



EC WORLD REAL ESTATE INVESTMENT TRUST
(a real estate investment trust constituted on 5 August 2015 under the laws of
the Republic of Singapore)

RESPONSE TO SGX-ST'S QUERIES

The Board of Directors of EC World REIT Asset Management Pte Ltd, in its capacity as the Manager (the “**Manager**”) of EC World Real Estate Investment Trust (“**EC World REIT**”), wishes to announce the following in response to queries raised by Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) in relation to EC World REIT’s announcement of 8 June 2020 on its responses to queries by the Securities Investors Association (Singapore) (“**SIAS**”).

Query:

The Trust states the Audit and Risk Committee’s view that the late payment penalty interest rates are “punitively high by market standards”. Please provide the bases of the Audit and Risk Committee’s view with regards to the late payment penalty interest rate.

Response:

Based on the formal legal opinion provided by PRC Counsel King & Wood Mallesons, a late fee that exceeds 30% of the consequent loss is generally not supportable by the courts in PRC due to general limit of liquidated damages provided by law. Courts in PRC and in particular in Zhejiang, in view of the nature of late fees deemed as interest of overdue funds, will generally not support a late fee that is significantly higher than the statutory limit of interest rate at 24% per annum. The late payment penalty of 0.2% per day (approximately 73% per annum) may not be considered to be commercially reasonable and would very likely be subject to legal challenge and judicial adjustment.

Query:

Please clarify actions taken by the Manager to collect the late payments and reasons for the recurring late payments. Please advise as to whether these late payments have been escalated to the Board of Directors. Please provide the Board of Directors’ assessment whether it is satisfied that the recurring

late payments do not raise concern about the credit standing of the master lessees and the bases for such assessment.

Response:

The Manager has been in regular dialogue with the Property Manager and the Sponsor to remind the Master Lessees of its payment obligations under the existing Master Lease Agreements in its efforts to ensure prompt and timely rent payments. Status of aging of receivables and related late payment penalties computations have been presented and discussed at quarterly Audit Review Committee (“ARC”) and Board meetings. The Board meetings were always attended by the Chairman of the Board who is also the Chairman of the Sponsor.

For office, commercial, industrial or warehousing leases in PRC, the most common rent payment mechanism is that tenant shall pay quarterly in arrears, with the payment before the end of each quarter. The existing Master Lease Agreements stipulate monthly rental payment, hence, the late payment penalties computation.

The Board of Directors is satisfied that the late payment penalties do not raise concern about the credit standing of the Master Lessees given that the Master Lessees have been making rental payments periodically and as a result, EC World REIT continues to be able to fund all of its distributions to unitholders and satisfy all of its financial covenants and obligations. In this respect, interests of unitholders have not been materially adversely impacted.

Query:

Please advise as to whether the Board of Directors’ consideration to enforce the late payment penalties so as to achieve the desired outcome of ensuring prompt payments

Response:

The ARC and Board of Directors approved the waiver of late payment penalties in view of the following reasons:

- i. security deposits under the existing Master Lease Agreements were set at 12 months worth of rental revenue of the existing Master Lease Agreements at IPO whereas the market practice was between 3 to 6 months’ rental. The security deposits were fully paid in cash. Notwithstanding the late rental payments by the Master Lessees, EC World REIT is able to rely on the large security deposit amount to minimise any credit risk arising from the existing Master Lease Agreements;
- ii. the late payment penalty interest rates under the existing Master Lease Agreements are punitively high by market standards; and
- iii. the Master Lessees have been making rental payments periodically and as a result, EC World REIT continues to be able to fund all of its distributions to unitholders and satisfy all of its

financial covenants and obligations. In this respect, interests of unitholders have not been adversely impacted.

The Board of Directors was of the opinion that the abovementioned reasons were fair and reasonable and therefore, did not insist on the enforcement of late payment penalties strictly. However, the Board of Directors and the Manager have consistently reminded the Master Lessees of its payment obligations under the existing Master Lease Agreements in its efforts to ensure prompt and timely rent payments.

EC World REIT has sent letters to the Master Lessees to request that payment of the outstanding rental arrears under the existing Master Lease Agreements by 30 June 2020. Subsequent to the letters, the Master Lessees have provided RMB35 million repayment on 17 June 2020.

Due to COVID-19 situation in China in 1Q2020, the Manager understands that the Master Lessees' cashflow was also affected as their sub-tenants and customers were not able to fulfill their obligations promptly during the lockdown period. As a result of the Manager's proactive asset and lease management, the Manager anticipated some delays in the collection of outstanding rentals for 2Q2020 as the sub-tenants gradually resume their businesses in 2Q2020 after the lockdown in 1Q2020.

