ELITE COMMERCIAL REIT

(a real estate investment trust constituted on 7 June 2018
under the laws of the Republic of Singapore)

ELITE COMMERCIAL REIT

Management Discussion and Analysis

For the financial period from 6 February 2020 (Listing Date) to 30 September 2020

TABLE OF CONTENTS

Oversea-Chinese Banking Corporation Limited and UBS AG, Singapore Branch are the Joint Issue Managers for the Offering. Oversea-Chinese Banking Corporation Limited, UBS AG, Singapore Branch, CGS-CIMB Securities (Singapore) Pte. Ltd. and China International Capital Corporation (Singapore) Pte. Limited are the Joint Bookrunners and Underwriters for the Offering.

Introduction

Elite Commercial REIT is constituted by the Trust Deed on 7 June 2018. Elite Commercial REIT and its subsidiaries (collectively the "Group") is a Singapore real estate investment trust established with the investment strategy of principally investing, directly or indirectly, in commercial assets and real estate-related assets in the United Kingdom ("UK").

Elite Commercial REIT Management Pte. Ltd. is the manager of Elite Commercial REIT (the "Manager") and Perpetual (Asia) Limited is the trustee of Elite Commercial REIT (the "Trustee").

The REIT commenced trading on the Singapore Exchange Securities Trading Limited ("SGX-ST") on 6 February 2020 ("Listing Date").

As at the Listing Date, the Group's portfolio comprise 97 quality commercial buildings (the "Initial Portfolio") located across the UK with over 99.0% of the Group's revenue derived from the leases with the UK Government via The Secretary of State for Housing, Communities and Local Government (with the Department for Work and Pensions ("DWP") occupying each Property under a group sharing arrangement). DWP is responsible for welfare, pensions and child maintenance policy. As the UK Government's biggest public service department, it administers the State Pension and a range of working age, disability and ill health benefits for approximately 20 million claimants.

Management Discussion and Analysis

With the global economic backdrop being dominated by the detrimental health and economic effects of the Covid-19 pandemic, the Manager has decided to put out a voluntary Management Discussion and Analysis ("MD&A") of the financial performance of the Group for the financial period for third quarter ended 30 September 2020 ("3Q 2020") and from Listing Date to 30 September 2020.

The MD&A includes the Group's unaudited consolidated financial results and a commentary on the significant trends and competitive conditions of the industry in which the Group operates and any known factors or events that may affect the Group in the next reporting period and for the next 12 months.

ELITE COMMERCIAL REIT

(a real estate investment trust constituted on 7 June 2018
under the laws of the Republic of Singapore)

SUMMARY OF ELITE COMMERCIAL REIT'S UNAUDITED CONSOLIDATED RESULTS FOR THE FINANCIAL PERIOD FROM 6 FEBRUARY 2020 ("LISTING DATE") TO 30 SEPTEMBER 2020

	GROUP					
	3Q 2020			06-Feb-20 to 30-Sep-20		
	Actual [(a)] £'000	Forecast [(b)] £'000	Variance %	Actual [(a)] £'000	Forecast [(b)] £'000	Variance %
Revenue	5,820	5,851	(0.5)	15,136	15,135	0.0
Profit before tax	4,163	4,146	0.4	9,082	8,873	2.4
Profit after tax	3,255[(c)]	3,449	(5.6)	7,132	7,071	0.9
Income available for distribution to Unitholders	4,108	4,052	1.4	10,625	10,483	1.4
Distribution per unit ("DPU") - pence	1.23	1.21	1.7	3.18	3.14	1.3

Notes:

(a) Unaudited consolidated financial results for 3Q 2020 and from Listing Date to 30 September 2020 are the first reporting periods incorporating the results of the Initial Portfolio held by Elite Commercial REIT. Although Elite Commercial REIT was constituted on 7 June 2018, the initial public offering was completed on 6 February 2020 which was the official listing date of Elite Commercial REIT.

(b) Other than unit issue costs which were charged to the statement of comprehensive income, the forecast results for the period from the Listing Date to 30 September 2020 was derived by pro-rating the forecast results as disclosed in the Prospectus.

(c) With the recent enactment of the increase of UK corporate tax rate from 17% to 19% in 3Q 2020, the profit after tax is calculated after an additional provision of deferred tax expenses of £276,000 as compared to Forecast. This additional provision of deferred tax expenses has no impact on income available for distribution to Unitholders.

