SABANA SHARI'AH COMPLIANT INDUSTRIAL REAL ESTATE INVESTMENT TRUST

(a real estate investment trust constituted on 29 October 2010 under the laws of the Republic of Singapore)

ANNOUNCEMENT

CLARIFICATION ANNOUNCEMENT ON THE EMAILS, LETTERS AND PUBLIC RELEASES BY QUARZ CAPITAL MANAGEMENT AND BLACK CRANE CAPITAL

We, the Board of Directors (the "**Manager Board**") and the management (the "**Management**") of Sabana Real Estate Investment Management Pte. Ltd., as the manager ("**Manager**") of Sabana Shari'ah Compliant Industrial Real Estate Investment Trust ("**Sabana REIT**") wish to clarify and respond to various emails, letters and public releases by Quarz Capital Management ("**Quarz**") and Black Crane Capital ("**Black Crane**", and together with Quarz, collectively "**QBC**"), which are investment funds holding approximately 13% of the total units of Sabana REIT collectively.

BACKGROUND

It was publicly announced in December 2020, that the proposed merger scheme between Sabana REIT with ESR-REIT (where the sponsor and its concert parties were required to abstain from voting on the merger resolution) failed to secure the required 75% independent super majority vote in December 2020. QBC had lobbied and voted against the merger on the key dissatisfaction that the traded and merger price of the units of Sabana REIT on the SGX was below the net asset value of the Sabana REIT, which led to a "valuation gap".

After the failed merger, our Mr. Tan Cheong Hin and Mr. Wong Heng Tew were left as the remaining independent directors. On 1 January 2021, Mr. Willy Shee and Mr. Yeo Wee Kiong were appointed as independent directors by Mr. Tan and Mr. Wong, resulting in the current board composition of the Manager Board of 4 independent directors.

One of the first matters considered by the Manager Board was the practicality and feasibility of various strategic options for Sabana REIT. To such end, the Manager Board had an exploratory meeting with ESR Cayman.

During and since the failed merger, QBC have raised with the Manager Board several issues. These range from: demanding that Sabana REIT not pay costs incurred on the rejected merger scheme; for future pre-consultation on all major matters; that the Manager resign, be removed or be internalised in view of the "valuation gap"; for directors of the Manager to include persons suggested by them; for the fees of the Manager to be payable in units; for the customary annual mandate to issue units to be scrapped; and essentially for the "valuation gap" to be unlocked presumably by divesting assets.

RECENT DEVELOPMENTS

On 18 March 2021, QBC emailed the Manager Board. The email was made public by QBC on their website (hereinafter "**Open Email 1**") and we noted that they had raised the following:

1. suggested levers for Sabana REIT to increase yield;
2. demanded that S$2.7 million costs of the failed merger be borne by the Manager and not by Sabana REIT; and
3. their intention to vote against endorsing Mr. Shee and Mr. Yeo at the coming Annual General Meeting ("**AGM**") in April 2021.

On 24 March 2021, our two independent directors, Mr. Willy Shee and Mr. Yeo Wee Kiong announced that they had tendered their notices of resignations in response to Open Email 1 which stated that QBC do not intend to endorse their respective continuing appointments to the Manager Board.

Subsequently, on 26 March 2021, QBC in a second open email (hereinafter "**Open Email 2**"), added the following:

4. a query on why the said resignations were not with immediate effect;
5. a call for replacement board members committed to prioritise the interests of the unitholders of Sabana REIT ("**Unitholders**") over those of the Manager and ESR Cayman;
6. ongoing unhappiness with the "valuation gap"; and
7. a call for the "valuation gap" to be closed by options going beyond business as usual.

For ease of reply and reference, we shall refer to the sequence of matters raised above as issues 1, 2, 3, 4, 5, 6 and 7 respectively as we set out our clarifications and responses below.

A Our Response to Issue 1 on Suggested Levers

Open Email 1 sets out brief operational requests (which QBC referred to as levers) asking for measures on prudent capital deployment, raise occupancy and asset enhancement, with the aim to possibly increase dividend yield to Unitholders. We wish to reassure all Unitholders, as well as QBC, that these are usual operational measures which were and are constantly and steadfastly in our mind. To recap, our duty at all times as the Manager is to strive for rent and operational efficiencies – be it from prudent capital deployment, increasing and sustaining occupancy, to yield-enhancing asset enhancements initiatives. Our duties and responsibilities as a REIT manager are:

(i) to manage the properties of Sabana REIT for fair market rents, good occupancy and with prudent borrowings;
(ii) to improve and from time to time to divest and replace properties if need be; and
(iii) to ensure we are properly resourced and reasonably able to discharge such management responsibilities.

