



SABANA INDUSTRIAL REAL ESTATE INVESTMENT TRUST

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

CLARIFICATION ANNOUNCEMENT IN RELATION TO STATEMENTS IN QUARZ CAPITAL MANAGEMENT'S OPEN LETTER

Sabana Real Estate Investment Management Pte. Ltd., as manager of Sabana Industrial Real Estate Investment Trust ("**Sabana Industrial REIT**") and the manager of Sabana Industrial REIT, the "**Manager**", refers to Quarz Capital Management's ("**Quarz**") open letter "VOTE AGAINST RESOLUTIONS 3 AND 4 at the Sabana Industrial REIT 25 April 2023 AGM" (the "**Open Letter**"), republished in AsiaOne and Yahoo Finance articles dated 14 April 2023.

The Manager wishes to clarify and refute certain false, misleading and/or baseless statements in the Open Letter as follows:

- 1) *"The REIT Manager of Sabana Industrial REIT has gained certain 'notoriety' for its weak corporate governance practices."*

The Manager

- This is not correct. The Manager and Sabana Industrial REIT have made significant improvements in our corporate governance practices and disclosures, as evidenced by the positive outcomes of independent corporate governance assessments. This underscores and demonstrates our continued efforts to better our corporate governance practices.
 - (i) According to the Governance Index for Trusts ("**GIFT**") 2022 report, our overall GIFT score improved to 71.5 points in 2022 from 54 points in 2021. Our 17.5-point improvement was the largest among all trusts in the study and our ranking improved by 24 positions to the 14th position.
 - (ii) Sabana Industrial REIT's Singapore Governance and Transparency Index score improved to 74.4 points in 2022 from 61.1 points a year ago. Our ranking improved by 8 positions to the 35th position.
- 2) *"In Resolution 3, unitholders are asked to vote on the endorsement of Mrs. Elaine Lim as an independent director. However, it is concerning that even if unitholders reject Mrs. Lim's endorsement, the board has ensured that she will still remain on the board as a non-independent director. This arrangement appears to blatantly undermine corporate governance and unitholders' rights."*

"Importantly, the method Sabana REIT Manager structure the voting is also potentially in clear violation of their commitment to MAS to ensure the independence of ESR Logos REIT and Sabana REIT."



“If Mrs Elaine Lim is appointed as a non-independent director, it implies that she represents ESR Group on the board of Sabana REIT Manager. By extension, this potentially means that the business and affairs of ESR Logos REIT and Sabana REIT will NOT BE managed and operated independently of each other and there can be sharing of information between both REITs.”

“It also creates an incentive for the Sabana REIT manager to potentially act in the best interest of ESR Group rather than in the best interest of the Sabana REIT unitholders, which would result in a violation of corporate governance standards and the Sabana REIT manager’s legal duties.”

“Could the appointment of Mrs Elaine Lim through Resolution 3 possibly be a 'back-door' entry for ESR Group to have a representative on the board of Sabana REIT by potentially circumventing MAS' safeguard measures?”

The Manager

- The allegations in these statements are false, untrue and baseless.
- As stated in Sabana Industrial REIT’s Notice of Annual General Meeting dated 27 March 2023 (the “**AGM Notice**”), Resolution 3 seeks to endorse Mrs Elaine Lim’s appointment as an Independent Non-Executive Director of the Manager. The Manager would like to reiterate that Resolution 3 relates to Mrs Lim’s designation as an *Independent Non-Executive Director*, and not her appointment as a director of the Manager (“**Director**”). This is clear from the AGM Notice, which stated the following:

*“3. To endorse the appointment of Ms Lee Kia Jong Elaine (Mrs Elaine Lim) as an **Independent Non-Executive Director** of the Manager. (Ordinary Resolution 3)”*

*“The Manager made an announcement on SGXNet (the “**Announcement**”) on 6 July 2022 regarding the appointment of Mrs Elaine Lim as an **Independent Non-Executive Director** of the Manager with effect from the date of the Announcement (the “**Appointment**”) and that the Appointment is subject to endorsement of the independent Unitholders of Sabana Industrial REIT by an ordinary resolution at or before its annual general meeting.”*

