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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 22 April 2021
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 submitted their questions in advance of our annual general meeting ("**AGM**") held virtually via "live" audio-visual webcast at 3:00pm on Thursday, 22 April 2021. 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 2020.

Questions that are similar in nature are grouped together as shown below. Some relate to topics covered in the material presented during the AGM. Responses for the questions not addressed during the AGM are listed here.

A. Business Performance and Valuation	
1.	**FY2020 was a year when the pandemic ravaged economies, industries, and livelihoods, and the hospitality sector was one of the worst hit as borders are closed to stop the spread of the virus. In Singapore, tourist arrivals decreased by 85.9% from 19.1 million in 2019 to 2.7 million in 2020.** **Far East H-Trust's gross revenue decreased to \$83.3 million in FY2020. Net property income was \$72.2 million and the distribution per stapled security dropped to 2.41 Singapore cents. In addition, Far East H-Trust also recognised fair value changes in its investment properties amounting to -\$121.2 million. The valuations of the properties are shown on pages 129 and 130.** **i) Can the Managers help stapled securityholders understand the reasons for the relatively large drops in the hotel valuations?** **ii) Has the pandemic set back the Far East H-Trust's timeline for the acquisition of the remaining stakes in the 3 new hotels and commercial space at Sentosa?** **iii) Does the joint venture company, Fontaine Investment Pte. Ltd., have sufficient working capital to run its operations efficiently given that the pandemic has caused a severe drop in the RevPAR?** **In addition, Far East H-Trust has also recognised an impairment loss on trade receivables of -\$1.04 million in FY2020, up from -\$0.685 million in FY2019.**

	iv) Given the nature of Far East H-Trust's business where room rates, rent, and security deposits are collected upfront, how did the REIT incur impairment losses on trade receivables? What can the manager do to further improve its credit control?
	i) Hotel valuations depend on the performance expectations for future years. Given the uncertainty surrounding the recovery of the hospitality sector, the independent valuers arrived at a lower valuation in 2020 compared to 2019. The decline in valuations of the hotel portfolio ranges from 1.1-6.7%, which is within the range experienced by other hospitality trusts in Singapore. As the speed of vaccinations improves over the course of 2021, and the hospitality industry moves to recovery, valuations could improve after the impact from the pandemic eases. ii) The Managers will continue to monitor the performance of the Sentosa properties to ensure that any potential increase in stake will be done at the appropriate time to maximise value for stapled securityholders. Any potential increase in stake would also be predicated on a more stabilised performance of the Sentosa properties after the pandemic. iii) The hotels at Sentosa continue to be in operation and have taken in both government isolation contracts and the staycation business. With the Job Support Scheme from the Government and operational efforts to minimise expenses, the Sentosa properties have continued to generate operating profit during this period. iv) The impairment losses on trade receivables on the statement of total return were related to the retail and office leases. Far East H-Trust provides for lifetime expected credit losses for all trade receivables using a provision matrix. The provision rates are determined based on historically observed default rates analysed in accordance to days past and also account for forward-looking information such as the forecast of economic conditions. The Managers will continue to closely monitor its receivables to ensure that affected tenants are identified early to manage default rates.
2.	**What is the proportion of revenue derived from Singapore and staycations?**
	As Singapore has traditionally been a hub for corporate and leisure travel, the hospitality sector derives the bulk of its revenues from foreign visitors. Due to border closures, the proportion of revenue from local sources increased due to i) government buyout contracts, ii) business from companies requiring accommodation for their workers, and iii) more local residents taking staycations. Given the small domestic tourism market of Singapore, the proportion of revenue from staycations is not high.
3.	**Can the Managers share how COVID-19 would impact the general adoption of Artificial Intelligence ("AI") and the Internet of Things ("IoT") in the hotel industry?**
	COVID-19 and its associated restrictions have strengthened the general adoption of AI and IoT in the hotel industry due to requirements of reduced physical touchpoints and personalised experiences. However, prolonged lockdowns and physical isolation have also highlighted the need for a human touch to hospitality. Finding the right balance between automation and providing good high-touch service would be a focus for hotel operators going forward.

B. Investments	
4.	**What criteria/framework does Far East H-Trust employ when it decides to purchase a property, from the Sponsor or otherwise?**
	The Managers will rely on the following investment criteria in relation to acquisition opportunities: i) Yield Requirements – to ensure any acquisition is value-enhancing and to improve returns to stapled securityholders while balancing various risks associated with any investment. ii) Geographical Location – to ensure the property is well-located and has the potential for future increases in real estate value. iii) Strong Fundamentals and Organic Growth Potential – to acquire properties with good potential for increasing the RevPAR/RevPAU and occupancy rates going forward. iv) Asset Enhancement Potential – to acquire properties that have the potential to add value through improved management, market repositioning or other asset enhancements.
C. REIT Commercial Premises	
5.	**How many tenants are still getting rental reliefs and when would these reliefs cease?**
	Due to the weaker operating environment as a result of COVID-19, Far East H-Trust continues to provide rental assistance to tenants who are heavily dependent on tourism or are unable to operate. Tenants may be unable to operate because of the relevant property being contracted as a government isolation facility or due to COVID-19 restrictions.
D. Capital Management	
6.	**As per Note 14 of the Annual Report, interest expenses paid/payable to banks had declined from $29.09m in 2019 to $23.47m in 2020 despite the total borrowings remaining almost the same. Can the Managers provide more information for the reasons driving this significant reduction in finance costs?**
	The decline in interest expenses paid/payable to banks can be attributed to the lower short-term interest rates for borrowings on floating rates while fixed-rate borrowings benefited from lower fixed rates on new interest rate swap contracts entered in 2020 leading to an overall decline in the average cost of debt from 2.9% for 2019 to 2.4% for 2020.
7.	**As at 31 December 2020, Far East H-Trust's total debt was $990.8 million. 60.3% of the debt has been locked-in with fixed interest rates. The percentage of debt with fixed interest rates has been as low as 41.6% (at the end of FY2017) to as high as 70.6% (at the end of FY2016).** **i) Can the board/manager elaborate further on its framework to manage the risks of interest rate fluctuations?** **Similarly, Far East H-Trust's average cost of debt increased steadily from 2.5% (FY2016 & FY2017), to 2.7% in FY2018 and to 2.9% in FY2019 before a drop in FY2020 to 2.4%.** **ii) What is Far East H-Trust's strategy to optimise the cost of debt financing?** **iii) What are the Managers' views on the interest rate trend? How are the Managers taking advantage of the current low interest rate environment?**

