After doing the site inspection, collecting relevant internal and external data, analyzing, comparing, and adjusting all relevant factors that affect value, and using appropriate valuation method, we conclude our opinion of the **Gross Development Value** of the subject property as of **30 June 2015**; subject to our disclaimer, limiting conditions, assumptions, comments to be described herein is:

**SGD 101,000,000.**
**(Singapore Dollars One Hundred One Million Only)**

Reflecting **Rp999,356,620,000**. The exchange rate for SGD 1 = Rp9,894.62 (Middle Rate of Bank Indonesia as of the Date of Valuation, which is 30 June 2015).

For and behalf of
**KJPP Rinaldi Alberth Baroto & Partners**

**Alberth, ST, MAPPI (Cert.)**
Managing Partner
**Valuer License No. P-1.10-00287**
**MAPPI No. 08-S-02163**

## Assumptions and Limiting Conditions

This valuation has adopted the following assumptions in arriving at the opinion of value:

1. the subject property is free from all liens and encumbrances, encompassing both physical and legal encumbrances;

2. this valuation is for a 100% interest only and does not relate to the Client's and the Vendor's percentage interest;

3. that all information relating to the subject property as provided to us by the Client is correct and accurate;

4. this valuation report speaks only as of its date.

5. The Valuer takes no responsibility for any events, conditions or circumstances affecting the valuation of the Subject Property that take place subsequent to either the date of valuation or the date of site inspection, which ever occurs first;

6. no allowances have been made for any charges, mortgages or amounts owing on any property interest nor for any expenses or taxation which may be incurred in acquiring the subject property or when effecting a market sale of the subject property;

7. The value opinion stated in this report is restricted to the purpose of this valuation and cannot be used for other valuation purposes which can be misquoted.

8. The title of the subject property is assumed to be good marketable title, free, and clear from all liens and encumbrances, easements, restriction, or limitation.

9. the Valuer reserves the right to revise this valuation should any of the information provided by the Client and/or the above assumptions that the Valuer has adopted in this valuation proof to be inaccurate.

This valuation study has been prepared subject to the following limiting conditions:

## Basis of Valuation

This Valuation Study has been made on the basis of Gross Development Value which is defined as "the market value of the completed proposed development, assuming it is sold to a willing purchaser". It is based on current market values, not those pertaining when the property is actually completed. GDV represents the estimated gross income before deducting the development expenditure. Reference has been made to the International Valuation Standards.

Meanwhile, Market Value (SPI 101-3.1) is defined as "the estimated amount for which an asset or liability should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

No allowances are made for expenses or realization, or for taxation that might arise in the event of a disposal. All property is considered as if free and clear of all mortgages or other charges which may be secured thereon.

## Confidentiality

This valuation study and report are confidential to the party to whom they are addressed, for the specific purpose to which they refer. The Valuer disclaims all responsibility and will accept no liability to any other party.

No responsibility is accepted to any third parties and neither the whole, nor any part, nor reference thereto may be published in any document, statement or circular, or in any communication with third parties, without our prior written approval of the form and context in which it will appear.

## Source of Information

This valuation is based upon the information supplied by the Client to the Valuer. All other information stated in the report without being attributed directly to the aforementioned parties is obtained from other parties whom the Valuer believes to be reliable. The Valuer accepts no responsibility if any of the information should prove to be not reliable.

## Legal Documentation

The Valuer does not verify leases or documents of title, and therefore recommends that legal advice on these aspects should be obtained from the appointed lawyer. The Valuer assumes, unless informed to the contrary, that all documentation relating to the valuation are satisfactorily drawn and that there are no encumbrances, restrictions, easements or other outgoings of an onerous nature which would have any effect on the value of the interest under consideration.

## Town Planning and Other Statutory Regulations

Information on town planning is obtained from relevant government authority. The Valuer, unless otherwise instructed, does not carry out requisitions with the various public authorities to confirm that the property is not adversely affected by any public schemes such as road improvements. If assurance is required, the Valuer recommends that verification be obtained from the appointed lawyer.

This Valuation is prepared on the basis that the premises and any improvements thereon comply with all relevant statutory regulations. It is assumed that they have been, or will be issued with a proper permit by the competent authority.

## Structural Survey

The Valuer does not carry out a structural survey, nor does the Valuer test the services, unless expressly instructed. Any defects or items of disrepair noticeable during the course of site inspection will be reflected in this valuation. The Valuer is not able to give any assurance in respect of rot, termite, or past infestation or other hidden defects.

The Valuer assumes that there are no hidden or unapparent conditions of the subject property, subsoil or structures that would render it more or less valuable. No responsibility is assumed for these conditions or any engineering that may be required to discover them.

## Site Conditions

The Valuer does not carry out investigations on site in order to determine the suitability of the ground conditions, and the services, for any new development. This Valuation is on the basis that these aspects are satisfactory and that where development is proposed, no extraordinary expenses or delays will be incurred during the construction period.

## Environmental Conditions

The Valuer is not qualified to undertake environmental surveys.

The Valuer has assumed in the absence of a report by environmental specialists, that the Subject Property is not contaminated and has no specific environmental problems affecting it.

## Outstanding Debts

In the case of a building where construction works are in hand or have recently been completed, the Valuer does not make allowance for any liability already incurred, but not yet discharged, in respect of completed works, or obligations in favor of contractors, sub-contractors or any members of the professional or design team.

### Conflict of Interest

The Valuer does not have any interest on the subject property nor the reported opinion of value. The valuation fee is not dependent on the reported opinion of value;

### Maximum Liability

In the case of a sue by Client or other third party about the opinion of value that is done by the Valuer in this report (for all reasons including contractual, mistakes, or carelessness of Valuer), the maximum liability cannot exceed the valuation fee.

### Court Attendance

The Valuer is not required to give testimony or to appear in court by reason of this valuation report with reference to the Subject Property in question, unless arrangements have been previously made before.

## Valuer Competency

**KJPP Rinaldi, Alberth, Baroto, and Partners** is a licensed valuation firm registered with Ministry of Finance of Republic of Indonesa with Valuation Business License No. 2.13.0114.

KJPP Rinaldi, Alberth, Baroto, and Partners confirms that the valuers undertaken this valuation is competent professionals and has good skills in valuation and has experience in valuing similar properties.

**Alberth, ST, MAPPI (Cert.)** – Managing Partner – has 8 years of professional experience in the field of real property valuation. He has been involved in a variety of valuation assignments throughout Indonesia, which were conducted for a variety of real property assets for various purposes. His expertise extends to cover for major commercial and residential properties, land bank developments, hotels, and industrial properties.

Alberth holds Valuation License No. P-1.10-00287 from the Ministry of Finance of the Republic of Indonesia, and is a member of the Indonesian Society of Valuers (ISA / MAPPI) No. 08-S-02163.

**Mohammad Iqbal, SE, MSc** – Senior Manager – has 15 years of professional experience in the field of real property valuation. He has been involved in a variety of valuation assignments throughout Indonesia, which were conducted for a variety of real property assets for various purposes. His expertise extends to cover for major commercial and residential properties, land bank developments, hotels, and industrial properties.

Iqbal is a member of the Indonesian Society of Valuers (ISA / MAPPI) No. 00-T-01274.

**Khairil Anwar** – Senior Analyst – has 11 years of professional experience in the field of real property valuation. He has been involved in a variety of valuation assignments throughout Indonesia, which were conducted for a variety of real property assets for various purposes. His expertise extends to cover for major commercial and residential properties, land bank developments, hotels, and industrial properties.

**Ahmad Umaedi** – Analyst – has 3 years of professional experience in the field of real property valuation. He has been involved in a variety of valuation assignments throughout Indonesia, which were conducted for a variety of real property assets for various purposes.

# Valuer Statement

We hereby state that:

1. In our best knowledge, the facts and statements presented in this report are true and correct;
2. Our analysis and opinion of value is subject only to our assumptions, comments, limiting conditions and disclaimers as reported in this report;
3. We do not have any interest on the subject property nor the reported opinion of value;
4. Our fee is not dependent on the reported opinion of value;
5. We have conducted this valuation in compliance with the Indonesian Valuation Standards (Standar Penilaian Indonesia / SPI) 2007, and the valuers that conducted this valuation abide to the Indonesian Valuer's Code of Ethics (Kode Etik Penilai Indonesia / KEPI);
6. Our valuers are qualified professionals who have undertaken the required education set out and organized by the Indonesian Society of Valuers (Masyarakat Profesi Penilai Indonesia), which is recognized by the Government of the Republic of Indonesia;
7. We understand the type of property being valued and we are familiar with the location of the subject property;
8. We have conducted inspection of the subject property;
9. This valuation has been conducted and this report has been prepared solely by the individuals that have provided their signature below, without any assistance from other unspecified individuals.
10. We that did the inspection, analysis, and give opinion in this report is fully responsible for the report that we have made.

| Name | Signature |
|---|---|
| **Signing Partner**<br>Name: **Alberth, ST, MAPPI (Cert.)**<br>Valuer License: P-1.10-00287<br>MAPPI No.: 08-S-02163 | |
| **Reviewer**<br>Name: **Muhammad Iqbal, SE, MSc**<br>MAPPI No.: 00-T-01274 | |
| **Senior Analyst**<br>Name: **Khairil Anwar** | |
| **Analyst**<br>Name: **Ahmad Umaedi** | |

# VALUATION STUDY CERTIFICATE

| | | |
|---|---|---|
| Property | : | Proposed New Strata Title Units of Siloam Hospitals Surabaya al Jalan Raya Gubeng No. 70, Sub-district of Gubeng, District of Gubeng, City of Surabaya, Province of East Java - Indonesia |
| Client | : | HSBC Institutional Trust Services (Singapore) Limited (as Trustee of First Real Estate Investment Trust) |
| Legal Description | : | The Subject Property is represented by a strata title and is part of an integrated development which comprises of a mall, school, apartment, and hotel with adequate parking lots. |
| Basis of Valuation | : | Gross Development Value |
| Registered Owner | : | PT Tata Prima Indah |
| Floor Area | : | 24,245.90 sq.m |
| Town Planning Zoning | : | Hospital Use |
| Brief Description | : | The Subject Property is a proposed development consisting of new strata title units of Siloam Hospital Surabaya with a floor area of 24,245.90 square meters located at Jalan Raya Gubeng No. 70, Sub-district of Gubeng, District of Gubeng, City of Surabaya, Province of Jawa Timur – Indonesia. The Subject Property is a proposed 12-storey hospital with 2 podium floors and one lower ground floor therein contained within strata title certificates. It will have a capacity of 488 beds and expected to be physically completed in 2019. |
| Valuation Approach | : | Market Approach |
| Date of Valuation Study | : | 30 June 2015 |
| **Gross Development Value** | **:** | **SGD 101,000,000 (Singapore Dollars One Hundred One Million )** |
| Reflecting | : | **Rp999,356,620,000 (Indonesia Rupiah Nine Hundred Ninety Nine Billion Three Hundred Fifty Six Million Six Hundred Twenty Thousand )** |
| Rate 1 SGD | : | Rp9,894.62 as at 30 June 2015 |
| Prepared By | : | KJPP Rinaldi Alberth Baroto & Rekan |

**Alberth, ST, MAPPI (Cert.)**
Managing Partner
Valuer License No. P-1.10-00287

KANTOR JASA PENILAI PUBLIK
WILLSON DAN REKAN
Izin No.2.09.0049
Jasa Penilaian Properti
Wilayah Kerja Negara Republik Indonesia

WILLSON & REKAN | Knight Frank

Letter No.343/W&R-Letter/IX/2015

30 September 2015

To:
**HSBC Institutional Trust Services (Singapore) Limited**
**(as Trustee of First Real Estate Investment Trust)**
21 Collyer Quay
#10-02 HSBC Building
Singapore 049320

Attention: Senior Vice President, (REITs)

**RE: Valuation of Siloam Hospital Surabaya (Plot C), located at Jalan Raya Gubeng No.70, Surabaya - Indonesia.**

**Instruction**

HSBC Institutional Trust Services (Singapore) Limited (as Trustee of First Real Estate Investment Trust/ First REIT) (the "Client"), has instructed KJPP Willson dan Rekan in association with Knight Frank (the "Valuer") based on the Valuation Proposal No.146/W&R-Proposal/VI/2015 dated 10 July 2015 to conduct an independent property valuation.

**Valuer Qualification**

KJPP Willson dan Rekan is associated with Knight Frank, which is an international property consultant Client that is headquartered in London – England. Knight Frank has a network 370 offices in 55 countries around the world. Our association has been legalized and approved by the Minister of Finance of the Republic of Indonesia with the *Surat Persetujuan Pencantuman Nama Badan Usaha Jasa Penilai Asing* (BUJPA) No.413/MK./2009 dated 21st July 2009.

**Valuation Purpose**

The Client requires this valuation in relation with a propose disposal of the Valuation Object.

**Basis of Valuation**

This Valuation has been made with reference to the Indonesian Valuation Standards (*Standar Penilaian Indonesia / SPI*) 2013. Valuers who are in charge of this valuation abide to the Indonesian Valuers Code of Ethics (Kode Etik Penilai Indonesia/KEPI).

This valuation has adopted the basis of Market Value, which is defined as "the estimated amount for which an asset or liability should exchange on the Valuation Cut-Off Date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion"

**The Valuation Object**

The Valuation Object is a hospital building called Siloam Hospitals Surabaya that stood on a land plot (Plot C) with a total land area of 4,306-square meter land, which is located at Jalan Raya Gubeng No.70, Sub-District of Gubeng, District of Surabaya Timur, City of Surabaya, Province of East Java, Indonesia.

1. Land Description

| | | |
|---|---|---|
| Area (in total) | : | 4,306 square meters. |
| Shape | : | Almost rectangular. |
| Road Frontage | : | About 30 meters facing along Jalan Raya Gubeng. |
| Lot Position | : | Middle. |
| Orientation | : | Southeast. |

| | | | | |
|---|---|---|---|---|
| Boundaries | : | West | : | Kantor Jamsostek. |
| | | North | : | Jalan Karimun Jawa. |
| Terrain | : | Flat. | | |
| Elevation | : | Same level than to the road surface. | | |
| Improvements | : | - Concrete driveways and terrace;<br>- Paved parking area; and<br>- Perimeter fences. | | |
| Site Condition | : | built with carpark building and ancillary building. | | |

2. Building Description

| | | | | |
|---|---|---|---|---|
| Building Name | | Siloam Hospital Surabaya. | | |
| Building Type and Class | : | Private General Hospital , Class B 1. | | |
| Number of Building Blocks | : | 5 Major Block, namely Building A, Building B, Building C , OPD Builing and Kitchen Building. | | |
| Year Construction | : | 1977 (Building A), 1986 ( Building B), 2001 (Building C), 2008 (OPD Building). | | |
| Number of Storey | : | Building A : 5 storeys.<br>Building B : 4 storeys.<br>Building C : 3 storeys.<br>OPD Building : 2 storeys. | | |
| Gross Building Area | : | ± 8,292 sq-m | | |
| Specification | : | Structure | : | Reinforced concrete. |
| | : | Wall | : | Plestered brick infills and finished with paint. |
| | : | Partiition | : | Plastered brick walls and finished with paint. |
| | : | Door | : | Aluminium frames with glass panes. |
| | | Window | : | Aluminium frames with glass panes and wooden frames with glass panes. |
| | : | Ceiling | : | Plywood. |
| | : | Floor | : | Ceramic tiles. |
| Condition | : | Fair | | |

3. Land Title Certificate

The land has 4 Right-to-build (Sertipikat Hak Guna Bangunan) certificates, as follows:

1. Right-to-Build (Hak Guna Bangunan) No.325/Gubeng.

| | | |
|---|---|---|
| - Registered Proprietor | : | PT Tata Prima Indah. |
| - Issuance Date | : | 29 June 1994. |
| - Expiry Date | : | 8 May 2034. |
| - Measurement No | : | 11.165/ 1993. |
| - Measurement Date | : | 10 July 1993. |
| - Land Area | : | 1,891 square meters. |

2. Right-to-Build (Hak Guna Bangunan) No.243K/Gubeng.

| | | |
|---|---|---|
| - Registered Proprietor | : | PT Tata Prima Indah. |
| - Issuance Date | : | 10 June 1994. |
| - Expiry Date | : | 8 May 2034. |
| - Measurement No | : | 11.170/ 1993. |
| - Measurement Date | : | 10 July 1993. |
| - Land Area | : | 641 square meters. |

3. Right-to-Build (Hak Guna Bangunan) No.264/Gubeng.

| | | |
|---|---|---|
| - Registered Proprietor | : | PT Tata Prima Indah. |
| - Issuance Date | : | 13 March 1997. |
| - Expiry Date | : | 24 Sept 2026. |
| - Measurement No | : | 70/ 1997. |
| - Measurement Date | : | 12 March 1997. |
| - Land Area | : | 635 square meters. |

4. Right-to-Build (Hak Guna Bangunan) No.410/Gubeng.

| | | |
|---|---|---|
| - Registered Proprietor | : | PT Tata Prima Indah. |
| - Issuance Date | : | 16 February 2004. |
| - Expiry Date | : | 7 Sept 2023. |
| - Measurement No | : | 169/Gubeng/ 2003. |
| - Measurement Date | : | 29 December 2003. |
| - Land Area | : | 684 square meters. |

5. Right-to-Build (Hak Guna Bangunan) No.410/Gubeng.

| | | |
|---|---|---|
| - Registered Proprietor | : | PT Tata Prima Indah. |
| - Issuance Date | : | 13 February 2002. |
| - Expiry Date | : | 26 November 2021. |
| - Measurement No | : | 13/T/ 1972. |
| - Measurement Date | : | 20 March 1972. |
| - Land Area | : | 455 square meters. |

**Valuation Approach**

In determining the Market Value of the Valuation Object, we have adopted the Cost Approach.

**Valuation Conclusion**

The conclusion of Market Value of the Valuation Object as at 30 June 2015; subject to our disclaimers and limiting conditions to be described herein is:

**Rp.220,383,000,000.**

**(Indonesian Rupiah Two Hundred Twenty Billion Three Hundred Eighty Three Million Only)**

The above amount is equivalent to Singapore Dollars Sing$22,273,013.01 at the middle exchange rate of S$1 = Rp.9,894.62.

**Limiting Conditions**

This valuation is based on the following assumptions:

(i) The Valuation Object is free from all liens and encumbrances, encompassing both physical and legal encumbrances;

(ii) That all information relating to the Valuation Object as provided by the Client to us is correct and accurate;

(iii) This valuation is based on an evaluation of the current economic condition, which does not take into account nor make any provision for the effect of any sharp rise or decline in future economic conditions caused by the global financial crisis;

(iv) This valuation and report speak only as the Valuation Cut-Off Date. The Valuer takes no responsibility for any events, conditions or circumstances affecting the market value of the Valuation Object that take place subsequent to either the Valuation Cut-Off Date or the issuance date of this report, whichever occurs first;

(v) The Client has not provided us with the legal document of the Valuation Object.

(vi) the Valuation Object is held under proper and valid ownership documents and that they can be sold or transferred to third parties in the local market condition;

Letter No.343/W&R-Letter/IX/2015

(vii) the Valuation Object can be sold in the open market without the benefit of a deferred contract, leaseback, joint venture, management agreement that could serve to increase the values;

(viii) the Valuer makes no allowances for any charges, mortgages, loans, expenses or taxation which may be incurred in acquiring or disposing the Valuation Object; and

(ix) The Valuer reserves the right to revise this valuation should any of the information provided by the Client and/or the above assumptions that the Valuer has adopted in this valuation proof to be inaccurate

This letter serves for information purposes only in presenting the above valuation result.

KJPP Willson dan Rekan
in association with Knight Frank

KJPP Willson & Rekan

Mosalina Dewi
ST, MM, MAPPI (Cert).
Senior Associate Partner

Public Valuer License No.: P-1.11.00321 (Property Valuation)
OJK Registration No.01/PM.22/STTD-P/A/2014 (Property Valuation)
Member of Indonesian Society of Appraiser (MAPPI) No.: 00-S-0127

Winarta & Rekan
Kantor Jasa Penilai Publik

KJPP Winarta & Rekan
Registered Property Valuer
License No. 2.09.0077

Gedung Bursa Efek Indonesia Tower 2 Lantai 19 Suite 1903
Jl Jenderal Sudirman Kav 52-53
Jakarta 12190 Indonesia
tel +62 21 515 3113 fax +62 21 515 3232

Ref.078CR/KJPP-S/VIII/2015
21 August 2015

**HSBC Institutional Trust Services (Singapore) Limited**
**(as Trustee of First Real Estate Investment Trust)**
21 Collyer Quay
#13-02 HSBC Building
Singapore 049320

**Attention : SVP, REITs**

**Re : Valuation of a 4,306-Square Meter Land Namely Plot C on Jalan Raya Gubeng, Surabaya, East Java, Indonesia**

**PRIVATE AND CONFIDENTIAL**

Dear Sir/Madam,

We refer to your instruction dated 1 June 2015 to advise on the Market Value and Depreciated Replacement Cost of the above captioned property for transaction/sale and purchase purposes, and in this regard, we are pleased to confirm that we have completed our inspection and investigations, and submit this indication for your consideration.

Kantor Jasa Penilai Publik (KJPP) Winarta & Rekan as the valuation arm of Jones Lang LaSalle, is a public valuation firm with license No.2.09.0077 which was formed on November 2009. The firm was transformed from PT. Artanila Permai, the sister company of Jones Lang LaSalle. The change was due to the government rule of Ministry of Finance of Republic of Indonesia No.125/PMK.01/2008 regarding the public valuation services.

We confirm that we have made relevant searches and enquiries, and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the Market Value and Depreciated Replacement Cost of the property.

The subject property under this valuation is a 4,306 square meter land plot located in the eastern corner of the junction of Jalan Raya Gubeng and Jalan Karimun Jawa, Sub-District of Gubeng, District of Gubeng, Surabaya, East Java, Indonesia.

The subject site is L-shaped and its terrain is at level with the fronting road of Jalan Raya Gubeng and Jalan Karimun Jawa. As at the date of our site inspection, the subject site has been developed with a 5-storey main Siloam Surabaya Hospital building and other supporting buildings with a total gross floor area of 8,292 square meters.

The subject site is held under 5 (five) Right to Build of *Hak Guna Bangunan* (*HGB*) land certificates with a total land area of 4,306 square meters. The certificates are registered under the name of PT. Tata Prima Indah.

We have considered the followings in the preparation of our valuation indication:

1. The valuation exercise has been undertaken for transaction/sale and purchase purposes.
2. The date of the valuation is as at 22 June 2015
3. The exchange rate adopted as at 22 June 2015 is based on US$1.- = Rp.13,318.- and SGD1.- = Rp 9,986.-
4. The value is expressed in Indonesian Rupiahs and Singapore Dollars.

## BASIS OF VALUATION

The valuation is prepared in accordance with the Indonesian Valuation Standards (*Standar Penilaian Indonesia-SPI 2013* and *Kode Etik Penilai Indonesia-KEPI*) and reference be made to the International Valuation Standards (IVS).

We have valued the property based on its Market Value which is defined by the International Valuation Standards (IVS) and the Indonesian Valuation Standards (*Standar Penilaian Indonesia*) as "the estimated amount for which an asset or a liability should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion". While, Depreciated Replacement Cost is as "a method under the cost approach that indicates value by calculating the current replacement cost of an asset less deductions for physical deterioration and all relevant forms of obsolescence".

## METHOD OF VALUATION

The valuation technique adopted depends on the type and nature of the property under valuation. In arriving at the Market Value and Depreciated Replacement Cost, we have adopted Market Approach for land and Cost Approach for buildings.

## QUALIFICATION AND ASSUMPTION

A list of the major assumptions made in the preparation of this valuation and the limiting condition under which this opinion is given, will be detailed in the report. It is a condition of the use of this valuation that the recipient of the letter accepts these statements.

