
ENTRY INTO JOINT VENTURE FOR A 850-ROOM HOTEL DEVELOPMENT AT SENTOSA

1. INTRODUCTION

1.1 The Joint Venture

FEO Hospitality Asset Management Pte. Ltd. (the “**REIT Manager**”), as manager of Far East Hospitality Real Estate Investment Trust (“**Far East H-REIT**”), and FEO Hospitality Trust Management Pte. Ltd. (the “**Trustee-Manager**”), as trustee-manager of Far East Hospitality Business Trust (“**Far East H-BT**”), wish to announce that DBS Trustee Limited (in its capacity as trustee of Far East H-REIT, the “**REIT Trustee**”), has today entered into a joint venture agreement (the “**Joint Venture Agreement**”) with Far East Organization Centre Pte. Ltd. (“**FEOC**”) ¹ and Fontaine Investment Pte. Ltd. (“**JVCo**”) in connection with the development of a new hotel site located at Artillery Avenue, Sentosa ² (the “**Development**”) by JVCo (the “**Joint Venture**”). The Development is expected to be managed by a member of Far East Organization (the “**Project Manager**”).

Under the terms of the Joint Venture Agreement, FEOC and Far East H-REIT will hold 70.0% and 30.0% of the aggregate issued share capital in JVCo respectively (the “**Agreed Proportion**”).

The consideration for the investment (the “**Investment**”) in a 30.0% stake in JVCo by Far East H-REIT pursuant to the Joint Venture Agreement will be fully funded by debt and is not, in itself, expected to have any material impact on the distribution per stapled security in Far East Hospitality Trust (“**Far East H-Trust**”) for the financial year ending 2014. Prior to the Subscription (as defined herein), JVCo was wholly-owned by FEOC.

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- 1 Both the REIT Manager and the Trustee-Manager (collectively, the “**Managers**”) are 67.0% owned by FEO Asset Management Pte Ltd (“**FAMPL**”), which is a wholly-owned subsidiary of FEOC, and 33.0% owned by Far East Orchard Limited (“**FE Orchard**”), which is 59.5% owned by Far East Organisation Pte Ltd (“**FEOPL**”). FEOC, FEOPL and FE Orchard are all members of Far East Organization group of companies (“**Far East Organization**”).
- 2 The award by Sentosa Development Corporation (“**SDC**”) to FEOC of the tender for the hotel site was announced by SDC and Far East Organization in the joint press release entitled “Sentosa awards tender for new hotel site” on 12 March 2014 (the “**Award Press Release**”). FEOC will nominate JVCo to hold the hotel site.

1.2 Disclosure Requirements

As at the date of this announcement, FEOC, Golden Development Private Limited, Golden Landmark Pte Ltd, Oxley Hill Properties Pte Ltd, Riverland Pte Ltd and the REIT Manager, being members of Far East Organization, hold in aggregate approximately 54.2% of the total number of stapled securities of Far East H-Trust (“**Stapled Securities**”) in issue. Far East Organization is therefore regarded as a “controlling unitholder” of Far East H-REIT under both the listing manual (the “**Listing Manual**”) of Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) and Appendix 6 of the Code on Collective Investment Schemes (the “**Property Funds Appendix**”) issued by the Monetary Authority of Singapore and a “controlling unitholder” of Far East H-BT under the Listing Manual. Separately, both the Managers are 67.0% owned by FAMPL which is a wholly-owned subsidiary of FEOC, and 33.0% owned by FE Orchard, which is 59.5% owned by FEOPL, which are all members of Far East Organization. Far East Organization is therefore regarded as a “controlling shareholder” of the REIT Manager under the Listing Manual and the Property Funds Appendix and a “controlling shareholder” of the Trustee-Manager under the Listing Manual.

