

13 June 2019

Sabana Real Estate Investment Management Pte. Ltd. BY HAND ONLY
Manager, Sabana REIT
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Attention: Board of Directors

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Dear Sirs

(I) Background

We, Black Crane Investment Management Limited, are writing in our capacity as sub-manager of Black Crane Asia Pacific Opportunities Fund, which has an interest in 42,968,000 units of Sabana Shari'ah Compliant Industrial Real Estate Investment Trust ("Sabana REIT"), amounting to approximately 4% of the total issued units.

We are writing to you, Sabana Real Estate Investment Management Pte. Ltd. ("Sabana Manager"), in your capacity as the manager of Sabana REIT, to express serious concerns about the very significant valuation gap between the trading price of Sabana REIT units and the underlying value of the properties ("Valuation Gap") as well as the potential risks posed to Sabana REIT unitholders from ESR Group (defined hereunder) becoming the largest single Sabana REIT unitholder as well as the controlling shareholder of Sabana Manager.

For the reasons set out below, we ask that you urgently commence a strategic review of the business and assets of Sabana REIT to examine the options to close the Valuation Gap including a potential break up of Sabana REIT. We request that you appoint a financial adviser to assist you and to protect the interests of Sabana REIT unitholders who are not part of the ESR Group ("non-ESR unitholders").

(II) Recent Developments

Recent developments have made it clear that ESR Group will become the controlling shareholder of Sabana Manager and that ESR Group will likely merge ESR REIT and Sabana REIT.

- A. Vibrant Group Limited's ("Vibrant") and collectively, Vibrant and its subsidiaries, the ("Vibrant Group") announcement via SGXNET on 22 May 2019 that:-
- (i) Vibrant, as sponsor of Sabana REIT, entered into a sale and purchase agreement to sell its majority stake in Sabana Investment Partners Pte. Ltd. ("SIP"), the holding company of Sabana Manager, to InfinitySub Pte. Ltd. ("InfinitySub"), and the acquisition of SIP shares by InfinitySub, ("SIP Acquisition"). We understand that InfinitySub is an indirect wholly-owned subsidiary of ESR Cayman Limited ("ESR Cayman") and collectively, ESR Cayman and its subsidiaries, ("ESR Group"); and
 - (ii) e-Shang Infinity Cayman Limited, a member of ESR Group, has entered into sale and purchase agreements to acquire approximately 8% of Sabana REIT units from Vibrant Group ("SR Units Acquisition"), following which, ESR Group will hold 21.4% of Sabana REIT units.

- B. ESR Group's clear intention to merge Sabana REIT with ESR REIT (another SGX listed Singapore industrial REIT which manager is already part of ESR Group). ESR Group's intention is clear from their previous discussions on a merger with Sabana REIT in 2017, the 2018 merger of ESR REIT with Viva Industrial Trust, and past statements by ESR Group in the press in relation to industry consolidation¹.

(III) Our Concerns

A. The Valuation Gap – Sabana REIT trades at a 24% discount to its NAV and a 35-46% discount to its break up valuation as assessed by Colliers International

Sabana REIT is currently trading significantly below its fundamental value. For instance, Sabana REIT's 1Q 2019 results state that as at the end of 1Q 2019 the net asset value per Sabana REIT unit was S\$0.57. This compares to a market price of S\$0.435 per unit as at market close on 7 June 2019 - a 24% discount.

We note that other Singapore listed industrial REITs generally trade in line or at a premium to their respective net asset values. For instance, ESR REIT's 1Q 2019 net asset value per unit was S\$0.468 compared to its market price of S\$0.555 per unit as at market close on 7 June 2019 - a 19% premium.

Earlier in 2019, we commissioned Colliers International ("Colliers") to estimate the realisable value of Sabana REIT's portfolio of properties. A copy of their report is attached to this letter ("Colliers Report").

Colliers estimated that the potential value that could be realised from a sale of Sabana REIT's properties ("Break Up") on a willing buyer/seller basis in the current market environment is equivalent to S\$0.67 per unit. Colliers also concluded that should Sabana Manager take active steps to invest in or re-position some of the properties, the break up value could potentially increase to S\$0.80 per unit².