## VALUATION

| | | |
|---|---|---|
| **Date of Valuation** | **:** | **22 June 2015** |
| **Market Value of Land (Plot C)** | **:** | **Rp.147,600,000,000.-<br>reflecting SGD14,800,000.-** |
| **Depreciated Replacement Cost of Buildings & Site Improvements** | **:** | **Rp.31,300,000,000.-<br>reflecting SGD3,100,000.-** |

The exchange rate as at 22 June 2015 is based on US$1.- = Rp.13,318.- and SGD1.- = Rp 9,986.- (middle rate of Bank Indonesia).

**Assumptions**

We have adopted the following assumptions in arriving at our opinion of the above Market Value and Depreciated Replacement Cost:

(i) the subject property is free from all liens and encumbrances encompassing both physical and legal encumbrances;

(ii) the subject site has a total net land area of 4,306 square meters;

(iii) the buildings have a total gross building area of 8,292 square meters,

(iv) the subject site is held under proper and valid Right to Build of *Hak Guna Bangunan*-(*HGB*) land certificates and under responsible ownership;

(v) the buildings are covered with proper building permit *(Izin Mendirikan Bangunan-IMB*) and Building Operation Permit (*Sertifikat Laik Fungsi – SLF*)

(vi) in arriving at our opinion of value, we did not take into consideration any compensation payable to the estate developer/or other third party (if any), we reserve the right to adjust our assessment should such information provided proved to be incorrect;

(vii) we have not made allowances for any charges, mortgages or amounts owing on any property interest nor for any expenses or taxation which may be incurred when effecting an open market sale. Valuation methodologies do not account for any taxation;

(viii) all information and data supplied by the Client are accurate and correct. We reserve the right to adjust our assessment should such information provided proved to be incorrect; and

(ix) the property can be sold in the open market without the benefit of a deferred contract, leaseback, joint venture, management arrangement which could serve to increase the value of the property.

We hereby certify that we have neither direct nor indirect interest on the value reported herein, and our fee with respect to this valuation is strictly not a function of the size of the value reported herein.

Finally, in accordance with our normal practice we confirm that this letter is confidential to the party to whom it is addressed, for the specific purpose to which it refers. No responsibility is accepted to any third party, and neither the whole of the letter nor any part or reference thereto may be published in any document, statement or circular, nor in any communication with third parties, without our prior written approval of the form and context in which it will appear.

Yours faithfully,

For and on behalf of
Kantor Jasa Penilai Publik (KJPP)
Winarta & Rekan

**Iwan Winarta, MAPPI (Cert.)**
Managing Partner

License No.P-1.09.00188 (Property Valuer)
MAPPI No. 96-S-0869

August 2015
IW/as/ms

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# Independent Market Research on the Health Care Services Industry In Surabaya, Indonesia

FROST & SULLIVAN

© August 2015

# Table of Contents


1 REGULATIONS AND GOVERNMENT POLICIES ..... 6

1.1 UNIVERSAL HEALTHCARE COVERAGE ..... 6

1.2 NEW HEALTHCARE PROGRAMS IN THE JOKOWI ERA ..... 8

2 OVERVIEW OF THE HEALTH CARE SERVICES INDUSTRY IN SURABAYA ..... 9

2.1 OVERVIEW OF SILOAM HOSPITALS SURABAYA ..... 9

2.1.1 Hospital Workforce ..... 9

2.1.2 Use of Technology ..... 9

2.1.3 Centres of Excellence ..... 10

2.1.4 SWOT Analysis ..... 10

2.1.5 New Hospital Building ..... 11

2.1.6 Branding Strategies ..... 13

2.1.7 Demand Analysis ..... 21

2.2 COMPETITIVE LANDSCAPE ..... 23

2.2.1 Pricing Strategies ..... 35

2.2.2 Future Competitive Landscape in Surabaya's Hospital Industry ..... 36

2.2.3 Competitive position of the new SHS ..... 37

2.3 CONCLUSION ..... 38

3 RESEARCH METHODOLOGY ..... 40

3.1 INTRODUCTION ..... 40

3.1.1 Market Engineering Forecasting Methodology ..... 40

3.1.2 Strategic Significance of the Market Engineering Forecast ..... 41





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# LIST OF TABLES

Table 2:1: Categories of Doctors at SHS ..... 17

Table 2:2: Patient Profile in the Primary Catchment Area ..... 21

Table 2:3: Patient Profile in the Secondary Catchment Area ..... 22

Table 2:4: Key Operating Statistics among HCS Providers in Surabaya ..... 29

Table 2:5: Breakdown of Beds among HCS Providers in Surabaya ..... 31

Table 2:6: Medical Specialties among HCS Providers in Surabaya ..... 32

Table 2:7: Availability of Equipment among HCS Providers in Surabaya ..... 34

Table 2:8: Patient Profile in the Secondary Catchment Area ..... 35

# LIST OF FIGURES

Figure 2:1: SHS Infrastructure and State-of-the-Art Equipment ..... 15

Figure 2:2: SHS Location Map and Travelling Distance to Other HCS Providers and Key Landmarks .. 19

Figure 2:3: Snapshots of Target Catchment Areas within Surabaya ..... 20

Figure 2:4: RS Husada Utama Infrastructures ..... 24

Figure 2:5: RS Darmo Infrastructures ..... 25

Figure 2:6: RKZ Surabaya Infrastructures ..... 26

Figure 2:7: RS Adi Husada Undaan Wetan Infrastructures ..... 27

Figure 2:8: RSUD Soetomo Infrastructures ..... 28


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# ABBREVIATIONS

**General Definitions**

| | |
|---|---|
| COE | Centre of Excellence |
| ECG | Electrocardiograph |
| EEG | Electroencephalography |
| ENT | Ear, Nose & Throat |
| HCS | Health Care Services |
| ICCU | Intensive Cardiac Care Unit |
| ICU | Intensive Care Unit |
| IDR | Indonesian Rupiah (currency) |
| IPO | Initial Public Offering |
| KIP | *Kartu Indonesia Pintar* (Indonesian equivalent to Smart Indonesia Card) |
| KIS | *Kartu Indonesia Sehat* (Indonesian equivalent to Health Indonesia Card) |
| KKS | *Kartu Keluarga Sejahtera* (Indonesian equivalent to Prosperous Family Card) |
| NICU | Neonatal Intensive Care Unit |
| O&G | Obstetrics & Gynaecology |
| PBI | *Penerima Bantuan Iuran* (Contribution Assisted Recipients, one of BPJS' participants'clusters) |
| PICU | Paediatric Intensive Care Unit |
| UHC | Universal Health Coverage program |
| USG | Ultrasonography |

**Companies, Authorities, Organisations and Countries**

| | |
|---|---|
| BPJS | *Badan Penyelenggara Jaminan Sosial* (Indonesian equivalent to Social Security and Health Insurance) |
| BPS | *Badan Pusat Statistik* (Statistics Department of Indonesia) |
| GOI | Government of Indonesia |
| IMF | International Monetary Fund |
| INA – CBG | Indonesian - Case Based Group |
| Jabodetabek | Area including Jakarta, Bogor, Depok, Tangerang and Bekasi |
| JCI | Joint Commission International |


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| | |
|---|---|
| JKN | *Jaminan Kesehatan Nasional* (Indonesian equivalent to National Healthcare Insurance) |
| Puskesmas | Pusat Kesehatan Masyarakat (Indonesian equivalent to Public Healthcare Centre) |
| | SDPDP Siloam Doctor Partnership Development Program |
| SHG | Siloam Hospitals Group |
| SHS | Siloam Hospitals Surabaya |
| SOE | State Owned Enterprises |

# GLOSSARY OF TECHNICAL TERMS

| | |
|---|---|
| **CT Scanner** | Computed Tomography, a radiation diagnostic technology that is often graded by the number of images (termed as slice) in a scan procedure. Currently in the market, CT scanners range from 16-slice to the most advanced 320-slice categories. CT scanners can also be classified as single or dual source, whereby the dual source models will offer better image resolution and more accurate diagnostic outcomes. |
| **GDP** | Gross Domestic Product is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments as well as exports less imports that occur within a defined territory |
| **MRI** | Magnetic Resonance Imaging, a clinical diagnostic technique that utilises magnetic field technology. MRI scanners are usually graded by the strength of their magnet (usually termed as Tesla or abbreviated as "T"). Currently in the market, MRI scanners range from 0.5 Tesla to the most advanced 3.0 Tesla. |


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# 1 REGULATIONS AND GOVERNMENT POLICIES

## 1.1 UNIVERSAL HEALTHCARE COVERAGE

In 2014, the Government of Indonesia ("**GOI**") implemented its first universal social security and health insurance scheme. The promulgation of the two schemes is regulated under Law No. 40, Year 2004 on National Social Security System and Law No. 24, Year 2011 on Social Security Administrator ("**BPJS**"). The management of each insurance cluster is done by the government through the establishments of two state owned enterprises ("**SOE**"), namely BPJS *Kesehatan* for healthcare and BPJS *Ketenagakerjaan* for social security.

The program, often referred by Indonesians simply as National Health Insurance ("**JKN**"), enables participants to access healthcare services in private and public healthcare facilities that accept and cooperate with BPJS *Kesehatan*. In exchange, participants must pay a monthly contribution that varies according to the type of wards they choose. The monthly contribution for Classes I, II and III wards are IDR 59,500, IDR 42,500 and IDR 25,500 respectively. However, BPJS *Kesehatan* plans to increase the premium by IDR 10,000 for each class by 2016, following a shortage of IDR 1.5trillion between claims paid and premium revenue received in 2014. The contribution will be evaluated and adjusted every two years, in accordance to Presidential Regulation No. 111, Year 2013.

BPJS *Kesehatan* classified JKN participants into 2 clusters: Contribution Assisted Recipients ("**PBI**") and non-PBI. The first cluster is targeted at the poor population, in which the GOI relieves them from mandatory monthly contribution fee. The second cluster is targeted at the economically self-sufficient population. Citizens residing in Indonesia are eligible for the healthcare insurance program, including foreigners which have worked in Indonesia for at least 6 months.

As of May 2015, the JKN insurance scheme has nearly 144.6 million participants, which represents approximately 56.6% of total Indonesian population. For Indonesian nationals, it is mandatory for them to become BPJS participants, despite already subscribing for other private or public insurance schemes. It is targeted that by 2019, all Indonesian nationals are covered by the program. According to BPJS *Kesehatan*, there are 1,675 hospitals which participate in the program as of June 2015. Public healthcare centres account for the largest participant, with 41.8% of total healthcare services ("**HCS**") facilities participating in the program. Other HCS facilities participating in the universal healthcare coverage program includes polyclinics, individual practice of doctors and dentists, pharmacy as well as optical stores.

Participants of the JKN scheme must follow certain flow to be able to access HCS. First, participants must be registered in a primary HCS facility that is in partnership with BPJS *Kesehatan.* Primary HCS facilities include public healthcare centres ("**puskesmas**"), polyclinics and individual practice of doctors. Patient referral can occur in two ways: horizontal and vertical referral. Horizontal referral occurs when patient is referred to other HCS facilities at the same level. When primary facilities do not have the resources, both in terms of labour and medical equipment, to handle the patient's health concerns and if patients are in need of a specialist medical


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treatment, vertical referral occurs. Patients will be referred vertically to more advanced medical facilities, such as general and specialist hospitals.

The GOI have designated 110 regional referral public hospitals across Indonesia, 6 of which are located in East Java. *BPJS Kesehatan* plans to expand the number of regional referral hospitals to 168. In addition, the GOI is currently preparing to have 14 national referral hospitals ready within 5 to 10 years. One of the requirements to be eligible as a national referral hospital is that the hospital is accredited by Joint Commission International ("**JCI**"), a non-profit organization that measures and shares best practices in HCS quality and patient safety with the world. According to the Ministry of Health ("**MOH**"), the national referral hospitals will be located in 13 provinces, which are North Sumatra, South Sumatra, DKI Jakarta, West Java, Yogyakarta, Central Java, East Java, Bali, South Kalimantan, West Kalimantan, South Sulawesi, Maluku and Papua.

The implementation of JKN has been met with both positive acclaims as well as harsh criticisms. The program has enabled Indonesians greater access to adequate HCS something that was rather difficult to attain for a sizeable proportion of Indonesian populations due primarily to affordability issues. However, due to Indonesia's relative shortage in HCS facilities and medical personnel, it is frequent to observe long queues for BPJS patients in hospitals' admission desks. Frost & Sullivan observed that in some cases, chronic patients are often made to wait for hours before getting medical action from doctors thus putting patients' health in jeopardy.

Frost & Sullivan opines that collaboration between the GOI and private sector is imperative to boost the number of healthcare facilities in Indonesia to alleviate the problems mentioned above. The inclusion of private healthcare facilities under the JKN scheme is likely to encourage more patients to flow to private healthcare facilities, in the search for higher HCS quality and more advanced medical technologies. Further, Frost & Sullivan research on Indonesia Healthcare Outlook indicate high likelihood for large number of patients to opt for private hospitals and clinics as well as diagnostic facilities given the long queues observed at public healthcare facilities.

Looking from the hospital's perspective, Frost & Sullivan believes that there may be disparity between the claims that can be reimbursed from *BPJS Kesehatan* and the actual cost levied on patients by hospitals. This is primarily due to the reimbursement method used by *BPJS Kesehatan*, regulated under MOH Regulation No. 59, Year 2014. The regulation provides the pricing framework for each medical service provided to the patient, also known as the Indonesian - Case Based Group's ("**INA – CBG**") fare.

For instance, under the regulation, a Computerised Tomography ("**CT**") scan procedure at a Class B hospital is priced at IDR1,092,600. Premium hospitals, such as hospitals under Siloam Hospitals Group ("**SHG**"), may price such procedure at a more premium price, due to more advanced technological equipment being used and more well-known doctors and specialists undertaking the procedure. Thus, there may be a gap between what the hospital receives from *BPJS Kesehatan* with what the hospital charges to the patient. However, according to SHS Board of Management, the financial discrepancy issue above may be compensated with the heavy influx of patients coming under the JKN scheme.


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It is imperative to note that under Law No. 40, Year 2004 on National Social Security System, BPJS *Kesehatan* must disburse the claims made by hospitals within 15 days upon receiving the reimbursement request. The stipulation is an incentive for BPJS *Kesehatan* to make the payment on time thus preventing hospitals from receiving late payments. In the case of failure to meet the rule, BPJS *Kesehatan* will be fined with a penalty amount to an additional 2% of total claims to the hospital. The punishment mechanism is effective to speed-up the disbursement process, of which BPJS *Kesehatan* claims that on average, the claim is reimbursed within 3 days after the request is received.

## 1.2 NEW HEALTHCARE PROGRAMS IN THE JOKOWI ERA

The former Governor of Jakarta, Joko Widodo was inaugurated as the new President of Indonesia in October 2014. He has pledged to widen the scale of his key healthcare and education programs while he was the Governor of DKI Jakarta to the national stage. These programs are Indonesia Health Card ("**KIS**"), Indonesia Smart Card *(*"**KIP**") and Prosperous Family Card ("**KKS**").Similar with JKN, KIS is also managed by BPJS *Kesehatan*.

The Indonesian Health Minister, Nina Moeloek indicated that the fundamental difference of the two programs lies in the target market. KIS targeted individuals with social welfare problems, such as drug abusers, sex workers, orphans, the elderly and people with disabilities. Critics have argued that the services provided through Indonesia Health Card are already subsumed by the provision of JKN, despite GOI's claims that KIS provides more healthcare coverage, for instance coverage for newborn babies and traffic accidents victims. Indeed, the JKN program has already included coverage for newborn babies and is collaborating with state-owned insurance firm Jasa Raharja to provide coverage for victims of traffic accident.

The initial launch for Jokowi's three healthcare and social welfare programs was in November 2014. However, widespread distribution was only able to proliferate in early May 2015. This is mainly due to lengthy budgetary process. The GOI plans to issue and distribute around 82.0 million KIS to the wider population by the end of the year. According to *BPJS Kesehatan,* approximately 4.4 million cards have been distributed as of June 2015.


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# 2 OVERVIEW OF THE HEALTH CARE SERVICES INDUSTRY IN SURABAYA

## 2.1 OVERVIEW OF SILOAM HOSPITALS SURABAYA

Siloam Hospitals Surabaya ("**SHS**") started carrying the Siloam brand in 2004. Previously, it was known as RS Budi Mulia, which was a well-known maternity hospital in Surabaya. RS Budi Mulia had a long history in Surabaya, as it was established in 1977. Between 2004 and 2007, the hospital was named Siloam Gleneagles before changing it to Siloam Hospitals Surabaya in 2007. SHS is located in Jalan Raya Gubeng, in the centre of Surabaya, surrounded by shopping malls, business districts and affluent residential neighbourhoods. The hospital currently has 5 stories and is planning to expand by building a new 28-storey mixed development property, which includes an education institution, shopping mall and the revamped Siloam Hospitals Surabaya, in the same compound as the current location of SHS.

### 2.1.1 Hospital Workforce

As of March 2015, SHS has 126 doctors; which include 15 exclusive and full-time general practitioners as well as 111 visiting and part-time specialists. Other staffs include 259 nurses, 41 allied health professionals and 238 non-medical staff. SHS is renowned to host prominent specialists for Orthopaedic Surgery, Gastroenterology and General Surgery. Various other specialties offered by SHS include Internal Medicine, Anaesthesiology, Cardiology, O&G, Neurology and Urology. Furthermore the hospital has also established attractive remuneration packages, employment benefits and career development opportunities for its doctors.

SHS recruits medical doctors under three different schemes of full-time, part-time, and visiting basis. Under the Department of Health ruling, the GOI permits licensed doctors in Indonesia to practice at up to a maximum of three different HCS facilities such as hospitals, polyclinics, and public healthcare centres, provided part-time employment status is attained at each hospital. SHS follows strictly to the regulatory requirements to recruit experienced doctors on a part-time basis; however the emphasis is on recruiting more exclusive / full-time doctors.

### 2.1.2 Use of Technology

SHS is currently equipped with advanced diagnostic technologies including 1.5 Tesla MRI unit, 64-slice CT scanner, Digital X-ray machine, 4-Dimension USG and Computed Radiography. Furthermore, the hospital has invested in state-of-the-art medical technologies to support SHS' excellence in cardiology. This includes a highly advanced Cath-Lab unit, Optical Coherence Tomography and 3-Dimension Echocardiography. Furthermore, SHS has installed video conferencing capabilities and telemedicine hub supported with high speed wireless internet, linking the hospital with other Siloam Hospitals.


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### 2.1.3 Centres of Excellence

Catering to both inpatients and outpatients, SHS is committed to providing high quality affordable services and care for patients' physical and emotional wellness. SHS has Centre of Excellence ("**COE"**) for *Emergency and Trauma Care, Cardiology, Fertility* as well as *Stroke*. The COEs are served by teams of well-trained medical personnel and includes a well-equipped specialities department which is currently on par with SHG standards. SHS' cardiology department is equipped with state-of-the-art Cath-Lab unit which is only available in two hospitals across Indonesia, including SHS. Further, having had a strong brand name in maternity and fertility under RS Budi Mulia, SHS maintain its excellent capabilities in these departments. According to SHS' board of management, the hospital has successfully provided *in-vitro* fertilization to various individuals in Indonesia, including two well-known celebrities.

### 2.1.4 SWOT Analysis

Frost & Sullivan has identified the following strengths, weakness, opportunities and threats for SHS.

| Strength | Weakness |
|---|---|
| ▪ **Brand name:** The brand name of Siloam Hospitals is trusted and always associated with quality HCS.<br>▪ **Leverage on group infrastructure:** SHS has the ability to leverage on the strengths of its parent company's expertise and networks, be it SHG or Lippo Group.<br>▪ **Strategic location:** SHS is located in one of Surabaya's main roads with proximity to business and shopping districts, as well as being surrounded by many diplomatic consulates. The location eases access for existing or potential patients in seeking quality HCS.<br>▪ **Professional medical personnel:** SHS enjoys the utmost privilege of professional medical personnel, including 12 renowned professors practicing in the hospital.<br>▪ **Conducive facilities: Wards, clinical facilities** and hospital building are equipped with advanced diagnostic equipment. Further, the hospital plans to develop a new hospital tower to cater for the increasing demand for high quality HCS.<br>▪ **Marketing programs:** In order to boost market awareness, SHS has initiated several marketing programs that include health education seminars for | ▪ **Lack of full-time doctors:** Despite having 111 specialists practicing in the hospital, none of them are full time employees of SHS. Intensifying competition coupled with Indonesia's dual-practice regulation has further restrained SHS from employing more full-time medical personnel. Frost & Sullivan estimates that doctor-population ratio in Surabaya is 0.0015 in 2013, barely above WHO-prescribed ratio of 1 doctor per 1,000 population.<br>▪ **Limited number of nurses and other supporting staff:** SHS board of management is of the opinion that the number of nurses and supporting staff in the hospital is insufficient to cater for the increasing demand for quality HCS.<br>▪ **Limited space for Outpatient Department rooms:** With the current hospital building, SHS has limited space to cater for the increasing number of patients seeking premium HCS. However, SHS' plan to build a new 21-storeys hospital building is expected to remedy this issue in the long run.<br>▪ **Under-utilization of SHS state-of-the-art equipment:** Many of Surabaya's affluent population prefer to go abroad in seeking for medical treatment that requires advance medical equipment. Combined |

| | |
|---|---|
| local population of various regions in East Java and advanced diseases seminars for doctors across East Java. SHS has also entered into partnerships with key companies in Surabaya and the surrounding area. | with the relatively low occurrence of chronic disease in Surabaya, this has led to the under-utilization of SHS' state-of-the-art medical equipment. |
| **Opportunity** | **Threat** |
| ▪ **Rising per capita income and affluent population:** Surabaya is among Indonesia's most economically developed cities, leading to higher per capita income and rising affluent population which provides enormous potential for SHS to tap into.<br>▪ **Market reach beyond Surabaya:** Greater Surabaya areas, including Gresik and Sidoarjo, have been among the most prominent industrial cities in Indonesia. Industrial growth has enhanced the population's ability to pay for quality HCS and thus, provides SHS with lucrative market potential.<br>▪ **Partnerships:** Surabaya is home to many key business establishments such as PT Sampoerna, Indonesia' leading tobacco company. In addition, the city hosts several foreign consulates including China and USA. Leveraging on Surabaya's status as a business and political hub, SHS can enter into partnerships with these entities in providing quality HCS such as regular medical check-up.<br>▪ **Implementation of JKN:** The implementation of JKN creates more opportunities for SHS. While the GOI will pay for basic healthcare, it is expected that JKN patients will often upgrade their HCS to higher classes, thereby creating additional revenue for service providers. | ▪ **Price competition:** According to Health Department of Surabaya, by the end of 2013, there were 58 hospitals in Surabaya. Frost & Sullivan expect the number to continue increase in the future given Surabaya's importance in Indonesia's business and political landscape. The intensity of competition has resulted in heightened price wars among HCS providers in Surabaya.<br>▪ **Managing SHS premium image:** The introduction of BPJS *Kesehatan* and other public healthcare insurance scheme can be a threat to SHS premium image due to a high influx of low-income population seeking HCS in the hospital. SHS may risk losing affluent customers to other premium hospitals in Surabaya or to hospitals abroad.<br>▪ **Specialist retention issues:** SHS board of management has highlighted that a number of specialists in SHS left to open their own specialist clinics.<br>▪ **Competition with Malaysia and Singapore:** SHS Board of Management has noted that Surabaya's affluent population prefer to seek HCS in Malaysia and Singapore due to its perceived higher quality. |

*Source: Frost & Sullivan Analysis*

### 2.1.5 New Hospital Building

SHG Board of Management believes that the current operations at SHS is sub-optimal in catering for the increasing demand for quality HCS in Surabaya. Further, SHS' decision to participate in JKN and other public healthcare insurance schemes is expected to significantly increase both outpatient and inpatient volumes. According to SHG Board of Management, the existing hospital cannot be expanded further and hence, building a new and larger hospital building is imperative in order to maintain the provision of quality HCS to the wider society.

