



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 31 March 2020

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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.



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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 Group 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 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). 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 deemed appropriate to issue this voluntary Management Discussion and Analysis (“MD&A”) of the financial performance of the Group for the financial period from Listing Date to 31 March 2020.

The MD&A includes the Group’s unaudited consolidated financial results, the use of proceeds from its initial public offering 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.



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**SUMMARY OF ELITE COMMERCIAL REIT'S UNAUDITED CONSOLIDATED RESULTS
FOR THE FINANCIAL PERIOD FROM 6 FEBRUARY 2020 ("LISTING DATE") TO 31 MARCH 2020**

	GROUP		
	06-Feb-20 to 31-Mar-20		
	Actual ^(a) £'000	Forecast ^(b) £'000	Variance %
Revenue	3,520	3,497	0.7
Profit before tax	722	627	15.2
Profit after tax	390	211	84.8
Income available for distribution to Unitholders	2,457	2,424	1.4
Distribution per unit ("DPU") - pence	0.74	0.73	1.4

Notes:

- (a) Actual financial results from Listing Date to 31 March 2020 is the first period 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 31 March 2020 was derived by pro-rating the forecast results as disclosed in the Prospectus.



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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND DISTRIBUTION STATEMENT	Notes	Group 06-Feb-20 to 31-Mar-20 ⁽¹⁾ £'000
<u>Consolidated Statement of Comprehensive Income</u>		
Revenue	(a)	3,520
Property operating expenses	(b)	(98)
Net property income		3,422
Manager's management fees	(c)	(246)
Trustee's fees	(d)	(16)
Other operating expenses	(e)	(2,036)
Finance costs	(f)	(402)
Profit before tax		722
Tax expense	(g)	(332)
Profit after tax and total comprehensive income for the period		390
Distribution adjustments	(h)	2,067
Income available for distribution to Unitholders		2,457
<u>Distribution per unit ("DPU")</u>		
Number of Units in issue and issuable as at the end of the period ('000)	(i)	332,715
Income available for distribution to Unitholders (£'000)		2,457
DPU (pence)		0.74

(1) Actual financial results from 6 February 2020 ("Listing Date") to 31 March 2020 is the first period incorporating the results of the Initial Portfolio held directly Elite Commercial REIT. Although Elite Commercial REIT were 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.



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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 comprised 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 31 March 2020.

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

Insurance expenses relating to property-related insurance coverage for the properties have been pro-rated based on the actual annual insurance expense incurred on the properties.

(c) Manager’s management fees consists of the base fee only. The Manager has elected to receive 100% of the base fee in the form of Units for the period from the Listing Date to 31 March 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) Other operating expenses consist of certain IPO expenses recognised in the statement of comprehensive income and trust expenses.

(f) Finance costs consists of interest expense on borrowings, commitment fees on credit facilities and amortisation of debt-related upfront fee and transaction costs.

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

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

	Group 06-Feb-20 to 31-Mar-20 £'000
Management fees payable in units	246
Lease management fees payable in units	35
Trustee’s fees	16
Amortisation of debt-related upfront fee and transaction costs	50
IPO expenses recognised in statement of comprehensive income	1,720
Distribution adjustments	2,067



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(i) Details of changes in units are as follows:

	Group & Trust 31 Mar 2020 Units
Issued units as at Listing Date	332,219,995
<u>Units to be issued:</u>	
- Lease management fees and manager's management fees payable in units	495,400
Total units in issue and issuable as at the end of the period	332,715,395



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1(b)(i) Statement of Financial Position

	Group 31 Mar 2020 £'000	Trust 31 Mar 2020 £'000
STATEMENT OF FINANCIAL POSITION		
Non-current assets		
Investment properties	295,968	-
Investments in subsidiaries	-	88,900
	295,968	88,900
Current assets		
Trade and other receivables	7,714	114,837
Cash and cash equivalents	10,797	4,266
	18,511	119,103
Total assets	314,479	208,003
Non-current liabilities		
Long term borrowings	101,659	-
Deferred tax liabilities	2,349	-
	104,008	-
Current liabilities		
Trade and other payables	10,600	3,130
Current tax liabilities	492	-
	11,092	3,130
Total liabilities	115,100	3,130
Net assets	199,379	204,873
Represented by:		
Units in issue and to be issued	207,276	207,276
Unit issue costs	(5,677)	(5,677)
Retained earnings	(2,220)	3,274
Unitholders' funds	199,379	204,873
Net asset value per unit (£)	0.60	0.62
Leverage ratio	32.8%	Nm
Interest coverage ratio (times)	7.1	Nm

Nm denotes not meaningful



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2 Use of proceeds from Initial Public Offering (“IPO”)

The following table sets out the use of IPO proceeds in accordance to the intended sources and applications of the total proceeds from the IPO and the issuance of the Cornerstone Units.

As at 31 March 2020	Amount allocated £'000	Amount utilised £'000	Balance £'000
Partial repayment of existing facility agreements/ loans ⁽¹⁾	101,940	101,940	-
Redemption of certain Private Trust Units	18,915	18,915	-
Transaction costs	8,305	7,398	907
Working capital	1,750	-	1,750
	130,910	128,253	2,657

(1) The Deutsche Bank Loan was partially repaid, and the Pierfront Loan was fully repaid by the Listing Date.



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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 predominately leased to the Secretary of State for Housing, Communities and Local Government, with DWP as the primary occupier. DWP is a uniquely counter-cyclical occupier. 82.5% of the assets in the Initial Portfolio is used by the DWP to provide key front-of-house services, primarily Jobcentre Plus unemployment services. Claimant counts, job centre footfall and DWP benefit spending are all highly 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 Group's assets. Against the macroeconomic backdrop, our assets via DWP continue to be a crucial social infrastructure serving the UK society.

In late March 2020, the UK government announced a lockdown to prevent the spread of Covid-19. While the public is discouraged from visiting the Jobcentre Plus, they remain open to process and disburse benefits to claimants.

In terms of rent collection, the Group has received 3-months of advance rent for the period 1 April 2020 to 30 June 2020, with 92.8% received on or before the due date and 99.4% received within 7 days of the due date.

The Group expects to provide a stable income to its 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 and will announce any material developments regarding the Group's operations in a timely manner.

Macro Environment

The UK and global macro environment are affected by the detrimental health and economic effects of the Covid-19 pandemic.

In April 2020, the International Monetary Fund ("IMF") forecasted that the pandemic would result in a significant downturn in the global economy and the British economy would shrink by 6.5% in 2020.

In the UK, the Office for Budget Responsibility ("OBR") forecasted that the restrictions on people movement and closure of businesses could result in a decline in real GDP by 35% and the unemployment to increase by more than 2 million to 10% unemployment rate in the second quarter of 2020. The real GDP is expected to recover by 1Q 2021 and the unemployment rate will fall to around 6.0% at the end of next year, returning to pre-Covid-19 level by 2023. The UK Government has put in place various support measures for businesses and welfare policies such as Coronavirus Job Retention Scheme ("CJRS") and self-employed income support scheme to help businesses and individuals during this trying time.