

ASCENDAS HOSPITALITY TRUST

A stapled group comprising:

Ascendas Hospitality Real Estate Investment Trust (a real estate investment trust constituted on 13 March 2012 under the laws of the Republic of Singapore) managed by Ascendas Hospitality Fund Management Pte. Ltd.	Ascendas Hospitality Business Trust (a business trust constituted on 13 March 2012 under the laws of the Republic of Singapore) managed by Ascendas Hospitality Trust Management Pte. Ltd.
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ACQUISITION OF THREE WBF HOTELS IN OSAKA, JAPAN

1. INTRODUCTION

1.1 The Acquisition

Ascendas Hospitality Fund Management Pte. Ltd. (the “**REIT Manager**”), as manager of Ascendas Hospitality Real Estate Investment Trust (“**A-HREIT**”), and Ascendas Hospitality Trust Management Pte. Ltd., as trustee-manager of Ascendas Hospitality Business Trust (“**A-HBT**”) (collectively, the “**Managers**”), are pleased to announce that Ascendas Hospitality Japan 2 Pte. Ltd. (the “**Purchaser**”), a wholly-owned entity of Perpetual (Asia) Limited, as trustee of A-HREIT (the “**REIT Trustee**”), has on 15 June 2018 entered into three conditional sale and purchase agreements with ES-CON JAPAN Ltd. (the “**Vendor**”) to acquire the trust beneficiary interest (“**TBI**”) in three hotels located in Osaka, Japan namely, Hotel WBF Kitasemba West, Hotel WBF Kitasemba East and Hotel WBF Honmachi (collectively, the “**Hotels**”) (the “**Sale and Purchase Agreements**”). The Purchaser will subsequently transfer its contractual status under the Sale and Purchase Agreements to a special purpose company, to be incorporated under Japanese law (the “**TMK**”) before the completion date, in order for the TMK to acquire the TBI. The TMK will be wholly owned by the Purchaser.

The Vendor, as the initial settlor and initial beneficiary, will also enter into trust agreements (the “**Trust Agreements**”) with Sumitomo Mitsui Trust Bank, Limited (the “**Trust Bank**”) in respect of each of the Hotels such that each of the Hotels will be entrusted to the Trust Bank in accordance with the terms under the Trust Agreements and the Trust Bank will hold the legal title to each of the Hotels. Simultaneously with the transfer of the TBI to the TMK under the Sale and Purchase Agreements, the Vendor’s

position as the settlor and beneficiary under the Trust Agreements will be transferred to the TMK. Upon completion of the proposed acquisition of the Hotels under the Sale and Purchase Agreements (the “**Acquisition**”), the TBI in each of the Hotels will be held by the TMK and the Trust Bank will continue to hold the legal title to each of the Hotels.

Further, in connection with the entrustment of the Hotels pursuant to the Trust Agreements, and upon completion of the Acquisition, the Vendor’s contractual status under the existing fixed-term building lease agreements with Kabushiki Kaisha White Bear Family (the “**Lessee**”) in relation to each of the Hotels (the “**Fixed-Term Building Lease Agreements**”) will be transferred to the Trust Bank, as the new landlord in lieu of the Vendor.

1.2 Information on the Hotels

All three Hotels are situated within the Honmachi district in Osaka and are located in close proximity to the central business district, leisure destinations and the entertainment precinct, Dotonbori. The Hotels are located within walking distance to the Honmachi Station, a subway station on three lines of the Osaka Municipal Subway, offering excellent connectivity to other parts of the city. All three Hotels are three-star rated and freehold properties.

The 13-floor Hotel WBF Kitasemba West offers 168 rooms as well as a restaurant, and was completed in March 2018 and commenced operation in May 2018. Hotel WBF Kitasemba East is a 13-floor hotel which offers 168 rooms as well as a restaurant, and was completed in April 2018. Operation of Hotel WBF Kitasemba East commenced in June 2018. Hotel WBF Honmachi is a 15-floor hotel offering 182 rooms as well as a restaurant. Hotel WBF Honmachi was also completed in April 2018 and commenced operation in June 2018.