1(a) Consolidated Statement of Comprehensive Income and Distribution Statement

		Group	
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	**Note**	**3Q 2020** **£'000**	**06-Feb-20 to 30-Sep-20 [1]** **£'000**
Revenue	(a)	5,820	15,136
Property operating expenses	(b)	(160)	(421)
Net property income		**5,660**	**14,715**
Manager's management fee	(c)	(411)	(1,063)
Trustee's fee	(d)	(26)	(67)
Other operating expenses	(e)	(463)	(2,864)
Finance costs	(f)	(597)	(1,639)
Profit before tax		**4,163**	**9,082**
Tax expense	(g)	(908)	(1,950)
Profit after tax for the period		**3,255**	**7,132**
DISTRIBUTION STATEMENT			
Profit after tax for the period		**3,255**	**7,132**
Distribution adjustments	(h)	853	3,493
Income available for distribution to Unitholders		**4,108**	**10,625**
Distribution per unit ("DPU")			
Number of Units in issue and issuable as at the end of the period ('000)		334,134	334,134
Income available for distribution to Unitholders (£'000)		4,108	10,625
DPU (pence)		1.23	3.18

(1) Unaudited consolidated financial results for 3Q 2020 and from the Listing Date to 30 September 2020 are the first reporting periods incorporating the results of the Initial Portfolio held by Elite Commercial REIT. Although Elite Commercial REIT was constituted on 7 June 2018, the initial public offering was completed on 6 February 2020 which was the official listing date of Elite Commercial REIT.

Notes:

(a) Revenue comprises contracted rental income from leasing of the office spaces of the Initial Portfolio. Over 99.0% of the rental income is derived from the current leases with the UK Government via The Secretary of State for Housing, Communities and Local Government (with the Department for Work and Pensions ("DWP") occupying each property under a group sharing arrangement). The balance rental income is from a small number of retail tenants in two of the 97 properties.

(b) Property operating expenses comprise of lease management fee, property management fee and property insurance expenses incurred by the Group.

The lease management fee is payable to the Manager and is based on 1.0% per annum of Revenue of each property. The Manager has elected to receive 100% of the lease management fee in the form of Units for the period from the Listing Date to 30 September 2020.

The property management fee is the fee payable to the Property Manager, being Jones Lang LaSalle Limited.

(c) Manager's management fee relates to the base fee which is calculated based on 10% of the income available for distribution. The Manager has elected to receive 100% of the base fee in the form of Units for the period from the Listing Date to 30 September 2020.

(d) The Trustee's fee shall not exceed 0.015% per annum of the value of the Deposited Property, subject to a minimum of S$15,000 per month, excluding out-of-pocket expenses and GST.

(e) Included in other operating expenses are trust expenses and certain IPO transaction costs amounting to £1.7million which were expensed to the statement of comprehensive income.

(f) Finance costs consist of interest expense on borrowings and amortisation of debt-related upfront fee and transaction costs.

(g) Tax expense consists of current tax expense and deferred tax expense which are based on the prevailing UK corporate tax rate of 19%.

(h) Included in the distribution adjustments are the following:

	Group	
	3Q 2020 **£'000**	**06-Feb-20 to 30-Sep-20** **£'000**
Manager's management fee payable in units	411	1,063
Lease management fee payable in units	58	151
Trustee's fee	26	67
Amortisation of debt-related upfront fee and transaction costs	82	215
IPO transaction costs expensed in statement of comprehensive income	-	1,721
Deferred tax expense	276	276
Distribution adjustments	**853**	**3,493**

1(b) Statement of Financial Position

STATEMENT OF FINANCIAL POSITION	Note	Group 30 Sep 2020 £'000	Trust 30 Sep 2020 £'000
Non-current assets			
Investment properties	(a)	295,968	-
Investments in subsidiaries		-	90,852
Loan to subsidiary		-	111,751
		295,968	**202,603**
Current assets			
Trade and other receivables		7,021	1,882
Cash and cash equivalents		8,863	4,458
		15,884	**6,340**
Total assets		**311,852**	**208,943**
Non-current liabilities			
Long term borrowings		101,824	-
Deferred tax liabilities		2,625	-
		104,449	**-**
Current liabilities			
Trade and other payables		1,579	1,200
Deferred income	(b)	5,372	-
		6,951	**1,200**
Total liabilities		**111,400**	**1,200**
Net assets		**200,452**	**207,743**
Represented by:			
Units in issue and to be issued		208,209	208,209
Unit issue costs		(5,903)	(5,903)
Retained earnings		(1,854)	5,437
Unitholders' funds		**200,452**	**207,743**
Net asset value per unit (£)		0.60	0.62
Aggregate leverage ratio		33.1%	Nm
Interest coverage ratio (times)	(c)	7.6	Nm

Nm denotes not meaningful

Notes:

(a) Investment properties are stated at their fair values based on the average of the valuations of the Properties as at 31 August 2019 by Colliers International Valuation UK LLP ("Colliers") and Knight Frank LLP based on the price that would be received for the sale of each Property, in accordance with the relevant accounting standard. The same values have been reconfirmed by both valuers as of 31 December 2019 for the purposes of the Group's FY2019 audited financial statements.

Colliers are of the opinion that the aggregate market value of the 97 properties as at 31 August 2019 is £319,055,000. This figure represents the aggregate of the individual values of the properties and the fact the portfolio is held within an SPV.

(b) Deferred income refers to 3-months of rent received in advance for the period from October 2020 to December 2020.