The plan is to build a brand-new, modern hospital building situated within an integrated, mixed-use development. Its location is adjacent to the current strategic location of SHS at Jalan Raya Gubeng. Development of the 28-storey building will comprise 13 storeys of hospital, 5 storeys of school and an additional floor for an outdoor mini football field as well as 3 storeys of shopping mall area. In addition, a total of 6 storeys of spacious parking space are to be made available in the basement as well as middle floors to cater for the steady influx of visitors to the building. The new development is expected to complete in 3.5 years from the date of obtaining relevant approvals.

The revamped SHS will operate 488 beds, classified as a Class A hospital regulated under MOH Regulation No. 340, Year 2010. The expected number of beds is to increase by 205.0% from the current 160 beds in operation. Frost & Sullivan believes that with such significant increase in operational beds, SHS will possess sufficient capacity to tap into new opportunities emerging from the implementation of JKN and KIS. Further, SHS will dedicate 2 floors in the new hospital building, with 100 operational beds, for patients under the public healthcare insurance schemes.

Currently, the existing hospital building of SHS does not have sufficient space to create a focus department for JKN patients and hence, patients under the public healthcare insurance scheme will need to share the same hospital building and facilities with affluent patients. Frost & Sullivan opines that the plan to segregate certain floors to JKN patients will allow SHS to maintain its premium image among Surabaya's affluent population.

In tapping into new opportunities emerging from the rise of affluent populations in the region, the new hospital is planned to be an international standard hospital, with the aim to attain the prestigious JCI accreditation. This accreditation will support the existing HCS eco-system of the hospital and the hospital group that enable SHS to further build their reputation and premium status. Frost & Sullivan believes that the accreditation be a key driver to attract affluent patients in Surabaya from seeking HCS locally.

The SHG Board of Management believes that Surabaya will be the hub for HCS, not only for East Java, but also for Eastern Indonesia. The new hospital building, with more outpatient and inpatient capacity, will be fully equipped to accommodate the influx of patients coming from beyond the Greater Surabaya region. Further, Frost & Sullivan believes that with more hospitals built by SHG in Eastern Indonesia, the new SHS will benefit from the increasing referral patients from other Siloam hospitals in Eastern Indonesia. Siloam hospitals in Eastern Indonesia such as Siloam Hospitals Kupang and new developments in Jember, East Java and Labuan Bajo, East Nusa Tenggara, which are operating based on primary and secondary HCS models will be able to refer patients in need of tertiary care to the new SHS. Such strong referral scheme from the group's network is a major competitive advantage that will allow for SHS expand its patient base.

The new hospital building will be fully equipped with state-of-the-art medical technologies and supporting facilities. According to SHG Board of Management, in addition to the four current COEs provided by SHS, the hospital plans to develop new centres of excellence in *Endocrinology* and *Cancer*. On top of the current medical specialties available in SHS, the hospital plans to set up a new medical specialty unit specializing in *geriatric*. Further, SHS will be offering comprehensive medical check-up services supported by advanced medical facilities. In terms of supporting facilities, the plan to develop spacious multifunction rooms to ensure


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that SHS will continue the provision of its well-received marketing activities, including healthcare education and advanced diseases seminars.

Siloam's strong brand complemented with state-of-the-art facility and advanced medical technologies are a few factors to attract medical personnel to work at SHS. But, more importantly, SHS is able to provide a more full-fledged human resources infrastructure by leveraging on the group's expertise. This includes continues upgrading of the quality of nurses through rigorous training programs that have been regularly conducted in Siloam Hospitals Lippo Village headquarters. Frost & Sullivan believes that SHS' comprehensive and solid HCS eco-system is a key business impetus to attract and retain renowned medical professionals to practice in the new SHS.

### 2.1.6 Branding Strategies

The existing and future SHS are anchored by a four-pillar foundation strategy synergized from the overall SHG strategy, comprising of:

a) Excellence in Emergency Services,
b) State-of-the-art equipment and technologies,
c) Utilization of healthcare IT and telemedicine and
d) Robust doctor partnership program.

In order to expand its target markets, the new SHS will continue to maintain its premium image to cater for the upper income population in Surabaya which usually prefer to seek medical treatment abroad. Further, with the plan to develop designated hospital sections for patients under *JKN* and other public healthcare insurance scheme, the new SHS will position itself as a "value for money" state-of-the-art private general hospital that serve patients from all socio-economic classes.

***Excellence in Emergency Services***

Surabaya is often referred to as the second most important city in Indonesia after Jakarta. It is the capital city of East Java and is among the most important business hubs in Indonesia with many major Indonesian companies established their headquarters in the city or in Surabaya's satellite cities. Surabaya is also home to one of the busiest ports in Indonesia - Tanjung Perak Port. With greater volume in economic activity, Surabaya's roads have increased with numerous vehicles thus generating even greater traffic in the city.

This results in higher incidence of traffic accidents in the city. The emergency department in SHS has been providing additional support to the acute care needs of the local population through its emergency care facilities, such as the well-equipped emergency trauma department and ambulance with on-board treatment capabilities. Frost & Sullivan believes that the new hospital building, with a much larger hospital space, will be better position to continue the provision of excellent emergency services.


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***State-of-the-art Equipment and Technologies***

SHS is currently equipped with advanced diagnostic technologies including 1.5 Tesla MRI unit, 64-slice dual source CT scanner, Digital X-ray machine, 4-Dimension USG and Computed Radiography. Furthermore, the hospital has invested in state-of-the-art medical technologies to support SHS' COE in cardiology. This includes a highly advanced Cath-Lab unit, Optical Coherence Tomography and 3-Dimension Echocardiography. To ensure optimal service quality, SHS implements its clinical operation based on the JCI accreditation protocols currently used at the Siloam Hospitals Lippo Village Headquarters at Jakarta.

The new SHS is expected to attain the prestigious JCI accreditation, once it is completed. The hospital manager at SHS is also required to provide monthly medical performance updates to the SHG Chief of Clinical Improvement based in the Jakarta headquarters and has established standard protocols to handle adverse medical events. The state-of-the-art medical equipment, conducive treatment environment, well-structured medical practice protocols and reputable brand name of Siloam will continue to be the value proposition of the new SHS. As such, these will the key factors of attraction for the patients and practicing doctors, particularly where such offerings are currently lacking in the hospital market within the region.

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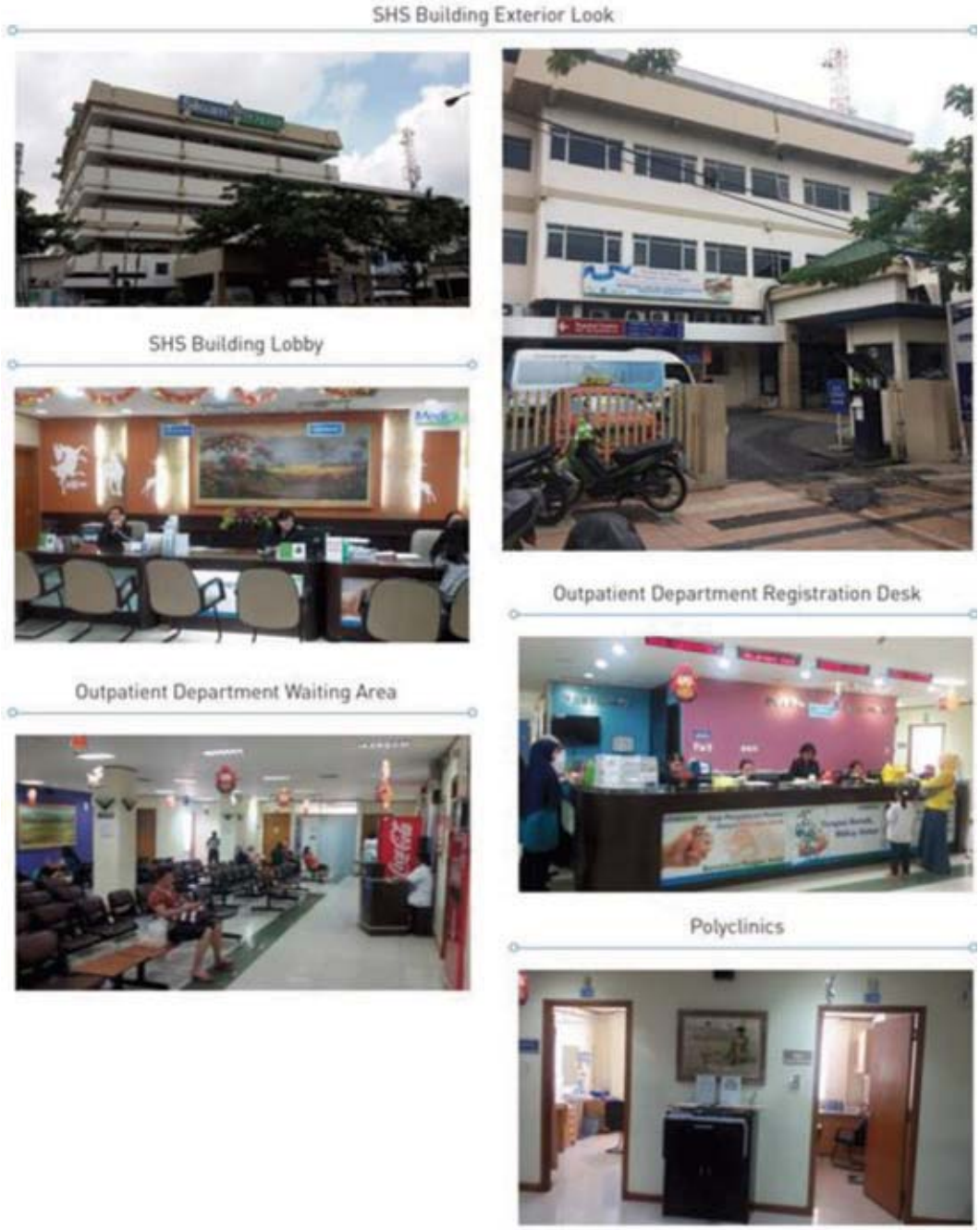
**Figure 2:1: SHS Infrastructure and State-of-the-Art Equipment**




*Source: Frost & Sullivan*

Emergency & Trauma Centre

Emergency Room

Inpatient Department Nurse Station

VIP Room

CT Scan

Cath-Lab

*Source: Frost & Sullivan*

***Utilization of Healthcare IT and Telemedicine***

The availability of telemedicine infrastructure within the group hospitals will enable SHG to effectively utilize the clinical expertise from the COE at Siloam Hospitals Lippo Village headquarters. SHG is currently the only private hospital group in Indonesia to possess the system that allows doctors to conduct consultations, assesses diagnostic scan reports and provides clinical instructions for patient stabilization remotely, without the need for patients to travel to the Siloam Hospitals Lippo Village headquarters in Jakarta.

Through the telemedicine system, copies of all diagnostic scan reports are simultaneously transferred to SHG's radiologist expert partners in India to provide second opinion on the diagnostic results. Doctors in SHS will be able to make third party validated clinical decisions to ensure optimal patient safety and treatment outcomes. With SHG's commitment to continue making technological investments in the new SHS, the hospital will be fully equipped to continue utilizing IT infrastructure in the provision of HCS.

***Robust Doctor Partnership Program***

SHG regards the medical workforce as one of the fundamental factors for success. SHG provides attractive remuneration packages, employment benefits and career development opportunities, manages all doctor engagements established at SHS. In order to qualify for these benefits, participating full time doctors are required to practice for at least 40 hours per month at SHS. Doctors at SHS can fall under the following categories.

**Table 2:1: Categories of Doctors at SHS**

| Category | Nature of Employment |
|---|---|
| Full Time Doctors | Exclusive employment with SHS and unable to practice in other hospitals. |
| Part time doctors | Able to practice in other hospitals, will be provided with outpatient clinic suite, able to utilize all facilities within SHS and should be based in SHS for 2 to 3 hours per day. |
| Visiting doctors | Able to practice in other hospitals, will not be provided with outpatient clinic suite and able to refer patients for facility usage at SHS. |

*Source: SHS*

As mentioned, the issue on shortage of medical personnel that Indonesia is facing renders difficulties for SHS to attract more full-time doctors. The SHG Board of Management understands the situation and applies a more flexible practice period for part-time doctors. Part-time specialists are encouraged to increase the practice hours in the hospital. Such approach allows SHS to make up for the limitation emerging from the inability to employ full-time specialists in the hospital.

Regardless of the employment nature of the doctor (full time, part time, or visiting basis), SHS offers competitive remuneration packages. In addition, SHS provides comprehensive benefits, such as lifetime health

insurance coverage for the practicing doctor and their immediate family members. Participating doctors will receive sponsorship for local and overseas clinical training as well as financial support by SHG for doctors wanting to take specialist courses. According to SHG Board of Management, the new SHS will continue to offer competitive remuneration packages as well as financial support and sponsorships to attract more medical professionals to practice in the hospital.

SHG's Board of Management believes that it is imperative for the new SHS to continue current well-received marketing efforts, including clinical symposiums and hospital visit sessions. Furthermore, this will increase the awareness of the new SHS's clinical facilities and capability. It will also increase the attractiveness of SHS as a practicing location for the local doctor community. Through more conducive practice location, advanced facilities and more attractive remuneration schemes, SHS Board of Management anticipates that practicing doctors will thereby have a higher tendency to refer more patients from hospitals they used to practice in, to undergo treatment at the new SHS. This recruitment strategy will simultaneously serve as one of the key patient attraction models for the new SHS.

SHG engages in a unique partnership program with Pelita Harapan University's School of Medicine and School of Nursing and Allied Health Sciences, which is part of the Lippo Group. Under this program, hospitals under SHG serve as a training ground for medical and nursing students of the university. This underpins SHG and Lippo Group's commitments to nurture and create excellent medical graduates that will have long-term benefits to SHS and other hospitals under SHG. Frost & Sullivan believes that the university will eventually become an important sustainable source of medical personnel for hospitals under SHG, including the new SHS.

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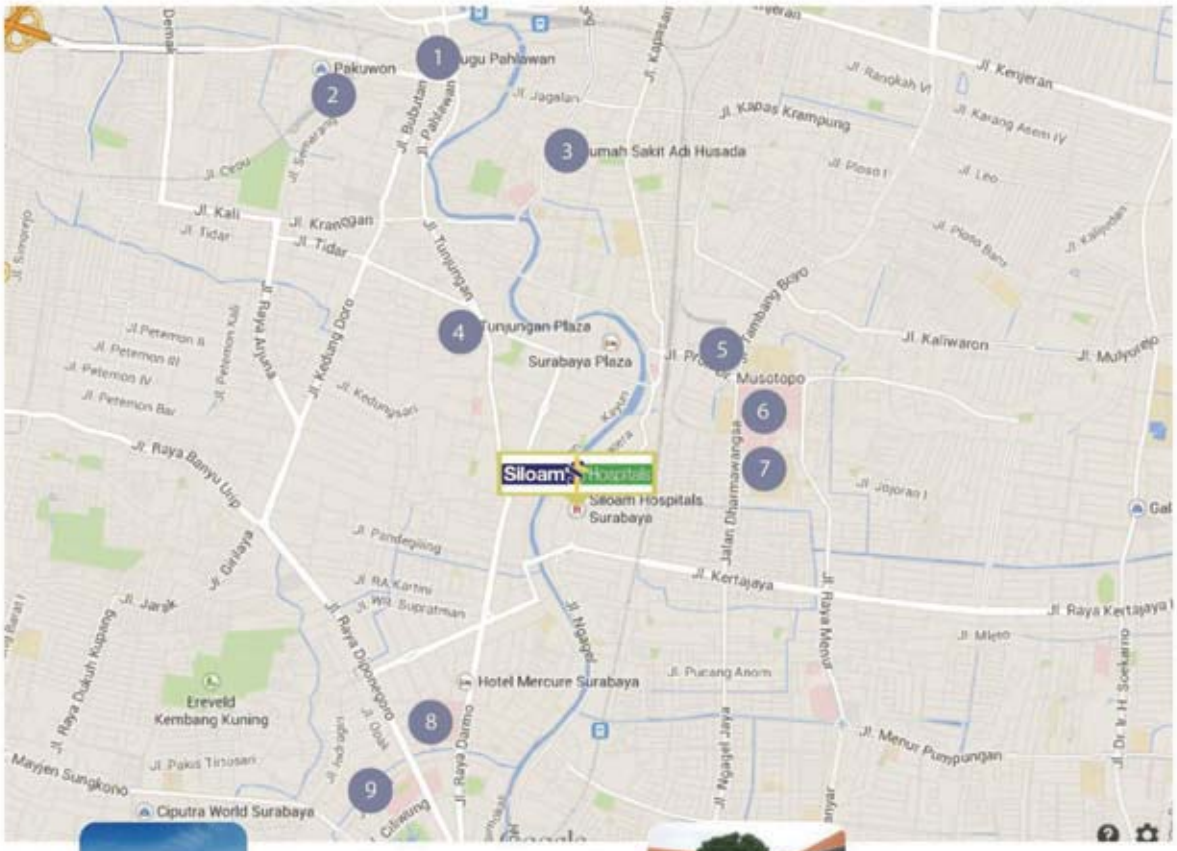
**Figure 2:2: SHS Location Map and Travelling Distance to Other HCS Providers and Key Landmarks**



1. Heroes Monument 4.3 km

2. Pasar Turi Train Station 4.8 km

3. RS Adi Husada, Undaan 3.9 km

4. Tunjungan Plaza 1.9 km

5. RS Husada Utama 3.0 km

6. RSUD Soetomo 2.9 km

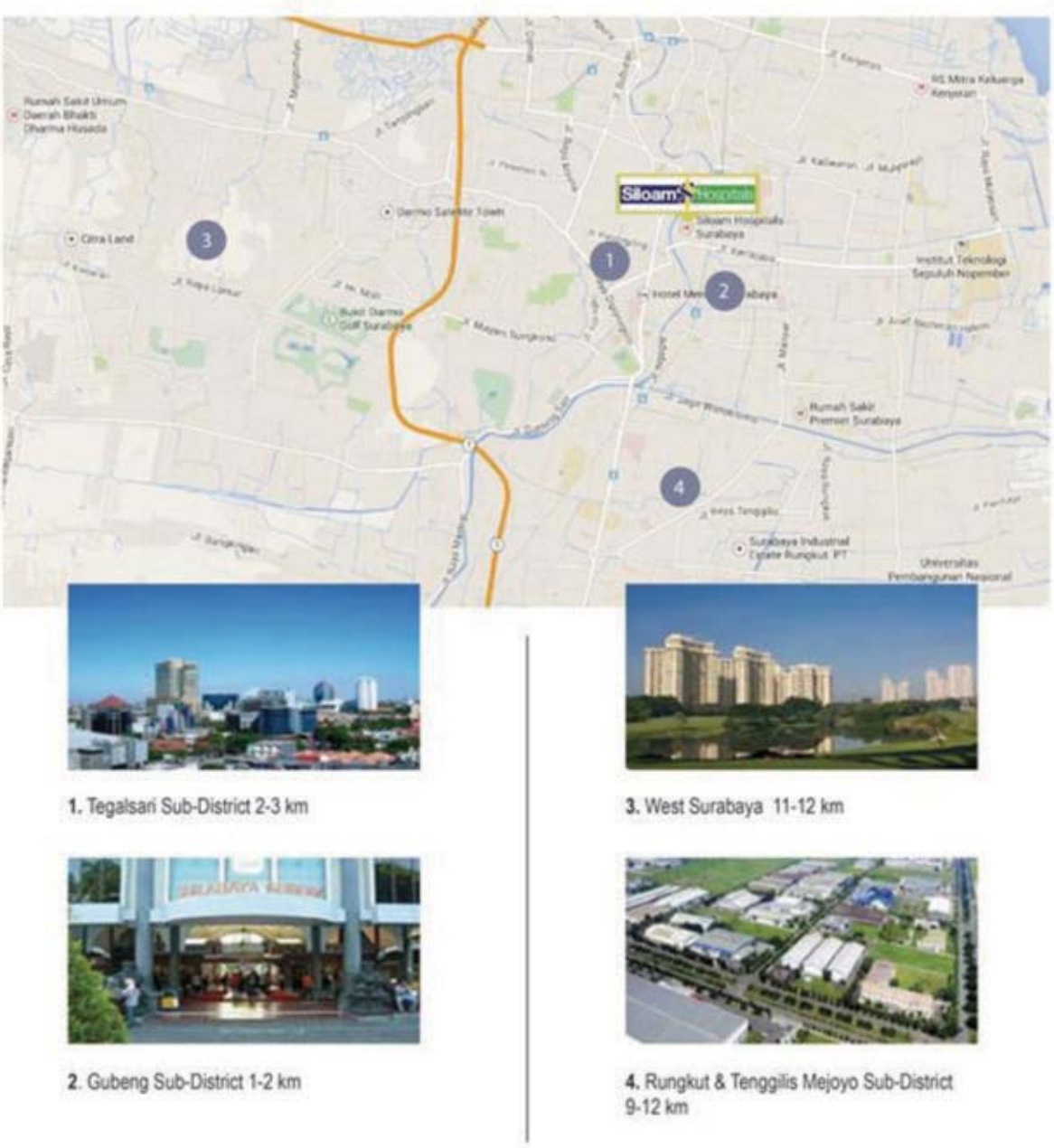
7. Airlangga University 3.8 km

8. RS Darmo 2.6 km

9. RKZ Surabaya 3.5 km

*Source: Frost &Sullivan*

**Figure 2:3: Snapshots of Target Catchment Areas within Surabaya**




*Source: Frost &Sullivan*

### 2.1.7 Demand Analysis

***Primary Catchment Area: Areas within 5 km radius of the New SHS***

The main catchment area within the 5 km radius of SHS includes several sub-districts of Surabaya, such as Tegalsari, Gubeng, Bubutan and Tambaksari. Due to SHS' central location, the areas within 5 km radius of the hospital are mostly business, shopping and political districts. This includes office buildings in Jalan Basuki Rahmat, affluent shopping malls such as Tunjungan Plaza and foreign consulates, including Japan, United Kingdom and Germany. In addition, several areas within Tegalsari and Gubeng sub-districts, such as Jalan Kertajaya and Jalan Ngagel, are affluent neighbourhoods, catering for the residence of key government officials and public figures. The following table profiles the key target customers and the HCS preferred in each catchment district:

**Table 2:2: Patient Profile in the Primary Catchment Area**

| Catchment Areas | Population (2013) | Distance to SHS | Target Patients | Key Services Required |
|---|---|---|---|---|
| **Tegalsari** | 118,185 | 2-3 km | ▪ Middle to high income population<br>▪ Domestic and foreign government officials<br>▪ Corporate workers<br>▪ Tourism industry workers | ▪ General health consultation<br>▪ Medical check up<br>▪ Specialist services, including internal medicine, dermatology and ENT<br>▪ Dentistry |
| **Gubeng** | 156,226 | 1-2 km | ▪ Middle to high income population<br>▪ University students<br>▪ Tourism industry workers | ▪ General health consultation<br>▪ Emergency & Trauma<br>▪ Internal medicine |

*Source: BPS Surabaya and Frost & Sullivan Analysis*

***Secondary Catchment Area: Areas beyond 5 km radius of SHS***

Frost & Sullivan opines that West Surabaya presents the most lucrative potential for SHS. This is primarily due to the development of elite residential areas, such as Darmo Satellite Town and Citra Land, which provides SHS with a larger affluent patient base. Beyond Surabaya, Frost & Sullivan opines that Sidoarjo and Gresik are likely to be promising catchment areas for SHS. Sidoarjo is a vast residential neighbourhood whereas Gresik is an industrial town, hosting key Indonesian companies such as PT Petrokimia Gresik and PT Semen Gresik. The following table profiles the key target customers and the HCS preferred in each catchment district:

**Table 2:3: Patient Profile in the Secondary Catchment Area**

| Catchment Areas | Population (2013) | Distance to SHS | Target Patients | Key Services Required |
|---|---|---|---|---|
| **Rungkut & Tenggilis Mejoyo** | 171,165 | 9-12 km | ▪ Mainly middle income population<br>▪ Industrial workers | ▪ Specialist services including cardiology, orthopaedic and internal medicine<br>▪ Emergency & Trauma |
| **West Surabaya** | 481,722 | 11-12 km | ▪ Elite residential neighbourhood<br>▪ Mainly high income and affluent population | ▪ State-of-the-art healthcare technology: MRI, CT Scan, Cath-Lab<br>▪ Medical check up<br>▪ Specialist services including paediatrics, cardiology and neurology |
| **Sidoarjo** | 2,048,986 | 25 km | ▪ Vast residential neighbourhood<br>▪ Mainly middle income population | ▪ General health consultation<br>▪ Specialist services, including internal medicine and paediatrics<br>▪ Dentistry |
| **Gresik** | 1,227,101 | 22 km | ▪ Mainly middle income population<br>▪ Industrial workers | ▪ General health consultation<br>▪ Emergency & Trauma<br>▪ Internal medicine |

*Source: BPS Surabaya and Frost & Sullivan Analysis*

West Surabaya is a key catchment area and is likely to become Surabaya's primary affluent neighbourhood in the future, given the wide presence of premium residential areas in the area. The recent move of the US Consulate to the area also highlights the political importance of West Surabaya in the future. According to BPS, in 2013, income per capita in Surabaya reached IDR 97.4 million, growing at a CAGR of 13.1% between 2008 and 2013. As the affluent population increases, demand for premium HCS will strengthen.