	i) The Managers adopt a proactive interest rate management policy and endeavour to utilise interest rate hedging strategies, where appropriate, to reduce the exposure to market volatility. The Managers also seek to ensure that expenses relating to ongoing cost of debt capital remains competitive. ii) (see above response) iii) As interest rates came down in 2020, the Managers reduced the proportion of debt on fixed rates from 66.1% in December 2019 to 60.3% in December 2020. This has allowed Far East H-Trust to benefit from lower interest expenses resulting in the overall reduction in the average cost of debt from 2.9% for FY2019 to 2.4% for FY2020. The Managers will continue to monitor the interest rate outlook closely and adopt a strategy that seeks to strike a balance between minimising interest cost and interest rate volatility.
8.	**In relation to Ordinary Resolution 3, what does the REIT Manager and the Trustee-Manager currently expect to use the capital to be potentially raised from such an exercise for?** **Beyond using funds for potential portfolio expansion, have the Managers considered how Far East H-Trust can contribute to long-term value creation and preservation through investment in the areas of local community, employee retention and mental health, and renewable energy use?**
	The Managers will ensure that the use of such capital raised will be in line with the various regulatory frameworks Far East H-Trust has to abide by. The Managers recognise the importance of conserving the natural environment, contributing meaningfully to the communities around us, and providing a safe and inclusive workplace. The sustainability report highlights our overall sustainability strategy and framework as well as the various metrics used to assess the implementation of such strategies. To this end, the Managers had secured its maiden sustainability-linked loan facility for $125 million from OCBC in March 2021. The Managers have also supported charities and not-for-profit organisations over the years through volunteerism and giving back to those in need through financial contributions and in-kind donations. In terms of employee retention, the Managers carry out team building activities as well as staff engagement surveys, and also have in place a comprehensive set of benefits for the well-being of the employees.
9.	**Do the Managers intend to improve the gearing and ICR ratios? What are the Managers' views on what a 'comfortable' level of gearing and ICR is? Would the Managers consider a rights issue or placement exercise for Far East H-Trust soon? Will the Distribution Reinvestment Plan (DRP) be in place?**
	The Managers continuously endeavour to maintain a strong balance sheet and optimal capital structure with an appropriate mix of debt and equity. The existing aggregate leverage ratio is well within the stipulated regulatory limit with the interest coverage ratio being within the range of other hospitality trusts. The Managers have no immediate plans to undertake an equity fundraising exercise solely to improve such ratios.

E. Others	
10.	**As noted in the annual report, the REIT manager is committed to delivering long-term sustainable distribution growth to stapled securityholders via the three key strategies of: value-adding acquisitions; asset management and enhancement; and capital and risk management.** **On March 2021, the manager announced that it has received an outline advice from the URA in relation to the redevelopment of Central Square, which comprises a serviced residence and commercial spaces, including office and retail units. The outline advice was issued by URA in response to a joint outline application. The manager has stated that it will explore various options for the site to deliver optimal value for stapled securityholders, including a possible divestment to a suitable third-party to undertake any proposed redevelopment.** **i) Who are the other party/parties in the joint outline application? Are there other buildings that are part of the joint outline application?** **ii) What are the possible potential rezoning and uplift in gross floor area under the incentive scheme?** **On a portfolio basis, the REIT has a total of 287 units of retail, office and serviced office commercial spaces, housed in 9 out of the 13 properties in the portfolio. Based on the disclosure in the annual report, Village Residence Clarke Quay is a mixed-use development comprising residential and commercial components. There are 128 residential units and a gross floor area of 17,858 sqm. The net lettable areas for retail, office and serviced office are 2,213 sqm, 1,473 sqm and 823 sqm respectively (page 32). The valuation as at 31 Dec 2020 is $198.3 million.** **iii) Can the REIT clarify if it owns the entire “Central Square”? In the annual report, the REIT’s property is identified as “Village Residence Clarke Quay” and not “Central Square”.**
	i) The other party in the joint application is City Developments. The other building that is part of the joint outline application is Central Mall. ii) The Outline Advice indicated URA’s support for a rezoning and a meaningful uplift in GFA subject to certain conditions and approvals. The REIT Manager will make the further disclosures at an appropriate time when approvals have been received. iii) Far East H-Trust owns the entire Central Square which comprises, Village Residence Clarke Quay, a serviced residence as well as retail, office, and serviced office spaces.

By Order of the Board

Gerald Lee Hwee Keong
Chief Executive Officer
FEO Hospitality Asset Management Pte. Ltd.
(Company Registration No. 201102629K)
22 April 2021

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