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EAGLE HOSPITALITY TRUST

Comprising:

EAGLE HOSPITALITY REAL ESTATE INVESTMENT TRUST

(a real estate investment trust constituted on 11 April 2019 under the laws of the Republic of Singapore)

managed by

Eagle Hospitality REIT Management Pte. Ltd.

EAGLE HOSPITALITY BUSINESS TRUST

(a business trust constituted on 11 April 2019 under the laws of the Republic of Singapore)

managed by

Eagle Hospitality Business Trust Management Pte. Ltd.

Update Announcement #14 – Termination of Master Lease Agreements by the Master Lessors

1. INTRODUCTION

- 1.1 Eagle Hospitality REIT Management Pte. Ltd., as manager (the “**REIT Manager**”) of Eagle Hospitality Real Estate Investment Trust (“**EH-REIT**”), and Eagle Hospitality Business Trust Management Pte. Ltd., as trustee-manager (the “**Trustee-Manager**”, collectively with the REIT Manager, the “**Managers**”) of Eagle Hospitality Business Trust (“**EH-BT**”, collectively with EH-REIT, “**EHT**”) wish to update stapled securityholders (the “**Stapled Securityholders**”) that notices of termination of the Master Lease Agreements (the “**MLAs**”) have been issued by the Master Lessors (being subsidiaries of EH-REIT) of all the 18 properties (the “**Properties**”) of EH-REIT to the Master Lessees.
- 1.2 References are made to the Managers’ earlier announcements including in particular, (i) the announcement “Update Announcement – Utilisation of Funds to Preserve and Protect Portfolio” dated 27 May 2020 (the “**27 May 2020 Announcement**”), (ii) the announcement “Update Announcement #8” dated 21 June 2020 (the “**21 June 2020 Announcement**”), (iii) the announcement “Update Announcement #9” dated 29 June 2020, (iv) the announcement “Update Announcement #10” dated 23 July 2020, (v) the announcement “Update Announcement #12” dated 27 August 2020 (the “**27 August 2020 Announcement**”), and (vi)

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the announcement “Update Announcement #13” dated 16 September 2020 (the “**16 September 2020 Announcement**”, and collectively, the “**Earlier Announcements**”). Unless otherwise defined, all capitalised terms used and not defined herein shall have the same meanings as given to them in the Earlier Announcements (as the context requires).

2. TERMINATION OF THE MLAs BY THE MASTER LESSORS

- 2.1 Further to the 16 September 2020 Announcement in relation to the issuance of the Statutory Notices, the Managers and the REIT Trustee wish to update Stapled Securityholders that the Master Lessors have, in pursuit of exercising their contractual rights under the MLAs to protect the interest of EHT and its Stapled Securityholders, issued notices of termination to the Master Lessees stating the Master Lessors' election to terminate the MLAs for the Master Lessees' multitude of defaults under the MLAs (as disclosed in the Earlier Announcements) (the “**Notices of Termination**”).
- 2.2 Pursuant to the Notices of Termination, each of the Master Lessors has issued to the applicable Master Lessee a written notice of termination of the MLA for the applicable Master Lessee's defaults thereunder, with such termination of the MLAs stated to occur ten (10) days after the delivery of the Notices of Termination.
- 2.3 The Managers and the REIT Trustee also wish to update Stapled Securityholders that following the issuance of the Statutory Notices by the relevant Master Lessors to the relevant Master Lessees as disclosed in the 16 September 2020 Announcement, the Master Lessors and FTI received a response letter dated 18 September 2020 from the Master Lessees which reiterated the Sponsor and the Master Lessees' claims and allegations as contained in the Master Lessees Notice of Breaches (details of which are set out in the 27 August 2020 Announcement), with no further material information provided to substantiate such claims made by the Master Lessees. Consistent with the 27 August 2020 Announcement, the Managers and the REIT Trustee consider such claims and allegations made by the Sponsor and the Master Lessees to be without merit.
- 2.4 The Managers would like to emphasise that notwithstanding the issuances of the Notices of Termination, the Master Lessors have not and will not be waiving any of their other rights and remedies against the Master Lessees in respect of the Master Lessees' liabilities and/or obligations under the existing MLAs including all and any which have accrued prior to their termination **and the Master Lessors continue to reserve all of their rights against the Master Lessees.**