Our most recent results released in January 2021 showed that we have attained fair market rent efficiency as best as possible in a challenging local industrial property market, while leaving larger stock market forces of demand and supply to determine the traded prices of units in Sabana REIT.

B Our Response to Issue 2 on S$2.7 million of Failed Merger Costs

In the next financial results release, all Unitholders would be given the actual costs and fees incurred by Sabana REIT in relation to the merger scheme that failed to receive the requisite 75% super majority vote late last year. Unitholders would be pleased to know that the eventual costs are materially below the S$2.7 million earlier mentioned.

Invariably, once in a while, there are issues out of the ordinary course of business of a REIT that can arise which are beyond the REIT manager's contractual capacity as a manager to decide on behalf of unitholders of the REITs that they manage, just as there can be major matters beyond the power of any other boards to bind shareholders of listed corporations in general. The recent failed merger by ESR-REIT with Sabana REIT is one prime example.

For major or unusual matters beyond the powers of boards to decide, without fail and distinction, these boards are to discharge their fiduciary duty by referring to stakeholders for their decisions at extraordinary general meetings ("**EGMs**"). These boards are to engage external legal advisers, professional valuers, independent financial advisers, and any other advisers as may be needed to assist boards to evaluate, to advise and opine, and to recommend on such major unusual matters, in order that stakeholders' voting at the EGM can be fair, well informed and unprejudiced. No responsible board may simply reject any serious proposal or offers of such major matters without the benefit of professional external advice. If there are stakeholders (i.e. unitholders) who are in a conflicted situation, regulations are at hand to ensure they do not vote at such EGMs. Such is the due process of governance norms and the legal position in Singapore and internationally. It does not matter that the EGMs may sometimes end in unsuccessful outcomes, the key is that such due process must take place, and accordingly, all related fees and costs are payable by the listed entities and REITS, and certainly not by their boards or their REIT managers.

Such a due process was what we as the Manager Board was duty bound to take and follow for the recent merger scheme. With the help of professional advisers, we needed to and did present the merger scheme, its merits and fairness or otherwise to Unitholders at the EGM. In addition, our independent financial adviser, a leading audit firm, after carefully evaluating the merger terms, opined that the merger terms (for the purposes of advising the directors of the Manager Board who are considered independent for the purposes of the scheme) were fair and reasonable. International proxy advisers (including ISS and Glass Lewis) and share analysts also shared similar views. That the eventual voting outcome fell short of the stipulated 75% super majority was not a valid basis for Sabana REIT not to bear the merger costs and fees, which would fly in the face of prevailing corporate norms and governance of due process.

QBC have also stated that we must pre-consult with them on major matters going forward. While we may choose to do so if this is in the interest of Unitholders at large, we emphasize that under proper due process and governance, especially in relation to price-sensitive information not yet shared with the overall market, we are not obliged to do so and are in fact under a statutory duty to take special care.

C Our Response to Issues 3 and 4 on Vote Endorsement and Effective Date of Resignations of Independent Directors

To recap, our situation is that ESR Cayman, a large real estate group listed on the Hong Kong Exchange, already owns the ESR-REIT manager, before it came to own 100% of the Manager of Sabana REIT. To prevent any misperception of potential conflicts, we have agreed with ESR Cayman that our Manager Board is to be made up wholly and only of independent directors and that the process of appointment of our directors would not involve ESR Cayman.

To further enhance governance, it was also intended for Unitholders to be informed of two proposed "endorsing" resolutions to be tabled at the coming AGM in April 2021. Even though Mr. Shee and Mr. Yeo are independent directors of the Manager, the purpose is to provide public Unitholders, excluding ESR Cayman (who owns 100% of us the Manager and is a controlling Unitholder of Sabana REIT), with their say as to whether to retain the two recently appointed independent directors. Our Management had also informed QBC of the proposed endorsement voting.

On 18 March 2021, QBC pre-empted the endorsement matter by going public in Open Email 1, stating that they intend to vote against the two independent directors and asking for discussions on the issues they have raised previously. As a point of clarification, in an endorsement voting process, Unitholders do not have to explain, justify or give any reasons for how they wish to vote, and they are entitled to cast their votes in any way they wish, be it to signal dissatisfaction, exert pressure or send a message.