The new hospital building will strengthen SHS' maintains its position as a state-of-the-art private hospital with premium healthcare services and advanced medical technology. The brand value of SHS and its highly-regarded quality of HCS poised to fulfil the rising needs for advanced and premium healthcare services in Surabaya. The plan to have the new hospital building as an international standard, JCI accredited hospital is also well positioned to retain affluent medical patients to seek treatment within the city.

## 2.2 COMPETITIVE LANDSCAPE

Frost & Sullivan has identified several comparable HCS providers which are located within a 5 km radius area from the new SHS development as presented below.

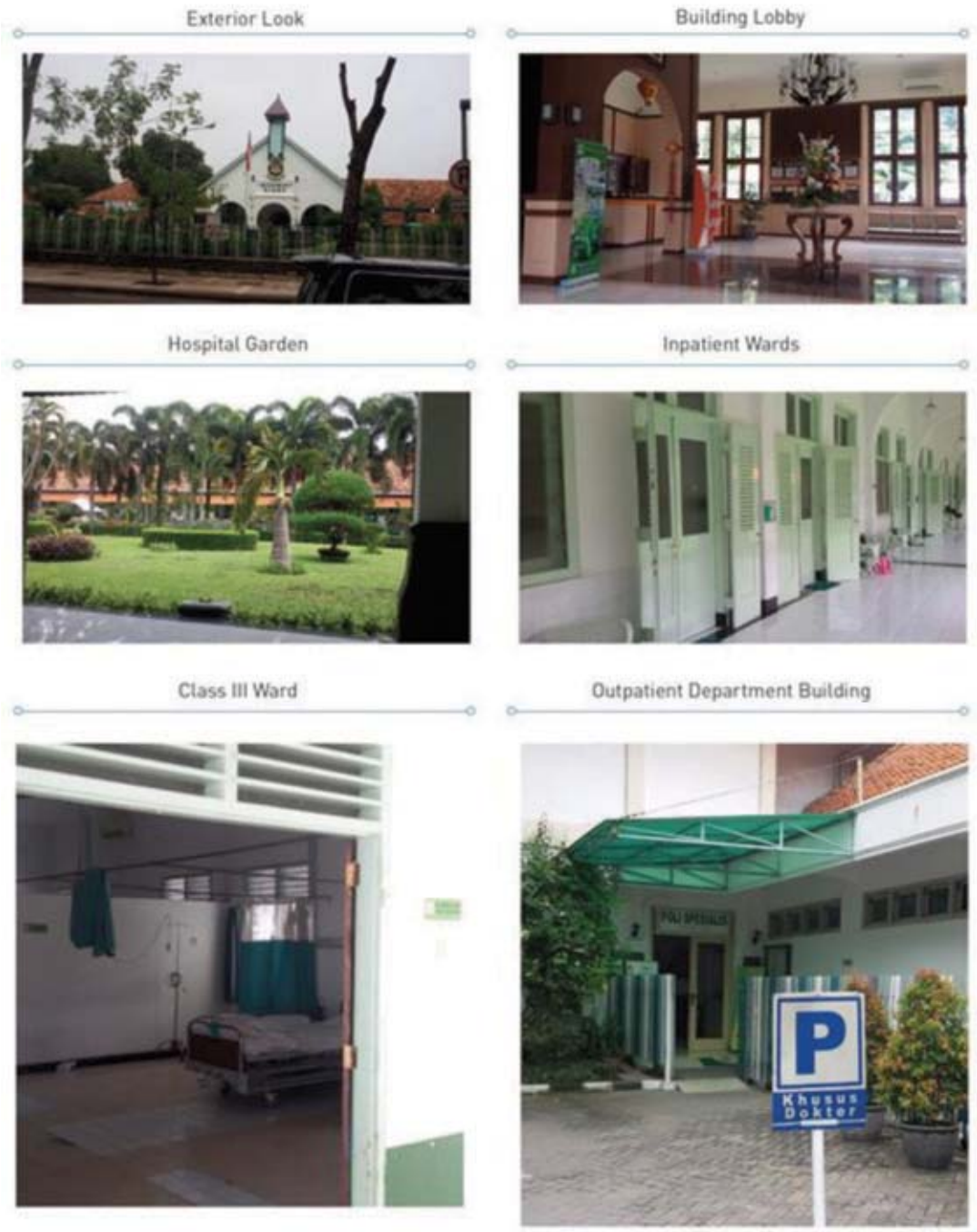
| HCS Provider | Description of Operations |
|---|---|
| **RS Husada Utama** | RS Husada Utama is a modern, private hospital, established in 1993. It is managed by PT Cipta Karya Husada Utama, which is owned by PT Indonusa Prima. The holding company has extensive business operations in the HCS sector, ranging from hospitals to pharmaceutical. The hospital has in total 16 floors. RS Husada Utama operates 235 beds and employs 179 doctors as well as 100 nurses. Currently, the hospital has only achieved accreditation in 5 HCS from the GOI. In 2013, the hospital had a bed occupancy ratio of 48.2%, lower compared to other competing hospitals in the area. |
| **RS Darmo** | Established in 1921, RS Darmo is the oldest hospital in Surabaya, owned by RS Darmo Foundation. The hospital has 152 beds and employs 90 doctors as well as 209 nurses. The hospital's Darmo Children Centre provides dedicated HCS for babies, infant, children, as well as pregnant mothers. RS Darmo is equipped with green light laser therapy technology for its urology department. The laser technology is expected to reduce catheter usage and thus, enhance patient's recovery process. |
| **RS Katolik St. Vincentius a Paulo (RKZ Surabaya)** | RS Katolik St. Vincentius a Paulo or more popularly known by local population as RKZ, was built in 1925 during the Dutch colonial era. It is currently managed by Arnoldus Foundation, a catholic organization. According to Health Department of Surabaya, RKZ had a bed occupancy ratio of 65.0% in 2013, the highest among other hospitals in the area. RKZ operates 235 beds and employs 173 doctors as well as 424 nurses. The hospital has 4 COEs: cardiology, endoscopy and laparoscopy, maternity and children, as well as orthopedic and trauma. |
| **RS Adi Husada, Undaan Wetan** | RS Adi Husada has two hospitals in Surabaya, located in Undaan Wetan and Kapasari. The Undaan Wetan location is the group's primary hospital, as it was on the same road where the hospital was built in 1945. It is owned by Adi Husada Organization. The hospital operates 233 beds and has 138 doctors as well as 290 nurses. RS Adi Husada, Undaan Wetan has COE in stroke and diabetes. |
| **RSUD Soetomo** | RSUD Soetomo is the primary, multi-specialty public hospital in Surabaya. It is managed by the Provincial Government of East Java. It is one of only a handful of hospitals in Indonesia to obtain the prestigious Plenary Accreditation (Akreditasi Paripurna). RSUD Soetomo is the largest hospital in Surabaya in terms of total number of beds with 1,472 beds in 2013. The hospital employs 302 doctors and 788 nurses and excels in heart transplant and fertility. The COE are served in RSUD Soetomo's Graha Amerta wing, a modern building equipped with advanced facilities. In addition to the two COEs, the hospital has successfully performed surgeries in various conjoined twins separation cases. |


*© Frost & Sullivan*

**Figure 2:4: RS Husada Utama Infrastructures**

*Source: Frost & Sullivan*

**Figure 2:5: RS Darmo Infrastructures**

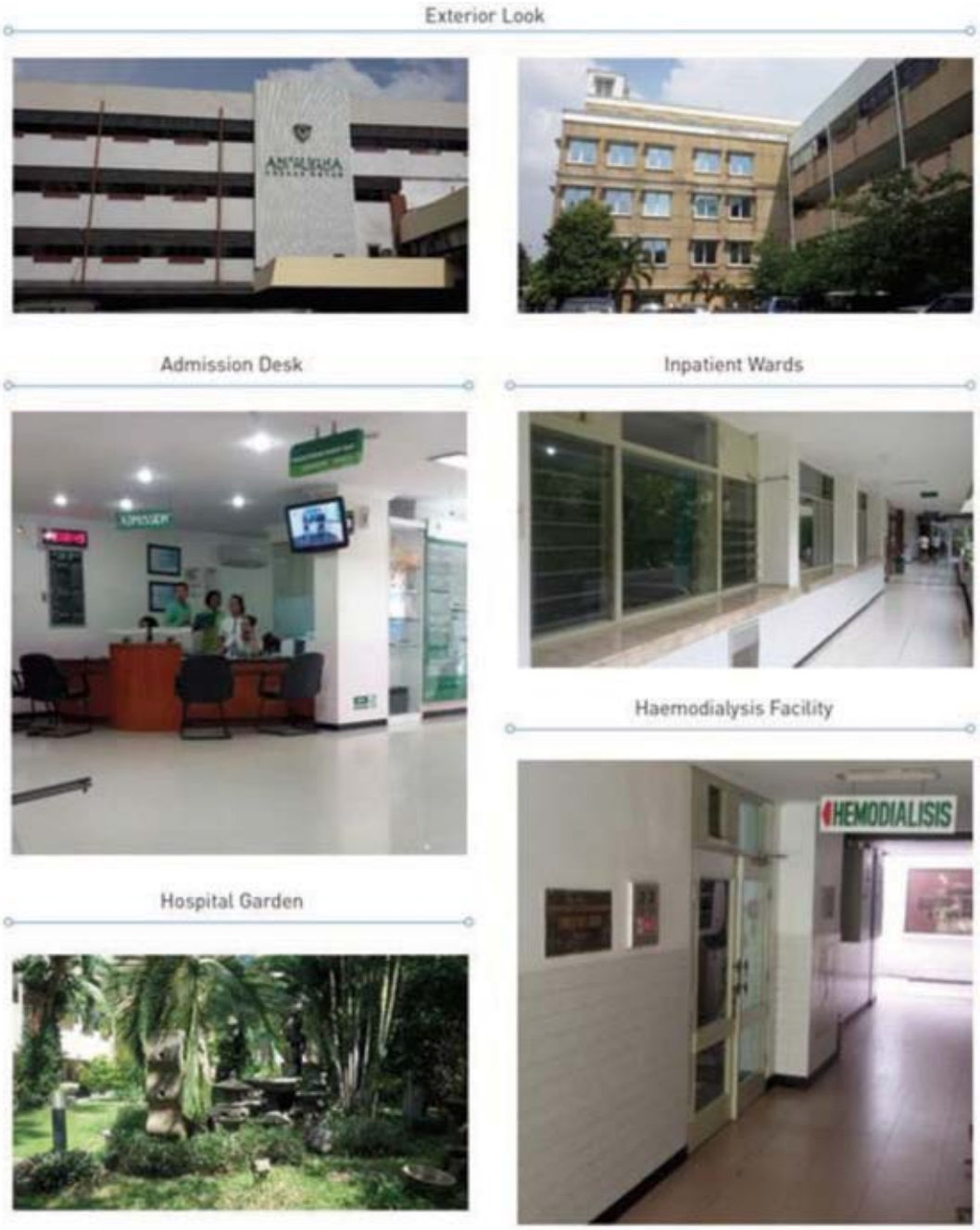



*Source: Frost & Sullivan*

**Figure 2:6: RKZ Surabaya Infrastructures**

*Source: Frost & Sullivan*

**Figure 2:7: RS Adi Husada Undaan Wetan Infrastructures**




*Source: Frost & Sullivan*

**Figure 2:8: RSUD Soetomo Infrastructures**

*Source: Frost & Sullivan*

The following table compares SHS with its key competitors in Surabaya.

**Table 2:4: Key Operating Statistics among HCS Providers in Surabaya**

| Key Operating Statistics | Siloam Hospitals Surabaya | RS Husada Utama | RS Darmo | RKZ Surabaya | RS Adi Husada Undaan | RSUD Soetomo |
|---|---|---|---|---|---|---|
| **Operator** | Siloam Hospitals Group | PT Indonusa Prima | RS Darmo Foundation | Arnoldus Foundation | Adi Husada Organization | Provincial Government of East Java |
| **Type of Hospital** | Private | Private | Private | Private | Private | Public |
| **Year of Establishment** | 2004 (started using Siloam brand name) | 1993 | 1921 | 1925 | 1945 | 1938 |
| **Awards and Accreditation** | National Accreditation (16 services) - 2012 | National Accreditation (5 services) - 2010 | National Accreditation (16 services) - 2012 | National Plenary Accreditation - 2014 | Full Accreditation (16 services) – 2008 | National Plenary Accreditation - 2014 |
| **Centre of Excellence (COE)** | Cardiology, Fertility, Stroke, Emergency & Trauma | Intervention Radiology | Darmo Children Center | Cardiology, Endoscopy & Laparoscopy, Maternity & Children and Orthopedic& Trauma | Stroke and Diabetes | Palliative Care |
| **Distance from SHS** | - | 3.0 km | 2.6 km | 3.5 km | 3.9 km | 2.9 km |
| **Primary Catchment Area** | Jalan Raya Gubeng | Jalan Prof. Dr. Moestopo | Jalan Raya Darmo | Jalan Raya Diponegoro | Jalan Undaan Wetan | Jalan Prof. Dr. Moestopo |
| **Number of Doctors** | 126 | 179 | 90 | 173 | 138 | 302 |
| **Number of Nurses** | 259 | 100 | 209 | 424 | 290 | 788 |

| Key Operating Statistics | Siloam Hospitals Surabaya | RS Husada Utama | RS Darmo | RKZ Surabaya | RS Adi Husada Undaan | RSUD Soetomo |
|---|---|---|---|---|---|---|
| **Number of Beds** (Operational) | 160 | 235 | 152 | 389 | 233 | 1,472 |
| **Beds Occupancy Rate** (based on number of operational beds in 2014 or the most recent year) | 71.0% | 48.2% | 61.5% | 65.0% | 64.6% | 58.1% |
| **Inpatient volume** (2014 or the most recent year ) | 9,483 | 8,108 | 5,943 | 16,654 | 9,137 | 44,517 |

*Note: Based on primary interviews and site visits to SHS and competitor hospitals.*

*Source: RS Online, Health Department of Surabaya and Frost & Sullivan Analysis*

**Table 2:5: Breakdown of Beds among HCS Providers in Surabaya**

| Type of Beds | Siloam Hospitals Surabaya | RS Husada Utama | RS Darmo | RKZ Surabaya | RS Adi Husada Undaan | RSUD Soetomo |
|---|---|---|---|---|---|---|
| **VVIP** | √ | √ | √ | √ | √ | √ |
| **VIP** | √ | √ | √ | √ | √ | √ |
| **Class 1** | √ | √ | √ | √ | √ | √ |
| **Class 2** | √ | √ | √ | √ | √ | √ |
| **Class 3** | √ | √ | √ | √ | √ | √ |
| **ICU** | √ | √ | √ | √ | √ | √ |
| **ICCU** | x | √ | √ | √ | √ | √ |
| **NICU** | √ | √ | √ | √ | √ | √ |
| **PICU** | √ | √ | x | √ | √ | √ |
| **Operation Theatre** | √ | √ | √ | √ | √ | √ |
| **Delivery Room** | √ | √ | √ | √ | √ | √ |

*Note: Based on primary interviews and site visits to SHS and competitor hospitals.*

*Source: RS Online, Health Department of Surabaya and Frost & Sullivan Analysis*

**Table 2:6: Medical Specialties among HCS Providers in Surabaya**

| Specialties | Siloam Hospitals Surabaya | RS Husada Utama | RS Darmo | RKZ Surabaya | RS Adi Husada Undaan | RSUD Soetomo |
|---|---|---|---|---|---|---|
| **Cardiology** | √ | √ | √ | √ | √ | √ |
| **Dentistry** | √ | √ | √ | √ | √ | √ |
| **Dermatology** | √ | √ | √ | √ | √ | √ |
| **ENT** | √ | √ | √ | √ | √ | √ |
| **General Surgery** | √ | √ | √ | √ | √ | √ |
| **Haemodialysis** | √ | √ | √ | √ | √ | √ |
| **Internal Medicine** | √ | √ | √ | √ | √ | √ |
| **Neurology** | √ | √ | √ | √ | √ | √ |
| **Ophthalmology** | √ | √ | √ | √ | √ | √ |
| **Orthopaedic Surgery** | √ | √ | √ | √ | √ | √ |
| **Paediatrics, O&G** | √ | √ | √ | √ | √ | √ |
| **Medical Rehabilitation and Physiotherapy** | √ | √ | √ | √ | √ | √ |
| **Radiology** | √ | √ | √ | √ | √ | √ |
| **Trauma** | √ | √ | √ | √ | √ | √ |

| Specialties | Siloam Hospitals Surabaya | RS Husada Utama | RS Darmo | RKZ Surabaya | RS Adi Husada Undaan | RSUD Soetomo |
|---|---|---|---|---|---|---|
| **Urology** | √ | √ | √ | √ | √ | √ |

*Note: Based on primary interviews and site visits to SHS and competitor hospitals.*

*Source: RS Online, Health Department of Surabaya and Frost & Sullivan Analysis*

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**Table 2:7: Availability of Equipment among HCS Providers in Surabaya**

| Type of Equipment | Siloam Hospitals Surabaya | RS Husada Utama | RS Darmo | RKZ Surabaya | RS Adi Husada Undaan | RSUD Soetomo |
|---|---|---|---|---|---|---|
| **X-ray** | √ | √ | √ | √ | √ | √ |
| **USG** | √ | √ | √ | √ | √ | √ |
| **EEG** | √ | √ | √ | x | √ | √ |
| **ECG** | √ | √ | √ | √ | √ | √ |
| **CT scanner** | √ | √ | √ | √ | √ | √ |
| **MRI** | √ | √ | √ | √ | √ | √ |
| **Endoscopy** | √ | √ | √ | √ | √ | √ |
| **Mammography** | √ | √ | x | x | √ | √ |
| **Cath-Lab** | √ | √ | x | √ | x | √ |

*Note: Based on primary interviews and site visits to SHS and competitor hospitals.*

*Source: RS Online, Health Department of Surabaya and Frost& Sullivan Analysis*

### 2.2.1 Pricing Strategies

The following table compares the daily inpatient bed charges (in IDR) between SHS and its key competitors in Surabaya:

**Table 2:8: Patient Profile in the Secondary Catchment Area**

| Type of Ward | Siloam Hospitals Surabaya | RS Husada Utama | RS Darmo | RKZ Surabaya | RS Adi Husada Undaan | RSUD Soetomo |
|---|---|---|---|---|---|---|
| Presidential Suite | 1,450,000 | 1,800,000 | *n.a.* | *n.a.* | *n.a.* | *n.a.* |
| Super VIP / VVIP | 1,250,000 | 1,300,000 | 1,150,000 | 1,300,000 | 1,500,000 | 937,500 |
| VIP | 975,000 | 900,000 | 1,000,000 | 987,500 | 1,100,000 | 650,000 |
| Class I | 485,000 | 700,000 | 650,000 | 450,000 | 600,000 | 150,000 |
| Class II | 325,000 | 350,000 | 475,000 | 265,000 | 365,000 | 80,000 |
| Class III | 163,333 | 200,000 | 250,000 | 160,000 | 135,000 | 40,000 |

*Note: Not Applicable (n.a). Based on primary interviews and site visits to SHS and competitor hospitals.*

*Source: Frost & Sullivan Analysis*

SHS uses competitive pricing policy as part of its marketing strategy, owing to the increasing competition in the private HCS space and associated reduction in cost of HCS due to operational efficiency. Nonetheless, the overall increase in competition has also led other hospitals to apply a competitive pricing policy. Daily inpatient bed charges by type of ward in each hospital have relatively limited variation. On average, private hospitals charge significantly higher rate than RSUD Soetomo, the main public hospital in Surabaya.

For VVIP wards, ward rates in SHS are 4.0% lower than RS Husada Utama and RKZ Surabaya, 20.0% lower than RS Adi Husada Undaan and 8.0% higher than RS Darmo. SHS charges comparatively lower ward rate for VIP wards than other private hospitals: 2.6% lower than RS Darmo, 1.3% lower than RKZ Surabaya and 12.8% lower than RS Adi Husada Undaan. SHS also has a competitive pricing scheme for Class I wards. Class I wards rate at SHS is 44.3% lower than RS Husada Utama, 34.0% lower than RS Darmo, 7.2% higher than RKZ Surabaya and 23.7% lower than RS Adi Husada Undaan. In terms of lower class wards[1] including Class II and III, the inpatient ward charges at SHS is at least 7.7% lower than RS Husada Utama, 46.2% lower than RS Darmo, 2.0% higher than RKZ Surabaya and 12.3% lower for Class II wards as well as 17.3% higher for Class III wards than RS Adi Husada Undaan.

[1] Lower class wards generally refer to Class II and III wards. Class II wards have 4 beds per room whereas Class III wards have 6 or more beds per room.

Frost & Sullivan is of the opinion that SHS has a competitive advantage to weather competition in the private HCS space. SHS' competitive pricing policy coupled with state-of-the-art medical equipment and excellent medical personnel enabled SHS to generate good value proposition to its patients and thus, to be perceived as the top private hospital in Surabaya.

### 2.2.2 Future Competitive Landscape in Surabaya's Hospital Industry

Frost & Sullivan believes competition in the HCS industry is likely to intensify as a result of increasing demand due to Surabaya being a referral city for HCS for other regions and the vast patient base created through the implementation of JKN. In addition, Surabaya's growing economic and political importance is likely to spur more people to come to the city for business and residential purposes.

