SGX-ST ANNOUNCEMENT

For immediate release

A stapled group comprising:
Frasers Hospitality Real Estate Investment Trust
(a real estate investment trust constituted on 12 June 2014 under the laws of the Republic of Singapore)
and
Frasers Hospitality Business Trust
(a business trust constituted on 20 June 2014 under the laws of the Republic of Singapore)

7TH ANNUAL GENERAL MEETING TO BE HELD ON 19 JANUARY 2022 RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS FROM STAPLED SECURITYHOLDERS AND QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ("SIAS")

Frasers Hospitality Asset Management Pte. Ltd., in its capacity as the manager of Frasers Hospitality Real Estate Investment Trust (the "**REIT Manager**"), and Frasers Hospitality Trust Management Pte. Ltd., in its capacity as the trustee-manager of Frasers Hospitality Business Trust (the "**Trustee-Manager**")(collectively known as the "**Managers**"), refers to the announcement of Frasers Hospitality Trust ("**FHT**") dated 20 December 2021 (the "**AGM Announcement**") in relation to the 7th Annual General Meeting ("**AGM**") which will be conducted virtually on Wednesday, 19 January 2022 at 10.00 a.m. (Singapore time) via live audio-visual webcast and live audio-only streaming.

The Managers note that they did not receive any questions from the stapled securityholders of FHT (the "**Stapled Securityholders**") before 10.00 a.m. on Tuesday, 11 January 2022. As stated in the AGM Announcement, the Managers will endeavour to address the substantial and relevant questions which are submitted by Stapled Securityholders after 10.00 a.m. on Tuesday, 11 January 2022, and those received "live" at the AGM, during the AGM itself.

The Managers have received certain questions from SIAS in relation to the annual report of FHT for the financial year ended 30 September 2021. Please refer to the SIAS website at https://sias.org.sg/qa-on-annual-reports/ and Annex A below for the list of questions received from SIAS, and the Managers' responses to these questions.

BY ORDER OF THE BOARD
Frasers Hospitality Asset Management Pte. Ltd.
(as manager of Frasers Hospitality Real Estate Investment Trust)
(Company Registration No. 201331351D)

Frasers Hospitality Trust Management Pte. Ltd.
(as trustee-manager of Frasers Hospitality Business Trust)
(Company Registration No. 201401270M)

Catherine Yeo
Company Secretary

14 January 2022

For further information, kindly contact:
Investor Relations
Frasers Hospitality Asset Management Pte. Ltd.
T +65 6349 0423
E ir@frasershospitality.com

IMPORTANT NOTICE

This announcement may contain forward-looking statements that involve risks and uncertainties. Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements as a result of a number of risks, uncertainties and assumptions. Representative examples of these factors include (without limitation) general industry and economic conditions, interest rate trends, cost of capital and capital availability, competition from similar developments, shifts in expected levels of property rental income, changes in operating expenses, (including employee wages, benefits and training costs), property expenses and governmental and public policy changes and the continued availability of financing in the amounts and the terms necessary to support future business.

Investors are cautioned not to place undue reliance on these forward-looking statements, which are based on the Managers' current view on future events.

The value of stapled securities in FHT ("**Stapled Securities**") and the income derived from them, if any, may fall or rise. Stapled Securities are not obligations of, deposits in, or guaranteed by, the Managers, Perpetual (Asia) Limited (the Trustee of Frasers Hospitality Real Estate Investment Trust) 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 should note that they 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 SGX-ST. Listing of the Stapled Securities on the SGX-ST does not guarantee a liquid market for the Stapled Securities.

This publication is for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for the Stapled Securities. The past performance of FHT and the Managers is not necessarily indicative of the future performance of FHT and the Managers.

ANNEX A: RESPONSES TO QUESTIONS FROM SIAS

1. In 2020, MAS introduced measures to help REITs navigate the operating challenges posed by the COVID-19 pandemic. The leverage limit for REITs was increased from 45% to 50% while the implementation of a minimum interest coverage ratio ("**ICR**") requirement of 2.5 times before a REIT is allowed to increase its leverage beyond 45% (to 50%) was deferred to 1 January 2022.