3. RATIONALE FOR TERMINATION OF MLAS

It is in the interests of the Stapled Securityholders for the Master Lessors to terminate the MLAs given, amongst others, the following:

- (a) **Ongoing events of default by the Master Lessees under the MLAs.** The Master Lessees have numerous ongoing events of defaults under the MLAs (of which the circumstances of many pre-date the COVID-19 pandemic), as detailed in the Earlier Announcements, including without limitation:
- (i) the monthly fixed rent, the variable rent and the additional rent for the calendar months of January 2020 to August 2020 for all of the Properties remain substantially unpaid;
 - (ii) (A) the Master Lessees have repeatedly failed to timely pay the outgoings (including without limitation the costs of insurance premiums and other expenses relating to the insurances required to be effected by the Master Lessees under the MLAs), and (B) the relevant Master Lessees have failed to furnish the full amount of the security deposit amount required under the MLAs

by the due date of 8 June 2020 (the due date of which had already been extended twice previously) for most of the hotels in EHT's portfolio;

- (iii) the relevant Master Lessees have failed to prevent the termination of certain hotel management agreements (the "**HMA**s") by the relevant hotel manager of five (5) hotels (being the Four Points by Sheraton San Jose Airport, Crowne Plaza Danbury, Hilton Houston Galleria Area, Embassy Suites by Hilton Palm Desert and Doubletree by Hilton Salt Lake City) due to the Master Lessees' uncured defaults under the respective HMAs, and the Master Lessees have failed to replace the hotel manager with a new hotel manager for each of the abovementioned Properties; and
 - (iv) the Master Lessees have caused numerous defaults under (A) the HMAs, including the failure to provide and/or maintain sufficient working capital for the hotels' operations, and additional defaults resulting from the failure to pay management fees due and/or failure to make funds available for the payment of hotel operating expenses, resulting in numerous threats by certain hotel managers to resign, and (B) the franchise agreements as a result of certain Master Lessees' failure to cure its defaults for non-payment of fees and other amounts due and owing to the relevant franchisor.
- (b) **Lenders' requirements.** As part of the ongoing forbearance arrangements in respect of the US\$341 million Facilities Agreement entered into by EH-REIT (through certain of its subsidiaries) (collectively, the "**Borrowers**") with a syndicate of lenders (the "**Lenders**") pursuant to which the Lenders have issued a notice of default and acceleration on 20 March 2020, the Lenders require that the MLAs be terminated as a condition to their consent to continued extension of further forbearance arrangements. Absent any forbearance agreement being in place in respect of the Facilities Agreement, the Lenders could potentially exercise their rights and remedies under the Facilities Agreement arising due to the event of default by the Borrowers under the Facilities Agreement, including foreclosing on the equity interests of the Master Lessors, such that EHT would no longer own the Master Lessors, and in turn, the hotels in EHT's portfolio.
- (c) **Control over Properties.** The Master Lessors would first have to terminate the MLAs in order to take control of the Properties and undertake other options such as finding replacement master lessees to operate and/or re-open the Properties, or the activation of EH-BT such that EH-BT (through its subsidiaries) will be the master lessee of last resort for the Properties. Once the Master Lessors are able to take possession of the Properties, the Master Lessors would be able to exercise discretion over the implementation of potential temporary arrangements as alternatives to operating and/or re-opening the hotels, as a more economical response to the current COVID-19 impact on hotel revenues across the hospitality industry, including the Properties.
- (d) **Privity of contract with hotel managers, franchisors and service providers.** With the Master Lessees remaining in place under the current MLA construct, hotel managers, franchisors and third-party service providers of the Properties are under contract to work directly with, and report to, the Master Lessees, and not the Master Lessors. This impedes the Master Lessors' ability to coordinate and work with such parties to address property concerns in light of the Master Lessees' numerous defaults, and also introduces numerous hurdles in EHT's plans to operate and/or re-open the hotels at the appropriate time in the future.
- (e) **Proper control over the Properties and financials.** The cumulative and net effect of the above factors is that EH-REIT is unable to assert proper control and the actions, defaults and conduct of the Master Lessees (which EH-REIT is unable to control) will continue to prejudice and impact the interests of EH-REIT in respect of the Properties and financial risks and rewards derived therefrom.