Frost & Sullivan has identified the following hospitals that may enter Surabaya's HCS landscape and pose competition to the new SHS.

| HCS Provider | Description of Operations |
|---|---|
| **Mitra Keluarga Group** | Mitra Keluarga Group is Indonesia's second largest multi-specialty private hospital chain in terms of number of operating hospitals. The hospital group identified itself as a community hospital, capturing demand from the population from surrounding communities. The target market of the hospital is middle- and upper-middle segment of the population. Mitra Keluarga plans to build a new hospital in East Surabaya, in addition to its existing 3 hospitals in North, West and South Surabaya. Recently, Mitra Keluarga Group registered the largest IPO in Indonesia since Garuda's IPO in 2011, raising IDR 4.45 trillion (US$ 341 million). According to Mitra Keluarga, proceeds from the IPO will be used to fund the development of 7 new hospitals across Indonesia. 6 of the new hospitals will be located in the Jabodetabek area, including one hospital in Kalideres, West Jakarta. Mitra Keluarga Group does not serve JKN patients. |
| **Mayapada Hospital** | Another prominent private hospital group, Mayapada Hospital, also plans to build a new hospital in Surabaya. The group has allocated IDR 1.0 trillion to build 5 additional hospitals in Surabaya, Bandung, Balikpapan, Banjarmasin and Jakarta. Mayapada Hospital is a subsidiary of Mayapada Group, owned by Dato Sri Tahir, one of the wealthiest men in Indonesia. Currently, the hospital operates in 2 locations, South Jakarta and Tangerang. The hospital develops centres of excellence in various specialities such as neuroscience, cardiovascular, uro-nephrology and O&G. The hospital identified itself as a premium hospital. It partners with Singapore's National Healthcare Group as a commitment to provide an international standard HCS. Mayapada Hospital does not serve JKN patients. |
| **Awal Bros Group** | Awal Bros Hospital Group was first established in Pekanbaru, Riau in 1998. Over the years, it managed to expand to other regions in Indonesia and is currently operating 7 multi-specialty hospitals in Pekanbaru (2 hospitals), Bekasi, Batam, Makassar in South Sulawesi, Tangerang and Rokan Hulu in Riau. It obtains the prestigious JCI Accreditation for 4 hospitals: Batam, Bekasi, Pekanbaru in Riau and Tangerang. Majority of hospitals under the group serves patients under the JKN scheme. Awal Bros has centres of excellence in heart, |


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| HCS Provider | Description of Operations |
|---|---|
| | haemodialysis, mammography, neurological specialists, foot clinic and extracorporeal shock-wave lithotripsy. |
| **Eka Hospitals** | Eka Hospitals is part of Sinar Mas Group, one of Indonesia's largest conglomerates, which is owned by Eka Tjipta Widjaja, the fourth richest person in the country. The hospital was first established in Bumi Serpong Damai, Tangerang in 2008. Aside from the Tangerang branch, Eka Hospital is present in Pekanbaru, Riau which has been serving JKN patients since January 2015. Both locations of the hospital attain JCI accreditation. It has centres of excellence in neurology, cardiovascular, women and children and minimally access surgery. |
| **Omni Hospitals** | Omni Hospitals was established in 1984. It caters for the middle-class segment of the population. Omni Hospitals operate 2 hospitals in Pulomas, East Jakarta and Tangerang that have served JKN patients. It has centres of excellence in various medical specialties, such as urology, neurology, paediatric – allergy and immunology as well as Kawasaki disease. |

### 2.2.3 Competitive position of the new SHS

Given Surabaya's economic and political importance, Frost & Sullivan believes that there will be a strong interest from the above-mentioned private hospital operators to enter Surabaya's hospital market. This will accentuate future competitive threats to SHS. However, Frost & Sullivan believes that the strengths of the new SHS as well as the hospital's ability to leverage on SHG's healthcare infrastructure will allow the new SHS to weather competition in Surabaya's HCS industry.

The new SHS will further highlight the hospital's premium status. Nonetheless, it will still be offering HCS to a wide-range of the population through the establishment of a dedicated hospital section for JKN patients. In comparison, premium hospitals like Eka Hospital, Awal Bros and Mayapada Hospital do not have full coverage for JKN patients. Eka Hospital only provides services for JKN patients in one location and Awal Bros in 4 locations. Mayapada Hospital does not even offer HCS for patients under the JKN scheme yet. On the contrary, Mitra Keluarga, that positions itself as a middle income targeted hospital, does not offer HCS for JKN patients. With a strong focus to serve all segments of the population, the new SHS is in an advantageous position to appeal to a wider patient base.

According to the Board of Management of SHG, another significant strength that allows hospitals under SHG to stand out compared to their competitors is the availability of landbanks. Lippo Group, with robust experience in Indonesia's property sector, has acquired numerous landbanks across Indonesia to be used by SHG or other subsidiaries of Lippo. The capital support from Lippo Group extends to developing the building for hospitals under SHG.

Other major private hospital groups in Indonesia are not equipped with the same advantage as SHG. If a competitor hospital wants to develop a new hospital building in Surabaya, then it must have a sizeable amount of capital to support land expenditure, building development as well as medical equipment and technology acquisition. On the contrary, the new SHS will only have to disburse capital for medical equipment and


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technology. Frost & Sullivan believes that such strong support from SHS's parent companies will allow the hospital to hold advantage in terms of capital expenditure ahead of its future competitors in Surabaya.

Frost & Sullivan believes that the ability of SHS to leverage on its group's infrastructure provides the hospital with a holistic eco-system to deliver quality HCS to the population. The continuous supply of nurses and allied health workforce from Pelita Harapan University ensures the provision of high quality human resources to Siloam hospitals across the country. Strong financial support from SHG for SHS' general practitioners seeking specialisation qualifications further underpins SHS holistic system in providing high quality HCS in the region.

SHG's plan to continue expanding across Indonesia will create an extensive network of medical professional. Medical personnel practicing at the new SHS will be able to tap into the network and use the healthcare IT installed to communicate with other professionals practicing in various hospitals under SHG. The knowledge transfer and sharing between medical professionals will hone the skill-set of employees of the new SHS and thus, enable them to upgrade the quality of the HCS provided to patients.

## 2.3 CONCLUSION

Surabaya is likely to maintain its stature as Indonesia's business and political hubs along with Jakarta. The development of various industrial clusters in the Greater Surabaya area, including Gresik and Sidoarjo, will spur economic growth in the region. Such industrial development presents SHS with the opportunities to collaborate with companies to widen its patient base. Further, SHS' competitive advantage in terms of location eases potential and existing patients in seeking high quality HCS.

Economic growth has resulted in increase in income per capita, which will lead to a larger base of upper-middle class and affluent population that demand a much higher quality HCS. Affluent residential areas, including Citra Land and Darmo Satellite Town will flourish, especially in West Surabaya. With its ability and experience in providing high quality premium HCS, the increment in income per capita, upper-middle class and affluent population in Surabaya will be important drivers for SHS to tap into the unmet private healthcare needs in the region. Affluent population aside, SHS' inclusion of JKN patients is likely to expand the scale of SHS's target market towards all population classes, both in the short and long-run.

In addressing the current supply-demand gaps in Surabaya's HCS industry, SHS has devoted its human and financial capital to develop several COEs, equipped with state-of-the-art facilities. Frost & Sullivan believes that the development of these COEs along with SHS' technological imperatives will provide patients with outstanding consumer experience and hence, attend to current healthcare needs in Surabaya. As such, comprehensive development of the centres is a key contributor in retaining Surabaya's affluent population to seek medical treatment locally.

Frost & Sullivan believes that competition among hospitals in Surabaya will continue to intensify in the future. SHS' future trajectory depends largely on the hospital's ability to compete successfully in Surabaya. Frost & Sullivan believes that SHS' planned investment for new hospital building is an essential element to remain competitive within the HCS sector in Surabaya. Currently, SHS is able to employ a number of prominent


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medical professors in Surabaya to practice in the hospital. It is a key strength that allows SHS to compete effectively against other competing hospitals to date. Frost & Sullivan believes that SHS should be able to develop the right incentive scheme to address specialist retention issues which is imperative to maintain SHS' stronghold in providing the best and most professional doctors.

SHS's marketing and advertising efforts through public health seminars as well as advance medical seminars for doctors are likely to boost the public's and well as the medical community's awareness on SHS and position it as a state-of-the-art private hospital in Surabaya. SHS's close connection with other hospitals in SHG is likely to enable sharing of resources (specialists), thereby providing SHS an edge over other service providers in tackling the nation-wide issue of shortage of medical personnel.

Frost & Sullivan is of the opinion that SHS' holistic business approach is the hospital's key competitive advantage that will enable them to compete successfully against its competitors. Through intensive marketing campaigns, professional medical personnel with excellent credentials, technological imperatives and premium medical facilities, SHS is believed to be one step ahead of its competitors in tapping into the unmet private HCS needs in Surabaya.


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# 3 RESEARCH METHODOLOGY

## 3.1 INTRODUCTION

Frost & Sullivan has refined its research methodology over many years of experience, having researched diverse markets in many different life cycles—from the embryonic to mature. Frost & Sullivan's reference publication, Industrial Market Engineering (Publication 5168-80), explains the research methodology in great depth.

Frost & Sullivan's Market Engineering system

- Focuses on challenges, problems and the needs of industry participants
- Is based on primary market research and not on secondary or previously published ones
- Focuses on detailed, comprehensive, "bottom-up" data collection techniques
- Is based on measurements

### 3.1.1 Market Engineering Forecasting Methodology

#### *3.1.1.1 Overview*

One of the most common questions that Frost & Sullivan receives from its clients is, "What is your forecasting methodology and how can I assess its level of credibility and accuracy?" This section on Frost & Sullivan's proprietary Market Engineering forecasting methodology has been added to answer this question.

This methodology integrates several forecasting techniques with the Market Engineering measurement-based system. It relies on the expertise of the analyst team in integrating the critical market elements investigated during the research phase of the project. These elements include:

- Expert-opinion forecasting methodology
- Delphi forecasting methodology
- Integration of market drivers and restraints
- Integration with the market challenges
- Integration of the Market Engineering measurement trends
- Integration of econometric variables
- Integration of customer demographics

The Market Engineering forecasting methodology is a seven-step system that maximises the credibility and accuracy of the forecasts. These are:


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#### *3.1.1.2 Market Engineering Research Process Completed*

The Market Engineering research process provides the navigational measurements of current market position and trends, which become the basis of the forecast.

#### *3.1.1.3 Measurements and Challenges Analysed over Time*

Measurements and challenges are analysed over time to provide additional insights into their potential impact on the market size and development.

#### *3.1.1.4 Identification of Market Drivers and Restraints*

At this stage, the analyst specifies the factors that will drive the market forward in terms of revenues and determines the elements that will inhibit growth.

#### *3.1.1.5 Expert-Opinion Integration with Analyst Team*

The interview process includes a variety of industry experts: competitors and key customers. These experts' opinions on the direction of the market are integrated with the data and analysis already created.

#### *3.1.1.6 Forecasts Calculated*

At this stage, analysts collect the market data needed to create the initial forecast scenarios. Each scenario is assessed to determine the most probable outcome for the market size. For example, the forecasts are matched to the leading economic indicators and drivers for each specific industry.

#### *3.1.1.7 Delphi Technique Integration, If Needed*

If data and forecast scenarios conflict, it becomes necessary to again discuss the market forecasts with the industry experts interviewed in the research process.

#### *3.1.1.8 Quality Control within Research Department*

Once the forecasts are integrated into the market section, they are verified by the other team members in the industry research group (IRG) and the research director. The forecasts are also ensured for mathematical accuracy and internal consistency by the final review preparation department and the editing department.

### 3.1.2 Strategic Significance of the Market Engineering Forecast

The Market Engineering forecast can have a significant impact on the business in several areas. Therefore, it should be integrated into business planning, strategy development and decision-making.


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#### *3.1.2.1 Judging Credibility and Accuracy of Market Engineering Forecasts*

Frost & Sullivan forecasts integrate the key elements that typically have an impact on market growth and size. No one can consistently make accurate forecasts, but market research has a proven track record in making accurate projections of market trends and growth rates.

The key test of credibility is whether the analyst team had integrated all the critical elements of the market into the forecast. If all such elements are included in the analysis, then the forecast has strong credibility.

The accuracy of a forecast to within a 10.0 percent range over a three-year period is not vitally important. What is important is that the overall trend be forecast correctly, because it drives the appropriate strategy and subsequent decisions. The Market Engineering forecasting methodology has consistently proved to be an accurate and reliable forecasting tool, particularly for high technology and industrial markets.

All the currencies reported are specified in US dollars, unless indicated otherwise.

Over the last 40 years, Frost & Sullivan has had an impressive track record in forecasting emerging markets, new technologies and shifts in existing markets. Unexpected events have significantly changed the marketplace, but these do not occur often and they merely delay the development of the market, rather than destroy it.

Frost & Sullivan always advise clients that its forecasts should not be the exclusive basis for decision-making at their companies. It should be an additional source of input and a support tool for their work in investigating the market and creating a winning strategy.

In the final analysis, decision-making is based on the general trend of the forecast, not its absolute accuracy.

It is important to accurately determine the range of the forecast, as it will have the greatest impact on the investment or strategy decision. Typically, the decisions revolve around questions such as:

Should the company enter the market?

Should the company increase or decrease its investment?

Should the company improve its performance in the market?

These decisions do not require accuracy within a few percentage points. They require accuracy in the determination of the general trend category. All business decisions carry some risk. Market Engineering increases the probability that the decisions will be correct, but it does not eliminate all risks.


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# IFA LETTER


## STIRLING COLEMAN CAPITAL LIMITED

(Company registration no.:200105040N)

4 Shenton Way #07-03
SGX Centre 2
Singapore 068807


14 December 2015

To: The Independent Directors of
Bowsprit Capital Corporation Limited
(as Manager of First Real Estate Investment Trust) (the "**Manager**") and

HSBC Institutional Trust Services (Singapore) Limited
(in its capacity as trustee of First Real Estate Investment Trust) (the "**Trustee**"):

Dear Sirs

**INDEPENDENT FINANCIAL ADVISER'S ADVICE IN RESPECT OF:**

**(1) THE PROPOSED DIVESTMENT OF PLOT B TO AN INTERESTED PERSON (THE "PLOT B DIVESTMENT");**

**(2) THE PROPOSED DEVELOPMENT WORKS AND THE PROPOSED ACQUISITION OF THE NEW SILOAM HOSPITALS SURABAYA (THE "NEW SHS") FROM AN INTERESTED PERSON (THE "NEW SHS ACQUISITION");**

**(3) THE PROPOSED PUT OPTION TO BE GIVEN TO FIRST REIT FOR THE SALE OF THE ENTIRE SHARE CAPITAL OF AN INTERESTED PERSON TO THE SPONSOR, AS PART OF THE NEW SHS ACQUISITION (THE "PUT OPTION");**

**(4) THE PROPOSED DIVESTMENT OF THE EXISTING SILOAM HOSPITALS SURABAYA (THE "EXISTING SHS") TO AN INTERESTED PERSON (THE "EXISTING SHS DIVESTMENT"); AND**

**(5) THE PROPOSED MASTER LEASE AGREEMENT IN RESPECT OF THE NEW SHS (THE "NEW SHS MASTER LEASE").**

**(COLLECTIVELY THE "IPT TRANSACTIONS").**

*For the purpose of this letter, capitalised terms not otherwise defined shall have the meaning given to them in the circular dated 14 December 2015 to the Unitholders of First Real Estate Investment Trust (the "**Circular**").*

## 1 INTRODUCTION

First REIT was established with the principal investment objective of owning and investing in a diversified portfolio of income-producing real estate and/or real estate-related assets in Asia that are primarily used for healthcare and/or healthcare-related purposes including, but not limited to, hospitals, nursing homes, medical clinics, pharmacies, laboratories, diagnostic/imaging facilities and real estate and/or real estate related assets used in connection with healthcare research, education, lifestyle and wellness management, manufacture, distribution or storage of pharmaceuticals, drugs, medicine and other healthcare goods and devices and such other ancillary activities relating to the primary objective, whether wholly or partially owned, and whether directly or indirectly held through the ownership of special purpose vehicles whose primary purpose is to hold or own real estate.

In furtherance of First REIT's investment policy, the Manager is seeking the approval from the Unitholders in respect of a proposed joint arrangement ("**Joint Arrangement**") and asset swap with PT Saputra Karya ("**PT SK**") (a limited liability company incorporated in Indonesia and an indirect wholly-owned subsidiary of PT Lippo Karawaci Tbk, a company incorporated in Indonesia and the sponsor of First REIT (the "**Sponsor**")), which involves the following:

(a) **Divestment of Plot B**

The divestment of a plot of land ("**Plot B**") which is owned by PT Tata Prima Indah ("**PT TPI**"), a limited liability company incorporated in Indonesia and an indirect wholly-owned subsidiary of First REIT to PT SK (the "**Plot B Divestment**");

(b) **Development Works**

The development works on Plot B and the Sponsor's land adjacent to Plot B ("**Plot A**" and the development works on Plot A and Plot B, the "**Development Works**");

(c) **The New SHS Acquisition and New SHS Master Lease**

The acquisition of the new hospital to be built pursuant to the Development Works (the "**New SHS**" and the acquisition of the New SHS, the "**New SHS Acquisition**") from PT SK, as well as the proposed master lease of the New SHS to the Sponsor (the "**New SHS Master Lease**") and the termination of the existing master lease agreement between PT TPI (as the master lessor of the existing Siloam Hospitals Surabaya (the "**Existing SHS**")) and the Sponsor (as the master lessee of the Existing SHS) ("**Existing SHS Master Lease Agreement**"); and

(d) **Divestment of the Existing SHS**

The divestment of the Existing SHS, which is owned by PT TPI, to PT SK (the "**Existing SHS Divestment**"),

(collectively, the "**Transaction**").

The New SHS Acquisition is subject to the concurrent completion of the Existing SHS Divestment.

**1.1 Interested Person Transactions requiring Unitholders' approval**

Under Chapter 9 of the Listing Manual, where First REIT proposes to enter into a transaction with an Interested Person and the value of the transaction (either in itself or when aggregated with the value of other transactions, each of a value equal to or greater than S$100,000 with the same Interested Person during the same financial year) is equal to or exceeds 5.0% of First REIT's latest audited net tangible assets ("**NTA**"), Unitholders' approval is required in respect of the transaction.

Based on the FY2014 Audited Consolidated Financial Statements, the NTA of First REIT was S$744.95 million as at 31 December 2014. Accordingly, if the value of a transaction which is proposed to be entered into in the current financial year by First REIT with an Interested Person is, either in itself or in aggregate with all other earlier transactions (each of a value equal to or greater than S$100,000) entered into with the same Interested Person during the current financial year, equal to or in excess of S$37.25 million, such a transaction would be subject to Unitholders' approval.

Paragraph 5 of the Property Funds Appendix also imposes a requirement for Unitholders' approval for an Interested Party Transaction by First REIT which value exceeds 5.0% of First REIT's latest audited NAV. Based on the FY2014 Audited Consolidated Financial Statements, the NAV of First REIT was S$744.95 million as at 31 December 2014.

Accordingly, if the value of a transaction which is proposed to be entered into by First REIT with an Interested Party is equal to or greater than S$37.25 million, such a transaction would be subject to Unitholders' approval.

As at 4 December 2015, being the latest practicable date prior to the printing of this Circular (the "**Latest Practicable Date**"), the Sponsor directly and/or through its subsidiaries and through its interest in the Manager, has deemed interests of (i) 33.58% in First REIT and (ii) 100.0% in the

Manager, and is therefore regarded as a "Controlling Unitholder" of First REIT and a "Controlling Shareholder" of the Manager respectively under both the Listing Manual and the Property Funds Appendix.

For the purposes of Chapter 9 of the Listing Manual and the Property Funds Appendix, PT SK, being an indirect wholly-owned subsidiary of the Sponsor (which in turn is a Controlling Unitholder of First REIT and a Controlling Shareholder of the Manager) is an Interested Person and Interested Party of First REIT.

Given:

(i) the Plot B Sale Consideration of S$8.20 million (Rp. 79.15 billion)[1] (which is 1.1% of the NTA and NAV respectively of First REIT as at 31 December 2014);

(ii) the value of the Development Works (including the Progress Payments) and the New SHS Acquisition are S$90.00 million (Rp. 873.19 billion)[2] (which is 12.08% of the NTA and NAV respectively of First REIT as at 31 December 2014);

(iii) the value of the New SHS Master Lease is approximately S$135.11 million (Rp. 1,310.57 billion) (which is 18.14% of the NTA and NAV respectively of First REIT as at 31 December 2014); and

(iv) the Existing SHS Sale Consideration of S$27.50 million (Rp. 265.45 billion)[3] which is 3.69%[4] of the NTA and NAV respectively of First REIT as at 31 December 2014),

the value of the Transaction will in aggregate exceed (i) 5.0% of First REIT's latest audited NTA and (ii) 5.0% of First REIT's latest audited NAV. As such, the Transaction will constitute an Interested Person Transaction under Chapter 9 of the Listing Manual and an Interested Party Transaction under paragraph 5 of the Property Funds Appendix and accordingly, approval for the Transaction is sought from the Independent Unitholders.

## 2 TERMS OF REFERENCE

Stirling Coleman has been appointed to advise the Independent Directors and the Trustee on whether the IPT Transactions; comprising (i) the Plot B Divestment, (ii) the Development Works and the New SHS Acquisition, (iii) the Put Option, (iv) the Existing SHS Divestment and (v) the New SHS Master Lease, which collectively make up the Transaction (as defined in the Circular), are (a) on normal commercial terms and (b) are prejudicial to the interests of First REIT and its Independent Unitholders.

We have prepared this Letter for the use of the Independent Directors in connection with their consideration of the Transaction and their advice and recommendation to the Independent Unitholders in respect thereof. The recommendations made to the Independent Unitholders in relation to the Transaction remains the responsibility of the Independent Directors. This Letter is further given for the benefit of HSBC Institutional Trust Services (Singapore) Limited, as Trustee of First REIT.

We were not involved in any aspect of the negotiations in relation to the IPT Transactions, nor were we involved in the deliberations leading up to the decision by the Board of Directors to enter into the IPT Transactions, and we do not, by this Letter or otherwise, advise or form any judgment on the merits of the IPT Transactions other than to form an opinion, as to whether the IPT Transactions, are based on normal commercial terms and prejudicial to the interests of First REIT and its Independent Unitholders.

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1 Based on the Bank Indonesia mid-rate of S$1.00 to Rp. 9,652.775 on 15 October 2015, being the agreed rupiah exchange rate set out in the Plot B CSPA.

2 Based on the Bank Indonesia selling rate of S$1.00 to Rp. 9,702.120 on 15 October 2015, being the agreed rupiah exchange rate set out in the Development Works Agreement.

3 Based on the Bank Indonesia mid-rate of S$1.00 to Rp. 9,652.775 on 15 October 2015, being the agreed rupiah exchange rate set out in the Existing SHS CSPA.

4 Based on the assumption that the Existing SHS Sale Consideration will be S$27.50 million (Rp. 265.45 billion).

We have confined our evaluation to the financial terms of the IPT Transactions and our terms of reference do not require us to evaluate or comment on the risks and/or merits of the IPT Transactions or the future prospects of First REIT, including whether the IPT Transactions are commercially desirable or justifiable, and we have not made such evaluation or comment. Such evaluation or comment, if any, remains the responsibility of the Directors and the management of the Manager, although we may draw upon their views or make such comments in respect thereof (to the extent deemed necessary or appropriate by us) in arriving at our opinion as set out in this Letter. Accordingly, it is not within our scope to conduct a comprehensive independent review of the business, operations or financial condition of First REIT.

It is not within our terms of reference to compare the relative merits of the IPT Transactions vis-à-vis any alternative transaction previously considered by the Manager or transactions that the Manager may consider in the future, and such comparison and consideration remain the responsibility of the Directors.

We have not made an independent evaluation or appraisal of the assets and liabilities (including without limitation, real property, machinery and equipment) of First REIT or the Plot B Divestment or the New SHS Acquisition or the Existing SHS Divestment, and we have not been furnished with any such evaluation or appraisal except for the relevant valuation reports by the Independent Valuers. We are not experts in the evaluation or appraisal of assets and liabilities or the determination of the market value of the Plot B, the New SHS and the Existing SHS and have relied solely on the Independent Valuers in this respect.

