



## EC WORLD REAL ESTATE INVESTMENT TRUST

(a real estate investment trust constituted on 5 August 2015 under the laws of the Republic of Singapore)

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### FY2019 ANNUAL GENERAL MEETING RESPONSES TO QUERIES BY THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

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EC World Asset Management Pte Ltd, as manager of EC World REIT (“**EC World REIT**”, and the manager of EC World REIT, the “**Manager**”), refers to EC World REIT’s Annual Report for the financial year ended 31 December 2019. The Manager would like to respond to the following queries raised by the Securities Investors Association (Singapore) (“**SIAS**”) on 29 May 2020 (each, a “**SIAS Question**”) as follows:

#### **SIAS Question 1**

The REIT expanded its portfolio with the acquisitions of Wuhan Meiluote in April 2018 and Fuzhou E-Commerce in August 2019. In May 2019, it renewed the Master Lease Agreements for Chongxian Port Investment, Stage 1 Properties of Bei Gang Logistics and Fu Heng Warehouse with the sponsor.

To fund the acquisitions, the REIT has increased its borrowings from \$474.7 million as at 31 December 2018 to \$654.5 million as at 31 December 2019.

The financial highlight of the REIT is shown on page 3 of the annual report

It is observed that the net asset of the REIT has declined steadily from 2016 to 2019. As at 31 December 2019, the REIT has a higher leverage, lower interest cover ratio and the annualised all-in blended running interest rate has increased marginally from 4.4% to 4.5%. Given that the outstanding borrowings are now higher, the annual finance costs have increased to \$32.9 million in FY2019.

Distribution per unit has also been flat – DPU was 6.025 cents in 2017, 6.179 cents in 2018 and 6.047 cents in 2019.

NAV per unit was \$0.85 as at 31 December 2019. NAV per unit was as high as \$0.93 as at 31 December 2016.

- (i) Given the above, can the manager help unitholders understand if the acquisitions have been accretive and they resulted in the REIT realising a sustainable positive growth trajectory?
- (ii) Has the board set an internal limit on the aggregate leverage? The current aggregate leverage is 38.7%.

- (iii) The offshore facilities (in SGD) amounting to approximately \$199 million was refinanced and increased to \$408 million as total borrowings increased from \$474.7 million to \$654.5 million. Would the board elaborate further on the currency mismatch risks? Would the REIT be increasingly using SGD sources of funding to acquire long-term assets in RMB that generate cash flows in RMB?

#### **Manager's response to Question 1**

- (i) Distribution per unit (“DPU”) was 6.047 Singapore cents in FY2019, representing a 0.132 cent or 2.1% decrease compared to FY2018. The decrease was mainly due to the following:
  - a) foreign exchange differences as a result of the weakening of the RMB against SGD since EC World REIT's listing in 2016. Based on data retrieved from MAS, the RMB/SGD exchange rate weakened from 0.2028 on 28 July 2016 (being date of EC World REIT's listing) to 0.1931 as at 31 December 2019, representing a 4.8% decline;
  - b) technical timing difference between the loan drawdown and the completion of the acquisition of Fuzhou E-Commerce in 3Q19;
  - c) retention of 5% of distributable income in 4QFY2019; and
  - d) increase in the number of outstanding units since IPO to date due to issuance of new units as the payment for the management fees and acquisition fees

For illustrative purposes only, using the same RMB/SGD exchange rate as FY2018 and assuming a 100% distribution payout ratio, DPU for FY2019 would have been 6.385 cents, representing a 3.3% increase compared to FY2018;

Similarly, the net asset value per unit was also impacted by the weakening of RMB and the resultant negative movements in foreign currency translation reserve. Excluding the movements in foreign currency translation reserve, the net asset value per unit as at 31 December 2019 would have been S\$0.95.

- (ii) On this issue, the Board takes guidance from the Code on Collective Investment Schemes which prescribes an aggregate leverage limit of 50% (before 1 January 2022). As at 31 March 2020, EC World REIT's aggregate leverage is 38.6% which is well within the regulatory leverage limit. The Manager continues to take a prudent approach in monitoring EC World REIT's leverage limit.
- (iii) EC World REIT was listed on the Mainboard of the SGX-ST in July 2016. At the date of IPO, EC World REIT was funded partly by onshore loans in RMB and offshore loans in SGD, as well as equity contribution provided by unitholders offshore in SGD. As all the existing properties of EC World REIT's portfolio are located in China, the operational cashflow are derived in RMB. Therefore, it is not realistic to expect inherent currency risk arising from the current structure of EC World REIT to be entirely mitigated. The Manager is fully aware of this and is constantly monitoring the risk position.

As part of the Manager's risk management practice, EC World REIT has hedged about 75% of distributable income and offshore expenses on a rolling basis. It has also entered into cross currency swaps for EC World REIT's USD loans as well as forward currency options for part of the SGD loans injected to China to mitigate the currency mismatch risks. Standby Letter of Credit (“SBLC”) is also utilised to manage the foreign exchange risk to mitigate short-term volatility in currency market.