The Hotels will be managed by the Lessee, which is part of a hospitality group established in 1977. The Lessee currently operates close to 30 hotels across five cities in Japan, with 11 of these hotels located in Osaka.

2. DETAILS OF THE ACQUISITION

2.1 Purchase Consideration and Valuation

The aggregate purchase consideration for the Acquisition of JPY10,290.0 million (approximately S\$126.1 million¹) (the “**Purchase Consideration**”) was negotiated on a willing-buyer and willing-seller basis and takes into account the independent valuation undertaken on the Hotels (the “**Independent Property Valuation**”) by Cushman & Wakefield K.K. (the “**Independent Property Valuer**”).

The Independent Property Valuer was commissioned by the REIT Manager to value the Hotels. The independent valuation reports prepared by the Independent Property Valuer as at 25 May 2018 (the “**Independent Valuation Reports**”) valued the Hotels at an aggregate of JPY10,600.0 million (approximately S\$129.9 million), based on discounted cashflow analysis, income capitalisation and cost approaches.

The Purchaser has made a total payment of JPY856.5 million to the Vendor as a deposit (the “**Deposit**”) shortly after execution of the Sale and Purchase Agreements. The balance of the Purchase Consideration is payable upon completion of the Acquisition. The acquisitions of Hotel WBF Kitasemba West and Hotel WBF Kitasemba East are expected to be completed by end of September 2018, while the acquisition of Hotel WBF Honmachi is expected to be completed by the end of January 2019.

2.2 Estimated Total Cost of the Acquisition

The estimated total cost of the Acquisition is approximately JPY11,240.0 million (approximately S\$137.8 million) (the “**Total Acquisition Cost**”), comprising:

- (i) the Purchase Consideration of JPY10,290.0 million (approximately S\$126.1 million);
- (ii) the acquisition fee payable to the REIT Manager for the Acquisition, in accordance with the trust deed dated 13 March 2012 (as amended) constituting A-HREIT, of JPY102.9 million (approximately S\$1.3 million) which shall be paid in cash; and

¹ Based on an illustrative exchange rate of JPY81.58: S\$1.00. Unless otherwise indicated in this announcement, all conversions from Japanese Yen (“**JPY**”) into Singapore Dollars (“**S\$**”) in this announcement are based on an illustrative exchange rate of JPY81.58: S\$1.00.

- (iii) the estimated professional fees and other transaction expenses incurred or to be incurred in connection with the Acquisition (inclusive of stamp duty, agent fee, financing related expenses and due diligence costs) of approximately JPY847.1 million (approximately S\$10.4 million).

2.3 Certain Terms of the Sale and Purchase Agreements

Representations and warranties customary to a transaction of this nature have been given by the Vendor under the Sale and Purchase Agreements. Completion under the Sale and Purchase Agreements is subject to and conditional upon the satisfaction of certain conditions, including the execution of the Trust Agreements, the entrustment of the Hotels to the Trust Bank and the transfer of the Fixed Term Building Lease Agreements to the Trust Bank.

2.4 Certain Terms of the Fixed-Term Building Lease Agreements

The rental income under each of the three Fixed-Term Building Lease Agreements is based on an agreed fixed rent (“**Fixed Rent**”). The Lessee has paid a security deposit equivalent to three months’ Fixed Rent for each of the Hotels, which will be transferred to the Trust Bank upon completion of the Acquisition.

The Fixed-Term Building Lease Agreement for Hotel WBF Kitasemba West commenced with effect from 26 March 2018, with a tenor of 20 years. The Fixed-Term Building Lease Agreement for Hotel WBF Kitasemba East and Hotel WBF Honmachi commenced on 28 April 2018 and 27 April 2018 respectively, also with tenors of 20 years each. The terms of each of the Fixed-Term Building Lease Agreement also provide that the parties may negotiate for revision of rent under certain circumstances such as a change in the economic conditions or amount of taxes.

3. RATIONALE FOR THE ACQUISITION

The Managers believe that the Acquisition will bring the following key benefits to the stapled securityholders of A-HTRUST (“**Stapled Securityholders**”).

