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EAGLE HOSPITALITY TRUST

EAGLE HOSPITALITY TRUST

Comprising:

EAGLE HOSPITALITY REAL ESTATE INVESTMENT TRUST	**EAGLE HOSPITALITY BUSINESS TRUST**
(a real estate investment trust constituted on 11 April 2019 under the laws of the Republic of Singapore)	(a business trust constituted on 11 April 2019 under the laws of the Republic of Singapore)
managed by	managed by
Eagle Hospitality REIT Management Pte. Ltd.	**Eagle Hospitality Business Trust Management Pte. Ltd.**

SUMMARY OF RECENT RESPONSES

The board of Eagle Hospitality REIT Management Pte. Ltd., as manager of Eagle Hospitality Real Estate Investment Trust ("**EH-REIT**", and the manager of EH-REIT, the "**REIT Manager**"), and Eagle Hospitality Business Trust Management Pte. Ltd., as trustee-manager of Eagle Hospitality Business Trust ("**EH-BT**", and the trustee-manager of EH-BT, the "**Trustee-Manager**", and collectively with the REIT Manager, the "**Managers**"), would like to summarise and reiterate its responses to the various recent issues that have been raised relating to Eagle Hospitality Trust ("**EHT**") in the last few weeks to seek to address investors' concerns.

Queen Mary

Background and summary

Urban Commons and EH-REIT are in compliance with the requirements under the ground lease with the City of Long Beach (the "**City**") for Queen Mary and are not in default. Urban Commons has a constructive relationship with the City and maintains a frequent and collaborative dialogue to ensure the proper upkeep and maintenance of the iconic asset. As part of "good lease management", the City sent a letter to Urban Commons requesting for certain specified repair and maintenance items to be addressed. Urban Commons responded to the City in a timely fashion with a proposal to complete the required works at an estimated cost of only up to US$7 million within the next two years. Importantly, Urban Commons as the master lessee under the triple net master lease with EH-REIT is responsible for the capital expenditure for Queen Mary. As previously announced, there are multiple reserve mechanisms generating annual resources for future maintenance and investment in Queen Mary by Urban Commons and the City. The City has expressed confidence in Urban Commons' plan for remedial action at Queen Mary.

DBS Bank Ltd. was the Sole Financial Adviser and Issue Manager for the initial public offering of Eagle Hospitality Trust ("**EHT**").

Marine Survey

Media reports have cited a marine survey conducted in 2017 by an engineering firm, Simpson Gumpertz & Heger ("**Marine Survey**"), which alleged US$235 million to US$289 million of required repairs to the ship. The REIT Manager understands from Urban Commons that the commissioning of the Marine Survey was led by a historian employed by the property manager of the Queen Mary, which engaged the engineering firm. The Marine Survey grossly overstated the nature, scope and cost of the repairs required at the Queen Mary and it did not form the basis for the agreement between the City and Urban Commons regarding the cost of expected repairs to Queen Mary.

Urban Commons had completed certain of the repairs noted in the Marine Survey at a mere fraction of the costs estimated. An example of the overstatement of costs relates to repairs to the hull. Approximately 74% of the cost associated with the Marine Survey related to "urgent hull repairs" at an exorbitant purported cost between US$175.4 million and US$212.7 million, which contemplated the potential of dry docking the ship to perform repairs. The work was to be conducted by a firm in the UK (where the vessel was built) with repairs done in a manner in which the ship was originally constructed, as opposed to for its current use as permanently moored in the peaceful harbour of Long Beach. Note that prior to the IPO, Urban Commons already addressed substantially all of such urgent hull repairs at a cost of approximately US$1.1 million, which was approved by the City. The difference in cost was attributable to a completely different scope of work, *i.e.* a fortification that considered its current and <u>stationary</u> use. Urban Commons' approach included a proper and thorough scientific analysis conducted by an independent structural engineer's report from John A. Martin & Associates Inc. in 2018 ("**JAMA Report**"). The JAMA Report was further reviewed and supported by R. Maddison CEng. MPhil, a third party naval architect ("**Naval Architect**") and Chartered Engineer. There are a variety of examples of other excessive and/or unnecessary costs.

Further, with knowledge of the Marine Survey and in connection with the IPO, the debt on the Queen Mary was refinanced as part of EHT's senior unsecured credit facility; the lenders conducted significant due diligence on the bulk of the assets in the IPO portfolio including the Queen Mary.