- (f) **Depleting financial resources of EHT.** As disclosed in the 27 May 2020 Announcement, in light of the continuing failure by the Master Lessees to discharge their obligations under the MLAs and the continuing impact of COVID-19, the Managers had to utilise the available funds of EH-REIT to fund necessary and critical expenses of EHT and its underlying portfolio to protect and safeguard the asset value of EHT's portfolio, and over the past few months, the available funds of EH-REIT have been decreasing in order to fund such expenses. For the avoidance of doubt, a substantial portion of the expenses are the obligations and liabilities of the Master Lessees under the MLAs. It is untenable that (i) EHT's resources are being utilised to fund Master Lessee obligations (albeit because it is in the interests of EHT to preserve the value of its properties) without any corresponding action being taken against the Master Lessees for their prolonged and multiple defaults and breaches, (ii) whilst EHT has no access to the revenues (if any) generated from the operations of the hotels (as such revenues are currently automatically directed pursuant to the terms of the MLAs, HMAs and/or franchise agreements to the accounts of the Master Lessees who are in serious and continuing default), and (iii) whilst EHT's resources are being used and depleted because of the Master Lessees' defaults, EHT itself is not in possession or control of its own properties which it is funding.
- (g) **Unviable MLA construct.** The current MLA construct is no longer a viable construct taking into consideration (i) the abovementioned ongoing events of defaults by the Master Lessees under the MLAs and the Master Lessees' lack of remedial action to cure the events of default despite multiple notices issued by the Master Lessors to request that the Master Lessees do so, (ii) the repeated delinquencies in rental payments and failure to timely pay outgoings under the MLAs and the HMAs, which has resulted in, *inter alia*, the Master Lessors having to fund millions worth of necessary and critical operating expenses of EHT and its underlying portfolio in order to protect and safeguard the asset value of EHT's portfolio, and (iii) the total liabilities incurred by the Master Lessees in respect of the Properties to the tune of over US\$50.7 million (based on the estimates provided by FTI as disclosed in the 21 June 2020 Announcement).

Each failure by the Master Lessees' to properly adhere to various contractual agreements in place and to cure any such defaults, and any further defaults, will continue to put the Properties, the liabilities of EH-REIT, the relationships with EHT's lenders as well as the hotel managers, franchisors and vendors, at risk, all of which will continue to adversely impact the value of the Properties.

4. IMPLEMENTATION OF INTERIM PLAN FOR MANAGEMENT AND OPERATION OF HOTELS

Interim Plan

- 4.1 As at the date of this Announcement, only three (3) of the 18 hotels in EHT's portfolio remain open and operational, being the Delta Woodbridge, the Holiday Inn Denver East – Stapleton and the Renaissance Denver.
- 4.2 In conjunction with the issuance of the Notices of Termination by the Master Lessors to the Master Lessees, it is envisaged that the Master Lessors (being the subsidiaries of EH-REIT) will, after termination of the MLAs and, if necessary, upon obtaining unlawful detainer judgments in accordance with applicable laws, directly enter into new HMAs (or caretaker HMAs) and franchise agreements for the hotel managers to manage and operate EHT's hotels under the brand name of the franchisor, in the interim pending the outcome of the ongoing RFP process (the "**Interim Plan**"). An update in respect of the RFP process will be separately provided at the appropriate juncture as the REIT Trustee is still in the midst of assessing all proposals received from the RFP process. Nonetheless, the REIT Trustee and its professional advisers have taken into due consideration the views from the Lenders and the participants of the RFP process as to whether the Lenders and the participants of the RFP process considered if the MLAs should be terminated, amended or continue in effect.