- Under the applicable laws and regulations, the appointment of a Director to the board of the Manager (“**Board**”) (whether as an independent Director or a non-independent Director) is not required to be subject to unitholders’ approval if at least half of the Board comprises independent Directors. The tabling of Resolution 3 for unitholders’ approval is therefore over and above what is otherwise generally required by the applicable laws and regulations. As such, in the present case, independent unitholders’ approval is sought only for Mrs Lim’s appointment as an Independent Non-Executive Director (and NOT for her appointment as a Director) of the Manager.



- Prior to Mrs Lim’s appointment on 6 July 2022, as the manager of a listed real estate investment trust and a licensed entity, the Manager had also obtained the requisite regulatory approval in relation to Mrs Lim’s appointment as a Non-Executive Director to the Board of the Manager. Her appointment as an Independent Director, however, is subject to the endorsement by independent unitholders and is proposed as Resolution 3 under the AGM Notice.
 - As mentioned in the AGM Notice, “If Ordinary Resolution 3 is **passed**, Mrs Elaine Lim will continue to serve as **Independent Non-Executive Director** and will also continue as member of the Audit and Risk Committee and the Nominating and Remuneration Committee. As mentioned in the Announcement, if Ordinary Resolution 3 is **not passed**, Mrs Elaine Lim will serve on the Board of Directors as a **Non-Independent Non-Executive Director** and will remain as member of the Audit and Risk Committee and the Nominating and Remuneration Committee.”
 - Even if Ordinary Resolution 3 is **not passed** and Mrs Elaine Lim is re-designated as a Non-Independent Non-Executive Director of the Manager solely as a result of Resolution 3 not passing, it is false and baseless for Quarz to allege that this would imply that Mrs Lim therefore “*represents ESR Group on the board of Sabana REIT Manager*” and suggest that it is a “*‘back-door’ entry for ESR Group to have a representative on the board of Sabana REIT*”.
- (i) In sourcing for and identifying potential candidates to act as Independent Director, the Nominating and Remuneration Committee (“**NRC**”) had reached out to its business networks and independent organisations over an intensive two-month recruitment process. Mrs Elaine Lim was shortlisted only after the NRC evaluated the candidates, and she was determined by the NRC to be suitable following an in-depth interview and discussions with her, and after thorough and professional candidature evaluation including due diligence background checks to ensure her fitness and propriety. The NRC’s search and nomination process relating to Mrs Elaine Lim’s appointment to the Board as an Independent Director has been disclosed in the Announcement dated 6 July 2022 and in Sabana Industrial REIT’s annual report for the financial year ended 31 December 2022 (the “**Annual Report**”). The Manager’s extensive and transparent disclosures about the search and nomination process for its Independent Director were commended in the independent GIFT 2022 report issued on 17 November 2022.
 - (ii) As stated in the Annual Report, Mrs Elaine Lim was selected to join the Board of the Manager based on her credentials, experience, and qualifications. She is a strong advocate for best practices in corporate governance, providing thought-leadership and training through the Singapore Institute of Directors, to companies and directors. Specifically, she served as a member of the review panel for a corporate governance e-guide first produced by Singapore Institute of Directors and a board appointment guide for charities published by the Council for Board Diversity. Mrs Elaine Lim also possesses a track record in capital markets transactions, stakeholder relations, crisis management and financial restructuring.



She has had experience serving on diverse boards across the public sector, non-profit organisations and SGX-listed companies. Her track record, experience and knowledge complement the existing skills and experience of the Board and provide balance and diversity to the Board.