For the purposes of Chapter 9 of the Listing Manual and the Property Funds Appendix, Far East Organization (being a “controlling unitholder” and a “controlling shareholder” of the REIT Manager) and associates of Far East Organization (including FEOC, JVCo (being parties to the Joint Venture Agreement) and the REIT Manager) are (for the purposes of the Listing Manual) “interested persons” of Far East H-REIT and (for the purposes of the Property Funds Appendix) “interested parties” of Far East H-REIT.

Accordingly, the entry into the Joint Venture Agreement and the Investment are “interested person transactions” under Chapter 9 of the Listing Manual and “interested party transactions” under the Property Funds Appendix. These transactions, when aggregated with the existing interested person transactions and interested party transactions with Far East Organization and its associates for the current financial year, would exceed 3.0% of the latest audited net tangible assets of Far East H-REIT, and accordingly under Rule 905 of the Listing Manual and paragraph 5.2 of the Property Funds Appendix, the REIT Manager must make an announcement of such interested person transactions and interested party transactions, respectively. However, as these transactions, when aggregated with the

existing interested person transactions and interested party transactions with Far East Organization and its associates for the current financial year, do not exceed 5.0% of the latest audited net tangible assets of Far East H-REIT, the approval of the holders of stapled securities of Far East H-Trust (“**Stapled Securityholders**”) is not required.

2. INFORMATION ON THE DEVELOPMENT

The hotel site at Artillery Avenue, Sentosa, comprises a cluster of conserved buildings which have been repurposed as hotels.

Spanning an area of approximately 44,685 sqm (480,987 sqft), the land parcel offered for sale by the SDC on a 60-year lease term has a maximum permissible gross floor area (“**GFA**”) of approximately 35,748 sqm (384,790 sqft), subject to the payment of development charge/differential premium. The site was once a military parade square and includes six blocks of barracks and a coach park. As the parade square and barracks have been gazetted for conservation, JVCo will have to adhere to heritage and conservation requirements in its development of the hotel site.

The Development, integrating two distinctive hotels - Outpost Hotel Sentosa and Village Hotel Sentosa, will house 850 guest rooms. Outpost Hotel Sentosa will cater to travellers looking for a stylish upscale product, while Village Hotel Sentosa will present an experiential stay for families, leisure and meeting groups where they can have the opportunity to discover the rich cultures and heritage of the surroundings. The Development is expected to be completed in 2018.³

The tender amount by FEOC was based on an upfront land premium of S\$32 million plus a guaranteed annual payment of approximately S\$3.7 million (which is subject to an increase at the rate of 3.0% per annum) or 10% of the total annual gross revenue, whichever is higher.

The total project-related cost estimated to be borne by JVCo for the Development (including the upfront land premium and guaranteed annual payments to SDC during the development period) is approximately S\$443.8 million, out of which approximately 56.3% is expected to be funded by debt financing taken by JVCo. Far East H-REIT’s Agreed Proportion of the estimated project-related cost is approximately S\$133.1

3 As per the Award Press Release.

million, which is approximately 5.3% of Far East H-REIT's Deposited Property (as defined in the trust deed constituting Far East H-REIT dated 1 August 2012 (as amended))⁴, and will be within the development limit set out in the Property Funds Appendix.

Further details in respect of the Development are set out in the following table:

Development name	Outpost Hotel Sentosa and Village Hotel Sentosa
Description	Integrated development comprising two hotels
Location	Artillery Avenue, Sentosa
Rooms	850
Market segment	Mid-tier / Upscale
Land tenure	60-year leasehold interest from 7 March 2014
Land area	Approximately 44,685 sqm (480,987 sqft)
Maximum permissible GFA	Approximately 35,748 sqm (384,790 sqft)
Expected year of completion	2018

3. CERTAIN PRINCIPAL TERMS OF THE JOINT VENTURE AGREEMENT

3.1 Terms of the Joint Venture Agreement

Far East H-REIT and FEOC have each agreed under the Joint Venture Agreement to make contributions of up to S\$63.6 million and up to S\$148.4 million, respectively, to JVCo. The maximum amount of S\$63.6 million to be contributed by Far East H-REIT will be through a combination of the subscription of shares of JVCo ("**Shares**") at S\$1.00 per Share and provision of shareholder's loans to JVCo of up to S\$48.0 million. The consideration to be paid by FEOC for its Shares will also be S\$1.00 per Share and FEOC will provide shareholder's loans to JVCo based on the

⁴ Based on the value of the Deposited Property of S\$2,524.5 million as at 30 June 2014.