- 4.3 EH-REIT and the Master Lessors, with the assistance of the professional advisers of EHT, will provide customary oversight responsibilities as the “master lessee” of the hotels, subject to the terms of the HMAs (or caretaker HMAs). It is not envisaged that the Managers or the Master Lessors will substantially increase its internal management or employees resourcing for their actual operational roles under the Interim Plan since the Interim Plan is intended only to be an interim measure.
- 4.4 It is envisaged that all of the hotels, circumstances permitting, would eventually be re-opened to the public and the Master Lessors would seek to receive operating income from the operation of the hotels (to the extent revenue exceeds operating expenses) on an interim basis until such time that new master lessees are installed, the RFP process is completed, and subject to there being a viable and credible winning participant pursuant to the RFP process, an extraordinary general meeting of the Stapled Securityholders will likely be convened to seek the approval for a new structure (as envisaged to be proposed by such winning participant pursuant to the RFP process) to be put in place for EHT (whether through the activation of EH-BT as the master lessee of last resort, the entry into new MLAs with new master lessees of the Properties or otherwise) (the “**Restructuring Process**”).
- 4.5 The HMAs and franchise agreements entered into by the Master Lessors under the Interim Plan will then be novated to the new master lessees and/or terminated and replaced by new HMAs and franchise agreements, depending on the restructuring plan of such winning participant under the RFP process. In addition, subject to such winning participant’s restructuring plan, it is envisaged that the new master lessees would also enter into new MLAs with the Master Lessors such that the Master Lessors would then revert to being passive landlords receiving rental income from the new master lessees.

Rationale for management and operation of the Properties by the Master Lessors through the implementation of the Interim Plan

- 4.6 In conjunction with the termination of the MLAs, it is in the interest of the Stapled Securityholders for the Master Lessors to manage and operate the Properties through the implementation of the Interim Plan given, amongst others, the following:
- (a) **No viable alternative construct.** Besides the Interim Plan, the Managers and the REIT Trustee considered other alternative constructs for EHT, being (i) the activation of EH-BT as the master lessee of last resort (through its subsidiaries that have to be incorporated), and (ii) seeking replacement master lessees to replace the existing Master Lessees. The process for the activation of EH-BT (including the incorporation of new subsidiaries under EH-BT to be the new master lessee entities) requires time to complete and cash resources which are currently unavailable to EH-BT, in the absence of a proposal to capitalise EHT and/or EH-BT. In respect of the latter option, the Managers and their professional advisers have not actively sought out replacement master lessees at this juncture, and it is generally understood that such an exercise would be extremely challenging given the current state of the hospitality industry in the United States as a result of the COVID-19 pandemic. Also, the economics of any deal made in such circumstances would unlikely be attractive to the Stapled Securityholders and any replacement master lessees would also require a significant amount of time to negotiate the commercial terms of the new MLAs.
- (b) **Preservation of underlying asset value of EHT’s portfolio pending completion of the Restructuring Process.** It is imperative for hotel managers (or caretaker hotel managers) to be engaged for each of EHT’s 18 properties to manage and operate the hotels, as contemplated under the Interim Plan, so as to preserve and maintain the underlying value of the Properties pending completion of the Restructuring Process, as the hotels would otherwise be at risk of severe damage and/or deterioration and increased losses during the COVID-19 pandemic, which would render an investment in EHT under the Restructuring Process significantly less attractive.

