



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)

RESPONSE TO SGX QUERY

The Board of Directors (the “**Board**”) of Sabana Real Estate Investment Management Pte Ltd (the “**Manager**”) refers to the query from Singapore Exchange Securities Trading Limited (“**SGX-ST**”) on 15 February 2017 and sets out its responses as follows:

Question 1:

Please provide unitholders with an update on the requisition request.

Manager’s response:

The Manager will be convening an EGM as per the requisition request as soon as practicable. A circular is being prepared and will be subject to review by SGX-ST in accordance with the Listing Rules. The circular will be issued once it has been cleared by SGX-ST.

Question 2:

Please address the unitholder’s claim on that the REIT Manager has “incurred a \$215 million property revaluation loss” in the last 3 years, and whether such losses, as a percentage of acquisition costs, are in line with percentage movements in the general market conditions for industrial properties.

Manager’s response:

The S\$215 million property revaluation loss pertains to loss in fair value of the investment properties during the three fiscal years from FY 2014 to FY 2016, the majority of which was incurred in FY 2015 and FY 2016.

The objective of REITs is to generate income from its properties in order to distribute regular dividend payouts to unitholders. Therefore, REITs typically adopt the discounted cash flow and income capitalisation methodologies in valuing their properties, which depends largely on the projected rental income the properties can generate. Sabana REIT adheres to these market practices in the valuation of its investment properties. The majority of the revaluation loss of Sabana REIT occurred in FY 2015 when the market conditions were challenging. In FY 2015, 11 master leases expired but only 6 master leases were renewed, of which 5 were renewed at lower rent, while for the 5 master leases which were not renewed, 3 properties were converted into multi-tenanted properties, 1 has been sold and 1 is pending completion of sale. In FY 2016, 4 master leases expired, of which 3 were renewed for one year at the previous rental rates and the fourth one was converted into a multi-tenanted property. The oversupply of industrial properties amidst waning demand and the changes in regulatory policies which affected

subletting rules in FY 2014 made it more difficult for Sabana REIT to lease out all of its available space and resulted in higher vacancy.

The trend of revaluation loss is in line with the performance of the other industrial REITs which are similarly Singapore-focused and of similar size, where overall valuations for their industrial properties in Singapore have also been trending downwards since FY 2014. Sabana REIT exhibited higher revaluation losses as a percentage of investment property value as 11 of its master leases expired in FY 2015 which contributed to approximately two-thirds of the aggregate revaluation loss for the entire portfolio of Sabana REIT in FY 2015. These 11 properties further contributed to approximately one-third of the aggregate revaluation loss in FY 2016 amidst the continuing weakening industrial property market in Singapore.

Question 3:

It was disclosed that “The Manager is confident that the acquisition of the Changi South Property was in the best interest of Sabana REIT”. It was disclosed that the property was acquired by the Vibrant Group on 2 March 2011 for \$10.9 million and will be acquired by the REIT at \$23 million.

- a) **Please disclose if this increase in valuation reflects the trend of industrial properties, and provide the AC's views on whether:**
 - (i) **the property valuation is on normal commercial terms and not prejudicial to the REIT and unitholders; and**
 - (ii) **the property can be easily disposed by the REIT at the market price of \$23 million in the open market.**

- b) **Please confirm that the acquisition is subject to the approval of unitholders, as announced on 15 December 2016.**

- c) **Please disclose if the option fee paid is refundable if unitholders' approval is not obtained.**

Manager's response:

With regard to (a)(i) above, the Sponsor has, in order to support Sabana REIT during this period of downward cycle in the Singapore industrial property market, agreed to inject 47 Changi South into Sabana REIT on a sale and leaseback basis for a lease term of 10 years (as the existing government policy requirements provide for a sale and leaseback period of at least 10 years) at the proposed rental terms (i.e. the 10-year guaranteed net property rent/fixed rent of approximately S\$17.1 million). Based on such terms, the valuation of S\$23 million was arrived at by two independent property valuers, Savills and Knight Frank, in accordance with valuation methodologies which are in line with market practice.

As announced previously on 7 February 2017, the Sponsor had purchased the property for its own use and therefore the book value of S\$10.9 million refers to the original cost of acquisition by the Sponsor less the accumulated depreciation. As such, the book value is irrelevant and not the appropriate basis for comparison in the context of the current acquisition by Sabana REIT where the property valuation is arrived at based on the rental that the property will be generating over the next 10 years.