Current repair costs

It is important to note that prior to the IPO, Urban Commons had already spent US$23.5 million to address some of the most urgent items that had been earlier identified, including the US$1.1 million to repair the hull.

In the letter from the City dated 1 October 2019, certain residual repair and maintenance items were identified and subsequently addressed by Urban Commons. These items have an estimated cost of only up to US$7 million to be spent over two years. The estimated cost is supported by an actual bid from a construction firm, Roberts Construction, Inc., to complete the side shell repair and lifeboat removal at a cost of US$4.8 million, which represents the most significant components of the work. The City is currently reviewing Urban Commons' proposal and the REIT Manager will make the necessary announcements as and when there are any material updates relating to the Queen Mary.

In any event, Urban Commons as the master lessee under the triple net master lease with EH-REIT is responsible for the capital expenditure for the Queen Mary; there are multiple reserve mechanisms in place generating annual resources for future maintenance and investment in Queen Mary by Urban Commons and the City, including the Historical Preservation Capital Improvement Plan ("**HPCIP**") fund which is generated from fees for each passenger who embarks and disembarks from the adjacent Carnival Cruise Line ferry terminal, and a Capital Improvement Fund ("**CIF**"), which Urban Commons funds at 2% of revenues in 2019 and 3% starting in 2020 and thereafter.

Communication with the City

Upon becoming aware of the 1 October 2019 letter from the City, the REIT Manager immediately communicated with Urban Commons on a formal basis and made requests, including clarification related to the substance of the 1 October 2019 letter. The REIT Manager was informed that the letter was indeed, not a notice of default and that Urban Commons was well equipped to respond to the City within the requested period. Given the above, the REIT Manager had not made an announcement at that stage as it was seeking clarifications on the letter as part of prudent fact finding. On 23 October 2019, after becoming aware of a post-market release of an article by The Edge Singapore with misleading and inaccurate information, and having received questions and concerns expressed to the REIT Manager from the Singapore finance community and investors that evening, the REIT Manager called for a trading halt as a matter of prudence to ensure orderly trading and to prepare a response to clarify the contents of the article and to appropriately represent the circumstances regarding Queen Mary.

ASAP Holdings ("ASAP")

ASAP6 Portfolio Acquisition

EHT acquired 18 assets as part of the IPO. Six of the 18 assets were referred to as the ASAP6 Portfolio in the prospectus of EHT ("**Prospectus**"), highlighting the source of origin, *i.e.* ASAP.

Urban Commons acquired the ASAP6 Portfolio from ASAP prior to the IPO before selling the assets to EHT as part of the IPO portfolio. ASAP sold the ASAP6 Portfolio to Urban Commons prior to the IPO in order to gain transaction certainty independent of the IPO process. The REIT Manager understands that Urban Commons entered into purchase agreements to acquire the assets on 12 March 2019 with the intent to own these assets regardless of the outcome of the IPO.

The REIT Manager would also like to highlight that the ASAP6 Portfolio has been valued by two independent valuers in connection with the IPO and that each of the six assets of the ASAP6 Portfolio were injected into EH-REIT at a discount of at least 12% to their adopted valuation as of 31 December 2018.

Relationship with ASAP

ASAP is not related to Urban Commons, EHT, the Managers and the Managers' respective directors, key management and other substantial stapled securityholders and neither Urban Commons nor the Managers are controlled by ASAP or *vice versa*.

The REIT Manager understands from Urban Commons that prior to the IPO, none of ASAP or its directors or equity holders had any financial interest in EHT's portfolio of assets (other than the ASAP6 Portfolio) and none of ASAP or its directors or equity holders were involved in the operation of these assets. While ASAP historically introduced certain acquisition opportunities to Urban Commons, including the Queen Mary, Urban Commons made its own independent investment decisions in acquiring these assets. For the avoidance of doubt, the Queen Mary was acquired by Urban Commons from Garrison Investment Group in 2016 and not from ASAP. Other than the ASAP6 Portfolio, each of the remaining 12 assets in EHT's IPO portfolio was acquired by Urban Commons between 2011 to 2016.