Mr. Shee and Mr. Yeo then decided and announced their resignations on 24 March 2021. In their letters of resignation, they reiterated their independence. By the very definition of independence, ESR Cayman was not involved in both their recent appointments. In fact, ESR Cayman had earlier agreed to refrain from voting on their endorsements at the coming April AGM.

In Mr. Shee's notice of resignation posted with the SGX, he stated he was unable to "*accept his appointment as Independent Non-Executive Director …. [be subjected] to the approval and endorsement by certain unitholders in exchange for their demands being met*".

In Mr. Yeo's notice, he described the intention of QBC to vote against him "*not as rejections of his independence, but as legacies of recent Unitholders' activism position*" and as he has "*no intention or motive to seek other public Unitholders to vote for him*"; he found the pending situation and his continued service "*pointless and unwelcomed"*.

To respond to the further query by QBC on why these two resignations are not with immediate effect, both directors are required to give specified months of notice periods, which Mr. Tan and Mr. Wong, the only two remaining independent directors, waived down to a single month so that their resignations can then take effect on 26 April 2021. In particular, the Manager Board specifically requested the resigning directors to stay on until 26 April 2021 as it requires additional time to find replacement candidates for these Board members.

As previously announced, the Manager Board would be looking to appoint replacement independent directors as soon as practicable and without the involvement of ESR Cayman. As per REIT regulations, such replacement candidates would have to undergo due process approval by the Monetary Authority of Singapore.

We assume that one reason why QBC had withheld their endorsement votes was because we did not pre-consult with them on the recent appointments of Mr. Shee and Mr. Yeo. In the interest of not repeating such a "debacle", we are willing and open to pre-consulting with QBC on replacement candidates. However, we must add that, given the circumstances that have arisen that culminated in Mr. Shee's and Mr. Yeo's decisions to resign, it would not be appropriate for QBC to describe their resignations and/or short stint as a "*bizarre debacle*" or as suggestive of any lack of their commitment or alignment, and that both Mr. Shee and Mr. Yeo have indicated to the Manager that they reserve their rights to respond to QBC separately.

D Our Response to Issue 5 on Prioritising Public Unitholders

To clarify this issue, we refer to the set of duties below that bind each and every director of all REIT managers, regardless of whether the director is independent or non-independent, executive or non-executive:

(i) a REIT manager and its directors must act in the best interests of all unitholders;
(ii) in the event of a conflict, they must give priority to the interests of public unitholders over the manager's own interests and the interests of the owners of the manager;
(iii) directors of a REIT manager also owe a duty to the owner-sponsor under Section 157 of the Companies Act (Cap. 50) of Singapore; and
(iv) the abovesaid duties in (i) and (ii) override any conflicting duty found under Section 157 in (iii).

When QBC called in Open Email 2 for replacement independent directors "*who are committed to prioritize unitholders' interests over those of the REIT Manager and its shareholders*", such call may inadvertently suggest that the outgoing independent directors Mr. Shee and Mr. Yeo as well as the continuing independent directors Mr. Tan and Mr. Wong are not committed to such prioritization, which is clearly and categorically untrue.

We must clarify, from D(i) above, that the core duty for directors of a REIT manager is to act in the best interests of all unitholders. Similarly, the core duty for boards of listed corporations is to act in the best interests of all shareholders. Please be reassured that at all times, we are committed to our core duty to act in the best interest of all Unitholders.

Moving on, as can be seen from D(ii) above, in the event of a conflict, REIT managers' directors then come under a statutory duty to prioritize the interests of public unitholders over those of the manager's and the controlling unitholders' interest. This prioritization is a statutory duty imposed by REIT laws which all of our 4-person Manager Board are fully committed to uphold.

That our Manager Board has sought and obtained ESR Cayman's approval for our board to be wholly and entirely made up of independent directors, and for ESR Cayman not to vote on the proposed voting endorsement of Mr. Shee and Mr. Yeo (now no longer relevant), is demonstrative of our very act of upholding of our duty to prioritise the interest of public Unitholders over ESR Cayman. It is by our construct of our own fully independent 4-person Manager Board, our unfettered way and process in which we appointed Mr. Shee and Mr. Yeo (and their replacement independent directors to be recruited), and our unfettered way in which we the Manager Board independently make all ongoing and applicable REIT management decisions, that we have had and we continue to prioritize the interest of public Unitholders.