- (iii) Mrs Elaine Lim complies with all the criteria of independence set out in the Singapore Code of Corporate Governance 2018 (the “**CG Code**”), the Securities and Futures (Licensing and Conduct of Business) Regulations (the “**SFLCBB**”) and the Listing Manual of the Singapore Exchange Securities Trading Limited (the “**Listing Manual**”). The NRC and the Board have assessed Mrs Lim’s independence and are satisfied with her independence as a Director in accordance with the applicable laws and regulations (including the CG Code, the SFLCBB and the Listing Manual).
 - (iv) The sponsor of Sabana Industrial REIT (being ESR Group Limited) (the “**Sponsor**”) was not involved at all in the sourcing, identification or nomination of Mrs Elaine Lim as a Director.
 - (v) Mrs Elaine Lim does not represent the Sponsor nor is she on the Board of the Manager to serve the Sponsor’s interests. Mrs Elaine Lim was not acquainted and had no dealings at all with the Sponsor prior to her appointment to the Board of the Manager. She is not an employee within the Sponsor group and does not have any relationship with the Sponsor or ESR-LOGOS REIT, nor any other relationships which would disqualify her from being an independent Director under the applicable laws and regulations. She is certainly not a *“back-door’ entry for ESR Group to have a representative on the board of Sabana REIT”*, as alleged by Quarz.
 - (vi) In light of the above, given the intensive process through which Mrs Elaine Lim has been identified and shortlisted as Independent Director and that she has satisfied all the criteria of independence as set out in the applicable laws and regulations (including the CG Code, the SFLCBB and the Listing Manual), Quarz’s allegations that the appointment of Mrs Lim as a Director *“also creates an incentive for the Sabana REIT manager to potentially act in the best interest of ESR Group rather than in the best interest of the Sabana REIT unitholders, which would result in a violation of corporate governance standards and the Sabana REIT manager’s legal duties”* and that *“the method Sabana REIT Manager structure the voting is also potentially in clear violation of their commitment to MAS to ensure the independence of ESR Logos REIT and Sabana REIT”* are also false, baseless and without grounds. The above allegations, which are unfounded and have no merit, seek to discredit the Manager.
- Apart from making these allegations which are sweeping and/or inaccurate in nature, Quarz has not provided specific reasons as to why Mrs Elaine Lim is not suitable as an Independent Non-Executive Director of the Manager. These allegations which are false, untrue and baseless, are in the view of the Manager unconstructive, and have the unfortunate effect of distracting unitholders from properly evaluating the merits of



Resolution 3 and potentially disrupting the normal operations of the Manager and Sabana Industrial REIT.

- 3) *“Occupancy in 4Q2022 was ~88.2%^[2], falling below the industrial average as well as that of its industrial REIT counterparts, such as AIMS APAC REIT (97.8%) and ESR Logos REIT (92.7%). This has resulted in DPU to fall by more than 7% YoY, substantially underperforming its REIT peers as well which saw flat or increasing DPU.”*

The Manager

- As per the Manager’s SGXNet announcement dated 30 January 2023, overall portfolio occupancy as at 31 December 2022 was 91.2% (excluding 1 Tuas Avenue 4 which is undergoing an asset enhancement initiative (“**AEI**”)), surpassing JTC’s industrial average for the fourth quarter ended 31 December 2022. In the interim business update for the first quarter ended 31 March 2023 (“**1Q 2023**”) released by the Manager on SGXNet on 19 April 2023, portfolio occupancy as of 31 March 2023 has climbed to 92.6%, the highest since the first quarter ended 31 March 2021.
 - During 1Q 2023, Sabana Industrial REIT also achieved a positive 13.6% rental reversion, building on its track record of consecutive, positive quarterly reversions over the same period.
 - Gross revenue for the second half-year ended 31 December 2022 (“**2H 2022**”) rose by 16.9% year-on-year to S\$50.1 million, mainly due to higher contributions from New Tech Park, 30 & 32 Tuas Avenue 8, 508 Chai Chee Lane, 23 Serangoon North Avenue 5 and 10 Changi South Street 2. The decline in distribution per unit in 2H 2022 was mainly due to a surge in utility expenses, impacted by worldwide energy inflation. To mitigate the impact of higher utility expenses, Sabana Industrial REIT has also announced its partnership with Keppel EaaS, including the installation of photovoltaic solar panels at four of Sabana Industrial REIT’s properties, with the aim to become one of Singapore’s first carbon neutral REITs by 2040 when our various sustainability solutions are implemented.
- 4) *“The expensive AEI cost of approximately ~S\$130psf (~S\$20 million) for the single-story industrial building at 1 Tuas Ave 4 (where there is already an existing structure) is even more concerning. This is because the construction cost for a brand new single-storey or multi-storey industrial building ranges from around S\$135psf to S\$158psf.^[3]”*

