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SGX-ST Announcement

FAR EAST HOSPITALITY TRUST

A hospitality 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)

DIVESTMENT OF CENTRAL SQUARE

1. INTRODUCTION

1.1 Proposed Transaction

The Managers¹ of Far East Hospitality Trust (“**Far East H-Trust**”) wish to announce that Far East H-REIT (through DBS Trustee Limited (in its capacity as trustee of Far East H-REIT) (the “**REIT Trustee**” or the “**Vendor**”)), has on 2 December 2021 entered into a put and call option agreement (the “**Put and Call Option Agreement**”, and the binding contract for the sale and purchase of the Leasehold Interest (as defined herein) deemed entered into upon exercise of the call option or (as the case may be) the put option pursuant to the Put and Call Option Agreement, the “**Contract**”) with CDL Constellation Pte. Ltd. (or its nominee(s)), who is an unrelated third-party acquirer (the “**Acquirer**”) for the sale (the “**Divestment**”) of its leasehold interest of a remaining term of approximately 70.7 years (the “**Leasehold Interest**”) in the property known as Central Square (the “**Property**”).

Far East H-REIT currently holds the Leasehold Interest in the Property while OPH Riverside Pte Ltd (“**OPHR**”), a wholly-owned subsidiary of Far East Orchard Limited (“**FEOR**”) ²,

1 FEO Hospitality Asset Management Pte. Ltd., as manager of Far East Hospitality Real Estate Investment Trust (“**Far East H-REIT**”), and as 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 as trustee-manager of Far East H-BT, the “**Trustee-Manager**”, and together with the REIT Manager, the “**Managers**”). The Managers are each 67.0% owned by FEO Asset Management Pte. Ltd., which is a wholly-owned subsidiary of Far East Organization Centre Pte. Ltd. (“**FEOC**”) and 33.0% owned by FEOR.

2 FEOR is a company listed on the Mainboard of Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) in which Far East Organization Pte. Ltd. (“**FEOPL**”) holds a 63.0% majority stake. OPHR, FEOR and FEOPL are all members of the Far East Organization group of companies (the “**FEO Group**”). As at the date of this announcement, the FEO Group holds an aggregate direct and indirect interest in 1,048,953,048 stapled securities in Far East H-Trust (“**Stapled Securities**”), which is equivalent to approximately 53.1% of the total number of Stapled Securities in issue as at the date of this announcement, and is therefore regarded as a “controlling unitholder” of Far East H-REIT and Far East H-BT under the Listing Manual of the SGX-ST (the “**Listing Manual**”). In addition, as the Managers are members of the FEO Group, the FEO Group is therefore regarded as a “controlling shareholder” of the REIT Manager under the Listing Manual and a “controlling shareholder” of the Trustee-Manager under the Listing Manual. As OPHR is a member of the FEO Group, for the purposes of Chapter 9 of the Listing Manual, OPHR (being a subsidiary of a “controlling unitholder” of Far East H-REIT

currently holds the reversionary interest of approximately 1.5 years (the “**Reversionary Interest**”) in the Property³. OPHR has also on 2 December 2021 separately entered into a put and call option agreement with the Acquirer (the “**RI Put and Call Option Agreement**”, and the binding contract for the sale and purchase of the Reversionary Interest to be entered into upon exercise of the call option or (as the case may be) the put option in respect of the RI Put and Call Option Agreement, the “**Reversionary Interest SPA**”) ⁴ for the sale (the “**Reversionary Interest Divestment**”) of its Reversionary Interest.

2. KEY ASPECTS OF THE DIVESTMENT

2.1 Consideration and Valuation

The purchase consideration payable by the Acquirer for the Leasehold Interest is S\$313.2 million (the “**Divestment Consideration**”) plus a potential incentive fee of up to S\$18.0 million (“**Conditional Incentive Payment**”) which is payable if the Acquirer (using best commercial efforts) obtains provisional permission for the redevelopment on the Property in respect of certain zonings and gross floor area allowed in the provisional permission, by 31 December 2023, as set out below in paragraph 2.5 of this announcement. The Divestment Consideration was negotiated on a willing-buyer and willing-seller basis, taking into account the independent valuation described below and will be satisfied in cash.