- (c) **EH-REIT is already in a *de facto* role of managing operations.** Until longer-term replacement lessee(s) solutions are found, EH-REIT and the Master Lessors have and will continue to tap on the assistance of FTI to provide customary oversight responsibilities as the “master lessee” of the hotels, with the hotel managers (or caretaker hotel managers) managing and/or operating the hotels under the brand name of the franchisor. FTI has been largely acting in this capacity since its retention in April 2020 and has the requisite interim management experience.
- (d) **Source of operating income for EHT in the interim.** As mentioned in Paragraph 4.4 above, it is hoped that through the management and operation of the Properties by the Master Lessors under the Interim Plan, all of the hotels, circumstances permitting, would eventually be re-opened to the public and the Master Lessors would seek to receive operating income from the operation of the hotels (to the extent revenue exceeds operating expenses) on an interim basis until such time that the Restructuring Process is completed (which is subject to there being a viable and credible winning participant pursuant to the RFP process). It is hoped that the operating income generated by EHT through the operation of the hotels (if any) under the Interim Plan would increase EHT’s financial resources as a whole or potentially reduce the rate of depletion of EH-REIT’s financial resources.

5. REGULATORY APPROVALS AND WAIVERS FOR TERMINATION OF MLAs AND IMPLEMENTATION OF INTERIM PLAN

- 5.1 In connection with the termination of the MLAs and the implementation of the Interim Plan, the Managers had made an application to the Monetary Authority of Singapore (the “**MAS**”) for the MAS’ consent and waiver in respect of compliance with Paragraph 7.2 of Appendix 6 of the Code on Collective Investment Schemes (the “**PFA**”) in the event the Interim Plan is implemented. Pursuant to Paragraph 7.2 of the PFA, EH-REIT should not derive more than 10% of its revenue from sources other than (a) rental payments from the tenants of the real estate held by EH-REIT, or (b) interest, dividends, and other similar payments from special purpose vehicles and other permissible investments of EH-REIT.
- 5.2 Under the Interim Plan, (a) the Master Lessors will not generate any rental income as there will no longer be a tenant of the Properties given that the MLAs would have been terminated and there are no replacement tenants leasing the Properties from the Master Lessors at this stage, and (b) the Master Lessors will receive its revenue directly from the operation and management of EHT’s hotels which are open (i.e. from the three (3) hotels that remain open and any other hotels that may re-open in the near future) and not through rental income as landlord of the Properties under the master lease construct. Consequently, it is expected that more than 10% of EH-REIT’s revenue (if any) would be derived from such operational income from the hotels and the management and operation of the Properties by the Master Lessors under the Interim Plan.
- 5.3 The MAS has granted EH-REIT a temporary waiver (the “**MAS Temporary Waiver**”) from Paragraph 7.2 of the PFA ending 30 November 2020, or the date EHT completes its restructuring process and a new structure is in place, whichever is earlier. The MAS Temporary Waiver is subject to the following conditions and will only become effective when such conditions are fulfilled:
 - (a) the REIT Manager and the REIT Trustee providing their views in writing to the MAS that:
 - (i) the termination of the MLAs is in the best interests of the Stapled Securityholders; and
 - (ii) the management and operation of the Properties by the Master Lessors is in the best interests of the Stapled Securityholders and is necessary and integral to facilitate the Restructuring Process;

- (b) the REIT Manager and the REIT Trustee stating their respective views as set out in Paragraph 5.3(a) above in an SGXNET announcement when the Managers announce the Interim Plan; and
- (c) the REIT Manager and the REIT Trustee informing the MAS in writing if they cease to hold the views as set out in Paragraph 5.3(a)(ii) above, and the Managers announce this immediately in an SGXNET announcement.

5.4 As the REIT Manager and the REIT Trustee have provided their views on the termination of the MLAs and the management and operation of the Properties by the Master Lessors as detailed in Paragraph 5.35.3(b)5.3(a) in writing to the MAS and such views of the REIT Manager and the REIT Trustee are substantially set out under Paragraph 6 of this Announcement, the conditions to the MAS Temporary Waiver as set out in Paragraphs 5.35.3(b)5.3(a) and 5.35.3(b) have been fulfilled and the MAS Temporary Waiver is therefore effective.

