

**EAGLE HOSPITALITY TRUST 2020 ANNUAL GENERAL MEETING  
31 AUGUST 2020, 2.00PM**

**QUESTION AND ANSWER**

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**1. Questions Relating to the Status of Matters with Sponsor and Master Lessee covering:**

- 1.1 The Contents of the Sponsor's Press Releases
- 1.2 Whether there is Basis for their Complaints or Assertions?
- 1.3 What Actions will EHT be taking Against the Sponsor and/or Master Lessees?
- 1.4 Why and When will EHT take Actions to hold the Responsible Parties Accountable?
- 1.5 The Sponsor's Proposed Rescue Plan, if any?

Addressed by Tarun Kataria, Independent Director.

**Answer:**

These are all valid and important questions and the answers are a good example of what we mean by the need for very thoughtful and deliberate consideration as we search for solutions on your behalf.

There are a number of claims in the Sponsors press release.

We had on 25 August 2020 issued a response on SGXNET updating on EHT's position in respect of these claims. In summary, the REIT Manager believes that EHT's claims against the Master Lessees are valid and that the Master Lessees are in serious and multiple defaults which entitles EHT to legal rights against them. Indeed, the Sponsors have had ample opportunity to remedy their multiple defaults.

Notices of Defaults have been issued by the Master Lessors to the Master Lessees in respect of the many defaults under the MLAs. A Notice of Demand has also been sent to Mr. Taylor Woods in respect of the Queen Mary PPP money (Payroll Protection Plan) as well.

However, these multiple, serious and clear defaults remain unremedied despite the multiple demands.

It is therefore an instinctive and normal reaction to want to litigate against counterparties who have clearly defaulted on their obligations to EHT.

However the Board - along with the Trustee and advisors – appreciate the need to exercise judgment as how best to prudently use the REIT's resources to protect equity value for the Stapled Securityholders. These same resources are also needed for OPEX, CAPEX, unpaid government and hotel occupancy taxes, to fund hotel managers, costs which preserve property value for you our unit holders.

Indeed, these costs are the obligations of the Master Lessees but as we all know the Master Lessees and Sponsor have now publicly disputed their obligations.

As many of us also know, litigating in the US is expensive and time consuming. Hence, with limited resources, we collectively believe we need to be vigilant that the REITs limited resources are used to protect the equity value for the Stapled Securityholders.

Essentially, we are not governed by the "news headline" or a PR strategy of the Sponsor/Master Lessees. But by prudence with preservation of value for Stapled Securityholders as the driver.

That said, do we have the right and the ability to proceed against the Master Lessees at an appropriate time in an appropriate forum? Absolutely! Your rights are reserved!

We will continually assess the impact and implications of the defaults and consider appropriate further steps to be taken to manage and minimise the consequent risks.

There were also many questions about the Sponsor's plan and its participation in the RFP. The second RFP has not closed off this avenue to anyone, including the Sponsors if they are able to satisfy as to why they should be preferred against other contenders.

All credible plans must and will be considered appropriately by the Trustee and our Financial Advisors. The board is not privy to the submissions, so beyond this we are unable to comment. We do understand however that the proposals are due today. We look forward to feedback from the Trustee and our Financial Advisers.

I would like to reiterate on behalf of the Board, please be assured that any decision taken will be taken with the concurrence of the Trustee which will always be driven by the best interests of the Stapled Securityholders and indeed the minority Securityholders as well.

Your board will continue to soldier on and work diligently. Thank you for your patience and support. And thank you Trustee and our legal and financial advisers for your guidance and support of our efforts to preserve value for our Stapled Securityholders.

## **2. Questions Relating to the Status of Operations / Business / Request for Proposals / Forbearance covering:**

- 2.1 How many hotels remain open?
- 2.2 Why did we need to enter into Caretaker Agreements?
- 2.3 The Status of the Hotel Management Agreements
- 2.4 Why it was necessary for EHT to pay certain property-level expenses and if EHT assumed liabilities of the Master Lessee?
- 2.5 The Status of the RFP
- 2.6 The Status of the Forbearance by the Lenders

Addressed by Mr. Salvatore Gregory Takoushian, Executive Director and Chief Executive Officer.

### **Answer:**

On portfolio status, three hotels remain open including

- Renaissance Denver East Stapleton,
- Holiday Inn Denver East - Stapleton and
- Delta Woodbridge.

Together with our advisers and the respective property managers, we are analysing reopening strategies for the closed hotels, taking into consideration current circumstances and the relevant market fundamentals.

Given the need for continued care and maintenance of EHT's properties that are closed and not operating, EHT has entered into 15 Caretaker Agreements to-date and will enter into Caretaker Agreements for the other three operating hotels as needed.