In light of the above, the Manager has requested Sponsor to coordinate and obtain a repayment plan for the outstanding rentals from the Master Lessees, despite the severe COVID-19 situation. The Master Lessees further paid RMB128 million in July 2020 and all rental receivables from Master Lessees as of 30 June 2020 have been fully settled.

Query:

Please advise as to whether the new MLAs entered into in 2019 contained the same provision for late payment penalty interest and the same rate? If not, please explain and clarify as to whether such removal has been highlighted in the Circular to unitholders dated 29 March 2019. If this is not disclosed in the Circular, please provide an explanation and the Board's consideration.

Response:

The new MLAs entered into in 2019 contain a similar provision for late payment penalty interest. As the Audit and Risk Committee of the Manager does not consider the earlier late penalty interest of 0.2% per day to be reasonable by market standards, therefore, the Manager has agreed to a late payment interest rate of 0.03% per day in the new MLAs. It is not common to disclose late penalty interest in circulars.

Query:

Please provide the Board's confirmation on compliance with Chapter 9 of the Listing Rules for each of the FY2017, FY2018 and FY2019 taking into account the waiver of late payment penalties. Kindly provide the supporting computations.

Can we just understand the bases for the exclusion of certain transactions from the aggregation including and not limited to the lease amount of S\$135k in FY2017?

Were the leases that were excluded arising from lease agreements with fixed lease periods?

Did the Audit and Risk Committee review these excluded transactions and were satisfied that they were appropriately excluded in compliance with Chapter 9 of the Listing Manual?

Response:

The Board hereby confirms that EC World REIT has complied with the requirements of Chapter 9 of the Listing Rules for each of FY2017, FY2018 and FY2019 taking into account the waiver of later payment penalties.

All interested person transactions (“IPT”s) were tabled and approved during the quarterly ARC and Board meetings. Please refer to Appendix for a summary of IPTs for reference.

The transactions excluded from the aggregation were minor IPT leases with individual contract value ranging from S\$15,348.12 to S\$60,362.78 under one of the multi-tenanted properties, Chongxian Port Logistics. Based on Listing Rule 905 (3), these transactions were not included in the aggregation for FY2017.

Yes, these leases have fixed lease periods ranging from 28 to 50 months.

The IPT assessments were provided to ARC during the quarterly ARC meetings for their approval. ARC concurred with the management that these transactions were appropriately excluded in accordance with the Chapter 9 of the Listing Manual applicable for FY2017.

Query:

We note that the Company’s Annual Report 2019 was released on 15 April 2020 but the legal opinion by the PRC Counsel, King & Wood Mallesons, was obtained on 23 June 2020. Please provide the Board’s basis and considerations for the waiving the penalties (as represented in the Annual Report 2019) before the legal opinion was provided on 23 June 2020.

Response:

Prior to seeking a formal legal opinion from the PRC Counsel, King & Wood Mallesons, the Manager had obtained informal advice from the PRC Counsel that the late interest penalty rate of 0.2% per day (approximately 73% per annum) was indeed punitive and excessively high. This advice, together with other mitigating factors such as substantial amount of security deposits on hand in cash, were communicated to ARC and Board for consideration for the waiver of the late payment penalties.

To formally substantiate the basis of the waiver, the Manager had to incur additional legal expenses to obtain a formal legal opinion from the PRC counsel. The Board has always stressed on sustainability

of business and risk management. Prior to the receipt of the formal legal opinion, the Board and ARC reviewed and approved the waiver of the late payment penalty fees in view of the following reasons:

- i. security deposits under the existing Master Lease Agreements were set at 12 months worth of rental revenue of the existing Master Lease Agreements at IPO whereas the market practice was between 3 to 6 months' rental. The security deposits were fully paid in cash. Notwithstanding the late rental payments by the Master Lessees, EC World REIT is able to rely on the large security deposit amount to minimise any credit risk arising from the existing Master Lease Agreements;
- ii. the late payment penalty interest rates under the existing Master Lease Agreements are punitively high by market standards; and
- iii. the Master Lessees have been making rental payments periodically and as a result, EC World REIT continues to be able to fund all of its distributions to unitholders and satisfy all of its financial covenants and obligations.

Query:

We note that the tenancy related deposits as disclosed in the financial statements for 2019 is S\$51,987,000 (2018: S\$54,225,000). Given that there was a new property (Fuzhou E-Commerce) acquired in August 2019, please provide a breakdown of the security deposit as at 2018, and explain the factors resulting in a lower amount of security deposits for 2019 as compared to 2018?

Response:

Tenancy related deposits, as part of trade and other payables, are presented in ECW's balance sheet at fair value using discounted cash flow method. The fair value is computed through discounting the face value of tenancy deposits against the repayment date (i.e. lease expiry date), thus deriving its present value. For FY2018 financial statements, the tenancy related deposits for the Master Lease Agreements ("**MLA**")s in relation to Stage 1 Properties of Bei Gang Logistics, Chongxian Port Investment and Fu Heng Warehouse were discounted against the expiry of the leases, being Year 2020.