3.1 DPS accretive acquisition

The Acquisition represents an attractive opportunity to further develop Ascendas Hospitality Trust (“**A-HTRUST**”) as it is expected to be accretive to the distribution per stapled security of A-HTRUST (“**DPS**”, and the stapled securities in A-HTRUST, the “**Stapled Securities**”), as the Managers seek to leverage on the low-cost funding environment for JPY in Japan.

Based on the Total Acquisition Cost and the assumptions set out in paragraph 4.2 below, the pro forma DPS for the financial year ended 31 March 2018 (“**FY2017/18**”) is 6.11 cents, an increase of 4.3% from the actual DPS of 5.86 cents for FY2017/18.

3.2 Good location of the Hotels

The Acquisition is consistent with the growth strategy of A-HTRUST to acquire properties which can enhance the value of A-HTRUST’s portfolio. The Acquisition allows A-HTRUST to deepen its presence in Osaka, which is a city with sound hospitality fundamentals.

3.2.1 A key financial centre and popular leisure destination

A gateway city in Asia, Osaka is also an important financial hub in Japan, ranked as one of the top 10 financial centres in the Asia Pacific region². It is also the business centre of west Japan, with some of Japan’s largest corporations such as Itochu Corporation and Nippon Life Insurance Company headquartered in Osaka. Osaka is also home to world-renowned tourist attractions such as Universal Studios Japan, Osaka Castle, the Osaka Aquarium Kaiyukan, as well as Dotonbori, a popular entertainment precinct.

Osaka is well-served by the Osaka Municipal Subway and is connected to other cities via the inter-city railway. The city is also served by two airports, Osaka International Airport and Kansai International Airport, which is an important air transportation hub in Asia.

² Source: The Global Financial Centres Index 23 (March 2018).

3.2.2 The Hotels are well located

The Hotels are all situated within the Honmachi district and are well positioned between the central business district and the entertainment precinct, Dotonburi. Osaka Castle, a prominent landmark, is also located in close proximity to the Hotels.

The Hotels are well served by Honmachi Station, which is conveniently located within a short walking distance from the Hotels. Three lines of the Osaka Municipal Subway run through the Honmachi Station which offers excellent connectivity to other parts of the city including Universal Studios Japan. The Hotels are also located within a short drive away from the Osaka International Airport, which caters primarily to domestic travelers. This is beneficial to the Hotels which are located in a city which has seen steady growth in terms of domestic travelling.

The good location of the Hotels offers opportunity for capital upside while risks of downside are mitigated.

3.2.3 Hospitality market with sound fundamentals

With its status as a key financial hub both in Japan and globally, it is expected that corporate travelling into the city of Osaka will remain steady, barring unforeseen circumstances. As a tourist destination, Osaka has much to offer to visitors, ranging from sprawling entertainment areas to cultural landmarks.

International arrivals into Osaka have been on the rise in recent years and the Osaka Prefecture welcomed a record 11.1 million foreigners in 2017, posting growth of 18% year-on-year³. Number of total overnight stays in the city also remained buoyant with a compounded annual growth rate of 8% from 2012 to 2016⁴. These numbers are expected to continue growing as the city gains popularity as a destination within and outside Japan.

Universal Studios Japan is also the fourth most visited theme park in the world in 2017, attracting close to 15 million visitors⁵. A new theme area “Super Nintendo World” is currently under construction, as the theme park seeks to replicate the

³ Source: Osaka Prefectural Government

⁴ Source: Osaka Prefectural Government

⁵ Source: TEA/AECOM 2017 Theme Index and Museum Index: The Global Attractions Attendance Report.

success of the Harry Potter theme area which opened in 2014. This is expected to further boost accommodation demand in Osaka once it opens, which is expected to be in 2020.

3.3 Acquisition of new freehold properties at an attractive price

A-HTRUST will be acquiring three new Hotels, with the Hotels having been recently completed between March and April 2018. As such, capital expenditure is expected to be minimal over the next few years, allowing A-HTRUST to conserve cash resources for other uses.

The Acquisition will also add three freehold hotels to A-HTRUST's portfolio, bringing the total number of freehold properties to 12 out of the 13 hotels⁶ in A-HTRUST's portfolio.

The Purchase Consideration translates to a relatively low price per key of JPY20 million compared to recent hotel transactions in Osaka.