In formulating our opinion and recommendation, we have held discussions with the Directors and management of the Manager and have examined publicly available information and we have relied to a considerable extent on the information set out in the Circular, other public information collated by us and the information, representations, opinions, facts and statements provided to us, whether written or verbal, by the Manager and its other professional advisers. We have relied upon the assurance of the Directors and the management of the Manager that all statements of fact, opinion and intention made by the Directors and the management of the Manager in the Circular have been reasonably made after due and careful enquiry. We have not independently verified such information but have made such reasonable enquiries and exercised our judgement as we deemed appropriate on such information and have no reason to doubt the accuracy or reliability of the information used for the purposes of our evaluation. Accordingly we cannot and do not expressly and impliedly represent or warrant, and do not accept any responsibility for the accuracy, or completeness or adequacy of such information or the manner in which it has been classified or presented or the basis of any valuation which may have been included in the Circular or announced by First REIT. The information which we relied on were based upon market, economic, industry, monetary and other conditions prevailing as at the Latest Practicable Date and may change significantly over a relatively short period of time. Accordingly, we do not express an opinion herein as to the prices at which the Units of First REIT may trade upon completion of the Transaction.

In rendering our services, we have not taken into consideration the specific investment objectives, financial situation, tax position, tax status, risk profiles or particular needs and constraints or circumstances of any individual Unitholder. As each Unitholder would have different investment objectives and profiles, any individual Unitholder who may require specific advice in the context of his specific investment objectives or portfolio should consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

The Manager has been separately advised by its own advisers in the preparation of the Circular (other than this Letter). We have had no role or involvement and have not provided any advice, financial or otherwise, whatsoever in the preparation, review and verification of the Circular (other than this Letter). Accordingly, we take no responsibility for and express no views, expressed or implied, on the contents of the Circular (other than this Letter).

**Our recommendation in respect of the IPT Transactions as set out in Section 9 of the Circular, should be considered in the context of the entirety of this Letter and the Circular. Where information in this Letter has been extracted from the Circular, Independent Unitholders are urged to read the corresponding sections in the Circular carefully.**

## 3 INFORMATION ON THE PLOT B DIVESTMENT

### 3.1 Description of Plot B

Detailed descriptions of Plot B are set out in **Section 2.1** and **Appendix D** of the Circular. We recommend that the Independent Directors advise the Independent Unitholders to read **Section 2.1** and **Appendix D** of the Circular very carefully.

### 3.2 Details of the Plot B Divestment

Pursuant to the Transaction, PT TPI had on 20 October 2015 entered into the Plot B CSPA to divest Plot B for a sale consideration of S$8.20 million (Rp. 79.15 billion) to PT SK. The completion of the sale of Plot B is intended to take place shortly after approval for the Transaction is obtained from the Independent Unitholders at the EGM.

Further details of the Plot B Divestment and the conditions precedent for the completion of the Plot B divestment are set out in **Sections 2.2, 2.3** and **2.5** of the Circular. We recommend that the Independent Directors advise the Independent Unitholders to read these sections very carefully.

### 3.3 Cost of the Plot B Divestment

The Plot B Divestment Cost is currently estimated to be approximately S$133,000, comprising the following:

(i) the Plot B Divestment Fee[5] of S$39,000 payable to the Manager pursuant to Clause 14.2.1 of the Trust Deed shall be payable in the form of the Plot B Divestment Fee Units; and

(ii) the estimated professional and other fees and expenses of approximately S$94,000[6] to be incurred by First REIT in connection with the Plot B Divestment.

### 3.4 Use of sale proceeds

The Manager intends to use the net sales proceeds of the Plot B Divestment of S$7.4 million to pay part of the First Progress Payment (which amounts to S$18.0 million). The balance of the First Progress Payment is expected to be financed via First REIT's internal cash and/or committed debt facility.

## 4 INFORMATION ON THE DEVELOPMENT WORKS AND THE NEW SHS ACQUISITION

### 4.1 Description of the Development Works

As part of the Sponsor's plans to develop the Surabaya region (including building the New SHS which will replace the Existing SHS), the Sponsor intends to build a mixed development in Surabaya, East Java, Indonesia. The mixed development will comprise the New SHS, a private school, an ancillary mall, a hotel and apartment and adequate car parks. The Sponsor will construct the mixed development on Plot A, Plot B and Plot C.[7] The Sponsor will commence Development Works on Plot A and Plot B after the completion of the sale of Plot B. The completion of the sale of Plot B is intended to take place shortly after approval for the Transaction is obtained from the Independent Unitholders at the EGM. After the completion of the Development Works and after the issuance of the SLF and the necessary hospital operation permits and licences for the New SHS, the Existing SHS will be swapped with the New SHS. The Development Works involves the development of the New SHS, a private school, an ancillary mall and adequate car parks. First REIT will not be involved in the Development Works.

Detailed descriptions of the Development Works are set out in **Section 3.1 and Appendix B** of the Circular. We recommend that the Independent Directors advise the Independent Unitholders to read **Section 3.1** and **Appendix B** of the Circular very carefully.

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5 Being 0.5% of the Plot B Sale Consideration net of the final tax of 5%.

6 It is expected that most of the professional and other fees and expenses in connection with the Plot B Divestment will be incurred by First REIT even if the Manager does not proceed with the Plot B Divestment.

7 For the avoidance of doubt, PT TPI is the owner of Plot C.

### 4.2 Details of the Development Works

PT TPI and PT SK had on 20 October 2015 entered into the Development Works Agreement pursuant to which PT SK proposes to carry out the Development Works (including the construction of the New SHS) and, upon completion of the Development Works, PT TPI proposes to acquire the New SHS.

Further details of the Development Works, including the schedule of the Progress Payments for the Development Works are set out in **Sections 3.2** and **3.3** of the Circular. We recommend that the Independent Directors advise the Independent Unitholders to read these sections of the Circular very carefully.

### 4.3 Description of the New SHS

Detailed descriptions of the New SHS are set out in **Section 4.1** and **Appendix C** of the Circular. We recommend that the Independent Directors advise the Independent Unitholders to read **Section 4.1** and **Appendix C** of the Circular very carefully.

### 4.4 Details of the New SHS Acquisition

First REIT is seeking to acquire the New SHS for a consideration of S$90.00 million (Rp. 873.19 billion) from PT SK. The New SHS Consideration will be paid progressively in instalments at certain stages of the construction of the New SHS.

Further details of the New SHS Acquisition and the conditions precedent for the completion of the sale and purchase of the New SHS are set out in **Sections 4.2, 4.3** and **4.5** of the Circular. We recommend that the Independent Directors advise the Independent Unitholders to read these sections of the Circular very carefully.

### 4.5 Cost of the New SHS Acquisition

The New SHS Acquisition Cost is currently estimated to be approximately S$91.60 million, comprising the following:

(i) the New SHS Consideration of S$90.00 million (Rp. 873.19 billion);

(ii) the New SHS Acquisition Fee[8] of S$900,000 payable to the Manager pursuant to Clause 14.2.1 of the Trust Deed shall be payable in the form of the New SHS Acquisition Fee Units; and

(iii) the estimated professional and other fees and expenses of approximately S$700,000[9] to be incurred by First REIT in connection with the New SHS Acquisition.

### 4.6 Method of financing the New SHS Acquisition

The New SHS Consideration will be paid in cash and is expected to be financed through a combination of First REIT's committed debt facility and equity.

## 5 THE PUT OPTION

Upon completion of the construction of the New SHS, the Sponsor will make an application to the relevant authority to obtain a SLF. Once PT SK obtains the SLF, PT SK will apply for the necessary hospital operation permits and licences[10] as well as make an application to the Indonesian National Land Office for the segregation of the New SHS HGB Land Titles into separate Strata Title Certificates, to be issued to PT TPI.

After the SLF has been issued and the necessary hospital operation permits and licences in relation to the New SHS have been obtained but prior to the issuance of the Strata Title Certificates to PT TPI, PT TPI will take possession of the New SHS and the New SHS Master Lease Agreement will commence.

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8 Being 1.0% of the New SHS Consideration.

9 It is expected that most of the professional and other fees and expenses in connection with the New SHS Acquisition will be incurred by First REIT even if the Manager does not proceed with the New SHS Acquisition.

10 It is expected that the Sponsor will obtain the necessary hospital permits and licences within three months after the receipt of the SLF.

As PT TPI will be taking possession of the New SHS before the Strata Title Certificates are issued to PT TPI, the Trustee, PIPL, SHIPL, PT TPI and PT WJP have entered into a Put Option Agreement which provides that if the Strata Title Certificates are not issued to PT TPI by the Strata Title Completion Period, a meeting of the Independent Unitholders will be convened by the Trustee pursuant to which the Independent Unitholders' will vote, by way of an Ordinary Resolution, whether to extend the option period by an additional six months.

If the Independent Unitholders vote in favour of the Ordinary Resolution at the general meeting, there will be an Extended Strata Title Completion Period and if PT TPI does not (or does not expect to) receive the Strata Title Certificates within the Extended Strata Title Completion Period, the Trustee has the option to convene another general meeting to seek Independent Unitholders' approval for the extension of the Extended Strata Title Completion Period and the put option period by another six months. This process of seeking Independent Unitholders' approval shall continue until the Independent Unitholders decide not to grant any extension by way of an Ordinary Resolution.

If PT TPI does not receive the Strata Title Certificates within the Strata Title Completion Period or, as the case may be, the Extended Strata Title Completion Period, the Trustee will have the Put Option to require the Put Option Grantor to purchase all the shares of PT TPI, which in turn will hold the New SHS, at the higher of:

(i) the consideration which First REIT paid for the New SHS Acquisition; or

(ii) the market value of the New SHS as determined by two independent valuers appointed in accordance with the Property Funds Appendix, and,

taking into account all transaction costs incurred directly or indirectly, by First REIT, PT TPI, PIPL, SHIPL and the Trustee for the New SHS Acquisition and the exercise of the Put Option (including, but not limited to brokerage, stamp duties, acquisition fees, conveyancing fees, legal fees, tax advisory fees and other professional fees) and with adjustments to take into account the NAV of PT TPI.

Details of the Put Option are set out in **Section 4.6** of the Circular. We recommend that the Independent Directors advise the Independent Unitholders to read **Section 4.6** of the Circular very carefully.

As the Put Option is structured as part of the New SHS Acquisition, we wish to highlight to the Independent Directors that by approving the New SHS Acquisition, the Independent Unitholders would also be deemed to have approved the Put Option.

## 6 INFORMATION ON THE EXISTING SHS DIVESTMENT

### 6.1 Description of the Existing SHS

Detailed descriptions of the Existing SHS are set out in **Section 5.1** and **Appendix C** of the Circular. We recommend that the Independent Directors advise the Independent Unitholders to read **Section 5.1** and **Appendix C** of the Circular very carefully.

### 6.2 Details of the Existing SHS Divestment

Pursuant to the Transaction, PT TPI had on 20 October 2015 entered into the Existing SHS CSPA to divest the Existing SHS for a sale consideration of at the higher of (i) S$27.50 million[11] (Rp. 265.45 billion) or (ii) the average of two independent valuations of the Existing SHS to be conducted in accordance with the Property Funds Appendix prior to the completion of the Existing SHS Divestment to PT SK.

Further details of the Existing SHS Divestment and the conditions precedent for the completion of the Existing SHS Divestment are set out in **Sections 5.2, 5.3** and **5.5** of the Circular. We recommend that the Independent Directors advise the Independent Unitholders to read these sections of the Circular very carefully.

11 The figure of S$27.50 million (Rp. 265.45 billion) was commercially agreed between the Manager and the Sponsor after taking into account the two independent valuations of S$17.90 million and S$22.27 million for the Existing SHS by Winarta and W&R respectively.

### 6.3 Existing SHS Master Lease Agreement

While the Development Works is in progress, the Existing SHS will remain open for business and the Sponsor (as the master lessee of the Existing SHS) will continue to pay full rental under the Existing SHS Master Lease Agreement.

Once PT TPI takes possession of the New SHS, the Existing SHS Master Lease Agreement will be terminated via a termination agreement and will be replaced by the New SHS Master Lease Agreement.

### 6.4 Cost of the Existing SHS Divestment

The Existing SHS Divestment Cost is currently estimated to be approximately S$318,000, comprising the following:

(i) the Existing SHS Divestment Fee[12] of S$131,000[13] payable to the Manager pursuant to Clause 14.2.1 of the Trust Deed shall be payable in the form of the Existing SHS Divestment Fee Units; and

(ii) the estimated professional and other fees and expenses of approximately S$187,000[14] to be incurred by First REIT in connection with the Existing SHS Divestment.

### 6.5 Use of Sale Proceeds

The Manager intends to use S$9.00 million of the net sales proceeds of the Existing SHS Divestment to pay the Final Progress Payment and the remaining S$17.60 million of the net sales proceeds of the Existing SHS Divestment to repay First REIT's existing loans.

## 7 THE NEW SHS MASTER LEASE

In relation to the New SHS Acquisition, the New SHS Master Lease Agreement will be entered into between PT TPI (as the master lessor of the New SHS) and the Sponsor (as the master lessee of the New SHS) pursuant to which the New SHS Master Lease will be granted to the Sponsor for a lease term of 15 years, commencing from the fifth Business Day after the effective date of termination of the Existing SHS Master Lease Agreement with an option to renew for a further term of 15 years.

The principal terms of the New SHS Master Lease are set out in **Section 4.8** of the Circular. We recommend that the Independent Directors advise the Independent Unitholders to read **Section 4.8** in the Circular very carefully.

As the New SHS Master Lease is structured as part of the New SHS Acquisition, we wish to highlight to the Independent Directors that by approving the New SHS Acquisition, the Independent Unitholders would also be deemed to have approved the New SHS Master Lease.

## 8 EVALUATION OF THE IPT TRANSACTIONS

### 8.1 Summary of analysis performed

In arriving at our opinion, as to whether the IPT Transactions, comprising (i) the Plot B Divestment, (ii) the Development Works and the New SHS Acquisition, (iii) the Put Option, (iv) the Existing SHS Divestment and (v) the New SHS Master Lease, are on normal commercial terms and are prejudicial to the interests of First REIT and its Independent Unitholders, we have performed among other things, the following analysis:

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12 Being 0.5% of the Existing SHS Sale Consideration net of the final tax of 5%.

13 Based on the assumption that the Existing SHS Sale Consideration will be S$27.50 million (Rp. 265.45 billion). The rupiah exchange rate is based on the Bank Indonesia mid-rate of S$1.00 to Rp. 9,652.775 on 15 October 2015, being the agreed rupiah exchange rate set out in the Existing SHS CSPA.

14 It is expected that most of the professional and other fees and expenses in connection with the Existing SHS Divestment will be incurred by First REIT even if the Manager does not proceed with the Existing SHS Divestment.

**The Plot B Divestment**

- Rationale for the Plot B Divestment to assess whether it is prejudicial to the interests of First REIT and its Independent Unitholders;
- Financial assessment of the Plot B Divestment to evaluate the reasonableness of the Plot B Sale Consideration; and
- Review of the pro forma financial effects of the Plot B Divestment on the DPU, NAV per Unit and total capitalisation of First REIT as at 31 December 2014 and as at 30 September 2015.

**The Development Works and the New SHS Acquisition**

- Rationale for the Development Works and the New SHS Acquisition to assess whether they are prejudicial to the interests of First REIT and its Independent Unitholders;
- Financial assessment of the New SHS Acquisition to evaluate the reasonableness of the New SHS Consideration;
- Review of the other commercial terms of the New SHS SPA;
- Review of the market conditions and prospects of the healthcare industry in Surabaya, Indonesia;
- Review of the pro forma financial effects after the Plot B Divestment, the New SHS Acquisition and the Existing SHS Divestment on the DPU, NAV per Unit and total capitalisation of First REIT as at 31 December 2014 and as at 30 September 2015; and
- Analysis of the pro forma distribution yield of First REIT as compared to other REITs listed on the SGX-ST.

**The Put Option**

- Rationale for the Put Option to assess whether they are prejudicial to the interests of First REIT and its Independent Unitholders; and
- Analysis on the terms of the Put Option Agreement.

**The Existing SHS Divestment**

- Rationale for the Existing SHS Divestment to assess whether they are prejudicial to the interests of First REIT and its Independent Unitholders;
- Financial assessment of the Existing SHS Divestment to evaluate the reasonableness of the Existing SHS Sale Consideration;
- Review of the pro forma financial effects after the Plot B Divestment, the New SHS Acquisition and the Existing SHS Divestment on the DPU, NAV per Unit and total capitalisation of First REIT as at 31 December 2014 and as at 30 September 2015; and
- Other considerations relating to the Existing SHS Divestment.

**The New SHS Master Lease**

- Rationale for the New SHS Master Lease to assess whether the objectives of the New SHS Master Lease are prejudicial to interests of First REIT and its Independent Unitholders;
- Analysis of the impact of the New SHS Master Lease on the property yield and the weighted average years to lease expiry of First REIT;
- Analysis of the key terms of the New SHS Master Lease as compared to other master lease agreements of properties used for healthcare and/or healthcare-related purposes owned by SGX-ST listed REITs;

- Review of the other commercial terms of the New SHS Master Lease; and
- Other considerations relating to the New SHS Master Lease.

## 8.2 Analysis on the Plot B Divestment

### 8.2.1 Rationale for the Plot B Divestment

The Manager's rationale for the Transaction is set out in **Section 7** of the Circular. We reproduce below extracts relevant to the Plot B Divestment:

*"**Asset Swap of the Existing SHS which was constructed in 1977 for a brand new and modern hospital building within an integrated development in the heart of Surabaya***

*In recent years, three new hospitals commenced operations in Surabaya, East Java, Indonesia, namely (i) the Royal Hospital (opened in 2012), (ii) RSUD Soewandhi, a new public hospital (opened in 2013) and (iii) the Mitra Family Hospital No. 3 (opened in 2014). In addition to the new hospitals, the other existing hospitals within the Surabaya region have also upgraded their facilities in 2014. For instance, RS Premier Surabaya recently opened its nine bed stroke unit and RKZ Surabaya moved its paediatrics clinic which is now adjacent to their existing hospital compound. This has increased competitiveness in the healthcare industry in Surabaya.*

*As the Existing SHS was constructed in 1977, the existing facilities and infrastructure at the Existing SHS are outdated, and the Manager is of the view that it is necessary to enhance the market share of the Existing SHS in view of competition from other existing and potential new hospitals in the region. However, it would be difficult for First REIT to enhance and redevelop the Existing SHS on its own without crossing the development limit set out in the Property Funds Appendix.*

*Pursuant to the proposed Transaction, the Sponsor will bear all costs in connection with the Development Works, and the Manager is of the view that the Transaction is a feasible way to obtain a brand new hospital in exchange for the Existing SHS without First REIT having to undertake any development activities or take on any development risks.*

*The Existing SHS suffers from a shortage of car parks to serve visiting patients and staff. As a result, off-site car parks have to be arranged to transport patients and staff. The Manager had also considered undertaking an asset enhancement scheme on the Existing SHS but after careful consideration, the Manager believes that the Asset Swap is a more viable alternative. Once the New SHS is completed, it will be one of the most modern and advanced hospital in Surabaya and the Manager is of the view that the New SHS would enhance the brand image of "Siloam Hospitals".*

*This Transaction is in line with the Manager's strategy to rejuvenate its property portfolio by divesting its oldest asset and acquiring a brand new and modern hospital. The weighted average age of properties of the Enlarged Portfolio will decrease from approximately 10.1 years from that of the Existing Portfolio as at 31 December 2014 to approximately 8.2 years after the completion of the Transaction.*

*In light of the competition from existing and upcoming new hospitals in the region, the Manager is of the view that the Transaction is necessary to maintain and enhance the market share of First REIT in Surabaya."*

### 8.2.2 Financial assessment of the Plot B Divestment

Pursuant to the Plot B SPA, the Plot B Sale Consideration is approximately S$8.20 million. In evaluating the reasonableness of the Plot B Sale Consideration, we have considered the following factors which have a bearing on our assessment:

#### i) Basis for arriving at the Plot B Sale Consideration

We note that the Plot B Sale Consideration was arrived at on a willing-buyer willing-seller basis after taking into account the two independent valuations of Plot B by Winarta and W&R, which were commissioned by the Trustee and the Manager respectively. The valuations were derived by Winarta and W&R using the "Market Value" basis.

We further note that as the Plot B Divestment, the New SHS Acquisition and the Existing SHS Divestment were negotiated as one collective transaction and cannot be separated, First REIT did not obtain alternative offers for Plot B.

**ii) Valuation of Plot B by the Independent Valuers**

Two independent property valuers were appointed for the purpose of determining the market value of Plot B. The market value by Winarta (appointed by the Trustee) is as at 22 June 2015, and the market value by W&R (appointed by the Manager) is as at 30 June 2015.

Summarised versions of the valuation reports (the "**Valuation Reports**") are contained in **Appendix D** of the Circular, with the determined market values set out below:

| **Valuation of Plot B by the Independent Valuers** | |
|---|---|
| | **S$ million** |
| Winarta (As at 22 June 2015) | 8.20 |
| W&R (As at 30 June 2015) | 7.70 |

Our observations in relation to the Valuation Reports are as follows:

- The Valuation Report prepared by Winarta has adopted the "Market Value" basis in accordance with the Indonesian Valuation Standards (Standar Penilaian Indonesia / SPI) 2013.

- The Valuation Report prepared by W&R has adopted the "Market Value" basis in accordance with the Indonesian Valuation Standards (Standar Penilaian Indonesia / SPI) 2013.

- The Valuation Reports by Winarta and W&R assess the 'Market Value' of Plot B as at 22 June 2015 and 30 June 2015 respectively, which are close to the date for the Plot B CSPA. The Market Value is the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

- The appraised value of Plot B is between S$7.70 million and S$8.20 million. The agreed Plot B Sale Consideration is S$8.20 million. We note that the Plot B Sale Consideration is equal to the appraised value by Winarta and 6.5% above the appraised value by W&R, and 3.1% above the average of the two independent valuations for Plot B.

- In addition to the valuation by Winarta and W&R, the Manager had also commissioned an independent third valuer, RAB & P to prepare a limited desktop valuation of Plot B. RAB & P has valued Plot B at S$7.88 million (Rp. 77.81 billion) as at 29 June 2015, which is within the range of the appraised value of Plot B by Winarta and W&R.

Further information regarding the Valuation Reports can be obtained throughout the Circular, in particular within **Appendix D** of the Circular. We recommend that the Independent Directors advise the Independent Unitholders to read these sections of the Circular carefully.

**8.2.3 Review of the pro forma financial effects of the Plot B Divestment**

The pro-forma financial effects of the Transaction are set out in **Section 8** of the Circular, and are reproduced below for convenience. We note that assumptions were made for the purposes of analysing the pro-forma financial effects. We recommend that the Independent Directors advise the Independent Unitholders to read these assumptions carefully, and take them into consideration when considering the financial effects.

## i) Pro Forma DPU

*Financial year ended 31 December 2014*

The pro forma financial effects of (i) after the Plot B Divestment only and (ii) after the Plot B Divestment, the New SHS Acquisition and the Existing SHS Divestment on the DPU for FY2014, as if First REIT had purchased and/or divested the relevant properties on 1 January 2014, and held and operated the relevant properties through to 31 December 2014, are as follows:

| | FY2014 | | |
|---|---|---|---|
| | **Before the Plot B Divestment, New SHS Acquisition and Existing SHS Divestment[1]** | **After the Plot B Divestment but before the New SHS Acquisition and Existing SHS Divestment** | **After the Plot B Divestment, the New SHS Acquisition and Existing SHS Divestment** |
| Distributable Income (S$'000) | 58,221 | 58,272[2] | 63,651[3] |
| Units in issue and to be issued | 731,702,488 | 731,735,509[4] | 748,995,909[4] |
| DPU (cents) | 8.05 | 7.96[5] | 8.50 |

**Notes:**

(1) Based on the FY2014 Audited Consolidated Financial Statements.
(2) The increase in the distributable income is due to the net gain from the Plot B Divestment.
(3) The increase in the distributable income is due to (i) the net gain received from the Existing SHS Divestment and (ii) the rental income received from the New SHS less the rental income from Existing SHS.
(4) The units in issue and to be issued did not include 18,326,078 Units issued from 1 January 2015 to the Latest Practicable Date.
(5) The pro forma DPU does not take into account the net gain on the divestment of Plot B which will be used to finance part of the First Progress Payment of the New SHS instead of being distributed to the Unitholders.