(c) The interest coverage ratio is calculated by dividing the earnings before interests, tax, depreciation and amortisation (excluding effects of any fair value changes of derivatives and investment properties and foreign exchange translation) ("EBITDA"), and before the one-time IPO transaction costs expensed in statement of comprehensive income, by the interest expense and borrowing related fees.

Including the one-time IPO transaction costs, the interest coverage ratio calculated by dividing EBITDA by the interest expense and borrowings related fees is 6.5 times.

1(c) Details of changes in Units

	Group & Trust **30 Sep 2020** **Units**
Units in issue	
As at 6 February 2020	139,705,895
Issuance of units on Listing Date	192,514,100
Issuance of units - Manager's management fees	1,014,634
Issuance of units - Lease management fees	145,078
	333,379,707
Units to be issued	
Manager's management fee payable in units	660,478
Lease management fee payable in units	93,561
	754,039
Total units in issue and issuable as at the end of the period	**334,133,746**

3. Commentary on the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months

Update on the Group's Operations in relation to the COVID-19 situation

The 97 assets held by the Group are predominantly leased to the Secretary of State for Housing, Communities and Local Government, with the DWP as the primary occupier. The DWP is a uniquely counter-cyclical occupier, as 82.5% of the assets in the Initial Portfolio are used to provide key front-of-house services, primarily Jobcentre Plus[1] unemployment services. Claimant counts, job centre footfall and DWP benefit spending are all correlated to unemployment. An increase in unemployment has historically been linked to an increase in the number of UK benefits claimants requiring the services provided by the UK Government in the REIT's assets. Against the current macroeconomic backdrop, our assets via DWP continue to be a crucial social infrastructure that serves the UK society.

In late September, the UK Government had imposed new restrictions to curb the spread of COVID-19. During the previous lockdown in the UK in late March, the REIT's JobCentre Plus locations had remained open to process and disburse benefits to claimants, even as medical assessments, interviews or other face-to-face appointments were discouraged. As such, the new restrictions had not resulted in a significant business disruption at the properties in the REIT's portfolio.

The UK unemployment rate has risen to its highest level in over three years as the pandemic continues to hit jobs. The unemployment rate increased to 4.5% in the three months to August, compared with 4.1% in the previous three months. Meanwhile redundancies rose to their highest level since 2009, the Office for National Statistics (ONS) said.

The DWP currently employs around 13,500 coaches, who help people claiming benefits get back into and progress in work. Chancellor Rishi Sunak had officially announced that another 13,500 JobCentre Plus staff would be recruited as part of an economic recovery package – 4,500 of which will be in position by October 2020 and a further 9,000 by March 2021.

As of 30 September 2020, the portfolio is 100% occupied, with a weighted average lease expiry of 7.5 years. In terms of rent collection, the Group received in advance 99.6% of the 3-months rent for the period spanning across the months of October 2020 to December 2020, within 7 days of the due date, in accordance with the lease agreements.

The Group expects to provide a stable income to investors as over 99.0% of rental income is derived from full repairing and insuring (triple net) leases from the UK Government. Rated AA and Aa2 by S&P and Moody's respectively, the UK Government has one of the lowest debt-to-GDP ratios amongst the G7 countries. On top of that, the COVID-19 situation does not trigger force majeure or termination clauses of the Group's leases with the UK Government.

The Group remains well capitalised, with adequate working capital and debt headroom to meet its ongoing obligations.

The Manager will continue to monitor the COVID-19 situation closely and will announce any material developments regarding the Group's operations in a timely manner, in compliance with Rule 703 of the Listing Manual.

Macro Environment

Millions of people across the world have been affected by the COVID-19 public health emergency and the macroeconomic picture is changing constantly. As new data around COVID-19 cases emerge, central banks and governments are seeking to support their citizens, pressured healthcare systems and challenged economies.

[1] Jobcentre Plus, which is part of the DWP, is a government-funded employment agency and social security office whose aim is to help people of working age find employment in the UK.

The UK government announced that it will do ‘whatever it takes’ to mitigate the economic impact of COVID-19, and has been instrumental in protecting jobs and livelihoods. The Bank of England base rate has been cut to 0.1%, a series of grants and loans have been announced for business and consumers, and the furlough scheme has been extended to the end of June 2021.

The Q2 UK GDP figures show by far the largest decline in economic activity on record, with the economy shrinking by 20% quarter-on-quarter and the UK is now entering a technical recession. However, monthly GDP data shows some positive signs of recovery. Business survey data are encouraging too, with the Composite PMI in July rising to 57.0, up from 47.7 in June and the highest reading in five years, adding to hopes that the hit to the economy is short-lived. Nonetheless, the economy is unlikely to return to its pre-COVID-19 size until the end of 2021.

The Brexit negotiations continue against the background of the economic challenges. A ‘no deal’ outcome appears even more likely at the end of the transition period on 31 December 2020.