The REIT Trustee and the REIT Manager had commissioned an independent valuer, Savills Valuation And Professional Services (S) Pte Ltd (“**Savills**”), to value the Property⁵.

The open market value of the Property as at 25 October 2021 determined by Savills is S\$271.4 million, based on the aforementioned basis and the residual method and the direct comparison method. The Divestment Consideration represents a premium of 15.4% to Savills’ valuation⁶, and is approximately 57.9% above the book value of the Leasehold Interest of the

and Far East H-BT and a subsidiary of a “controlling shareholder” of the Managers) is (for the purposes of the Listing Manual) an “interested person”.

- 3 As disclosed in the prospectus dated 16 August 2012 in connection with the initial public offering of Far East H-Trust, Far East H-REIT (through the REIT Trustee) entered into a conditional 80-year leasehold agreement with OPHR (who was granted a 99-year State lease in the Property by the State as head lessor) to acquire an 80-year leasehold interest in the Property for a purchase consideration of S\$183.3 million. OPHR has continued to hold the Reversionary Interest.
- 4 As the Reversionary Interest SPA is not entered into with Far East H-REIT or Far East H-BT and the Contract is not entered into by OPHR, neither the Divestment nor the Reversionary Interest Divestment is an Interested Person Transaction under Chapter 9 of the Listing Manual. The aggregate value of the purchase consideration payable by the Acquirer to OPHR for the Reversionary Interest Divestment of S\$1.8 million, and is in addition to and separate from the Divestment Consideration (as defined herein). As OPHR will benefit from a sale of its Reversionary Interest to the Acquirer, OPHR agreed to sell the Reversionary Interest to the Acquirer to facilitate Far East H-REIT’s Divestment, the REIT Trustee, FEOR and OPHR had jointly commissioned the valuation of OPHR’s Reversionary Interest and the open market value of the Reversionary Interest as at 30 April 2021 determined by CBRE Pte. Ltd. (“**CBRE**”) and Savills was S\$900,000 and S\$890,000 respectively, based on the income capitalisation method and the 10 year discounted cashflow analysis (both used by CBRE and Savills) and additionally the direct comparison method (used by Savills).
- 5 Although the Leasehold Interest is for a remaining term of approximately 70.7 years only, the Property was valued on the basis of a fresh 99-year lease redevelopment site, subject to estimated differential premium payable to extend the existing lease to a fresh 99 years and an increase in proposed gross floor area for each use in line with the grant of the URA Outline Permission (as defined herein) and the basis on which the Tender (as defined herein) was carried out. For the avoidance of doubt, Far East H-REIT will not be responsible for payment of the differential premium required to extend the lease.
- 6 If the Conditional Incentive Payment of S\$18.0 million is payable, the total consideration for the Divestment will represent a premium of 22.0% to Savills’ valuation.

Property as at 30 September 2021⁷. After providing for the Total Divestment Cost (as defined herein), the estimated net gain is approximately S\$112.0 million from the Divestment⁸.

2.2 Estimated Total Cost

The estimated total cost of the Divestment ("**Total Divestment Cost**") is approximately S\$2.9 million, comprising:

- (i) the divestment fee payable to the REIT Manager for the Divestment pursuant to the trust deed dated 1 August 2012 (as amended) constituting Far East H-REIT of approximately S\$1.6 million⁹ (being 0.5% of the Divestment Consideration); and
- (ii) the estimated professional and other fees and expenses incurred or to be incurred by Far East H-REIT in connection with the Divestment of approximately S\$1.3 million.

2.3 Other Arrangements

In connection with the Divestment, the REIT Trustee and OPHR have, on 2 December 2021, agreed to, *inter alia*, enter into an agreement to terminate the master lease agreement (the "**Master Lease Agreement**") entered into on 27 August 2012 between the REIT Trustee, the REIT Manager and OPHR and to terminate the service agreements relating to the Property entered into between the REIT Trustee and OPHR in relation to the Property. The aforesaid terminations will be effected as at the completion of the Divestment.