We wish to remind you that, as the Sabana Manager, you must act in the best interest of Sabana REIT unitholders, and that the board of directors of Sabana Manager must take all reasonable steps to ensure that Sabana Manager can discharge its duties. This is generally reflective of the position stipulated in Section 286 of the Securities and Futures Act (Cap. 289) of Singapore. To discharge its duties, Sabana Manager must not therefore allow the Valuation Gap to persist, and must take steps to close the Valuation Gap so as to act in the best interest of Sabana REIT unitholders.

B. The extent to which Sabana Manager's statutory duties under Section 286 of the SFA may be compromised or placed under conflict upon completion of the acquisition of SIP by ESR Cayman

We note that the manager of ESR REIT is ESR Funds Management (S) Limited ("ESR Manager"). We understand that ESR Investment Management Pte. Ltd. ("ESR IM") owns approximately 67% of the issued share capital of ESR Manager, and in turn, ESR IM is wholly owned by InfinitySub. These entities are all part of ESR Group.

¹ Lee Meixian. "ESR-Reit can be sponsor's platform for S-E Asian logistics assets." *The Business Times*, 24 August 2018.

² The Colliers Report estimates the value that could be realised from a sale of Sabana REIT's 17 properties (their analyses excluded 1 Tuas Avenue 4) on a willing buyer/seller basis in the current market environment is S\$967m, which is S\$98m higher than the value of S\$869m in Sabana REIT's 2018 annual report. This S\$967m value would, we calculate, translate to a net asset value per Sabana REIT unit of S\$0.67 after netting off the liabilities of Sabana REIT, compared to S\$0.58 in Sabana REIT's accounts as at 31 December 2018 (i.e. the additional S\$98m value translates into approximately S\$0.09 more a unit) and S\$0.57 as at 31 March 2019. The Colliers Report also suggests that should Sabana Manager take certain steps to invest in or re-position a number of the properties, then an additional value of S\$134m (on top of the S\$967m) could be realised through a subsequent sale process over a slightly longer timeframe, which we calculate would translate into a net asset value of S\$0.80 per Sabana REIT unit. The valuations of each property under each scenario is summarised on page 9 of the Colliers Report.

We note also that upon completion of the SIP Acquisition, ESR Group will have an effective shareholding interest of approximately 93.8% of all the issued shares of SIP, which in turn, owns 100% of Sabana Manager. Sabana Manager will therefore become a member of ESR Group.

Accordingly, upon completion of the series of transactions, we observe that ESR Group, with effective shareholding interests of 67% and 93.8% in ESR Manager and Sabana Manager respectively, will effectively be managing both Sabana REIT and ESR REIT.

We would caution that the risk of ESR Group placing itself in a position of irreconcilable conflict of interests by effectively managing both Sabana REIT and ESR REIT is real, since both REITS own very similar profiles of properties and also have very similar investment mandates. We also note that as ESR Group is a 93.8% shareholder of Sabana Manager, ESR Group's interests as a Sabana REIT unitholder are divergent from the interests of other non-ESR unitholders.

The above being the case, Sabana Manager and its directors must put in place proper corporate governance measures to ensure that Sabana Manager is able to act only in the best interest of Sabana REIT unitholders, and not have its management decisions tainted by taking into account the interests of Sabana Manager's shareholders.

As part of this, we would caution again that Sabana Manager and its board of directors must explore options and assess the options presented to them in respect of Sabana REIT critically so as to ensure that they act in the best interest of Sabana REIT unitholders at all times.

Speed is of the Essence

With the imminent completion of the SIP Acquisition and SR Units Acquisition, we expect ESR Group to subsequently progress its intention to merge Sabana REIT and ESR REIT in a relatively short term timeframe.

Accordingly, it is imperative that Sabana Manager takes immediate steps to close the Valuation Gap and to prepare appropriate responses to any proposals received from ESR Group. A financial advisor should be appointed to assess the options including a Break Up, to ensure that the best interest of Sabana REIT unitholders, and in particular, non-ESR unitholders, are rigorously safeguarded.

We look forward to discussing with you as soon as possible the steps to take going forward and being of assistance in your pursuit of the best outcome for Sabana REIT unitholders. The undersigned, Peter Kennan, may be contacted at +(852) 6503 5252 or by email at peter.kennan@black-crane.com, or you may contact Arthur Chow, +(852) 9785 9560, arthur.chow@black-crane.com.

Yours faithfully



Peter Kennan
Chief Investment Officer, Black Crane Investment Management Limited
for and on behalf of
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