As part of EC World REIT's investment strategy, the Manager is actively looking to diversify the portfolio by investing not only in China, but also outside of China. The Manager will also diversify its funding sources and undertake appropriate FX strategy to take into account the currency risks (if any) of its new investments to ensure an optimal capital structure.

## **SIAS Question 2**

In May 2019, the REIT announced that the Manager had entered into New Master Lease Agreements in relation to Stage 1 Properties of Bei Gang Logistics, Chongxian Port Investment and Fu Heng Warehouse. The broad details of the lease terms can be found on page 15 of the annual report.

In the REIT's announcement dated 10 May 2020, the REIT did not provide details to the terms of the New Master Lease Agreements. From the prospectus, it was noted that the REIT received RMB10,300,000 per month for Stage 1 Properties of Bei Gang Logistics for 5 years starting from 1 November 2015 with 1% rental escalation every year.

For Chongxian Port Investment, the terms in the original master lease were:

5 years starting from 1 January 2016. Master lease amount of RMB11,409,687 per month in Forecast Period 2016, paid monthly. Rental escalation of 6.0%, 5.0%, 4.0% and 3.0% on 1st January of 2017, 2018, 2019 and 2020 respectively.

And for Fu Heng Warehouse:

5 years starting from 1 January 2016. Master lease amount of RMB3,429,118 per month in Forecast Period 2016, paid monthly. Rental escalation of 6.0%, 5.0%, 4.0% and 3.0% on 1st January of 2017, 2018, 2019 and 2020 respectively.

- (i) Can the manager disclose the terms under the new master lease agreements?
- (ii) In particular, were there any terms that were revised downwards (i.e. less favourable to the REIT) in the new master leases?
- (iii) Are the master lease arrangements considered interested party transactions?
- (iv) What is the amount of security deposit collected from each of the master lessees? It was announced that the sponsor has entered into corporate guarantees with each of the master lessees pursuant to which the Sponsor will guarantee the payment obligations of Hangzhou Fu Gang Supply Chain Co., Ltd. and Hangzhou Fuyang Yuntan E-Commerce Co., Ltd. under the New Chongxian Master Lease Agreement and the New Fu Heng Master Lease Agreement.

On page 16 of the annual report, in the section titled Property portfolio overview, the Manager has stated that, during 2019, gross revenue of the portfolio was S\$99.1 million and the DPU for the full year was 6.047 Singapore cents. Without the master leases, the gross revenue would have been S\$85.7 million and the corresponding DPU would have been 5.075 Singapore cents per unit.

There appears to be a shortfall in the underlying performance of the assets of up to \$13.4 million.

- (v) What are the underlying occupancy rates of the properties that are under master leases?

## Manager's response to Question 2

- (i) The Manager would like to refer to the Circular dated 29 March 2019 (the "**Circular**") which was issued to Unitholders in relation to the Extraordinary General Meeting held on 19 April 2019 where Unitholders voted on the resolution relating to the proposed entry into the New Master Lease Agreements. Given that the New Master Lease Agreements were entered into with the Sponsor and its wholly-owned subsidiaries, the entry into the New Master Lease Agreements constituted an Interested Person Transaction under Chapter 9 of the Listing Manual and as such, Unitholders' approval was sought for the transaction. The Sponsor and the Manager had abstained from voting on the resolution for the proposed entry into the New Master Lease Agreements. The resolution was successfully passed with 100% approval from all valid votes cast at the Extraordinary General Meeting on 19 April 2019.

Terms of the New Master Lease Agreements have been set out in the Circular. A copy of the Circular can be found on SGXNET as well on EC World REIT's website([http://ecwreit.listedcompany.com/misc/EC World REIT ar2018 circular.pdf](http://ecwreit.listedcompany.com/misc/EC_World_REIT_ar2018_circular.pdf))

We set out below the key rental terms under the Existing Master Lease Agreements and the New Master Lease Agreements:

### Stage 1 Properties of Bei Gang Logistics

The rent payable under the Existing Bei Gang Master Lease Agreement is:

Period	Amount of rent payable per month (RMB)
November and December of 2015	10,300,000
January to December of 2016	10,300,000
January to December of 2017	10,403,000
January to December of 2018	10,507,030
January to December of 2019	10,612,100
January to October of 2020	10,718,221

The rent payable under the New Bei Gang Master Lease Agreement is:

Period	Amount of rent payable per month (RMB)	Amount of rent step-up (RMB)	Percentage of rent step-up (%)
November and December of 2020	10,825,403	–	–
January to December of 2021	10,825,403	–	–
January to December of 2022	10,933,657	108,254	1.0
January to December of 2023	11,042,994	109,337	1.0

January to December of 2024	11,153,424	110,430	1.0
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#### Chongxian Port Investment

The rent payable under the Existing Chongxian Master Lease Agreement is:

Period	Amount of rent payable per month (RMB)
January to December of 2016	11,409,687
January to December of 2017	12,094,268
January to December of 2018	12,698,981
January to December of 2019	13,206,941
January to December of 2020	13,603,149

The rent payable under the New Chongxian Master Lease Agreement shall be as follows:

Period	Amount of rent payable per month (RMB)	Amount of rent step-up (RMB)	Percentage of rent step-up (%)
January to December of 2021	13,875,212	–	–
January to December of 2022	14,152,716	277,504	2.0
January to December of 2023	14,435,771	283,055	2.0
January to December of 2024	14,724,486	288,715	2.0

#### Fu Heng Warehouse

The rent payable under the Existing Fu Heng Master Lease Agreement is:

Period	Amount of rent payable per month (RMB)
January to December of 2016	3,429,118
January to December of 2017	3,634,865
January to December of 2018	3,816,608
January to December of 2019	3,969,272
January to December of 2020	4,088,350

The rent payable under the New Fu Heng Master Lease Agreement shall be as follows:

Period	Amount of rent payable per month (RMB)	Amount of rent step-up (RMB)	Percentage of rent step-up (%)
January to December of 2021	4,170,117	–	–
January to December of 2022	4,253,519	83,402	2.0
January to December of 2023	4,338,590	85,071	2.0

January to December of 2024	4,425,362	86,772	2.0
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For the New Bei Gang Master Lease Agreement, the master lessee will pay a security deposit equivalent to the sum of 11.4 month's rental fee. For the New Chongxian Master Lease Agreement, the master lessee will pay a security deposit equivalent to the sum of 9.9 month's rental fee. For the New Fu Heng Master Lease Agreement, the master lessee shall pay a security deposit equivalent to the sum of 9.9 month's rental fee.

The amount of security deposit collected under the respective New Master Lease Agreements is the same as the amount of security deposit being collected under the respective Existing Master Lease Agreements. The security deposit is fully paid in cash.

- (ii) Please refer to the response in paragraph (i) above. The rental rates under the New Master Lease Agreements represent an increase from the rental rates under the Existing Master Lease Agreements.
- (iii) Please refer to the response in paragraph (i) above.
- (iv) Please refer to the response in paragraph (i) above.
- (v) Four of EC WORLD REIT's assets are on master lease agreements, namely, Chongxian Port Investment, Fuzhou E-Commerce, Fu Heng warehouse and Stage 1 of Bei Gang Logistics. Chongxian Port Investment, Fuzhou E-Commerce and Fu Heng Warehouse have an underlying occupancy of 100% as at 31 December 2019 while Stage 1 of Bei Gang Logistics has an underlying occupancy rate of 99.8% as at 31 December 2019.

### SIAS Question 3

As disclosed on page 132, the REIT entered into related party transactions during the financial year ended 31 December 2019 with the following parties:

- EC World Asset Management Pte Ltd
- Forchn Holdings Group Co. Ltd. and its subsidiaries
- DBS Trustee Limited

In particular, there was a "waiver of penalty fees" transaction with Forchn Holdings Group Co. Ltd. and its subsidiaries amounting to S\$6.64 million in 2019. In 2018, there was also a payment of S\$5.80 million pay to the same party for the same reason.

- (i) Would the board elaborate in greater detail the nature/reasons for the penalty fees and why was there a waiver of the penalty fees?
- (ii) And if there was a waiver of penalty fees, why were payments still being made to the interested person for the penalty fees?

### Manager's response to Question 3

- (i) The penalty fees have been incurred as a result of late payment of monthly rents by the Sponsor and its subsidiaries under the Existing Master Lease Agreements of Chongxian Port Investment, Stage 1 of Beigang Logistics and Fuheng Warehouse.

Under the terms of each of the Existing Master Lease Agreement, the late payment penalty fees are calculated at 0.2% of the total rent outstanding per day (approximately 73% per year).

The Audit and Risk Committee of the Manager, which comprises only independent directors, has reviewed and approved the waiver of the late payment penalty fees of S\$6.64 million in FY2019 in view of the following reasons:

- (a) security deposit under the Existing Master Lease Agreements is set at 12 months of rental revenue. The security deposit is fully paid in cash. Notwithstanding the late rental payments by the Sponsor and its subsidiaries, 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;
- (b) the late payment penalty interest rates under the Existing Master Lease Agreements are punitively high by market standards; and
- (c) the Sponsor and its subsidiaries 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 rental incurred by the Sponsor and its subsidiaries under the Existing Master Lease Agreements of Chongxian Port Investment, Stage 1 of Beigang Logistics and Fuheng Warehouse for FY2019 has since been collected by EC World REIT.

- (ii) The \$5,799,000 disclosed on page 125 of FY2018 Annual Report also pertains to the Manager's waiver of late rental payment penalty fees owed by the Sponsor. Reasons for such waiver has been set out in the above paragraph. There were no payments made to the Sponsor in relation to the penalty fees.

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: 8 June 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.