The REIT Trustee has agreed to waive its rights to the unutilised amounts of the furniture, fixtures, furnishings and equipment reserve with regard to the Property as at the completion of the Divestment, such amount as at the date of this announcement being approximately S\$940,111 (the "**FF&E Reserve**", and the amount of the waiver by the REIT Trustee of the unutilised amount of the FF&E Reserve, the "**FF&E Reserve Waiver**")¹⁰. The FF&E Reserve Waiver will be effected as at the completion of the Divestment.

2.4 Use of Divestment Proceeds

After taking into account the estimated Total Divestment Cost of approximately S\$2.9 million, it is estimated that the net proceeds from the Divestment (which excludes the Conditional

7 The book value of the Leasehold Interest of the Property as at 30 September 2021 is approximately S\$198.3 million, based on an independent valuation by Knight Frank Pte Ltd as at 31 December 2020. If the Conditional Incentive Payment of S\$18.0 million is payable, the total consideration for the Divestment will represent a premium of 67.0% to the book value of the Leasehold Interest of the Property as at 30 September 2021.

8 The Divestment Net Proceeds are S\$112.0 million in excess of the book value of the Leasehold Interest of the Property of approximately S\$198.3 million as at 30 September 2021.

9 If the Conditional Incentive Payment is payable, the REIT Manager will also receive 0.5% of the amount of the Conditional Incentive Payment in divestment fees. For the avoidance of doubt, this additional divestment fee will only be paid after the REIT Trustee has received the Conditional Incentive Payment.

10 Under the Master Lease Agreement, the REIT Trustee is entitled to the return of the unutilised amounts of the FF&E Reserve on termination of the Master Lease Agreement. However, as OPHR will benefit from a sale of its Reversionary Interest to the Acquirer, OPHR agreed to sell its Reversionary Interest to the Acquirer to facilitate Far East H-REIT's Divestment, the REIT Trustee agreed to the FF&E Reserve Waiver. The FF&E Reserve Waiver is an Interested Person Transaction under Chapter 9 of the Listing Manual. The amount of the FF&E Reserve Waiver is approximately S\$940,111 as at the date of this announcement (which is 0.06% of both the latest audited net tangible assets ("**NTA**") and net asset value ("**NAV**") of Far East H-REIT as at 31 December 2020) and is therefore less than 3.0% of Far East H-REIT's latest audited NTA. As the value of the FF&E Reserve Waiver, when aggregated with existing interested person transactions with the FEO Group and its associates for the current financial year, would not exceed 3.0% of the latest audited NTA of Far East H-REIT, Rule 905 of the Listing Manual does not apply.

Incentive Payment), would be S\$310.3 million (the “**Divestment Net Proceeds**”).

The Divestment Net Proceeds may be used to pare down debt, to fund potential acquisitions, for distribution to holders of the Stapled Securities (the “**Stapled Securityholders**”) and/or to finance general corporate and working capital requirements.

Pending such deployment, the net sale proceeds of the Divestment, subject to relevant laws and regulations may be deposited with banks and/or financial institutions or used for any other purpose on a short-term basis as the Managers may, in its discretion, deem fit.

2.5 Principal Terms of the Contract

Pursuant to the Put and Call Option Agreement and the Contract, the sale of the Leasehold Interest is subject to, among others, the following terms and conditions:

- (i) an option fee of 15% of the purchase price of S\$313.2 million amounting to S\$46.98 million, is to be paid by the Acquirer to the Vendor on the date of the Put and Call Option Agreement;
- (ii) the Acquirer shall be entitled to nominate an entity or entities to be its nominees, Provided Always that such entity or entities shall be wholly owned, whether directly or indirectly, by City Developments Limited (“**CDL**”);
- (iii) the call option or the put option under the Put and Call Option Agreement must be exercised on 17 March 2022;
- (iv) completion of the Divestment is expected to take place on 24 March 2022;
- (v) contemporaneous (a) entry into the RI Put and Call Option Agreement, (b) exercise of the call option or (or as the case may be) put option granted under the RI Put and Call Option Agreement, and (c) completion of the Reversionary Interest SPA;
- (vi) a novation of the memorandum of agreement entered into between the REIT Trustee and the owners of the adjoining property on the respective rights and obligations of the Vendor and the owners of the adjoining property relating *inter alia* to the common areas;
- (vii) an assignment of the certain occupation agreements and certain maintenance contracts;
- (viii) certain representations and warranties made by the REIT Trustee, where its liabilities thereunder are subject to a maximum aggregate liability, minimum threshold claims, and a limited period for claims;
- (ix) a right of termination by the Acquirer if it is found that there is any breach of the title warranties by the REIT Trustee;
- (x) the grant of outline permission issued by the Urban Redevelopment Authority (“**URA**”) on 8 September 2021 (including the approved maximum gross floor area (“**GFA**”) of 31,758 square metres (“**sqm**”) for the redevelopment of the Property) (“**URA Outline Permission**”) is subsisting and/or remaining valid on 8 March 2022;
- (xi) certain ancillary documents related to the Divestment being entered into; and

- (xii) the Contract will be deemed to be terminated if the Reversionary Interest SPA is terminated.

Pursuant to the Contract, an incentive fee of up to S\$18.0 million (S\$18.0 million being the maximum amount of the Conditional Incentive Payment) shall be paid to the Vendor if the Acquirer (using best commercial efforts) obtains provisional permission by 31 December 2023, for the redevelopment of the Property with a higher mix of residential use above certain thresholds. The Conditional Incentive Payment is not payable if the aforesaid conditions are not satisfied or if the Acquirer's application for planning permission is not approved, or is rejected or refused by URA.

The Contract is not subject to the Acquirer obtaining any planning permission (whether the aforementioned provisional permission or otherwise) in respect of any redevelopment of the Property and, consequently, the Contract is not subject to the payment of the Conditional Incentive Payment.

The Contract contains other customary provisions relating to the Divestment.

3. THE RATIONALE FOR THE DIVESTMENT

3.1 Background

Over the past few years, the Managers have been working closely with CDL on a proposed rejuvenation plan for the precinct encompassing Central Square and Central Mall. The proposal received the support of the URA under its Strategic Development Incentive Scheme.

In March 2021, Far East H-Trust announced that it had received an outline advice by URA in relation to the proposed redevelopment plan of Central Square. It was followed by the grant of the URA Outline Permission, an outline permission from URA in September 2021 specifying further details on the proposed rezoning of the site and an increase in the maximum permissible GFA for Central Square by 78% to 31,758 sqm (subject to specific approvals from the relevant authorities).

Following the grant of the URA Outline Permission, the Managers evaluated all options including undertaking redevelopment of the site, and concluded that it will be in the best interest of Stapled Securityholders to divest the Property. This is due to several considerations, including the long gestation period and the 10% development limit applicable to S-REITs will be exceeded should Far East H-REIT undertake the redevelopment.

To secure the best offer for the Property, Far East H-Trust appointed Knight Frank Pte Ltd as the marketing agent to carry out a tender exercise to invite bids from interested purchasers (the "**Tender**"). To ensure transparency, an independent auditor was also engaged to witness the tender opening. CDL emerged as the highest bidder in the Tender.

3.2 Key Benefits of the Divestment

The Managers believe that the Divestment will bring the following key benefits to the Stapled Securityholders.

3.2.1 Realise the Long Term Growth in Value for Stapled Securityholders

Undertaking the redevelopment value creation process, which culminated in the successful Tender of Central Square at a 70.8% premium to the original purchase price of S\$183.3 million in August 2012 and 57.9% above the last valuation of S\$198.3 million¹¹, highlights the latent value of the Far East H-Trust's hospitality portfolio while realising a significant gain on disposal of approximately S\$112.0 million for Stapled Securityholders.