*9 months ended 30 September 2015 ("**9M2015**")*

The pro forma financial effects of (i) after the Plot B Divestment only and (ii) after the Plot B Divestment, the New SHS Acquisition and the Existing SHS Divestment on the DPU for 9M2015, as if First REIT had purchased and/or divested the relevant properties on 1 January 2015, and held and operated the relevant properties through to 30 September 2015, are as follows:

| | 9M2015 | | |
|---|---|---|---|
| | **Before the Plot B Divestment, New SHS Acquisition and Existing SHS Divestment[1]** | **After the Plot B Divestment but before the New SHS Acquisition and Existing SHS Divestment** | **After the Plot B Divestment, the New SHS Acquisition and Existing SHS Divestment** |
| Distributable Income (S$'000) | 46,256 | 46,307[2] | 50,340[3] |
| Units in issue and to be issued | 748,050,271 | 748,083,292[4] | 765,343,692[4] |
| DPU (cents) | 6.21 | 6.19[5] | 6.58 |

**Notes:**

(1) Based on the 9M2015 Unaudited Consolidated Financial Statements.
(2) The increase in the distributable income is due to the net gain from the Plot B Divestment.
(3) The increase in the distributable income is due to (i) the net gain received from the Existing SHS Divestment and (ii) the rental income received from the New SHS less the rental income from Existing SHS.
(4) The units in issue and to be issued did not include 1,978,295 Units issued from 1 October 2015 to the Latest Practicable Date.
(5) The pro forma DPU does not take into account the net gain on the divestment of Plot B which will be used to finance part of the First Progress Payment of the New SHS instead of being distributed to the Unitholders.

Based on the figures above, the pro forma DPU after the Plot B Divestment only will decrease from 8.05 cents to 7.96 cents for FY2014 and decrease slightly from 6.21 cents to 6.19 cents for 9M2015. We understand from the Manager that the decrease in the pro forma DPU is due to the transaction costs and deferred taxation arising from the Plot B Divestment

and the increase in Units in issue arising from the Plot B Divestment Fee payable to the Manager in the form of additional Units issued to the Manager.

However, we further note that the Plot B Divestment is part of a collective Transaction, which also includes the New SHS Acquisition, the Existing SHS Divestment and the New SHS Master Lease and the above pro forma financial effects after **the Plot B Divestment only** did not take into account these other transactions.

**ii) Pro Forma NAV per Unit**

*Financial year ended 31 December 2014*

The pro forma financial effects of (i) after the Plot B Divestment only and (ii) after the Plot B Divestment, the New SHS Acquisition and the Existing SHS Divestment on the NAV per Unit as at 31 December 2014, as if First REIT had purchased and/or divested the relevant properties on 31 December 2014, are as follows:

| | As at 31 December 2014 | | |
|---|---|---|---|
| | **Before the Plot B Divestment, New SHS Acquisition and Existing SHS Divestment(1)** | **After the Plot B Divestment but before the New SHS Acquisition and Existing SHS Divestment** | **After the Plot B Divestment, New SHS Acquisition and Existing SHS Divestment** |
| NAV (S$'000) | 744,950 | 745,550 | 779,245 |
| Units in issue and to be issued | 731,702,488 | 731,735,509(2) | 748,995,909(2) |
| NAV per Unit (cents) | 101.81 | 101.89 | 104.04 |

**Notes:**

(1) Based on the FY2014 Audited Consolidated Financial Statements.
(2) The units in issue and to be issued did not include 18,326,078 Units issued from 1 January 2015 to the Latest Practicable Date.

*9 months ended 30 September 2015*

The pro forma financial effects of (i) after the Plot B Divestment only, and (ii) after the Plot B Divestment, the New SHS Acquisition and the Existing SHS Divestment on the NAV per Unit as at 30 September 2015, as if First REIT had purchased and/or divested the relevant properties on 30 September 2015, are as follows:

| | As at 30 September 2015 | | |
|---|---|---|---|
| | **Before the Plot B Divestment, New SHS Acquisition and Existing SHS Divestment(1)** | **After the Plot B Divestment but before the New SHS Acquisition and Existing SHS Divestment** | **After the Plot B Divestment, New SHS Acquisition and Existing SHS Divestment** |
| NAV (S$'000) | 763,124 | 763,724 | 796,279 |
| Units in issue and to be issued | 748,050,271 | 748,083,292(2) | 765,343,692(2) |
| NAV per Unit (cents) | 102.02 | 102.09 | 104.04 |

**Notes:**

(1) Based on the 9M2015 Unaudited Consolidated Financial Statements.
(2) The units in issue and to be issued did not include 1,978,295 Units issued from 1 October 2015 to the Latest Practicable Date

Based on the figures above, we note that the pro forma NAV per Unit after the Plot B Divestment only will remain relatively unchanged as at 31 December 2014 and as at 30 September 2015.

### iii) Pro Forma Capitalisation

*Financial year ended 31 December 2014*

The following table sets forth the pro forma capitalisation of First REIT as at 31 December 2014, as if First REIT had completed (i) the Plot B Divestment only, and (ii) the Plot B Divestment, the New SHS Acquisition and the Existing SHS Divestment, on 31 December 2014.

| | As at 31 December 2014 | | |
|---|---|---|---|
| | **Actual** | **As adjusted for the Plot B Divestment only** | **As adjusted for the Plot B Divestment, New SHS Acquisition and Existing SHS Divestment** |
| | **(S$'000)** | **(S$'000)** | **(S$'000)** |
| **Short-term debt:** | | | |
| Unsecured | 26,485 | 26,485 | 26,485 |
| Secured | – | – | – |
| Total short-term debt | 26,485 | 26,485 | 26,485 |
| **Long-term debt:** | | | |
| Unsecured | 99,137 | 99,137 | 99,137 |
| Secured | 270,953 | 270,953 | 298,353 |
| Total long-term debt | 370,090 | 370,090 | 397,490 |
| Total Debt | 396,575 | 396,575 | 423,975 |
| Unitholders funds | 744,950 | 745,550 | 779,245 |
| **Total Capitalisation** | 1,141,525 | 1,142,125 | 1,203,220 |

*9 months ended 30 September 2015*

The following table sets forth the pro forma capitalisation of First REIT as at 30 September 2015, as if First REIT had completed (i) the Plot B Divestment only, and (ii) the Plot B Divestment, the New SHS Acquisition and the Existing SHS Divestment, on 30 September 2015.

| | As at 30 September 2015 | | |
|---|---|---|---|
| | **Actual** | **As adjusted for the Plot B Divestment only** | **As adjusted for the Plot B Divestment, New SHS Acquisition and Existing SHS Divestment** |
| | **(S$'000)** | **(S$'000)** | **(S$'000)** |
| **Short-term debt:** | | | |
| Unsecured | – | – | – |
| Secured | – | – | – |
| Total short-term debt | – | – | – |
| **Long-term debt:** | | | |
| Unsecured | 99,321 | 99,321 | 99,321 |
| Secured | 298,762 | 298,762 | 326,162 |
| Total long-term debt | 398,083 | 398,083 | 425,483 |
| Total Debt | 398,083 | 398,083 | 425,483 |
| Unitholders funds | 763,124 | 763,724 | 796,279 |
| **Total Capitalisation** | 1,161,207 | 1,161,807 | 1,221,762 |

Based on the figures above, we note that the pro forma total capitalisation after completing the Plot B Divestment only will remain relatively unchanged as at 31 December 2014 and as at 30 September 2015.

### 8.3 Analysis on the Development Works and the New SHS Acquisition

#### 8.3.1 Rationale for the Development Works and the New SHS Acquisition

The Manager's rationale for the Transaction is set out in **Section 7** of the Circular. We reproduce below extracts relevant to the Development Works and the New SHS Acquisition:

***The Development Works and the construction of the New SHS will be carried out by the Sponsor, one of the largest and most recognised property developers in Indonesia***

*The Development Works and the construction of the New SHS will be carried out by the Sponsor, whom the Manager notes is one of the largest and most recognised property developers in Indonesia and has, unlike First REIT, the expertise and track record to carry out the Development Works and the construction of the New SHS.*

*The Manager also believes that the terms which the Sponsor has agreed to, including the fixed New SHS Consideration (which is not subject to any increase in the event of cost overruns), a 6% rate of return on the Progress Payments, and the provisions of the Deed of Indemnity and the Bank Guarantee, are favourable to First REIT and will reduce First REIT's funding cost and project development risk in relation to the Transaction.*

***Increased absolute size of First REIT's asset base which will raise the profile of First REIT among global investors and an increased portfolio size in terms of lettable floor area and property income which enhances First REIT's competitive positioning and ability to pursue future acquisitions***

*First REIT's asset size will grow from S$1.17 billion as at 31 December 2014 to S$1.24 billion after the completion of the Transaction. The value of First REIT's Deposited Property is expected to increase by 4.96% from S$1.21 billion as at 31 December 2014 to S$1.27 billion after the completion of the Transaction and there will also be a 6.0% increase in the total GFA from 251,339 sq m before the Transaction to 266,358 sq m after the completion of the Transaction, an increase in the total lettable floor area from 251,339 sq m before the Transaction to 266,358 sq m after the completion of the Transaction, and an increase in the total property income of First REIT from S$93.3 million before the Transaction to S$98.2 million after the completion of the Transaction. The maximum number of hospital beds for the Indonesia properties will increase by 11.40% from 2,878 to 3,206.*

*The larger asset base is expected to enhance First REIT's overall capital management flexibility, which will, among others, facilitate future acquisitions by First REIT.*

*With an enlarged asset base, the operator of the New SHS will also enjoy greater operating synergies in the long term which would indirectly benefit First REIT through higher variable rent and potential capital appreciation.*

***Steady rental income from the Existing SHS throughout the development of the New SHS until First REIT takes possession of the New SHS***

*While the Development Works take place, First REIT will continue to receive the rental income from the Sponsor in full. In addition to the steady rental income, First REIT will also receive a rate of return of 6.0% per annum for the Progress Payments from PT SK, which will cover First REIT's cost of capital for the Progress Payments. Unitholders will also be protected from the development risks in relation to the Development Works, as First REIT will pursuant to the Deed of Indemnity, be indemnified by PT WJP for all losses which may be incurred by the Trustee in connection with the Development Works, and the Bank Guarantee will also act as additional security in relation to the Progress Payments paid by First REIT. In addition, the Put Option Agreement also serves as additional protection to First REIT from the date on which PT TPI takes possession of the New SHS until the Strata Title Certificates are issued."*

### 8.3.2 Financial Assessment of the New SHS Acquisition

The New SHS Consideration is approximately S$90.0 million. In evaluating the reasonableness of the New SHS Consideration, we have considered the following factors which have a bearing on our assessment:

**i) Basis for arriving at the New SHS Consideration**

We note that the New SHS Consideration was arrived at on a willing-buyer willing-seller basis after taking into account the two independent valuations of the New SHS by Winarta and W&R, which were commissioned by the Trustee and the Manager respectively. The valuations were derived by Winarta and W&R using the income approach, utilising the discounted cash flow method as the subject property will be under a master lease agreement with the Sponsor (as the master lessee of the New SHS). This approach considers the subject property as an income producing property.

**ii) Valuation of the New SHS by the Independent Valuers**

Two independent property valuers were appointed for the purpose of determining the market value of the New SHS. The market value by Winarta (appointed by the Trustee) is as at 22 June 2015, and the market value by W&R (appointed by the Manager) is as at 30 June 2015.

Summarised versions of the valuation reports (the **"Valuation Reports"**) are contained in **Appendix D** of the Circular, with the determined market values set out below: the Properties by the Independent Val

| **Valuation of the New SHS by the Independent Valuers** | |
|---|---|
| | **S$ million** |
| Winarta (As at 22 June 2015) | 102.3 |
| W&R (As at 30 June 2015) | 103.0 |

Our observations in relation to the Valuation Reports are as follows:

- The Valuation Report prepared by Winarta has adopted the basis of gross development value in accordance with the Indonesian Valuation Standards (Standar Penilaian Indonesia / SPI) 2013.
- The Valuation Report prepared by W&R has adopted the basis of gross development value in accordance with the Indonesian Valuation Standards (Standar Penilaian Indonesia / SPI) 2013.
- The Valuation Reports by Winarta and W&R assess the 'gross development value' of the New SHS as at 22 and 30 June 2015 respectively, which are close to the date for the New SHS SPA. The gross development value is the aggregate market value of the proposed development assessed on the special assumption that the development is complete as at the date of valuation in the market conditions prevailing at that date.
- The income approach utilising discounted cash flow (DCF) method was used for the purposes of completing the Valuation Reports. According to the Winarta and W&R, DCF method was used considering that the New SHS is an income producing property. The valuation had taken into account the terms of the New SHS Master Lease and was conducted having regard to the prevailing market conditions as at 22 June 2015 and 30 June 2015 respectively, especially those pertaining to the healthcare services industry in the locality of the New SHS.
- The appraised value of the New SHS is between S$102.3 million and S$103.0 million. The agreed New SHS Consideration is S$90.0 million. We note that the New SHS Consideration is 12.0% and 12.6% below the appraised values as determined by Winarta and W&R, respectively and is 12.3% below the average of the two independent valuations of the New SHS by the Independent Valuers.
- In addition to the valuation by Winarta and W&R, the Manager has also commissioned an independent third valuer, RAB & P to prepare a limited desktop valuation of the New SHS.

RAB & P has valued the New SHS at S$101.00 million (Rp. 999.36 billion) as at 30 June 2015, which is below the range of the appraised value of the New SHS by Winarta and W&R but 10.9% above the New SHS Consideration.

Further information regarding the Valuation Reports can be obtained throughout the Circular, in particular within **Appendix D** of the Circular. We recommend that the Independent Directors advise the Independent Unitholders to read these sections of the Circular carefully.

### 8.3.3 Other commercial terms of the New SHS Acquisition

#### i) Fixed New SHS Consideration

The New SHS Consideration shall be paid in fixed instalments, according to a progress payment schedule below based on the milestone achieved for the Development Works:

| Progress Payments (as % of the New SHS Consideration) | Milestone | Estimated Payment Date | Total Amount of each Progress Payment Instalment (S$ million) |
|---|---|---|---|
| 20% | First Progress Payment | Within 30 days from the date Independent Unitholders' approval for the Transaction is obtained (or on such other date as may be mutually agreed upon between PT TPI and PT SK) | 18.0 |
| 10% | Completion of foundation work | Within 12 months from the date Independent Unitholders' approval for the Transaction is obtained | 9.0 |
| 30% | Building top-up | Within 27 months from the date Independent Unitholders' approval for the Transaction is obtained | 27.0 |
| 30% | Completion of external and internal works | Within 42 months from the date Independent Unitholders' approval for the Transaction is obtained | 27.0 |
| – | Upon obtaining the SLF and the necessary hospital operation permits and licences for the operation of the New SHS | PT SK will notify First REIT in writing upon obtaining the SLF and the necessary hospital operation permits and licences for the operation of the New SHS | – |
| 10% | Issuance of the Strata Title Certificates to PT SK | Within 60 months from the date Independent Unitholders' approval for the Transaction is obtained and shall be paid on the execution date of the Deed of Sale and Purchase | 9.0 |

The estimated dates of the Progress Payments are indicative only and the Progress Payments will only be due when (i) the relevant architect certificate is submitted by PT SK to verify completion of respective work stages indicated above (where applicable) and (ii) the relevant architect certificate submitted by PT SK is verified by an independent consultant or building surveyor appointed by PT TPI.

These Progress Payments are **fixed amounts which are not subject to any increase in the event of cost overruns.**

**ii) Rate of return of 6.0% per annum to be paid to First REIT on the Progress Payments made**

From the date of payment of the First Progress Payment up to the date on which First REIT takes possession of the New SHS, the Sponsor will pay First REIT a fixed rate of return on the Progress Payments equivalent to 6.0% per annum of the aggregate sum of the Progress Payments that have been paid by First REIT to the Sponsor, which will be used to cover First REIT's cost of capital for the Progress Payments for the New SHS Acquisition.

**iii) Bank guarantee relating to the Progress Payments**

A Bank Guarantee will be issued by BNP in favour of PT TPI to secure and guarantee the due performance of PT SK of its obligations under the Development Works Agreement. Under the terms and conditions of the Bank Guarantee, BNP will secure 5.0% of the aggregate amount of the Progress Payments paid by PT TPI to PT SK based on the payments due in relation to the Progress Payments that have been paid up to date by PT TPI to PT SK. The Bank Guarantee will commence from the date on which PT TPI pays the First Progress Payment to PT SK until the date on which PT TPI takes possession of the New SHS.

The Bank Guarantee issued to PT TPI acts as additional security to First REIT in relation to the Progress Payments paid.

**iv) Indemnity in relation to the Development Works Agreement**

In connection with the Development Works and the New SHS Acquisition, the Trustee and PT WJP had on 20 October 2015 entered into the Deed of Indemnity pursuant to which PT WJP will, subject to certain conditions, indemnify the Trustee against, among others, all losses which may be incurred by the Trustee in connection with the Development Works, including (without limitation) all Progress Payments made in relation to the Development Works in the event that the construction of the New SHS is not completed for any reason. Further details of the Deed of Indemnity are set out in **Section 4.7** of the Circular.

The Deed of Indemnity will serve to mitigate against the development risks relating to the Development Works, as First REIT will be indemnified by PT WJP for all losses which may be incurred in connection with the Development Works.

**8.3.4 Review of market conditions and prospects of the healthcare industry in Surabaya, Indonesia**

We were provided with a copy of the report entitled "Independent Market Research on the Health Care Services Industry in Surabaya, Indonesia" by Frost & Sullivan, dated August 2015, in relation to which we note the following:

- Surabaya is likely to maintain its stature as Indonesia's business and political hubs along with Jakarta. The development of various industrial clusters in the Greater Surabaya area will spur economic growth in the region.

- Economic growth has resulted in increase in income per capita, which will lead to a larger base of upper-middle class and affluent population that demand a much higher quality health care services. With its ability and experience in providing high quality premium health care services, the increment in income per capita, upper-middle class and affluent population in Surabaya will be important drivers for Siloam Hospitals Surabaya ("**SHS**") to tap into the unmet private healthcare needs in the region.

- In addressing the current supply-demand gaps in Surabaya's healthcare services industry, SHS has devoted its human and financial capital to develop several Centres of Excellence, equipped with state-of-the-art facilities. Frost & Sullivan believes that the development of these Centres of Excellence along with SHS' technological imperatives will provide patients with outstanding consumer experience and hence, attend to current healthcare needs in Surabaya. As such, comprehensive development of the centres is a key contributor in retaining Surabaya's affluent population to seek medical treatment locally.

- Frost & Sullivan believes that competition among hospitals in Surabaya will continue to intensify in the future. SHS's future trajectory depends largely on the hospital's ability to compete successfully in Surabaya. Frost & Sullivan believes that the planned investment in the New SHS is an essential element to remain competitive within the healthcare services sector in Surabaya.

- Frost & Sullivan is of the opinion that SHS's holistic business approach is the hospital's key competitive advantage that will enable them to compete successfully against its competitors. Through intensive marketing campaigns, professional medical personnel with excellent credentials, technological imperatives and premium medical facilities, SHS is believed to be one step ahead of its competitors in tapping into the unmet private health care services needs in Surabaya.

We note the positive outlook for the health care services market in Surabaya. Further information regarding the "Independent Market Research on the Health Care Services Industry in Surabaya, Indonesia" can be obtained within **Appendix E** of the Circular. We recommend that the Independent Directors advise the Independent Unitholders to read **Appendix E** of the Circular carefully.

**8.3.5 Review of the pro forma financial effects after the Plot B Divestment, New SHS Acquisition and the Existing SHS Divestment**

The pro-forma financial effects of the Transaction are set out in **Section 8** of the Circular, and are reproduced under Section 8.2.3 of this Letter.

We note that the pro forma DPU after the Plot B divestment, the New SHS Acquisition and the Existing SHS Divestment will increase from 8.05 cents to 8.50 cents for FY2014 and increase from 6.21 cents to 6.58 cents for 9M2015. We understand from the Manager that the increase in pro forma DPU is due to the expected increase in distributable income arising from the Transaction.

**Based on the above, we note that the Transaction, taken as a whole, will result in an improvement in the DPU for Unitholders of First REIT.**

We also note the following improvements in the pro forma financial ratios after the Plot B Divestment, the New SHS Acquisition and the Existing SHS Divestment:

i) The pro forma NAV per Unit will increase from 101.81 cents to 104.04 cents as at 31 December 2014 and from 102.02 cents to 104.04 cents as at 30 September 2015;

ii) The pro forma total capitalisation will increase from S$1,141.5 million to S$1,203.2 million as at 31 December 2014 and increase from S$1,161.2 million to S$1,221.8 million as at 30 September 2015.

**8.3.6 Analysis of the pro forma distribution yield of First REIT**

We have extracted the distribution yield (on a trailing 12-month basis) of other REITs and staple trusts listed on the SGX-ST ("**Singapore REITs**") in order to compare the distribution yields offered by the Singapore REITs with the pro forma distribution yield of First REIT.

The information in the table presented below is for illustration purposes only. While we have made our comparisons against the Singapore REITS as shown in the table below, we recognised that the properties of the Singapore REITs may differ significantly from the properties owned by First REIT in terms of property segments, building size and design, building age, location, accessibility, tenant composition, market risks, future prospects, operating history and other relevant criteria. There is no REIT which may be considered identical to First REIT in terms of the aforesaid factors.

***Accordingly, the Independent Directors should note that any comparison made with respect to the Singapore REITs serves as an illustrative guide only.***

| **Singapore REITs Yield** | | | |
|---|---|---|---|
| **Name** | **Yield (%)** | **Trailing 12 months Distribution Per Unit (S$)** | **Closing Price as at the Latest Practicable Date[1] (S$)** |
| Viva Industrial Trust | 10.10 | 0.0707 | 0.700 |
| Lippo Malls Indonesia Retail Trust | 9.84 | 0.0300 | 0.305 |
| Sabana Shariiah Compliant Industrial REIT | 9.83 | 0.0713 | 0.725 |
| Cache Logistics Trust | 9.42 | 0.0857 | 0.910 |
| OUE Commercial REIT | 8.44 | 0.0574 | 0.680 |
| Cambridge Industrial Trust | 8.39 | 0.0491 | 0.585 |
| OUE Hospitality Trust | 8.34 | 0.0663 | 0.795 |
| Soilbuild Business Space REIT | 8.28 | 0.0646 | 0.780 |
| AIMS AMP Capital Industrial REIT | 8.04 | 0.1089 | 1.355 |
| Ascendas Hospitality Trust | 7.95 | 0.0521 | 0.655 |
| CDL Hospitality Trusts | 7.80 | 0.1018 | 1.305 |
| Mapletree Greater China Commercial Trust | 7.43 | 0.0691 | 0.930 |
| Fraser Commercial Trust | 7.38 | 0.0971 | 1.315 |
| Far East Hospitality Trust | 7.36 | 0.0471 | 0.640 |
| Mapletree Logistics Trust | 7.32 | 0.0743 | 1.015 |
| Mapletree Industrial Trust | 7.16 | 0.1084 | 1.515 |
| Capitaretail China Trust | 7.14 | 0.1049 | 1.470 |
| Keppel REIT | 6.91 | 0.0663 | 0.960 |
| Ascott Residence Trust | 6.82 | 0.0808 | 1.185 |
| Starhill Global REIT | 6.60 | 0.0515 | 0.780 |
| Ascendas REIT | 6.51 | 0.1530 | 2.350 |
| Capitacommercial Trust | 6.42 | 0.0860 | 1.340 |
| Suntec REIT | 6.30 | 0.0983 | 1.560 |
| Frasers Centrepoint Trust | 6.21 | 0.1161 | 1.870 |
| Ascendas India Trust | 6.20 | 0.0533 | 0.860 |
| Mapletree Commercial Trust | 6.10 | 0.0811 | 1.330 |
| Capitaland Mall Trust | 5.85 | 0.1123 | 1.920 |
| SPH REIT | 5.82 | 0.0547 | 0.940 |
| Parkway Life REIT | 5.67 | 0.1282 | 2.260 |
| Saizen REIT | 5.56 | 0.0603 | 1.085 |
| | | | |
| **High** | **10.10** | | |
| **Low** | **5.56** | | |
| **Simple Average** | **7.37** | | |
| | | | |
| **First REIT** | **7.20** | 0.0850[2] | 1.18 |

*Source: Bloomberg and financial statements.*

**Notes:**

(1) The latest practicable date is 4 December 2015.
(2) Based on the pro forma DPU as at 31 December 2014.