(i) What are the levers available to FHT to improve its cash flow/ICR? Net cash generated from operating activities decreased from $60.3 million in FY2020 to $39.2 million in FY2021 (FHT Annual Report 2021, Page 179 – Statements of cash flows).

(ii) What are the reasons for the increases in impairment loss on trade receivables (from $1.69 million in FY2020 to $4.14 million in FY2021) and the increase in trade and other receivables from third parties (FHT Annual Report 2021, Page 222 – Note 12: Trade and other receivables)?

<u>Responses</u>

(i) The Managers remain focused on strategies and avenues to improve cashflow and ICR to conserve liquidity and safeguard the solvency of the Trust, particularly amidst the COVID-19 pandemic as the portfolio's performance was adversely impacted.

The Managers draw comfort that the Trust has downside protection from the receipt of minimum fixed rent from the master leases, which was more than sufficient to meet all operating and Trust expenses, and yet have distributions to Stapled Securityholders, amid challenging operating environment. Cash generated from operations have decreased due to higher outstanding trade receivable from the master lessee for Maritim Dresden, and timing of receipt of receivables (see explanation in Part (ii) below).

There are also plans to pare down some of FHT's existing borrowings with the proceeds from the recent divestment of Sofitel Sydney Wentworth upon completion, which would further strengthen the leverage ratio of the Trust.

Against the backdrop of the ongoing COVID-19 pandemic, the Managers were quick to adapt to the situation and undertook swift and necessary measures to implement comprehensive cost-containment measures to reduce the operating expenses and conserve liquidity. Discretionary expenditure and non-essential capital expenditure were deferred while support measures by various governments such as property tax rebates and wage subsidies have been pursued to defray expenses.

The Managers are currently rebuilding the performance of the current portfolio back to pre-pandemic level to improve cashflow and will continue to rationalise and streamline the work processes and procedures on an ongoing basis.

(ii) The increase in impairment loss on trade receivables was made on grounds of conservatism. This trade receivable relates to rental receivable from master lessee of Maritim Dresden. The Managers remain in discussions with the master lessee and have appointed CBRE Germany to facilitate negotiations and monitor the situation closely.

The increase in trade and other receivables from third parties were mainly attributed to (i) an amount receivable of approx. S$2.2 million from Victoria state government for the quarantine business contract, which have been fully collected in October 2021; and (ii) an amount receivable of approx. S$7.5 million from a bank following early termination of a cross-currency swap, which have been fully collected in October 2021.

2. In May 2021, FHT fully redeemed and cancelled its $100 million 4.45% perpetual securities issued under the S$1 billion Multicurrency Debt Issuance Programme. As at 30 September 2021, the total borrowings increased to $991.2 million (30 September 2020: $889.4 million) while the average interest rate was lower at 2.0% per annum for FY2021 (FY2020: 2.3% per annum).

Approximately 77.2% (30 September 2020: 74.9%) of the borrowings are on fixed interest rates with a weighted average debt maturity of 2.56 years (2020: 3.62 years).

In addition, FHT adopts natural hedging of between 23% to 77% for the assets that are denominated in foreign currencies.

Moody's had, in March 2020, downgraded FHT's ratings to Baa3 from Baa2, with a negative outlook, stating that the FHT was vulnerable amid the coronavirus outbreak. FHT discontinued the engagement of Moody's Investors Service for a corporate credit rating in March 2020 (FHT Annual Report 2021, Page 18 – Prudent capital and risk management).

(i) Why did FHT discontinue the engagement of Moody's to provide a corporate rating? How would it affect the Trust's ability to raise funds and secure cheaper credit?

(ii) Are there plans to issue new perpetual securities? FHT has fully redeemed and cancelled its $100 million 4.45% perpetual securities.

(iii) Can the Managers elaborate further on their views on interest rates given that the FHT has significant exposure to different currencies? Is the current level of fixed interest rate borrowings (77.2%) optimal?

(iv) What determines the level of natural hedging for its foreign assets? As disclosed on page 19, the percentage of natural hedging varies from 23% to 77%.