3.2.2 Strengthen the Balance Sheet

Before redeployment to further growth opportunities, the Managers intend to use the Divestment Net Proceeds to repay debt of Far East H-Trust to strengthen its balance sheet, enhance capital efficiency and manage borrowing costs. The aggregate leverage of Far East H-Trust will be lowered from 41.3% as at 30 June 2021 to 33.5% on a pro forma basis on the assumption that 83.9% of the Divestment Net Proceeds are used to repay outstanding borrowings as at 30 June 2021.

3.2.3 Increase Financial Flexibility for Future Acquisitions

Having taken the opportunity to strategically divest Central Square and reduce the aggregate leverage of Far East H-Trust, the Managers would have the financial flexibility and gearing headroom for future acquisitions to replace the lost net property income from Central Square with higher yielding, accretive assets, whether in Singapore or in select overseas markets. This would improve the overall portfolio yield while also potentially diversifying the portfolio.

4. FINANCIAL EFFECTS OF THE DIVESTMENT

4.1 Pro Forma Financial Effects of the Divestment

The pro forma financial effects of the Divestment on the NAV per Stapled Security and Distribution per Stapled Security ("**DPS**") presented below are strictly for illustrative purposes only and do not reflect the actual position of Far East H-Trust after the completion of the Divestment. They were prepared based on the audited financial statements of Far East H-Trust for the financial year ended 31 December 2020 ("**FY2020**"), being the latest available full year financial statements of Far East H-Trust, taking into account the Divestment Consideration, Total Divestment Cost and assuming that all the net proceeds would be used to repay outstanding borrowings.

4.1.1 Pro Forma NAV

FOR ILLUSTRATIVE PURPOSES ONLY: The pro forma financial effects of the Divestment on Far East H-Trust's NAV per Stapled Security as at 31 December 2020, as if the Divestment was completed on 31 December 2020, are as follows:

11 Independent valuation by Knight Frank Pte Ltd as at 31 December 2020 and which is also the book value of the Leasehold Interest of the Property as at 30 September 2021.

	Effects of the Divestment	
	Before the Divestment ⁽¹⁾	After the Divestment ⁽²⁾
NAV (S\$'000)	1,557,684	1,669,724
No. of Stapled Securities ('000)	1,966,891 ⁽³⁾	1,966,891
NAV per Stapled Security (cents)	79.2	84.9

Notes:

- (1) Based on the audited financial statements of Far East H-Trust for FY2020
- (2) Based on the assumption that 83.9% of the Divestment Net Proceeds are used to repay outstanding borrowings as at 31 December 2020.
- (3) Based on the number of Stapled Securities in issue and to be issued as at 31 December 2020.

4.1.2 Pro Forma DPS

FOR ILLUSTRATIVE PURPOSES ONLY: The pro forma financial effects of the Divestment on Far East H-Trust's DPS for FY2020, as if the Divestment was completed on 1 January 2020 are as follows:

	Effects of the Divestment	
	Before the Divestment ⁽¹⁾	After the Divestment ⁽²⁾
Income available for distribution to Stapled Securityholders (S\$'000)	47,887	48,209 ⁽³⁾
No. of Stapled Securities ('000)	1,964,121 ⁽⁴⁾	1,963,107
DPS (Singapore cents) ⁽⁵⁾	2.44	2.46

Notes:

- (1) Based on the audited financial statements of Far East H-Trust for FY2020
- (2) Based on the assumption that 83.9% of the Divestment Net Proceeds are used to repay outstanding borrowings on 1 January 2020.
- (3) This excludes any capital distribution or gain from divestment of investment property.
- (4) Based on the number of Stapled Securities in issue and to be issued as at 31 December 2020 entitled to distribution for FY2020.
- (5) DPS is derived based on the income available for distribution to Stapled Securityholders, divided by the number of Stapled Securities entitled to distribution.

5. OTHER INFORMATION

5.1 Interests of Directors and Substantial Stapled Securityholders

Based on information available to the Managers as at the date of this announcement, none of the directors of the Managers or Substantial Stapled Securityholders has an interest, direct or indirect, in the Divestment.