3.4 Improved income stability

The rent structure under the Fixed-Term Building Lease Agreements will further improve the income stability of A-HTRUST as a whole. On a pro forma basis, the proportion of net property income from hotels under master leases in FY2017/18 will increase from 40.0% to 49.2%⁷.

In addition, while the operations of the Hotels go through the initial stabilising period, A-HTRUST is unlikely to be affected as the Fixed-Term Building Lease Agreements will commence immediately upon completion of the Acquisition.

3.5 Further diversification of hotel operators

The Hotels will be managed by the Lessee, which is an established hotel management company experienced in operating hotels in Japan and in particular, Osaka. This reduces A-HTRUST's dependence on any one operator and diversifies the pool of hotel operators for A-HTRUST's properties in Japan.

⁶ Taking into account the divestment of the two hotels in Beijing ("**Divestment**") and the acquisition of KY-Heritage Hotel Dongdaemun ("**Korea Acquisition**"). Please refer to the announcements dated 29 January 2018 and 27 April 2018 for further information on the Divestment and the Korea Acquisition, respectively. The Divestment was completed on 18 May 2018 and the Korea Acquisition was completed on 21 May 2018.

⁷ Assuming the Divestment and Korea Acquisition were completed on 1 April 2017.

3.6 Broaden earning base and further diversification

The Acquisition is expected to benefit Stapled Securityholders by broadening A-HTRUST's earning base and further reducing its reliance on any single property.

4. METHODS OF FINANCING AND FINANCIAL EFFECTS

4.1 Methods of Financing

The Managers intend for the Total Acquisition Cost to be fully funded by debt.

4.2 Financial Effects

4.2.1 Assumptions

The pro forma financial effects of the Acquisition presented in this section are **strictly for illustrative purposes only** and do not reflect the actual financial performance or position of A-HTRUST after the completion of the Acquisition.

The pro forma financial effects have been prepared based on the latest audited financial statements of A-HTRUST for FY2017/18 taking into account the following assumptions:

- (i) the Total Acquisition Cost is funded entirely by external debt;
- (ii) the pro forma financial effects below take into account (a) the scenario assuming that the Divestment and the Korea Acquisition have yet to be completed; and (b) the scenario assuming both the Divestment and the Korea Acquisition have been completed;
- (iii) with respect to the scenario assuming that the Divestment has already occurred, the financial effects do not take into account any distribution of the net proceeds to Stapled Securityholders⁸ and assume the repayment of a loan amounting to approximately S\$160 million; and
- (iv) the exchange rate of JPY81.58 : S\$1.00.

⁸ Please refer to the announcement dated 29 January 2018 for further information on the Divestment.

4.2.2 Pro Forma Net Profits

FOR ILLUSTRATION PURPOSES ONLY: The table below sets out the pro forma net profits attributable to the Acquisition for FY2017/18:

	FY2017/18
Net profits attributable to the Acquisition (S\$ '000)	2,992

4.2.3 Pro Forma Net Asset Value and Aggregate Leverage

FOR ILLUSTRATION PURPOSES ONLY: The table below sets out the pro forma financial effects of the Acquisition on the net asset value (“NAV”) per Stapled Security and aggregate leverage⁹ as at 31 March 2018, as if the Acquisition was completed on 31 March 2018:

Net Asset Value

	Before the Acquisition	After the Acquisition and before the Divestment and the Korea Acquisition	After the Acquisition and after the Divestment and the Korea Acquisition
NAV per Stapled Security (S\$)	0.92	0.92	1.02

Aggregate Leverage

	Before the Acquisition	After the Acquisition and before the Divestment and the Korea Acquisition	After the Acquisition and after the Divestment and the Korea Acquisition
Aggregate Leverage (%)	30.8	35.9	31.8

⁹ Computed based on actual and pro forma (as the case may be) total borrowings and total assets of A-HTRUST at the respective dates.