The Manager

- The development cost of approximately S\$20 million, which is based on the current design comprising an approximate 156,000 square foot warehouse, production and ancillary office on an ambient basis, comprises construction costs, professional fees,

² REIT Manager reported 91.2% of occupancy by excluding 1 Tuas Ave 4.

³ Arcadis, Construction Cost Handbook Singapore 2022



forward works, contingency costs (as advised by consultants for prudence) and government fees, amongst others.

- The project is an extensive Additions and Alteration process involving the 'gutting out' of internal space, leaving the skeletal building structures. Main structures like certain floors and walls have to be demolished, repaired and/or reconstructed to meet regulatory compliance requirements and to make the space more marketable. All mechanical and electrical provisions, lifts, water tanks, genset and roof, amongst others, will be replaced with new ones.
- The construction costs also take into account modification of construction methodology for certain items that were necessary to ensure compliance with authorities' requirements.
- Demand for warehouses continues to be a bright spot based on the number of leasing enquiries received across our portfolio of properties. Undertaking an AEI on an existing structure will enable the REIT to complete the project in a relatively shorter timeline while retaining the use of some existing building structures. 1 Tuas Avenue 4 is well accessible to Tuas Crescent MRT Station and in close proximity to established industry clusters including Tuas Mega Port and Tuas Biomedical Park which presents an attractive and ideal space for prospective tenants.

Conclusion

From the above, it is clear that Quarz's Open Letter contains statements which are false, misleading and/or baseless.

The Manager has performed its managerial duties and managed Sabana Industrial REIT's portfolio with a view to serve the best interests of Sabana Industrial REIT and its unitholders as a whole and make stable and realistic improvements while navigating challenging macroeconomic headwinds.

As explained above, the Manager has made significant improvements in its corporate governance practices in the previous financial year, including engaging in an intensive recruitment process to search for a suitable Director for the Manager as well as making extensive and transparent disclosures about the recruitment process.

Improvements to the various performance benchmarks of Sabana Industrial REIT's portfolio have been highlighted in the Annual Report and in our response above. To ensure the long-term profitability and improvement of Sabana Industrial REIT's portfolio, the Manager has made efforts to develop and make improvements to the properties of Sabana Industrial REIT based on its assessments of the costs and the potential benefits of the construction projects. Given the nature of construction work and property improvement, it can result in misleading analyses if individual aspects of projects, such as cost, are compared in a vacuum.

The Manager would urge unitholders to review the clarifications in this Announcement, the AGM Notice and the Annual Report carefully, so as to properly consider and evaluate the



merits of the resolutions to be tabled at Sabana Industrial REIT's annual general meeting on 25 April 2023 (Tuesday).

By Order of the Board
Sabana Real Estate Investment Management Pte. Ltd.
(Company Registration No: 201005493K, Capital Markets Services Licence No:
CMS100169)
As Manager of Sabana Industrial Real Estate Investment Trust

Han Yong Lee (Donald)
Chief Executive Officer
24 April 2023

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Sabana Industrial REIT

Sabana Industrial REIT was listed on the SGX-ST on 26 November 2010. As at 31 December 2022, Sabana Industrial REIT has a diversified portfolio of 18 quality 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 more than S\$0.9 billion as at 31 December 2022. Sabana Industrial REIT is a constituent of the SGX S-REIT Index, MSCI Singapore Micro Cap Index, and FTSE ST Singapore Shariah Index.

Sabana Industrial REIT is managed by Sabana Real Estate Investment Management Pte. Ltd. (in its capacity as the Manager of Sabana Industrial REIT) in accordance with the terms of the trust deed dated 29 October 2010 (as amended, varied or supplemented from time to time). Sabana Industrial 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 Industrial 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 Industrial 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.