

21 July 2023

Sabana Real Estate Investment Management Pte. Ltd.

151 Lorong Chuan
#02-03 New Tech Park
Singapore 556741

Attention: Mr Tan Cheong Hin, Chairman
Mr Donald Han, Chief Executive Officer

Dear Sirs,

ESR'S RESPONSE TO QUARZ CAPITAL'S STATEMENTS DATED 19 JULY 2023 AND 20 JULY 2023

1. We refer to the statements published by Quarz Capital via their email newsletter (info@savesabanareit.com) and/or on the website www.savesabanareit.com on 19 July 2023 and 20 July 2023.
2. As the largest unitholder in the Sabana REIT, our interests have been and continue to be aligned with all unitholders. It is imperative that all unitholders should be apprised of relevant and accurate facts, so that they may make an informed and considered decision at the Extraordinary General Meeting fixed for 7 August 2023.
3. We have prepared a short response to the allegations and/or assertions raised by Quarz Capital in the above-mentioned statements. We would be grateful if you could publish a copy of the enclosed letter as an announcement via SGXNET.

Yours faithfully



ESR GROUP LIMITED

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Dear Unitholders

OPEN LETTER TO THE UNITHOLDERS OF SABANA INDUSTRIAL REAL ESTATE INVESTMENT TRUST

1. We refer to the letter issued by Quarz Capital ASIA (Singapore) Pte Ltd (“**Quarz**”) on 7 June 2023 to requisition for an extraordinary general meeting of unitholders of Sabana REIT (the “**Requisition**”). We also refer to the following statements published by Quarz Capital Management Ltd (“**Quarz Management**”):
 - a. a statement titled “*Clarification*” published on 19 July 2023 (the “**19 July Clarification**”) via the email newsletter at “info@savesabanareit.com”; and
 - b. a statement titled “*Court dismisses injunction to block Sabana Reit EGM*” published on 20 July 2023 (the “**20 July Statement**”) via the email newsletter at “info@savesabanareit.com” and website www.savesabanareit.com.
2. As early as 25 June 2023, we had highlighted the fundamental flaws in the Requisition and our concerns on the resolutions in a letter to all unitholders. Our concerns have now been validated by the announcements and letters from the Trustee and the Sabana Manager.
3. About a month later, on 14 July 2023, the Trustees sent a letter to the Sabana Manager, setting out a draft statement which it intended to publish to all unitholders after the Notice of EGM is sent. The Trustee’s letter simply underscores our position that there are serious risks and uncertainties involved in removing the external manager and replacing with an internal manager. The Trustees have also cautioned that they are not in a position to commit as to (i) the timing required for implementation of the Internalisation Process, which they have said would be at least 12 months or more, and as to (ii) the viability of the internalisation process as a whole. They have also cautioned that the end result may include winding up the REIT.
4. On 19 July 2023, Ernst & Young LLP, the independent auditors of the Sabana REIT, highlighted the outcome of the Extraordinary General Meeting (“**EGM**”) as a material uncertainty that may cast significant doubt on the ability of the Sabana REIT and its subsidiary to continue as a going concern.
5. On 21 July 2023, the Sabana Manager, in their Notice of EGM and Circular dated 21 July 2023, have also highlighted many of the serious risks and uncertainties involved in passing either of the Resolutions. They have now taken the position that “*The Board of Directors is of the view that both Resolution 1 and Resolution 2 would be prejudicial to the interests of Sabana Industrial REIT and its Unitholders as a whole, and accordingly recommend that Unitholders vote AGAINST both Resolution 1 and Resolution 2*” (emphasis added).
6. Unitholders now have a simple choice to make at the EGM: **do they keep the Sabana REIT Manager, which was the best performing industrial REIT in 2022, or do they remove the Sabana Manager with no replacement ready. Removing the Sabana Manager now will cause significant unitholder value destruction and appointing a replacement, if a viable replacement can even be put up to Unitholders for approval, is estimated to take more than one year, with unitholders bearing the costs.**
7. In this letter, we address the misstatements and inaccuracies which Quarz has continued to set out in their various statements, so that unitholders have the full set of facts. It is disappointing that Quarz has continued to push their misguided attempt to place the REIT in such a vulnerable position, when the fundamental issue of whether internalisation is even a viable option has not been resolved with the regulators and all relevant stakeholders.