4.2.4 Pro Forma DPS¹⁰

FOR ILLUSTRATION PURPOSES ONLY: The table below sets out the pro forma financial effects of the Acquisition on the DPS for FY2017/18 as if the Acquisition were completed on 1 April 2017 and A-HREIT held and operated the Hotels through to 31 March 2018:

	Before the Acquisition	After the Acquisition and before the Divestment and the Korea Acquisition	After the Acquisition and after the Divestment and the Korea Acquisition
DPS (\$ cents)	5.86	6.13	6.11

5. INTEREST OF DIRECTORS AND CONTROLLING STAPLED SECURITYHOLDERS

As at the date of this announcement and based on the information available to the Managers as at the date of this announcement, save for Stapled Securities held by certain directors of the Managers and the controlling Stapled Securityholders, and save as disclosed, none of the Directors or the controlling Stapled Securityholders have an interest, direct or indirect, in the Acquisition.

6. OTHER INFORMATION

6.1 Directors' Service Contracts

No person is appointed as a director of the Managers in connection with the Acquisition or any other transaction contemplated in relation to the Acquisition.

¹⁰ Rule 1010(9) of the Listing Manual requires that the issuer discloses the effect of the transaction on the earnings per share of the issuer for the most recently completed financial year, assuming that the transaction had been effected at the beginning of that financial year. The effect of the transaction on the DPS is disclosed instead as it is a more appropriate measure for a real estate investment trust.

6.2 Relative Figures Computed on the Bases set out in Chapter 10 of the Listing Manual of Singapore Exchange Securities Trading Limited (“SGX-ST”, and the Listing Manual of the SGX-ST, “Listing Manual”)

The relative figures computed on the applicable bases set out in Rule 1006 of the Listing Manual are set out below:

- (i) the net profits attributable to the assets acquired, compared with A-HTRUST’s net profits; and
- (ii) the aggregate value of the consideration given, compared with A-HTRUST’s market capitalisation.

Rule 1006(d) does not apply as no Stapled Securities will be issued as consideration for the Acquisition.

Bases	Acquisition (S\$ '000)	A-HTRUST (S\$ '000)	Relative figure (%)
Net profits attributable to the asset acquired, compared to A-HTRUST’s net profits	2,992 ⁽¹⁾	32,063 ⁽²⁾	9.3%
Consideration compared to A-HTRUST’s market capitalisation	126,134 ⁽³⁾	867,009 ⁽⁴⁾	14.5%

Notes:

- (1) Based on the pro forma net profits attributable to the Hotels for FY2017/18.
- (2) Based on the net profits of A-HTRUST for FY2017/18.
- (3) Based on the Purchase Consideration of JPY10,290.0 million and exchange rate of JPY81.58: S\$1.00.
- (4) Based on the volume-weighted average price of each Stapled Security of A-HTRUST as at 14 June 2018, being the market day preceding the date of the Sale and Purchase Agreements.

Under Rule 1010 of the Listing Manual, where any of the relative figures computed on the bases set out above exceeds 5% but does not exceed 20%, the transaction will be regarded as a discloseable transaction. In any case, the Acquisition is in the ordinary course of business of A-HTRUST for purposes of Chapter 10 of the Listing Manual.

Accordingly, Stapled Securityholders’ approval for the Acquisition is not required under Chapter 10 of the Listing Manual.

7. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the registered office of the Managers for a period of three months commencing from the date of this announcement:

- (i) Sale and Purchase Agreements; and
- (ii) Independent Valuation Reports prepared by the Independent Property Valuer dated 25 May 2018.

By Order of the Board
Mary Judith de Souza
Joint Company Secretary
Ascendas Hospitality Fund Management Pte. Ltd.
(Company Registration No. 201133966D)
As manager of Ascendas Hospitality Real Estate Investment Trust

By Order of the Board
Mary Judith de Souza
Joint Company Secretary
Ascendas Hospitality Trust Management Pte. Ltd.
(Company Registration No. 201135524E)
As trustee-manager of Ascendas Hospitality Business Trust

18 June 2018

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 average daily room rates and occupancy, changes in operating expenses, including employee wages, benefits and training, 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. You are cautioned not to place undue reliance on these forward looking statements, which are based on the Managers' current view of future events.

The value of the Stapled Securities and the income derived from them may fall as well as rise. Stapled Securities are not obligations of, deposits in, or guaranteed by, the Managers, Perpetual (Asia) Limited (as trustee of A-HREIT), or any of their respective affiliates.

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