Agreed Proportion. Pursuant to their funding contributions made, Far East H-REIT and FEOC will continue to hold JVCo in the Agreed Proportion. The commitment will be drawn down progressively based on the needs of JVCo. Far East H-REIT will today make an initial contribution of S\$15.6 million through its subscription (the “**Subscription**”) for 15.6 million Shares at S\$1.00 per Share. FEOC will today subscribe for an additional 36,399,998 Shares at S\$1.00 per Share and, together with the two Shares it already holds, FEOC will hold 36.4 million Shares.

The following terms in the Joint Venture Agreement shall ensure that Far East H-REIT’s interests are safeguarded:

- 3.1.1 the REIT Trustee shall have the right to nominate one director to the board of directors of JVCo (the “**Board**”);
- 3.1.2 a set of reserved matters in relation to key operational and management issues affecting JVCo, including but not limited to the matters set out in paragraph 6.5(b) of the Property Funds Appendix, the decision for each of which requires the unanimous approval of the Board; and
- 3.1.3 the dividend policy of JVCo states that in respect of any accounting period where JVCo has profits available for distribution, JVCo shall distribute 90.0% of its audited net profits to the shareholders of JVCo in accordance with the Agreed Proportion.

4. RATIONALE AND BENEFIT OF THE JOINT VENTURE AND THE DEVELOPMENT

The REIT Manager believes that the Joint Venture and the Development will bring the following key benefits to Stapled Securityholders:

4.1 Exclusive Opportunity to Enter into the Development at an Attractive Cost

The REIT Manager believes that a lower cost of investment will be locked in with its 30.0% investment in the Development at an early stage compared to acquiring the Development post-completion. In addition, if Far East H-REIT acquires the remaining 70.0% of the Development post-completion, the potential savings on the initial 30.0% Investment will lower the overall acquisition cost of the Development for Far East H-REIT. Far East H-REIT will also stand to gain from any potential fair value gains from

the Development post-completion. With no hotel sites put up for tender under the first and second half 2014 Government Land Sales Programme⁵, this presents a unique opportunity for Far East H-REIT to participate in a hotel development project in Singapore.

4.2 Unique Property with Accessible Location

The Development represents Far East H-REIT's first investment located in Sentosa. Sentosa is Asia's leading leisure destination and Singapore's premier island resort getaway, attracting more than 20 million visitors in between April 2012 and March 2013⁶.

The Development will be one of four heritage hotels located on Sentosa, retaining a charm of Sentosa's colonial past. The surrounding attractions and amenities complement the Development, making it particularly suited to attract families and the meetings, incentives, conferencing, exhibitions ("MICE") groups seeking moderately priced accommodation.

Currently, there are relatively limited mid-tier accommodations offered on Sentosa compared to those in the luxury and upscale segments. Mid-tier accommodations contribute approximately 8.1% of the total number of rooms on Sentosa, compared to approximately 30.7% and 61.2% for upscale and luxury segments respectively. Hence, the Development will be well-positioned to fill the gap in terms of mid-tier accommodations.

The Development is conveniently located along Artillery Avenue, a short walk away from many of Sentosa's attractions, a myriad of food and beverage outlets and Palawan Beach. Palawan Beach is currently home to the Port of Lost Wonder, Singapore's first ever kids' club by the beach.

The Development is also easily accessible via Sentosa's various transportation options, including the Sentosa Express, the beach tram and buses.

The surrounding attractions and amenities complement the Development, making it particularly suited to attract families and corporate MICE groups.