We cannot risk deterioration to the condition of the properties. Caretaker Agreements are meant to be a cost-effective means to maintain the properties while they remain shuttered.

Incumbent managers Crestline, Evolution, Interstate and Highgate have been retained as caretakers with due consideration to, amongst other things, their familiarity and knowledge of the properties. EHT has also appointed GF Hotels as the caretaker for five hotels formerly managed by Pyramid, following Pyramid's termination of the HMAs.

Monthly caretaker costs are mostly used to fund property utilities and other essential vendors and staff payroll and benefits. It also includes a small caretaker fee to the relevant hotel manager.

There is a question on change of hotel manager from the time of the IPO that we would like to address.

The Board of the REIT Manager has always exercised care and raised questions whenever the Sponsor presented proposals including the periodic change of hotel managers.

At the time when the EHT preliminary prospectus was lodged, the Master Lessees were considering replacing Brighton Management, LLC, ("Brighton") which operated seven of the properties. As referenced in the prospectus, rationale provided for replacing Brighton included changing to larger and more established hotel management companies, including existing hotel managers of other properties within EHT's portfolio. No red flags were raised to the board as part of the due diligence conducted.

To reiterate, in relation to EHT paying certain property-level expenses, please note that EHT has not adopted the liabilities of the Master Lessees.

The Master Lessees remain fully liable for their obligations and all rights of EHT entities under the Master Lease Agreements are reserved and will be pursued as appropriate.

However, as a result of the Master Lessees defaults, there are liabilities owed to third parties which are essential to the good maintenance and operation of EHT's properties. There is presently no other viable alternative but to utilise the available funds of EH-REIT for purposes of preserving the value of the properties.

If critical expenses are not paid, the value and viability of the portfolio is at risk and could diminish the prospects of recovery for Stapled Securityholders.

The Managers and the REIT Trustee consider that it is in the best interests of EHT and its Stapled Securityholders to pay certain of these expenses in an effort to preserve the underlying asset value of the properties in the portfolio.

On the status of the RFP process that is led by the Trustee, we understand that:

- A good number of parties have indicated their interest and 15 parties have entered into Non-disclosure Agreements with respect to the RFP.
- All Interested parties are required to submit their firm proposals by today, 31 August 2020.
- The Managers and REIT Trustee are considering ALL options available to EHT that are in the interests of EHT and its Stapled Securityholders, including but not limited to a recapitalisation of EHT, as well as a restructuring of the current debt facilities of EHT. However, we note that our professional advisers have welcomed any other viable proposals as the RFP process is not restricted to any one option.

In respect of the current status of Lender engagement, as we continue to be focused on the restructuring process, it remains critical for us to engage our lenders and to work diligently to secure continued forbearance.

### **3. Questions relating to Financial, Valuation & Audit Matters covering:**

- 3.1 Property Valuation, Valuation Differential & Revaluation
- 3.2 ASAP6 Portfolio & Historical Financial Information
- 3.3 Fixed Income Sufficiency & Guarantee
- 3.4 Audit & Non-audit Fees & Auditor's Objectivity

Addressed by Mr. Tan Wee Peng Kelvin, Independent Director and Chairman of the Audit and Risk Committee

#### **Answer:**

Past valuation reports prepared by independent property valuers on EHT were based on methodologies which reviewed 10-year net rent cash flow forecasts under a master lease arrangement. The independent valuers are responsible for their own valuations based on their experience, knowledge of the industry and professional requirements and standards.

At the date of issuance of these reports, no red flags were raised to the Board based on the due diligence conducted. It was noted that due diligence conducted on the 18 properties is subject to the same standards which are in line with market best practices. As for the ASAP6 portfolio, the independent valuers were provided with at least two years of historical financials (FY2017 and FY2018). Specific to the query on valuation differential between the two valuers, it was 4.7% across the entire portfolio.

We are currently exploring a re-valuation of the assets as part of the restructuring process.

However, in view of changing market conditions and the non-performance of the Master Lessees, the methodologies going forward may have to consider cash flow forecasts from the underlying hotel properties unrelated to rent from master lease arrangements.

On the subject of rental sufficiency and payment, we would like to highlight firstly that rent payments from the Master Lessees are not guaranteed.

The income productivity of the assets, as projected jointly by the Master Lessees and the financial advisers, was expected to be sufficient to meet the payments of fixed rental.

Whilst the Master Lessees satisfied their rent obligations for 2019, they have NOT been able to fulfil their obligations in 2020 and rent payments since January 2020 remain substantially unpaid.

EHT has persistently reminded the Master Lessees of their obligations under the MLAs, including its rental obligations. The Master Lessees non-performance of their obligations continued to mount in 2020.