On 10 May 2019, the Manager announced that it has entered into new master lease agreements ("**New MLAs**") in relation to Stage 1 Properties of Bei Gang Logistics, Chongxian Port Investment and Fu Heng Warehouse through the passing of an ordinary resolution in respect of the proposed entry into the new master lease agreements at an extraordinary general meeting ("**EGM**") of unitholders of EC World REIT (the "**Unitholders**") on 22 April 2019. This effectively extends the repayment date of the tenancy related deposits for Stage 1 Properties of Bei Gang Logistics, Chongxian Port Investment and Fu Heng Warehouse to Year 2024. Consequently, for the purpose of FY2019 financial statements, the tenancy related deposits for Stage 1 Properties of Bei Gang Logistics, Chongxian Port Investment and Fu Heng Warehouse were discounted from Year 2024 to balance sheet date (31 December 2019). Meanwhile, the security deposits for MLA for the newly acquired Fuzhou E-Commerce was also discounted against the expiry in Year 2024, to the balance sheet date (31 December 2019). With longer

discounting period, the amount of tenancy related deposits disclosed in the financial statements for 2019 is lower compared to 2018 due to the discounting effect.

The breakdown of security deposit as at 31 December 2019 and 31 December 2018 are presented below.

Breakdown of security deposit	31-12-19	31-12-18
	RMB'000	RMB'000
Chongxian Port Investment	136,916	136,916
Fuheng Warehouse	41,149	41,149
Beigang Logistics	123,600	123,600
Fuzhou E-Commerce	43,000	-
Other non-MLA leases	661	861
TOTAL (RMB)	345,326	302,526
Years for discounting	5	2
Fair value in RMB	269,221	273,311
Fair value in SGD*	51,987	54,225

* Converted using the closing rates at the respective year end.

By Order of the Board

Goh Toh Sim

Executive Director and Chief Executive Officer

EC World Asset Management Pte. Ltd.

(Company Registration No. 201523015N)

As manager of EC World Real Estate Investment Trust

Date: 30 July 2020

IMPORTANT NOTICE

The value of the Units and the income derived from them may fall as well as rise. The Units are not obligations of, deposits in, or guaranteed by the Manager, DBS Trustee Limited (as trustee of EC World REIT), or any of their respective affiliates.

An investment in the Units is subject to investment risks, including the possible loss of the principal amount invested. Unitholders have no right to request that the Manager redeem or purchase their Units while the Units are listed. It is intended that Unitholders may only deal in their Units through trading on the SGX-ST. Listing of the Units on the SGX-ST does not guarantee a liquid market for the Units.

This announcement is for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for the Units.

This announcement may contain forward-looking statements that involve assumptions, 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. Predictions, projections or forecasts of the economy or economic trends of the markets are not necessarily indicative of the future or likely performance of EC World REIT. The forecast financial performance of EC World REIT is not guaranteed. A potential investor is cautioned not to place undue reliance on these forward-looking statements, which are based on the Manager's current view of future events.

Appendix: Summary of IPTs

Interested Person Transactions Tracker Summary							
Year	Nature of transactions	Sum of Transactions Value (S\$)	Sum of transactions >=S\$100,000	Audited Net Tangible Assets at Previous year end	Sum of transactions >= S\$100,000 /NTA (%)	=>3% (Yes / No)	Unitholder approval/ Announcement required?
Approved in EGM							
2019	Extension of MLA	283,856,122	283,856,122				Approved in EGM
	Acquisition of FZDS	222,100,000	222,100,000				Approved in EGM
	New MLA	88,563,709	88,563,709				Approved in EGM
2019 Total		594,519,831	594,519,831				Approved in EGM
Approved in EGM Total		594,519,831	594,519,831				
Not subject to approval by Unitholders							
2017	Lease	4,525,519	4,144,839		0.57%		
	Waiver of late fees	17,476,518	17,476,518		2.41%		
2017 Total		22,002,037	21,621,357	726,119,000	2.98%	No	Not required
2018	Lease	108,647	-		0.00%		
	Property Management	440,054	440,054		0.06%		
	Waiver of late fees	5,798,792	5,798,792		0.80%		
2018 Total		6,347,493	6,238,847	717,618,000	0.87%	No	Not required
2019	Lease	1,480,198	1,347,412		0.19%		
	Waiver of late fees	6,634,743	6,634,743		0.91%		
2019 Total		8,114,941	7,982,155	688,552,000	1.16%	No	Not required
Not subject to approval by Unitholders Total		36,464,471	35,842,359				