: At present, the Sponsor has identified seven properties with a total of approximately 1,600 rooms that could potentially be offered to Far East H-Trust. Amongst the pipeline of properties available are notable new developments such as The Clan Hotel, the hotel development on Sentosa (VHS, TOH and TBH), and Oasia Residence which were launched in 2021, 2019 and 2016 respectively.

Apart from Sponsor properties, the REIT Manager actively engages third-party brokers for other potential hospitality assets locally and abroad.

The group has a debt headroom of over $961 million.

v. **Has the manager conducted due diligence on any investment opportunities, including third-party properties?**

Manager's Response: The REIT Manager maintains close contact with third-party brokers, and regularly receives leads on prospective third-party properties. The REIT Manager has carried out preliminary assessment of properties that were deemed suitable and have conducted more in-depth analyses on some of them. The REIT Manager will carry out thorough due diligence and will make an announcement at an appropriate time should there be an intention to acquire a property.

vi. **What are the investment criteria for any possible acquisitions?**

Manager's Response: The REIT Manager has various investment criteria in relation to acquisition opportunities. Some of the key criteria include:

1) Risk-Adjusted Return Requirements – acquisitions that are value-enhancing and can improve returns to Stapled Securityholders while balancing various risks associated with any investment.
2) Location – properties that are well-located and have long-term real estate value.
3) Strong Fundamentals and Organic Growth Potential – properties with good potential for further improvement in performance and contribution to the REIT in the longer term.
4) Strategic Considerations – acquisitions that align with the vision, mission and strategy of Far-East H-REIT.

B. Capital Management

3. **As disclosed in Note 19 (page 178 – Financial risk management: Financial risk management objectives and policies: Interest rate risk) of the 2022 Annual Report, the manager has implemented a policy of mitigating interest rate risk by using financial derivatives or other appropriate financial instruments to fix the interest rates on a portion of the group's outstanding borrowings.**

As at 31 December 2022, approximately 54.1% of the group's borrowings were on fixed interest rates arising from interest rate swap ("IRS") contracts entered into to hedge against the exposure to interest rate volatility.

The manager will regularly evaluate the feasibility of putting in place the appropriate level of interest rate hedges, taking into account prevailing market conditions.

i. **What is the board's view on interest rate trends?**

Manager's Response: Based on the Federal Reserve's latest statement in March 2023 and the Monetary Authority of Singapore's Monetary Policy Statement in October 2022, it is likely that interest rates will remain elevated in the short-term until inflation pressures have been tamed. However, in the longer run, it is also possible that interest rates may head lower should the early signs of global economic uncertainty and recessionary pressures prevail and take greater centre stage.

ii. **What is the weighted average tenure of the interest swap contracts?**

Manager's Response: As at 31 December 2022, the interest rate swap ("**IRS**") contracts range between 0.6 to 2.3 years. The REIT Manager monitors interest rate movements and explores other financial products with various banks on ways to reduce the overall interest cost. The REIT Manager is monitoring the interest rate markets closely and would execute IRS contracts at the appropriate time when the rates are more favourable.

iii. **How costly is it to enter into these swaps?**

Manager's Response: As at 31 December 2022, the average cost of debt is 2.2%. Current Singapore Overnight Rate Average ("**SORA**") rates are much higher and entering into any IRS contract now will increase the cost of debt significantly for a prolonged period.

iv. **For the benefit of Stapled Securityholders, what is the rationale behind hedging 54.1% of the interest rate risks while retaining 45.9% on the books? What factors are considered in making this decision?**

Manager's Response: In managing the interest rate exposure, the REIT Manager enters into IRS contracts to swap the variable-rate borrowings to a fixed-rate to reduce exposure to adverse interest rate movements. The hedge ratio of approximately 50% provides more certainty to finance cost and stability of distribution income to Stapled Securityholders. The remaining variable-rate borrowings give Far East H-REIT the flexibility to benefit during low floating rates environment and opportunities to enter into hedges as and when it is appropriate.

C. Financial Ratios

4.

i. **What is the manager doing to bridge the gap between Net Asset Value ("NAV") and the share price?**

Manager's Response: The challenging operating environment over the past few years due to the downcycle within the hospitality sector and the COVID-19 pandemic had resulted in downward pressure on our price-to-book ("**P/B**") ratio. Many of our peers in comparable industries have also been similarly impacted.

Our strategy to bridge the P/B ratio gap is mutli-pronged, including:

1) Continued focus to improve our operational and financial performance. As recovery for the hospitality sector is underway, we expect to benefit from the upturn as our operational figures continue to improve.

2) The strong divestment gains of Central Square has demonstrated the latent value of the assets in our portfolio and we will continue to educate the market about this potential. Amidst the rising interest rate environment, proceeds from the divestment has also enabled us with the funds to pare down debt and strengthen our balance sheet.

3) The REIT Manager will also continue to work on improving the value of its existing properties through asset enhancement initiatives, so that the improvement in performance of the assets would translate into higher distribution per stapled security ("**DPS**") and in turn, positively impact the stapled security price in the future.

4) With greater financial flexibility and ample debt headroom, the REIT Manager is actively looking at yield accretive hospitality assets locally and abroad to grow the Far East H-REIT portfolio in the years ahead to become one of the leading hospitality S-REIT in Singapore.

ii. Please also explain the reason for having a resolution to issue units when Far East H-REIT is trading at discount relative to NAV? Why not have a resolution to allow for a unit buyback instead?

Manager's Response: A resolution to issue units ("**Units Issuance Mandate**") provides the Managers with the flexibility to issue stapled securities for various purposes, including, payment of management fees in the form of stapled securities, equity fund raising for acquisitions, as well as the potential application of a distribution reinvestment plan, etc.

With the completion of the divestment of Central Square, the REIT Manager is actively looking for yield accretive acquisitions to add to our portfolio of hospitality assets. The Units Issuance Mandate also allows the REIT Manager the flexibility and agility to pursue any opportunities (within the issuance mandate limit) which may arise in a timely manner. Unitholders approval will still be required to be sought if the amount of equity fund raising is larger than the Units Issuance Mandate proposed.

While buyback of units reduces the overall number of stapled securities and would theoretically increase the P/B ratio and DPS, the REIT Manager also has to consider other implications of such an exercise, including free float considerations, cashflow requirements, cost of funding buybacks and guidelines for inclusion in indexes such as the FTSE EPRA Nareit Global Real Estate Index.

On a cashflow front, Far East H-REIT has distributed all of its taxable income to unitholders every year, even though it is only required to distribute at least 90% of its Singapore taxable income in each financial year to unitholders. Given the limited excess funds due to the above, any buyback would require additional debt financing which at the current high interest rate environment could potentially negate any positive impacts of such buybacks.

Nevertheless, the REIT Manager has noted the feedback of having an units buyback mandate and will review and deliberate on the merits and practicality of such a mandate for the next AGM.

By Order of the Board

Gerald Lee Hwee Keong
Chief Executive Officer and Executive Director
FEO Hospitality Asset Management Pte. Ltd.
(Company Registration No. 201102629K)

14 April 2023

By Order of the Board

Gerald Lee Hwee Keong
Chief Executive Officer and Executive Director
FEO Hospitality Trust Management Pte. Ltd.
(Company Registration No. 201210698W)

14 April 2023