The audit and audit-related fee of US\$1.093 million comprises fees

- for audit-related services in relation to the IPO of US\$0.9 million and
- audit fee for the period from 11 April 2019 (the date of constitution of EHT) to 31 December 2019 of US\$0.2 million.

The fees for the audit-related services in relation to the IPO of US\$0.9 million consisted of multiple reports in the EHT IPO Prospectus, including those relating to the three-year pro forma financial information and profit forecast and profit projection. To issue these reports, amongst other work undertaken, KPMG audited the historical financial information of the entities that owned 12 of the properties and other entities that were acquired by EHT for the three years from 2016 to 2018.

In comparison, the audit fee of US\$0.2 million covers the audit of EHT for a period of approximately seven months (from the date of IPO) in the current period.

The fees for the audit-related work pre-IPO are higher than the audit fee for FY2019 as they relate to a different scope of services that covered three historical financial periods plus forecasts, as compared to a seven-month historical audit period.

As for the non-audit services, it relates to a one-time, non-recurring IPO tax services. The ARC is satisfied that the nature and extent of non-audit services and the fees for such services, do not affect the independence and objectivity of KPMG.

Allow me to close by sharing, in the interest of keeping Stapled Securityholders informed on a more regular basis, the Managers and Independent Directors have made regular updates, and will continue to provide further updates as and when there are material developments.

#### **4. Questions relating to Corporate Governance covering:**

- 4.1 The Due Diligence conducted for the IPO
- 4.2 Board's Appointment & Board's Independence
- 4.3 Remuneration Matters
- 4.4 Cessation Notice of a Company Officer
- 4.5 The Non-disturbance Agreement entered into by the Sponsor

Addressed by Lau Chun Wah @ Davy Lau, Lead Independent Director and Chairman of the Meeting

**Answer:**

The considerations in determining EHT's suitability to list on SGX were assessed by the Regulators, the issuing bank, the underwriters, as well as the legal counsels.

Customary due diligence for a standard REIT IPO was conducted by them and it covers the Sponsor, the Directors, Management, holding structures, foreign-based properties etc.

EHT met all the requirements to list on SGX.

It is noted that EHT is one out of six Singapore REITs with pure-play USA assets and its holding structure, through multiple entities in Cayman Islands, USA and Singapore is not materially different from that of other REITs with properties in USA and listed on the SGX.

On EHT's Board composition, its composition is in line with Singapore's regulations, that is at least half of the Directors must be independent from management and business relationships with the REIT Manager, and from every substantial shareholder of the REIT Manager and EH-REIT.

In this regard, none of the Independent Directors had previously worked together, or with the Sponsor or the Management. In fact, Kelvin, Tarun and I, as Independent Directors, were subject to review and approval by the Regulators, the underwriters, advisers and counsels.

The Directors' fees are set in accordance with a remuneration framework of basic fees for their appointment as Directors/Lead Independent Director and representation as Chairperson/Member in various Board Committees. The Directors are not paid any additional attendance fees.

For FY2019, the Directors were awarded an appreciation bonus for their extensive time commitment during the fourth quarter of 2019, a tumultuous period with significant scrutiny from the media requiring great diligence to provide prompt clarifications to Staped Securityholders, and constant explanations and engagement with the Regulators, amidst other demanding work streams as a new manager and a newly-listed entity. The award was discussed and decided by the Sponsor.

The remuneration details in the CG Report - with clear breakdown of the remuneration into fixed and variable components including remuneration related to awards, benefits, bonus and director's fees, together with the total remuneration paid (for FY2019, it amounted to S\$1.7 million for three Key Management Personnel excluding the CEO) - provide a macro perspective of the remuneration quantum, the framework and the components while maintaining confidentiality of the individual's remuneration and satisfy Principle 9 of the Code of Corporate Governance.

Surrounding the disclosure of Mr Cheah Zhou Yue, a former employee of EHT. I would like to clarify that we did not believe that disclosure was warranted as we had hired a CFO and Mr Cheah was not a C-Level executive. However, following a request from SGX, and in the spirit of prudence, EHT Management elected to disclose.

With regards to the Non-Disturbance Agreements: As disclosed in an announcement dated 15 May 2020, the Special Committee and the REIT Trustee were not aware of any negotiations of, nor of the execution of the Non-Disturbance Agreements (NDAs) until we were informed of the same by our legal counsels in USA.

Accordingly, at the relevant time prior to the entry into the NDAs, neither the ARC nor the REIT Trustee had the opportunity to review them and the consent of the REIT Trustee was not obtained prior to the entry into the NDAs.

The Sponsor entered into these transactions without the knowledge of the other Directors of the Managers and the REIT Trustee, and they also failed to disclose the NDAs in their quarterly submissions.

We, the Independent Directors and the CEO announced the existence of the NDAs as soon as we became aware of them.