As announced previously on 15 December 2016, the Audit Committee will form its views after taking into account the opinion from an independent financial adviser (“**IFA**”) on whether or not the sale and leaseback transaction is (a) on normal commercial terms and (b) prejudicial to the interests of Sabana REIT and its minority Unitholders. Subject to the opinion of the IFA and the Unitholders’ approval at the EGM to be convened for the proposed acquisition, the Audit Committee is satisfied that the proposed acquisition of 47 Changi South is on market terms and supports the Manager’s view that the proposed acquisition is in the interest of Sabana REIT. The Audit Committee has considered numerous factors in its current assessment, including the details of the proposed acquisition, such as its rationale, the key terms, financial impact and valuation. In particular, the Audit Committee views the steady income stream which Sabana REIT will derive from the property over 10 years to be favourable during this current downward cycle in the industrial property market in Singapore.

With regard to (a)(ii), whether or not the property can be easily disposed by the REIT at the market price of S\$23 million in the open market would depend on a number of factors, including, *inter alia*, the availability of willing buyers e.g. other industrial property REITs which continue to operate in Singapore and the structure of the acquisition, such as whether it is on a sale and leaseback for the same period of 10 years. As such, it would not be appropriate for the AC to speculate on whether or not the property can be easily disposed of by the REIT at the same price.

With regard to (b) above, the Manager confirms that the acquisition of the property at 47 Changi South Avenue 2 will be subject to Unitholders’ approval and this was disclosed in the announcement made on 15 December 2016. The Manager will make the necessary announcement to convene the extraordinary general meeting in due course.

With regard to (c) above, the Manager confirms the option fee paid by the REIT is refundable if unitholders’ approval is not obtained.

Question 4:

Please provide further details on the strategic review, including:

- a) whether a Board committee has been formed and the members on the strategic review committee;**

- b) what the committee's terms of reference are;

- c) whether the scope of the strategic review will review areas of concerns raised by unit holders surrounding:
 - (i) the acquisition strategy for future acquisitions addressing;
 - (ii) concerns over significant revaluation losses; and
 - (iii) alignment of interests of the REIT Manager's fees to unitholders interest; and

- (d) the timeline for the completion of the strategic review and disclosure of outcome of the review to unitholders.

Manager's response:

A strategic review board committee (the "**Strategic Review Committee**") has been formed to undertake a review of options available for Sabana REIT to enhance unitholder value. Its members are Mr Yong Kok Hoon (Independent Non-Executive Director, Chairman of the Strategic Review Committee), Mr Steven Lim Kok Hoong (Independent Non-Executive Director) and Mr Henry Chua (Non-Executive Director). The majority of the members of the Strategic Review Committee comprise independent directors.

In this connection, the Strategic Review Committee is in the process of appointing a financial adviser to assist them in the strategic review exercise and the financial adviser will be reporting directly to the Strategic Review Committee.

The terms of reference of the Strategic Review Committee include the following:

- (a) reviewing various options to improve the performance of Sabana REIT; and
- (b) sourcing and considering the proposals from potential strategic partners, and shortlisting partners who can enhance Sabana REIT's performance in terms of:
 - (i) ability to contribute pipeline of quality assets to Sabana REIT to improve current property portfolio mix;
 - (ii) improving the borrowing ability of Sabana REIT; and
 - (iii) ability to enhance the capability of the management team.

The Manager believes that the scope of the strategic review would cover the above-mentioned areas of concern raised by Unitholders.

The outcome of the strategic review will be announced in due course.

In the meantime, Unitholders are advised to exercise caution when dealing in the units of Sabana REIT. Unitholders are further advised to read this announcement and any subsequent announcements by the Manager carefully.

By Order of the Board

Sabana Real Estate Investment Management Pte. Ltd.

(Company registration number 201005493K)

As Manager of Sabana Shari'ah Compliant Industrial Real Estate Investment Trust

Kevin Xayaraj

Chief Executive Officer and Executive Director

17 February 2017

ABOUT SABANA REIT

Sabana REIT was listed on Singapore Exchange Securities Trading Limited 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. Sabana REIT currently has a diversified portfolio of 21 quality properties in Singapore, in the high-tech industrial, warehouse and logistics, chemical warehouse and logistics, as well as general industrial sectors. Its total assets amount to approximately S\$1.0 billion.

Sabana REIT is listed in several indices within the SGX S-REIT Index, Morgan Stanley Capital International, Inc (MSCI) Index, the Global Property Research (GPR) index, FTSE index and S&P Dow Jones Indices.

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 <http://www.sabana-reit.com>.

Important Notice

This announcement is for information only and does not constitute an offer, invitation or solicitation of securities in Singapore or any other jurisdiction nor should it or any part of it form the basis of, or be relied upon in connection with, any contract or commitment whatsoever.

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 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.