The REIT Manager understands that ASAP is run by Mr Frank Yuan, Mr Norbert Yuan and Mr Jerome Yuan, among others. Mr Frank Yuan, Mr Norbert Yuan and Mr Jerome Yuan were introduced by Urban Commons to the placement agents during the bookbuilding process for the IPO and subscribed for stapled securities in the placement tranche at the IPO price of US$0.78 per stapled security as part of a bookbuilding process by the placement agents. The participation by Mr Frank Yuan, Mr Norbert Yuan and Mr Jerome Yuan was independent of the sale by ASAP to Urban Commons of the ASAP6 Portfolio which took place prior to the IPO.

The REIT Manager is not able to speculate or comment on the investment or divestment decision-making of Mr Frank Yuan, Mr Norbert Yuan and Mr Jerome Yuan with respect to their interests in the stapled securities of EHT.

IPO Process and Underwriter Endorsement

The REIT Manager refers to the Letter to the Editor - "EHT listing should have been a no-no with SGX" dated 8 November 2019 published in the Business Times ("**Letter to BT**"). The REIT Manager appreciates the writer's perspective and would like to take the opportunity to address the concerns raised. To reiterate, the IPO underwent a rigorous and thorough due diligence and regulatory process. In addition, six leading financial institutions endorsed and underwrote EHT's IPO, five of which are also lenders to EHT. The transaction was supported by DBS Bank Ltd., as the sole financial adviser, issue manager and global coordinator, along with other reputable and experienced global investment banks comprising three more global coordinators and two bookrunners.

Master Lease Construct

The Letter to BT also makes reference to "Sponsor credibility" and states that, "Investors buying the Reit on 'guaranteed' master lease payments should note that the strength of these leases is only as strong as the entity making the payments".

While we agree that any lease has counterparty risk, the REIT Manager would like to clarify that EHT's master leases were designed to be fully covered by the operating performance of the underlying properties; as such, the master lease structure is not meant to be a form of artificial income support. Again, the structure of EHT's master leases are similar to the master lease arrangements for hotels owned by other hospitality trusts listed on the SGX. EHT receives rental payments from the master lessee which are directly correlated to the underlying operating business and profitability of the respective hotels. In addition, the master leases contain a fixed rent component, representing a minimum floor rental payment by the master lessee to EH-REIT, which is meant to provide downside protection in situations of meaningful underperformance due to unforeseen circumstances.

Valuations

Also stated in the Letter to BT is the following: "Six out of 18 hotels (or a third of EHT's portfolio) lack any valuation numbers, so investors are essentially buying these assets blindfolded."

Contrary to the above, there are two independent valuations as of 31 December 2018 for all the 18 hotels in the IPO portfolio acquired by EHT, including the six assets in the ASAP6 Portfolio. As disclosed, the properties were independently valued by Colliers and HVS based on established methodologies, including discounted cashflow analysis and/or direct sales comparison.

The Letter to BT also states that, "Based on their 2018 net property income (NPI) of US$45 million, the remaining 12 hotels are valued at a high capitalisation rate of 4.9 per cent (US$910 million valuation)."

We believe the writer meant to say: "a 'low' capitalisation rate of 4.9 per cent". That said, the REIT Manager believes that referencing the 4.9% cap rate for 2018 is misleading and not representative. It is not a stabilised cap rate. One of the most significant merits of EHT's portfolio was the US$174 million of recent capital expenditures disclosed in the Prospectus; US$103 million of which were completed in 2018 and relate to certain of the 12 assets referenced. The significant expenditure concentrated in 2018 created meaningful operational displacement, temporarily depressing NPI for 2018.

Expressing a cap rate based on temporarily depressed NPI as a function of a stabilised valuation (pursuant to independent appraisals) would result in a misleading and understated figure.

In summary, the REIT Manager would like to highlight that EHT's assets are concentrated in the top-30 MSAs[1] within the US (out of 383 total MSAs). The markets in which EHT owns assets are some of the most valuable hotel markets within the US, which on average, have among the lowest cap rates in the US. In addition, EHT's amenity-rich full-service portfolio is primarily branded by leading global franchisors and

1 MSAs means Metropolitan Statistical Areas.

benefits from significant capital investment, further supporting attractive valuation metrics.

For and on behalf of the Board
Salvatore G. Takoushian
Chief Executive Officer

Eagle Hospitality REIT Management Pte. Ltd.
(Company Registration No.: 201829789W)
as manager of Eagle Hospitality Real Estate Investment Trust

Eagle Hospitality Business Trust Management Pte. Ltd.
(Company Registration No.: 201829816K)
as trustee-manager of Eagle Hospitality Business Trust

15 November 2019

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