5.2 Directors' Service Contracts

No person is proposed to be appointed as a director of the Managers in connection with the Divestment or any other transactions contemplated in relation to the Divestment.

5.3 Disclosure under Rule 1006 of the Listing Manual

Chapter 10 of the Listing Manual classifies transactions by an issuer into (i) non-discloseable transactions, (ii) discloseable transactions, (iii) major transactions and (iv) very substantial acquisitions or reverse takeovers, depending on the size of the relative figures computed on, *inter alia*, the following applicable bases of comparison set out in Rules 1006(a), 1006(b) and 1006(c) of the Listing Manual:

- (i) the net asset value of the assets to be disposed of, compared with Far East H-Trust's net asset value;
- (ii) the net profits attributable to the assets acquired or disposed of, compared with Far East H-Trust's net profits; and
- (iii) the aggregate value of the consideration given or received, compared with Far East H-Trust's market capitalisation based on the total number of issued Stapled Securities.

Rule 1006(d) of the Listing Manual does not apply in relation to the Divestment as no Stapled Securities will be issued as consideration for the Divestment.

The relative figures for the Divestment using the applicable bases of comparison described above are set out in the table below.

Comparison of	Divestment	Far East H-Trust	Relative figure (%)
NAV (S\$ million)	198.3 ⁽¹⁾	1,561.6 ⁽²⁾	12.7
Profits ⁽³⁾ (S\$ million)	2.3	36.2 ⁽²⁾	6.4
Divestment Consideration against market capitalisation (S\$ million)	313.2 ⁽⁴⁾	1,150.5 ⁽⁵⁾	27.2

Notes:

- (1) Based on the carrying value of the Property as at 30 June 2021.
- (2) Based on unaudited consolidated financial statements of Far East H-Trust for the half-year ended 30 June 2021 ("1H2021") announced on 30 July 2021.
- (3) Based on the unaudited net property income attributable to the Property and Far East H-Trust for 1H2021.
- (4) The figure represents the Divestment Consideration.
- (5) Based on the weighted average traded price of S\$0.5826 per Stapled Security on the SGX-ST as at 1 December 2021, being the market day immediately preceding the date of the Put and Call Option Agreement.

As the relative figures computed on the bases set out in Rule 1006(a), Rule 1006(b) and Rule 1006(c) of the Listing Manual in respect of the Divestment do not exceed 50.0%, the Divestment is not subject to the approval of the Stapled Securityholders pursuant to Rule 1014(3) of the Listing Manual.

5.4 Documents for Inspection

A copy of each of the (1) Put and Call Option Agreement, and (2) valuation report of the independent valuer in respect of the Leasehold Interest are available for inspection by appointment only at the registered office of the Managers at 1 Tanglin Road #05-01, Orchard Rendezvous Hotel, Singapore 247905 during normal business hours for a period of three months commencing from the date of this announcement.

By Order of the Board

Gerald Lee Hwee Keong
Chief Executive Officer
FEO Hospitality Asset Management Pte. Ltd.
(as manager of Far East Hospitality Real Estate
Investment Trust)
(Company Registration No. 201102629K)
2 December 2021

By Order of the Board

Gerald Lee Hwee Keong
Chief Executive Officer
FEO Hospitality Trust Management Pte. Ltd.
(as trustee-manager of Far East Hospitality
Business Trust)
(Company Registration No. 201210698W)
2 December 2021

Important Notice

This announcement is for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for stapled securities in Far East H-Trust (the “**Stapled Securities**”).

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 Managers or any of their 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 the Managers to redeem their Stapled Securities while the Stapled Securities are listed. It is intended that Stapled Securityholders may only deal in their Stapled Securities through trading on 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 Far East H-Trust is not necessarily indicative of the future performance of Far East H-Trust. This announcement is for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for Stapled Securities in the United States.

This announcement is not for publication or distribution, directly or indirectly, in or into the United States (including its territories and possessions, any state of the United States and the District of Columbia), Canada or Japan. The securities referred to herein have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”), and may not be offered or sold in the United States, except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements under the Securities Act. No public offering of securities is being made in the United States.