We also ask public Unitholders to note that all current properties of Sabana REIT were already owned before ESR Cayman came to own the Manager and became Sabana REIT's controlling Unitholder. There may be a possible event of conflict whenever a prospective tenant is choosing between a property of Sabana REIT or of ESR-REIT. The local competition for tenants is intense and fierce, typically influenced by location preferences, and how well run or maintained the competing properties are, whether from Sabana REIT or ESR-REIT or several other industrial REITs' properties. Rest assured that we would compete with no holds barred. As long as ESR Cayman is not involved in our management and operations, which it is not, and given the unfettered way our Management and our Manager Board can manage and price Sabana properties' rentals to prospective tenants, or to pursue to divest or replace a property, any possible event of competition conflict is removed.

E Our Response to Issue 6 on "Ongoing unhappiness with Valuation Gap"

Consider for instance, two Singapore REITs invested or investing in similar property assets. When efficiently run, they would enjoy similar rent efficiency, as their tenants would be paying similar rent rates on similar properties. Yet, the stock market can and has valued their units differently for anecdotal reasons of scale or sub scale set out below.

Scale REITs, which are those with billions in market value of units, tend to attract more institutional investors who can make larger investments, often staying invested for long term periods for recurring yields. When more investment demand chases a limited supply of units of scale REITs, their traded prices tend to be higher. Singapore REIT analysts describe higher unit prices as "yield compressing", i.e., for the same rent efficiency, when the stock market is willing to pay a higher price to hold the units, the resulting distribution yield (a key metric to unitholders) comes down or becomes "compressed". In other words, the cost of equity is lower for scale REITs. It is a virtuous cycle, since scale REITs enjoying compressed yields can go on to buy a greater number of higher rent yield properties, and to issue new units as acquisition currency, thus growing their size and scale further. When a REIT scale grows, it attracts more lenders, ranging from banks to public bonds investors. When more lenders compete to lend, the scale REIT enjoys a lower cost of debt. Given a fair market rent efficiency, leveraged with a lower cost of debt, a scale REIT has a better after-debt yield.

From listed real estate companies, to listed conglomerates and Singapore REITs, their annual or periodic valuations of their real estate by property valuers are basically professional opinions of value. Until and unless their properties are actually sold, such annual valuations are professional opinions, awaiting the actual test of the sale of assets. Meanwhile, it is the external free market force of demand and supply for quoted shares of listed corporations or quoted units of REITs that decide their traded prices. For scale REITs, the traded prices of their units are often at or above professional valuation and so their yields are compressed. For sub scale REITs, the situation is the converse, often of traded prices of their units being lower than professional valuation and so of higher distribution yields. It is up to stock market investors as to which investments to prefer.

Sabana REIT is a relatively smaller REIT that may lack the scale benefits of cheaper equity and debt that are available to larger REITs. One of the rationales for the recent proposed merger was that, if it had merged with ESR-REIT, the resultant enlarged REIT could hopefully enjoy (to some extent) scale benefits.

As it is, the current traded Sabana REIT unit prices, although at lower-than-professional valuation prices, offer a distribution, amongst the higher range in Singapore (which even QBC has also observed) for yield-looking investors. That a smaller REIT, like some listed real estate companies, have market traded prices lower than their valuation NAVs, are outcomes of market forces.

Presumably it was such a “valuation gap” that drew QBC to buy Sabana REIT units. Even as lower-priced Sabana REIT units deliver commensurate higher yields, QBC publicly continue to advocate that they would not sell their Sabana REIT units below professional property valuations. Their insistence and advocacy is their investment prerogative. However, we find it necessary to point out to the investing public, that there are other willing-buyers-willing-sellers, whose transaction activities at prevailing market forces, set up a current market reality of lower-than-valuation traded prices, offset by higher yields.

F Our Response to Issue 7 for the “valuation gap” to be closed by options beyond business as usual

We wish to clarify that matters of a “business as usual” operating scope, such as for fair market rent efficiency and increased yields, which are in the best interest of unitholders and the ongoing portfolio of Sabana REIT as a whole, are competently within our purview and capacity as the Manager Board. These include the suggested levers by QBC in our response to issue 1 in section A above.

We note that QBC had requested in Open Email 2 for the “valuation gap” to be *“[closed by] exploring options beyond business as usual*”. In their own words, QBC in asking for “*options beyond business as usual*”, are aware that they are referring to unusual or strategic options (such as those set out in the Background above). By definition, unusual or strategic options being “*beyond business as usual*” are outside our power or discretion as a contracted Manager Board to bind Unitholders. Strategic options must be taken up as matters to be fully, frankly and properly discussed and worked out for a collective outcome amongst all unitholders at EGMs.