5 Based on the Urban Redevelopment Authority, Ministry of National Development announcements dated 18 December 2013 and 10 June 2014.

6 SDC's Annual Report 12/13.

4.3 Well-Positioned to Benefit from Continuous Efforts to Rejuvenate Sentosa

SDC is continuously developing Sentosa as Singapore's leisure and lifestyle destination for both local and foreign visitors. SDC is planning a major facelift for Sentosa in the next five years and is inviting developers to bid.⁷

Sentosa will be creating themed zones with distinct identities. Palawan Beach, with a family-oriented theme, will have a new 11,500 sqm family entertainment centre that will house KidZania, an indoor theme park. This will transform Palawan Beach into a family-centric attraction, catering for both indoor and outdoor play.

In line with the entertainment and lifestyle theme of Siloso Beach, the AJ Hackett Bungy Jump – the only double-swing bungy of its kind in the world – will open at Siloso Beach.⁸

The Development is expected to benefit from the increase in visitors to Sentosa.

4.4 Alignment with REIT Manager's Strategy and Enhance Portfolio Diversification

Entry into the Joint Venture is in line with the REIT Manager's strategy to expand Far East H-REIT's presence in Singapore and in the mid-tier/upscale hotel segments. Post-completion of the Development, if Far East H-REIT acquires the remaining 70.0% of the Development, the number of keys in Far East H-REIT's hotel portfolio is expected to increase by approximately 34.5%, from 2,461 to 3,311⁹.

4.5 Leverage on Far East Organization's Development Expertise

With Far East Organization as the Project Manager and partner in the Joint Venture, Far East H-REIT will be able to leverage on Far East Organization's experience and track record in successfully developing hospitality assets, and repurposing conservation buildings for contemporary use. Far East Organization has an established track record of successfully developing and managing hospitality assets and repurposing conservation

7 Article from The Straits Times entitled "Sentosa to get major facelift complete with themed zones" published on 15 August 2014

8 SDC's Annual Report 12/13.

9 Based on 850 rooms for the Development.

buildings for contemporary use, such as Village Hotel Albert Court and AMOY Singapore.

5. RELATIVE FIGURES COMPUTED ON THE BASES IN RULE 1006 OF THE LISTING MANUAL

The relative figure for the Investment using the applicable bases of comparison in Rule 1006 of the Listing Manual is as follows:

Comparison of:	The Investment	Far East H - Trust	Relative Figure
Aggregate value of consideration against market capitalisation (S\$'million)	63.6 ⁽¹⁾	1,448.5 ⁽²⁾	4.4%

Note:

- (1) Being the maximum amount of contributions to JVCo under the Joint Venture Agreement.
- (2) Based on the volume weighted average price of S\$0.8178 per Stapled Security on the SGX-ST on 19 September 2014, being the market day preceding the date of the Joint Venture Agreement.

Rule 1006(b) of the Listing Manual does not apply as the Investment involves a development asset and there is no net profit attributable to the Investment.

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

6. METHOD OF FINANCING AND FINANCIAL EFFECTS

Far East H-REIT's estimated project-related cost will be fully funded by debt. Assuming that Far East H-REIT had entered into the Joint Venture on 1 January 2013, the REIT Manager believes that there will be no material impact on Far East H-REIT's distribution per Stapled Security for the financial year ended 31 December 2013. Assuming that Far East H-REIT had entered into the Joint Venture on 31 December 2013, the REIT Manager believes that there will be no material impact on Far East H-REIT's net tangible assets per Stapled Security for the financial year ended 31 December 2013.

The REIT Manager also believes that Far East H-REIT's gearing (which takes into account its Agreed Proportion of JVCo's debt financing) will not exceed 35.0% as a result of the Investment.

7. REIT MANAGER'S DEVELOPMENT MANAGEMENT FEE

The REIT Manager has opted not to receive a development management fee from Far East H-REIT in connection with the 30.0% Investment.