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8. We urge all unitholders to be vigilant and critically assess the facts before them in coming to a decision at the EGM.

A. Court gives clarity on EGM resolutions

9. As unitholders may be aware, we had taken out a Court Application on 7 July 2023 for clarifications in respect of the resolutions which Quarz sought by way of its Requisition. The purpose of our application was to ensure that the EGM is convened on the correct footing and with proper processes, on the basis of accurate facts. Quarz has again deliberately perceived us as stopping the EGM. To be clear, it was never our intention to block an EGM that is carried out properly. This is why we ensured that the hearing was on an expedited basis and was heard within the timelines which would have allowed the EGM to be called. You would note from the Manager's announcement that the EGM is proceeding on 7 August 2023.
10. To this end, our aim has been achieved by the Court Application, where Sabana REIT unitholders, the Trustees, and the REIT Manager now have a clear direction on how the EGM will proceed and how the resolutions are to be read. What is clear is that the resolution for internalisation or any amendment to the Trust Deed must be done as an extraordinary resolution, with a 75% vote needed. It is also important to note that the resolution as presented by Quarz is merely a direction to the Trustee to explore the option of internalisation. The resolution as it stands **is not** for the immediate implementation of internalisation.

B. Inaccuracies made by Quarz and/or Quarz Management ("Quarz")

"Change of control" provisions remain a real risk

11. Quarz claims that there is very little chance of "*change of control*" provisions in loan agreements being triggered after the Resolutions are passed. This is a very reckless statement, as the "*change of control*" provisions remain a real risk. If Resolution 1 is passed, the Sabana Manager will eventually have to be removed by a notice issued by the Sabana Trustee. This will invariably trigger such "*change of control*" provisions.
12. In Sabana REIT's 1H 2023 financial results released on 19 July 2023, Ernst & Young LLP ("**EY**"), the independent auditors, highlighted the outcome of the EGM as a material uncertainty that may cast significant doubt on the ability of the Sabana REIT and its subsidiary to continue as a going concern. This was unfortunately released after the court hearing and we were unable to place this document before the Court. What is important is that EY flagged that the Manager's removal may result in mandatory prepayment of its outstanding loans with serious consequences for the REIT. This is because the lenders "*are unable to grant the relevant waivers at the current juncture*" (see: note 18 to the Sabana REIT's Interim Financial Information for the period from 1 January 2023 to 30 June 2023). A similar confirmation was provided in the circular issued to unitholders on 21 July 2023 in relation to the EGM (at p 12). There are also wider concerns about Sabana REIT's ability to continue to keep its bank financing in place. The financial results were released only after the completion of the court hearing.
13. The Sabana REIT Manager, in their Notice of EGM and Circular dated 21 July 2023, has also highlighted that Sabana REIT has total outstanding financial indebtedness of approximately S\$295 million (as of 30 June 2023). A consequence of passing either one or both of the resolutions may constitute an event of default. If an event of default is continuing, the relevant lenders are entitled to cancel the commitments and demand for all outstanding loans (among others, accrued interest). The recalling of the facilities is a real risk, which would result in the REIT being forced to sell properties at a discount to their valuation in order to raise funds for repayment as the REIT has no other sources of funding.

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14. It is completely naïve for Quarz to imply that the relevant lenders will hold their hands (for 12 months or more) pending the resolution of all the risks and uncertainties that the Requisition will bring about, with no assurance that there will in fact be a resolution of such risks and certainties.
15. These consequences are compounded by the fact that if the Sabana Manager is removed and no manager (internal or external) is able to step in timeously to fill the void, the REIT will be left without a manager to handle the day-to-day operations, and to negotiate with the lenders on the continuance of these facilities. The Trustees have stated that they expect the Sabana Manager, who has been terminated, to stay on for “12 months or significantly longer”. Conceptually, this sounds like a solution, but realistically and practically, it is not. The Sabana Manager has pointed out in the Circular that there is no guarantee that the existing staff of the Sabana Manager will continue to stay on during this interim period. The Requisition is fraught with many risks and uncertainties.