<u>**Responses**</u>

(i) FHT has discontinued the engagement of Moody's Investors Services following the amendment to Appendix 6 of the Singapore's Code of Collective Investment Schemes for REITs to adopt a single-tier leverage limit of 45% without the requirement for a credit rating. Moody's may, on its own accord, continue to maintain a credit rating on FHT. The cessation of the corporate credit rating services has no impact on FHT's ability to meet its financial obligations and access to competitive sources of funding. The effective cost of borrowings has reduced from 2.3% in FY2020 to 2.0% in FY2021. As announced in FY2021, FHT continued to secure new Revolving Credit Facilities to further strengthen capital and risk management.

(ii) There are currently no plans for the issuance of new perpetual securities.

(iii) In anticipation of Federal Reserve's move to increase interest rate to combat rising inflation, there may be expectations of rising interest rates in 2022. The Managers remain comfortable with the current level of fixed interest rate borrowings. Taking into consideration the impending net proceeds to be used to pare down some of FHT's borrowings that are on floating interest rates, the eventual fixed interest rate composition would rise higher, which provides FHT further protection against potential interest rate hike.

(iv) The Managers have in place a foreign currency risk management strategy that include the use of same currency borrowings as the underlying asset to the extent possible, thereby serving as a natural currency hedge. The level of natural hedging is dependent on the underlying asset and market conditions of foreign currencies and interest rates environment in that jurisdiction.

3. The key financial metrics have declined gradually from FY2017 to FY2019, even before the onset of the COVID-19 pandemic. As at 30 September 2021, the FH-REIT Group's aggregate leverage ratio was 42.2% (2020: 37.7%) with an interest coverage ratio of 2.3 times.

(i) Has FHT's Board evaluated the performance of the Trust and benchmarked it against its competitors? If so, is the Board satisfied with the performance of the Managers?

(ii) Are there opportunities for active asset management and enhancement (FHT Annual Report 2021, Page 3 – Our Growth Strategy)? If so, what are they?

Responses

(i) Prior to the COVID-19 pandemic, FHT's key markets had experienced soft market conditions, competitive trading environment and constant challenges of incoming new supply. These market conditions, coupled with adverse impacts from foreign exchange depreciation in the local currencies where FHT's assets operate, had caused the slight decline in financial performance year-over-year. The Board is fully cognizant of these challenges and its impact on FHT's financial performance for the past years and remains mindful of FHT's performance relative to the peers.

The Managers remain steadfast and committed to deliver regular and stable distributions to Stapled Securityholders and the Board remains confident and is in full support behind the Managers' strategies to drive further growth in distributions and net asset value.

(ii) FHT has a quality portfolio of hospitality assets located in key gateway cities which are in areas with strong demand drivers, thereby enhancing the ability for income growth in the long term. Hence, the Managers remain focused on growing the quality portfolio organically through targeted asset enhancement initiatives to rejuvenate and enhance the competitiveness of the assets, thereby unlocking further value within the portfolio.

Amidst the COVID-19 pandemic, active asset management strategies were implemented across the assets to optimise all possible revenue sources and mitigate all costs to improve profitability. Revenue optimisation initiatives included working with the governments in the various territories where the assets were located to secure quarantine business, utilising existing spaces within the assets for alternative non-room revenue generation and where local regulations permitted – to pivot to domestic staycation business within then-current regulations. Cost mitigation initiatives included optimising operations within the assets to contain non-essential services and expenses, working with the operators to negotiate fees and charges reductions and discounts as well as active payroll management by optimising the property team size.

Despite the market uncertainty caused by the COVID-19 pandemic, the Managers continue to seek out market opportunities. Any opportunities, including M&As, that the Managers pursue will have to be compelling and strategic, with investment decisions weighed carefully against funding options available, market conditions for equity fundraising and the cost of equity. The Managers are also constantly reviewing the Trust's portfolio allocation, taking into account both macro market trends and micro-market dynamics as well as the assets' longer-term performance outlook to assess if the portfolio can be optimised.

The Managers will continue the disciplined approach to target major gateway cities with strong long-term macroeconomic fundamentals and superior micro-locations. These attributes are also drivers that will ensure a strong recovery and resilience during a downturn.