8. STATEMENT FROM THE AUDIT COMMITTEE

The Audit Committee of the REIT Manager (which comprises independent directors of the REIT Manager) has considered the terms of the Joint Venture Agreement and is of the view that the Joint Venture and Investment are on normal commercial terms and are not prejudicial to the interests of Far East H-REIT and its minority Stapled Securityholders.

9. OTHER INTERESTED PERSON TRANSACTIONS

Based on the value of Far East H-REIT's maximum funding contribution under the Joint Venture Agreement (being S\$63.6 million and which takes into account the amount at risk to Far East H-REIT under its shareholder's undertaking to be provided in connection with JVCo's debt financing and its Agreed Proportion of fees payable to the Project Manager) and the expected interest that Far East H-REIT would receive under its shareholder's loans to JVCo, when aggregated together with the value of all other interested person transactions between Far East H-REIT and Far East Organization and/or the associates of Far East Organization for the current financial year, the aggregate value is approximately S\$74.0 million, which will not exceed 5.0% of Far East H-REIT's latest net tangible assets as at 31 December 2013.

As at the date of this announcement, other than as disclosed above, there are no other interested person transactions with Far East Organization and/or associates of Far East Organization entered into for the current financial year.

10. INTERESTS OF DIRECTORS AND CONTROLLING STAPLED SECURITYHOLDERS

As at the date of this announcement, the directors of the Managers collectively hold an aggregate direct and indirect interest in 2.6 million Stapled Securities.

Mr Koh Boon Hwee is a Director and Non-Independent Chairman of the REIT Manager and the Trustee-Manager and is also the Non-Executive Chairman of FEOL. Mr Wee Kheng Jin is a Non-Executive Director of the REIT Manager and the Trustee-Manager and is also a director of various companies under Far East Organization such as Far East Hospitality Management Services Pte Ltd and Far East Property Services Pte Ltd. Mr Chng Kiong Huat is a Non-Executive Director of the REIT Manager and is also an Executive Director of the FEO Property Services Division.

Through FEOC, Golden Development Private Limited, Golden Landmark Pte Ltd, Oxley Hill Properties Pte Ltd, Riverland Pte Ltd and the REIT Manager, Far East Organization has an interest in approximately 54.2% of the existing Stapled Securities as at the date of this announcement.

Mr Koh Boon Hwee will be appointed by the REIT Trustee as its nominee to the Board of JVCo and Mr Wee Kheng Jin will be nominated by the REIT Trustee as Mr Koh Boon Hwee's alternate director to the Board of JVCo.

Save as disclosed above and as at the date of this announcement, none of the directors of the Managers or controlling Stapled Securityholders has an interest, direct or indirect, in the Joint Venture and Development.

11. DOCUMENTS FOR INSPECTION

A copy of the Joint Venture Agreement is available for inspection during normal business hours at the registered office of the Managers¹⁰ at 1 Tanglin Road #05-01, Orchard Parade Hotel, Singapore 247905, for a period of three months commencing from the date of this announcement.

¹⁰ Prior appointment with the Managers (telephone number: +65 6833 6688) will be appreciated.

By Order of the Board

Gerald Lee Hwee Keong
Chief Executive Officer
FEO Hospitality Asset Management Pte. Ltd.
(Company Registration No. 201102629K)
22 September 2014

By Order of the Board

Gerald Lee Hwee Keong
Chief Executive Officer
FEO Hospitality Trust Management Pte. Ltd.
(Company Registration No. 201210698W)
22 September 2014

Important Notice

The value of the Stapled Securities and the income derived from them may fall as well as rise. The Stapled Securities are not obligations of, deposits in, or guaranteed by the Managers, DBS Trustee Limited (in its capacity as trustee of Far East H-REIT), or any of their respective affiliates.

An investment in the Stapled Securities is subject to investment risks, including the possible loss of the principal amount invested. Investors have no right to request that the Managers redeem or purchase 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.