Misstatement of the Sabana Trustee’s position

16. With regard to the 20 July Statement, Quarz made sweeping statements about the position taken by the Sabana Trustee (i.e. HSBC Institutional Trust Services (Singapore) Limited). Quarz claims that the Sabana Trustee “confirmed that they are formulating a steps plan to implement the Resolutions” and that this therefore “tells us that the Trustee is fully capable of setting up a new internal manager”. This is completely inaccurate. They have played around with the Trustee’s words.
17. Unitholders are advised to review the letter issued by the Sabana Trustee on 14 July 2023. The Sabana Trustee had clearly expressed reservations on the resolutions and its ability to carry them to fruition:

“It is important that Unitholders carefully consider the Resolutions and note that there is uncertainty and risks associated with either or both the Resolutions, including but not limited to the risk of actual or potential disruption to the management or operations of Sabana REIT while the Resolution(s) are being implemented. Further, the timeframe and costs to implement the Resolution(s) are not currently known and the implementation of the Resolution(s) is subject to dependencies beyond the control of the Trustee (for example, the passing of resolutions (including extraordinary resolutions) at Further EGM(s), regulatory approvals, availability of suitable candidates for key roles, financing remaining in place), resulting in a range of potential outcomes, which may include the Resolution(s) not being successfully implemented and/or the winding up of Sabana REIT.”

The risks outlined in this statement are not exhaustive or comprehensive and the Trustee recommends Unitholders carefully consider, together with their financial, legal or other advisers, all the information that has been publicly disclosed in respect of the Resolutions.”
(emphasis added)

Quarz clarified statement that alleged cost savings of S\$7.25 million in the event of internalisation is incorrect

18. Quarz had alleged that internalisation will lead to projected “cost savings of S\$7.25 million”. It was only during the course of the Court application, that Quarz confirmed that this figure is incorrect and that they will issue a public clarification to address this. However, this supposed error was left uncorrected for over a month until the court action, and Quarz only released its public clarification on 19 July 2023.

Baseless allegations that unitholders can potentially save more than S\$40 million of fees over the next 10 years if an internal manager is appointed

19. Following from the above, Quarz asserts that *“unitholders can potentially save more than S\$40 million of fees they need to pay to the External Manager over the next 10 years”*. This is a completely unwarranted assumption. Quarz is once again making sweeping statements that cannot be supported by any basis. Even by Quarz’s assumption in its Requisition that there can be *“[i]mmediate cost savings of ~S\$2.4 million per year through internalisation of the REIT manager”*, such savings obviously do not amount to S\$40 million of fees over the next 10 years. This is again an attempt to inflate the alleged costs savings, after they have publicly clarified that their earlier statement of alleged cost savings of S\$7.25 million per year was wrong.
20. The Trustee and the Sabana Manager have both confirmed that the timeframe and costs to implement the Resolution(s) if passed, are not certain. The only certainty is that it is the unitholders who will bear these costs.

Quarz retracted its own recommendation for Mr. Charlie Chan to be appointed as an independent director

21. The Sabana REIT Manager has confirmed, in their Notice of EGM and Circular dated 21 July 2023, that Quarz was the party that had recommended Mr Charlie Chan (**“Mr. Chan”**) as an independent director of the Board of Directors to the Sabana Manager. However they subsequently mounted a public campaign to remove Mr Chan from the Board within a few weeks of his appointment.
22. The completely self-serving nature of Quarz’s actions have now been unveiled. Mr Chan has set out his side of the story in a letter dated 17 July 2023. In short, Mr Chan has confirmed that he was approached by Quarz to be nominated as director of the Sabana Manager and they were well aware of his background, including his previous business dealings with ESR which Quarz later claimed they did not know. Mr Chan stated that *“It appears the real reason why Quarz had filed the Requisition to vote me out as a director, was because I had refused to sing their tune and I had wanted to remain independent.”*
23. Mr Chan also shares the views of ESR and many other unitholders that there are many concerns about the viability of the internalisation plan. He felt that *“Ultimately, there is only one certainty amidst the uncertainty, that we, the unitholders of Sabana REIT, are the main victims of this fiasco started by Quarz either deliberately or through a lack of expertise.”*

We urge unitholders to carefully consider the facts and the consequences of supporting Quarz, and to vote against the two resolutions proposed.