6. VIEWS OF THE AUDIT AND RISK COMMITTEE OF THE REIT MANAGER, THE BOARD OF THE REIT MANAGER, AND THE REIT TRUSTEE ON TERMINATION OF MLAs AND IMPLEMENTATION OF INTERIM PLAN

6.1 Views of the Audit and Risk Committee

Having considered the factors in Paragraph 3 for the termination of the MLAs and Paragraph 4.6 for the implementation of the Interim Plan and having received, reviewed and considered the advice and submissions from their professional advisers on such matters, the Audit and Risk Committee of the REIT Manager, is of the view that **on balance**, (a) the termination of the MLAs is in the best interests of Stapled Securityholders, and (b) the management and operation of the Properties by the Master Lessors under the Interim Plan is in the best interests of Stapled Securityholders and is necessary and integral to facilitate the Restructuring Process. Accordingly, the Audit and Risk Committee has recommended that the Board of the REIT Managers terminate the MLAs and implement the Interim Plan.

6.2 Views of the Board of the REIT Manager

- (a) Having considered the factors in Paragraph 3 for the termination of the MLAs and Paragraph 4.6 for the implementation of the Interim Plan and having received, reviewed and considered the advice and submissions from their professional advisers on such matters and having received the recommendation from the Audit and Risk Committee of the REIT Manager, the Board of the REIT Manager is of the view that **on balance**, (i) the termination of the MLAs is in the best interests of Stapled Securityholders, and (ii) the management and operation of the Properties by the Master Lessors under the Interim Plan is in the best interests of Stapled Securityholders and is necessary and integral to facilitate the Restructuring Process.
- (b) It should be emphasised that the views of the Board of the REIT Manager are that, **on balance**, termination rather than status quo is better for EHT and its Stapled Securityholders. It is a good faith judgment call based on current circumstances and taking into consideration arguments both for and against (i) termination of the MLAs, and (ii) the management and operation of the Properties by the Master Lessors under the Interim Plan.
- (c) Accordingly, the Board of the REIT Manager has resolved to terminate the MLAs and to implement the Interim Plan and the REIT Manager has provided its recommendation to the REIT Trustee to approve the same.

6.3 Views of the REIT Trustee

Having considered the factors in Paragraph 3 for the termination of the MLAs and Paragraph 4.6 for the implementation of the Interim Plan and the proposals received from the RFP process, having received, reviewed and considered the advice and submissions from their professional

advisers on such matters, and having received the recommendation of the REIT Manager, the REIT Trustee is of the view that **on balance**, (a) the termination of the MLAs is in the best interests of Stapled Securityholders, and (b) the management and operation of the Properties by the Master Lessors under the Interim Plan is in the best interests of Stapled Securityholders and is necessary and integral to facilitate the Restructuring Process, and has approved the same.

7. GENERAL

- 7.1 The REIT Manager and the REIT Trustee would like to highlight that while they are of the view that the termination of the MLAs and the management and operation of the properties by EHT in the interim are, **on balance**, in the best interests of the Stapled Securityholders pending completion of the Restructuring Process, such actions and steps may not necessarily lead to the successful rehabilitation of EHT, which is also dependent on other factors such as the time and process required to implement the actual termination of the MLAs which may vary from State to State under applicable laws, having a third-party investor inject capital resources into EHT and the market conditions of the United States hospitality industry.
- 7.2 In the meantime, all rights of the Master Lessors against the Master Lessees under the MLAs are expressly reserved and the Master Lessees remain obliged to fulfil their obligations under the MLAs. The Managers will provide further updates as and when there are any material developments on the above matters.

Stapled Securityholders are advised to read this Announcement and any further announcements by the Managers carefully. There is no certainty or assurance as at the date of this Announcement that there will be any satisfactory resolution with the Master Lessees. Stapled Securityholders should consult their stockbrokers, bank managers, solicitors or other professional advisors if they have any doubt about the actions they should take.

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as trustee-manager of Eagle Hospitality Business Trust

Date: 23 September 2020

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