FHT's sponsor, Frasers Property Limited (the "**Sponsor**") may also explore injecting the assets into FHT at the appropriate time after having considered the performance of the assets, pro forma impact on FHT and marketing timing. The Managers have an independent investment decision process and any acquisition to be made will need to be accretive to Stapled Securityholders and aligned with its long-term strategy. Similarly, the pricing ought to be financially viable for both FHT and the Sponsor and preferably under conducive market conditions to raise equity to fund the acquisition.

4. In the letter to Stapled Securityholders, the Chairman and the CEO emphasised that despite the recent signs of a nascent recovery, the recovery trajectory is still uneven as border restrictions remain in many countries. The trading environment is expected to remain challenging but markets with sizable domestic tourism, such as Australia, Japan and the UK, are expected to lead the recovery.

The group has also entered into definitive agreements to divest its Sofitel Sydney Wentworth for A$315 million (after acquiring the freehold reversionary interest of the land for an additional A$10.55 million). The proposed disposal, the first since listing, is approximately 12.1% above the independent valuation of A$281.0 million as at 30 Sep 2021 on a freehold basis.

(i) Can the Managers elaborate further on its criteria for divestment, including the factors used to determine the "optimal stage of life cycle" of an asset and the "portfolio rebalancing strategy", specifically for Sofitel Sydney Wentworth?

(ii) What are the other assets that have been earmarked for divestment?

(iii) Has the Managers finetuned the FHT's growth strategy as a result of the pandemic? In particular:

a. What is the targeted geographical diversification going forward? It is noted that Singapore and Australia account for 36% and 32% by portfolio value respectively as at 30 September 2021.

b. Similarly, what is the targeted distribution by market position (luxury, upper upscale, upscale, mid-scale, etc) for its portfolio?

c. Will FHT continue to rely on master leases for its assets? The master lease structure has partially mitigated the adverse impact of the pandemic. Nevertheless, please elaborate further on the value-add by the Managers in the operations of the assets with the current master lease structure.

d. Has FHT evaluated/is FHT evaluating acquisitions on an opportunistic basis? In view of the current leverage and the debt headroom available, what is the optimal way for FHT to fund its acquisition (if and when it happens)?

e. Please also demonstrate the value-add and/or the roles played by the strategic partner, the TCC Group.

Responses

(i) The Managers evaluate divestment opportunities on an on-going basis to recycle capital for better returns or unlock underlying asset values. The consideration factors include the market cycle of the property in the context of supply and demand in the specific city/country that the property operates in, the economic and geopolitical conditions including considerations around interest rate and currency exchange outlook if relevant. At the asset level, consideration is given to the asset achieving its highest and best use which may include both asset enhancement initiatives and the redevelopment potential of the asset.

The divestment of Sofitel Sydney Wentworth was an attractive value unlocking opportunity after taking into consideration the above factors and a 3.3% and 4.1% exit yields, based on the property's NPI for FY2021 and FY2019 (pre-COVID year) respectively. This divestment is undertaken at an opportune time given that Sydney is expected to be facing a significant increase in room supply, particularly in the upper upscale and luxury segments which will be in direct competition with the property just as the market is gradually recovering from the COVID-19 pandemic. The enhanced debt headroom post divestment would help fund future acquisitions when the opportunity arises. This may include opportunities in better yielding Europe assets to create a more diversified and well-balanced portfolio.

(ii) FHT will make timely announcements to keep Stapled Securityholders updated if there are any material developments or divestments.

(iii)

a. The Managers hope to increase the portfolio's exposure in key gateway cities in Japan and Europe should there be yield-accretive opportunities available. This will create a more diversified and well-balanced portfolio.

b. The Managers remain focused in the upscale to luxury segment and hope to increase portfolio exposure in the midscale segment.

c. FHT continues to provide Stapled Securityholders with downside protection through the master lease structure. As elaborated in an earlier response, the Managers have been working closely with the hospitality operators to provide further value-add through rationalising and streamlining work processes and procedures on an ongoing basis.

d. As elaborated in an earlier response.

e. FHT has been granted the right of first refusal to a pipeline of hospitality assets owned by the TCC Group[1] which provides access to further acquisition opportunities.

[1] The TCC Group refers to the group of companies and entities which are controlled by Mr. Charoen Sirivadhanabhakdi and Khunying Wanna Sirivadhanabhakdi