That a segment of unitholders seek “options beyond business as usual” to close a “valuation gap”, the gap of which is a phenomenon of prevailing market forces, the situation per se does not in itself allow a REIT manager to deviate from considering the best interest of all unitholders through the striving for business as per usual through establishing rent efficiency.

Meanwhile, we wish to highlight that at the coming April AGM, we will be providing all Unitholders with the opportunity to vote on a scrip dividend plan under which they can opt to receive distributions in units as an alternative to cash, which we agree with QBC can add value. We will also be asking Unitholders to vote on the customary annual mandate to issue units, to which QBC have expressed objection.

Our Concluding Response

Singapore's REIT regulations set up almost two decades ago are a transforming watershed and paradigm. By imposing debt gearing limits, reducing investment limits on development assets, and regulating as full a distribution of net income as possible, Singapore REITs have become a go-to class of assets for recurring yields.

For Singapore REIT managers, what then is the best interest of all unitholders of REITs in Singapore's stock market? Surely a key role of all REIT managers is to manage their respective REITs' properties portfolios as best as possible for fair market rent efficiency for ongoing stable recurring yields. For unitholders to enjoy commensurate yields is conventionally the aim and task of Singapore REIT managers. In this context, the usual duties of REIT managers are to sensibly, professionally and consistently manage their respective REIT portfolios to reach as full and fair rentals as possible, whilst meeting all applicable Singapore REIT regulations, properties planning and zoning and debt covenants. Their job is to work within their professional skill set, control and capabilities on the crux that matters, and to achieve and maintain rent efficiency from properties. The stock market can then take care of the rest.

Even as QBC seek, in their own words, "*to unlock valuation gap by options beyond business as usual",* we are cognizant that there are Sabana REIT Unitholders whose investment thesis is to hold units for recurring yield. However, as a result of the ongoing public lobbying by QBC, we cannot exclude that some Sabana REIT Unitholders may consider supporting unlocking options that are "*beyond business as usual".*

In conclusion, we urge QBC to consider that the Manager Board is a contracted manager and that under the Sabana REIT trust deed, we have limited scope of power and authority to bind all Unitholders on non-routine matters and strategic options that are beyond business as usual. Any unusual or strategic options will need to be addressed and approved if and/or where necessary by Unitholders separately.

Our Record of Thanks

The Manager Board with the Management trust that the above has clarified the recent spate of announcements and the matter of the two independent directors stepping down. We also like to again express our record of thanks to Mr. Shee and Mr. Yeo for their recent and valuable service to the Manager Board.

By Order of the Board

Sabana Real Estate Investment Management Pte. Ltd.
(Company registration number 201005493K, Capital markets services licence no: CMS100169)
As Manager of Sabana Shari'ah Compliant Industrial Real Estate Investment Trust

Han Yong Lee (Donald)
Chief Executive Officer
30 March 2021

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Sabana REIT

Sabana REIT was listed on the SGX-ST on 26 November 2010. It was established principally to invest in income-producing real estate used for industrial purposes, as well as real estate-related assets, in line with Shari'ah investment principles. As at 31 December 2020, Sabana REIT has a diversified portfolio of 18 properties in Singapore, in the high-tech industrial, warehouse and logistics, chemical warehouse and logistics, as well as general industrial sectors. The total assets of the Group amount to approximately $0.9 billion as at 31 December 2020.

Sabana REIT is listed in several indices within the SGX S-REIT Index, Morgan Stanley Capital International, Inc (MSCI) Index and FTSE index. Sabana REIT is one of the constituents of the FTSE ST Singapore Shariah Index.

Sabana REIT is managed by Sabana Real Estate Investment Management Pte. Ltd. (in its capacity as the Manager of Sabana REIT) in accordance with the terms of the trust deed dated 29 October 2010 (as amended). Sabana REIT is a real estate investment trust constituted on 29 October 2010 under the laws of Singapore.

For further information on Sabana REIT, please visit www.sabana-reit.com.

Important Notice

The value of units in Sabana REIT ("**Units**") and the income derived from them may fall as well as rise. Units are not obligations of, deposits in, or guaranteed by, the Manager, HSBC Institutional Trust Services (Singapore) Limited, as trustee of Sabana REIT, or any of their respective affiliates.

An investment in Units is subject to investment risks, including the possible loss of the principal amount invested. Investors have no right to request that the Manager redeem or purchase their Units while the Units are listed. It is intended that unitholders of Sabana REIT 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.

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