From the table above, we noted the following:

(a) The distribution yields of the Singapore REITs range between 5.56% and 10.10%;

(b) The pro forma distribution yield of First REIT at 7.20% is within but below the average of the range. In addition, we also note that the pro forma distribution yield of First REIT is higher than the distribution yield of Parkway Life REIT of 5.67%, being the closest comparable to First REIT in terms of property segment.

Based on the above, the Plot B Sale Consideration, the New SHS Consideration and the Existing SHS Sale Consideration do not appear to be unreasonable or prejudicial to the interests of First REIT and its Independent Unitholders.

### 8.4 Analysis on the Put Option

#### 8.4.1 Rationale for the Put Option

We understand that as First REIT will be taking possession of the New SHS, after the SLF and the necessary hospital operation permits and licences in relation to the New SHS have been issued **but before** the Strata Title Certificates are issued to PT TPI. The Put Option is to serve as protection to First REIT from the date on which PT TPI takes possession of the New SHS until the date the Strata Title Certificates are issued, by giving First REIT the right to require the Put Option Grantor to purchase all the shares of PT PTI (which holds the New SHS).

#### 8.4.2 Assessment of the terms of the Put Option Agreement

Under the Put Option Agreement, if the Strata Title Certificates for the New SHS are not issued to PT TPI on the expiry of the Strata Title Completion Period (i.e. 12 months from the date of First REIT taking possession of the New SHS) and upon the Independent Unitholders deciding not to extend the Strata Title Completion Period, First REIT shall have the right to require the Put Option Grantor to purchase all the shares of PT TPI (which in turn holds the New SHS), at the **higher of**:

(i) the consideration which First REIT paid for the New SHS Acquisition; or

(ii) the market value of the New SHS as determined by two independent valuers appointed in accordance with the Property Funds Appendix, and,

taking into account all transaction costs incurred directly or indirectly, by First REIT, PT TPI, PIPL, SHIPL and the Trustee for the New SHS Acquisition and the exercise of the Put Option (including, but not limited to brokerage, stamp duties, acquisition fees, conveyancing fees, legal fees, tax advisory fees and other professional fees) and with adjustments to take into account the NAV of PT TPI.

Based on these terms, in the event that First REIT is not able to obtain the Strata Title Certificates for the New SHS, First REIT will be able to **at the minimum recover the cost of investment made on the New SHS Acquisition**.

However, we note that in the event that First REIT is to exercise the Put Option to sell the New SHS, there will be no immediate replacement for the recurring revenue stream from the New SHS Master Lease.

### 8.5 Analysis on the Existing SHS Divestment

#### 8.5.1 Rationale for the Existing SHS Divestment

The Manager's rationale for the Transaction is set out in **Section 7** of the Circular. We reproduce below extracts relevant to the Existing SHS Divestment:

***"Asset Swap of the Existing SHS which was constructed in 1977 for a brand new and modern hospital building within an integrated development in the heart of Surabaya***

*In recent years, three new hospitals commenced operations in Surabaya, East Java, Indonesia, namely (i) the Royal Hospital (opened in 2012), (ii) RSUD Soewandhi, a new public hospital (opened*

*in 2013) and (iii) the Mitra Family Hospital No. 3 (opened in 2014). In addition to the new hospitals, the other existing hospitals within the Surabaya region have also upgraded their facilities in 2014. For instance, RS Premier Surabaya recently opened its nine bed stroke unit and RKZ Surabaya moved its paediatrics clinic which is now adjacent to their existing hospital compound. This has increased competitiveness in the healthcare industry in Surabaya.*

*As the Existing SHS was constructed in 1977, the existing facilities and infrastructure at the Existing SHS are outdated, and the Manager is of the view that it is necessary to enhance the market share of the Existing SHS in view of competition from other existing and potential new hospitals in the region. However, it would be difficult for First REIT to enhance and redevelop the Existing SHS on its own without crossing the development limit set out in the Property Funds Appendix.*

*Pursuant to the proposed Transaction, the Sponsor will bear all costs in connection with the Development Works, and the Manager is of the view that the Transaction is a feasible way to obtain a brand new hospital in exchange for the Existing SHS without First REIT having to undertake any development activities or take on any development risks.*

*The Existing SHS suffers from a shortage of car parks to serve visiting patients and staff. As a result, off-site car parks have to be arranged to transport patients and staff. The Manager had also considered undertaking an asset enhancement scheme on the Existing SHS but after careful consideration, the Manager believes that the Asset Swap is a more viable alternative. Once the New SHS is completed, it will be one of the most modern and advanced hospital in Surabaya and the Manager is of the view that the New SHS would enhance the brand image of "Siloam Hospitals".*

*This Transaction is in line with the Manager's strategy to rejuvenate its property portfolio by divesting its oldest asset and acquiring a brand new and modern hospital. The weighted average age of properties of the Enlarged Portfolio will decrease from approximately 10.0 years from that of the Existing Portfolio as at 31 December 2014 to approximately 8.2 years after the completion of the Transaction.*

*In light of the competition from existing and upcoming new hospitals in the region, the Manager is of the view that the Transaction is necessary to maintain and enhance the market share of First REIT in Surabaya."*

### 8.5.2 Financial Assessment of the Existing SHS Divestment

Pursuant to the Existing SHS CSPA, the Existing SHS Sale Consideration will be the higher of (i) S$27.50 million (Rp. 265.45 billion) or (ii) the average of two independent valuations of the Existing SHS to be conducted in accordance with the Property Funds Appendix prior to the completion of the Existing SHS Divestment. In evaluating the reasonableness of the Existing SHS Sale Consideration, we have assumed the minimum Existing SHS Sale Consideration of S$27.50 million, and considered the following factors which have a bearing on our assessment:

**i) Basis for arriving at the Existing SHS Sale Consideration**

We note that the Existing SHS Sale Consideration was arrived at on a willing-buyer willing-seller basis after taking into account the two independent valuations of the Existing SHS by Winarta and W&R, which were commissioned by the Trustee and the Manager respectively. The valuations were derived by Winarta using the "Market Value" basis for the valuation of Plot C and the "Depreciated Replacement Cost of Buildings and Site Improvements" basis for the valuation of the Existing SHS and by W&R using the "Market Value" basis.

We further note that as the Plot B Divestment, the New SHS Acquisition and the Existing SHS Divestment were negotiated as one collective transaction and cannot be separated, First REIT did not obtain alternative offers for the Existing SHS.

**ii) Valuation of the Existing SHS by the Independent Valuers**

Two independent property valuers were appointed for the purpose of determining the market value of the Existing SHS. The market value by Winarta (appointed by the Trustee) is as at 22 June 2015, and the market value by W&R (appointed by the Manager) is as at 30 June 2015.

Summarised versions of the valuation reports (the **"Valuation Reports"**) are contained in **Appendix D** of the Circular, with the determined market values set out below: the Properties by the Independent V

| **Valuation of the Existing SHS by the Independent Valuers** | |
|---|---|
| | **S$ million** |
| Winarta (As at 22 June 2015) | 17.90 |
| W&R (As at 30 June 2015) | 22.27 |

Our observations in relation to the Valuation Reports are as follows:

- The Valuation Report prepared by Winarta has adopted the basis of: (i) market value in accordance with the Indonesian Valuation Standards (Standar Penilaian Indonesia / SPI) 2013; and (ii) depreciated replacement cost in accordance with International Valuation Standards (IVS).

- The Valuation Report prepared by W&R has adopted the basis of market value in accordance with the Indonesian Valuation Standards (Standar Penilaian Indonesia / SPI) 2013.

- The Valuation Report by Winarta assess the 'market value' and 'depreciated replacement cost' of the Existing SHS as at 22 June 2015, which is close to the date for the Existing SHS SPA. The market value is the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. Depreciated replacement cost is defined by International Valuation Standards Council (IVSC) as a method under the cost approach that indicates value by calculating the current replacement cost of an asset less deductions for physical deterioration and all relevant forms of obsolescence.

- The Valuation Report by W&R assess the 'market value' of the New SHS as at 30 June 2015, which is close to the date for the Existing SHS SPA. The market value is the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

- The market approach for land and cost approach for buildings was used for the purposes of completing the Valuation Report by Winarta whereas the cost approach was used for the purposes of completing the Valuation Report by W&R.

- The appraised value of the Existing SHS is between S$17.9 million and S$22.3 million. The agreed Existing SHS Sale Consideration is S$27.5 million. We note that the Existing SHS Sale Consideration is 53.6% and 23.3% higher than the appraised values as determined by Winarta and W&R, respectively and is 36.9% higher than the average of the two independent valuations for the Existing SHS.

- In addition to the valuation by Winarta and W&R, the Manager had also commissioned an independent third valuer, RAB & P to prepare a limited desktop valuation of the Existing SHS. RAB & P has valued the Existing SHS at S$20.24 million (Rp. 199.79 billion) as at 29 June 2015, which is within the range of the appraised value of the Existing SHS by Winarta and W&R.

Further information regarding the Valuation Reports can be obtained throughout the Circular, in particular within **Appendix D** of the Circular. We recommend that the Independent Directors advise the Independent Unitholders to read these sections of the Circular carefully.

### 8.5.3 Review of the pro forma financial effects after the Plot B Divestment, the New SHS Acquisition and the Existing SHS Divestment

Please refer to the analysis performed on the pro-forma financial effects after the Plot B Divestment, the New SHS Existing Acquisition and Existing SHS Divestment under Section 8.3.5 of this Letter.

### 8.5.4 Other Considerations relating to the Existing SHS Divestment

As the Existing SHS Master Lease will only be terminated and replaced by the New SHS Master Lease, upon First REIT taking possession of the New SHS, the Sponsor (as master lessee of the Existing SHS) will continue to pay full rental under the Existing SHS Master Lease Agreement.

As such, First REIT will continue to generate a steady rental income from the Existing SHS Master Lease while the Development Works for the New SHS is ongoing.

## 8.6 Analysis on the New SHS Master Lease

### 8.6.1 Rationale for the New SHS Master Lease

The Manager's rationale for the Transaction is set out in **Section 7** of the Circular. We reproduce below extracts relevant to the New SHS Master Lease:

***"Increased income stability of First REIT through the New SHS Master Lease Agreement for a term of 15 years as compared to the Existing SHS's Master Lease which commenced about 9 years ago (and which will expire on 10 December 2021) and an increase in First REIT's weighted average lease to expiry***

*The New SHS Master Lease will be beneficial to First REIT as the New SHS is expected to provide stability to First REIT's Gross Rental Income over the next 15 to 30 years (assuming that the option to renew for a further term of 15 years is exercised). The step-up feature of the base and variable rental components under the New SHS Master Lease Agreement would also provide locked-in organic growth in First REIT's cash flow. To ensure stability in First REIT's Gross Rental Income from the New SHS, security deposits equivalent to six months of the New SHS' annual rental payable (amounting to S$4.05 million (Rp. 39.29 billion) will be made to First REIT in the form of bankers' guarantees. This security deposit amount will be adjusted at the relevant rent review dates.*

*The New SHS Acquisition is also in line with the Manager's acquisition growth strategy of pursuing opportunities for asset acquisitions that will provide stable cash flows and returns relative to First REIT's cost of capital and opportunities for future income and capital growth.*

*Currently, the master leases of the properties in the Existing Portfolio are between 10 to 15 years. After the completion of the Transaction, First REIT will benefit from the increase in the Enlarged Portfolio's weighted average lease to expiry based on secured Gross Rental Income with the New SHS contributing 5.3% of First REIT's total Gross Rental Income under the New SHS Master Lease Agreement. The weighted average lease to expiry of the Enlarged Portfolio will increase from approximately 10.8 years from that of the Existing Portfolio as at 31 December 2014 to approximately 11.3 years after the completion of the Transaction."*

### 8.6.2 Analysis of the impact of the New SHS Master Lease on the property yield and the weighted average years to lease expiry of First REIT

The base property yield[15] of the New SHS Master Lease is 9.0% based on the New SHS Consideration and the New SHS Base Rent of approximately S$8.10 million in the New SHS Master Lease Agreement.

When compared against the base property yield (computed on a similar basis) of properties in the Existing Portfolio, we note that the base property yield of the New SHS Master Lease of 9.0% is:

i) within the range of base property yields of between 7.8% and 15.6% but below the average of 10.9% of all properties in the Existing Portfolio;

ii) below the range of base property yields of between 9.7% and 15.6% of the Indonesian properties in the Existing Portfolio.

However, we note that the base property yields of the properties in the Existing Portfolio would have taken into account the then prevailing economic and market conditions. In particular, we note that

15 Base property yield is calculated based on the initial base rent divided by the purchase consideration for the property.

the current yields of the Indonesian properties have since come down as their appraised values have significantly increased.

When compared against the current base yields[16] of properties in the Existing Portfolio, we note that the base property yield of the New SHS Master Lease of 9.0% is:

i) within the range of the current base yields of between 8.0% and 10.1% and above the average of 8.7% of all properties in the Existing Portfolio;

ii) within the range of the current base yields of between 8.0% and 9.1% and above the average of 8.4% of the Indonesian properties in the Existing Portfolio.

When compared against the current yield[17] of properties in the Existing Portfolio, we note that the base property yield of the New SHS Master Lease of 9.0% is:

i) within the range of the current yields of between 8.0% and 10.1% and slightly above the average of 8.9% of all properties in the Existing Portfolio;

ii) within the range of the current yields of between 8.0% and 9.7% and above the average of 8.7% of the Indonesian properties in the Existing Portfolio.

Further, we note the adjustment features in the New SHS Master Lease such as the adjustments to the base rent and the variable rent component can provide potential further upside to the total rent and in turn increase the property yield of the New SHS Master Lease.

We note that there are similar adjustment features in the master lease agreements for the Indonesia properties in the Existing Portfolio. The Sponsor, which is the lessee for the New SHS Master Lease is also the master lessee for the Indonesia properties in the Existing Portfolio.

The New SHS Master Lease is for a period of 15 years with an option to renew for a further 15 years (on terms as may be agreed between the parties) and will provide strong underpinning to property yields and stability in rental income for First REIT for the next 15 to 30 years. With the New SHS Master Lease in place, First REIT will benefit from the increase in its weighted average years to lease expiry from approximately 10.8 years from that of the Existing Portfolio as at 31 December 2014 to approximately 11.3 years for its Enlarged Portfolio after completion of the Transaction.

### 8.6.3 Comparison of the key terms in the New SHS Master Lease

We note that while there are many precedents for such master lease agreements of properties owned by SGX-ST listed REITs (for example, Ascendas REIT, CapitaCommercial Trust, CDL Hospitality Trust, Frasers Commercial Trust), they are mostly in other property segment, such as the commercial and retail property segments. As such, most of these master lease agreements have their own unique features (such as rent-free period, fixed rent adjustments, performance-based variable rents, etc), which makes it difficult for comparisons to be made to them.

16 Current base yield is calculated based on the current base rent divided by the latest appraised value of the property as at 31 December 2014.

17 Current yield is calculated based on the total (base and variable) current rent divided by the latest appraised value of the property as at 31 December 2014.

For our purpose, we made a comparison of the principal terms of the New SHS Master Lease to the master lease agreements for properties used for healthcare-related purposes, set out in the table below:

| Companies / REIT | Return on base rent[1] | Annual adjustment to base rent | Variable rent |
|---|---|---|---|
| New SHS Master Lease | 9.0%[2] | Payable from the fourth year of lease based on:<br><br>Base rent x (2 x CPI[3] % increase)<br><br>Subject to floor of 0% and cap of 2%. | Payable quarterly in advance from the fourth year of lease based on fixed exchange rate of S$1 = Rp. 9,700 and based on:<br><br>1. the percentage growth in gross operating revenue in the preceding financial year compared to the year before ("**GRG%**"); and<br><br>2. the surplus of gross operating revenue of the preceding financial year over the year before ("**GOR surplus**")<br><br>(a) If 5% ≤ GRG% < 15%, Equivalent to 0.75% of GOR surplus<br><br>(b) If 15% ≤ GRG% < 30%, Equivalent to 1.25% of GOR surplus<br><br>(c) If 30% ≤ GRG%, Equivalent to 2.0% of GOR surplus |
| **Healthcare-related** | | | |
| Parkway Life REIT (Singapore portfolio) | 3.9% | None | Equivalent to 3.8% of the adjusted hospital revenue[4] of the preceding financial year<br><br>Provided that total rent payable (base + variable) shall not be lower than:<br><br>Total rent for preceding year x [1 + (CPI + 1%)], where if CPI is negative, it is deemed to be zero. |

| Companies / REIT | Return on base rent[1] | Annual adjustment to base rent | Variable rent |
|---|---|---|---|
| Indonesia properties in the Al – A'qar Healthcare REIT[5] | 7.2%[6] | None | Rental revision every three (3) full financial year throughout the contractual term up to a maximum of fifteen (15) years.<br><br>The review of yearly rental amount for the next three(3) financial years shall be calculated based on the following method:<br><br>1st year of every review: (10-year Malaysian Government Securities +238 basis points) x market value of the properties at the point of review and subject to a minimum rental of RM33.0 million per annum and a maximum 2% increment over the preceding year's rental amount.<br><br>2nd and 3rd year of every review: 2% increment over the preceding year's rental amount. |
| Singapore properties of First REIT that are leased to third parties | 7.8% | Base rent x (2 x CPI % increase)<br><br>Subject to floor of 0% and cap of 2% | None |
| Existing Indonesia properties of First REIT | 9.7% to 15.6% | Payable from the fourth year of lease based on:<br><br>Base rent x (2 x CPI % increase)<br><br>Subject to floor of 0% and cap of 2%. | Siloam Sriwijaya, Siloam Hospital Purwakarta, Siloam Hospital Bali, Siloam Hospital TB Simatupang, Siloam Hospitals Manado and Hotel Aryaduta Manado and Siloam Hospitals Makassar which were the most recent acquisitions by First REIT since November 2012.<br><br>Same computation basis as that for New SHS<br><br>Other Indonesia properties in the Existing portfolio<br><br>Payable from the second year of lease based on fixed exchange rate of S$1 = Rp. 6,600 and based on:<br><br>1. the percentage growth in gross operating revenue in the preceding financial year compared to the year before ("**GRG%**"); and |

| Companies / REIT | Return on base rent(1) | Annual adjustment to base rent | Variable rent |
|---|---|---|---|
| | | | 2. the gross operating revenue of the preceding financial year ("**GOR**")<br><br>(a) If 5% < GRG% < 15%, Equivalent to 0.75% of GOR<br><br>(b) If 15% < GRG% < 30%, Equivalent to 1.25% of GOR<br><br>(c) If 30% < GRG%, Equivalent to 2.0% of GOR |

*Source: Extracted from the prospectus, company website or latest available annual report, corporate presentations of the relevant REITs.*

**Notes:**

(1) Return on base rent = initial base rent / cost of investment.

(2) Based on the New SHS Consideration and the New SHS Base Rent of Rp. 78.57 billion (based on S$8.10 million at the agreed exchange rate of S$1 : Rp. 9,700.

In the event there is a change of Indonesian Rupiah / Singapore Dollar exchange rate, the New SHS Base Rent shall be adjusted accordingly based on the formula:

Base Rent/ Rp. 9,700 x BI Market Rate,

where "BI Market Rate" means the Bank Indonesia's Rupiah exchange rate based on Bank Indonesia's selling rate of Indonesian Rupiah / Singapore Dollar applicable 14 days prior to the date of the invoices issued by First REIT.

(3) CPI refers to the consumer price index of Singapore for the preceding calendar year.

(4) Refers to invoiced value of revenue relating to inpatient revenue including lodger revenue, outpatient revenue, rental and licence fees, carpark revenue, retail pharmacy revenue, food and beverage revenue, radiology services revenue, and excluding all other revenue and revenue collected on behalf of physicians or providers of ancillary services, service, cess charges, and GST.

(5) Listed on Bursa Malaysia.

(6) Using minimum rental of RM 33.0 million/annum as the base rent to estimate the return on base rent.

In our comparison of the key terms of the New SHS Master Lease, we note the following:

- the return on base rent of 9.0% for New SHS Master Lease compares favourably to the return on base rent of 3.9% for the master leases of Parkway Life REIT, 7.2% for the Indonesia properties of Al A'qar REIT, and 7.8% for the Singapore properties of First REIT;

- the return on base rent of 9.0% for New SHS Master Lease is lower than the range of between 9.7% and 15.6% of the Indonesia properties of the Existing Portfolio, computed on a similar basis because the purchase consideration would have taken into account the then prevailing economic and market conditions. We note that the current base yields of the Indonesian properties in the Existing Portfolio (computed based on the current base rent and the latest appraised value) have since decreased as the appraised values of these Indonesian properties have increased significantly;

- there are no annual adjustment features to the base rent in the master lease agreements of Parkway Life REIT and Al A'qar REIT. Both the Singapore properties and existing Indonesian properties of First REIT has the same adjustment to base rent as the New SHS Master Lease;

- the variable rent for the New SHS Master Leases is up to 2.0% of the surplus in the audited gross operating revenue (depending on the year-on-year growth of the gross operating revenue). In comparison, the variable rent for the master leases of Parkway Life REIT is fixed at 3.8% of the adjusted hospital revenue, while the gross lease rental for Al A'qar REIT is approximately 7.2% of the purchase consideration. The Singapore properties of First REIT do not have any variable rent component; and

- the variable rent structure for the New SHS Master Lease is the same as the variable rent structure for Siloam Sriwijaya, Siloam Hospital Purwakarta, Siloam Hospital Bali, Siloam Hospital TB Simatupang, Siloam Hospitals Manado and Hotel Aryaduta Manado and Siloam Hospitals Makassar. We understand that variable rent will only be payable from the fourth year onwards to allow the lessee to conserve cash flow thereby enabling the lessee to step up and enhance its operations to an optimal level.

**8.6.4 Other commercial terms of the New SHS Master Lease**

**i) Assignment/Subletting**

The Sponsor shall not assign the New SHS Master Lease without the prior written consent of PT TPI. The assignee must be of good repute and sound financial standing and the Sponsor, the assignee and PT TPI shall contemporaneously with the assignment of the New SHS Master Lease to the assignee (as new tenant) execute in escrow a deed of novation in respect of the New SHS Master Lease for the replacement of the assignee by the Sponsor upon the occurrence of any event of default committed by the assignee under the New SHS Master Lease.

The Sponsor shall not sub-let the New SHS without the prior written consent of PT TPI (such consent not to be unreasonably withheld) and subject to such terms and conditions which PT TPI may impose, provided always that the Sponsor shall not be required to seek the consent of PT TPI, but only notify PT TPI in writing, in the event of any sub-lease of the New SHS by the Sponsor to PT Siloam International Hospitals, a limited liability company incorporated in Indonesia ("**PT SIH**") or a subsidiary of PT SIH.

**ii) Maintenance and other operating expenses of the New SHS**

The Sponsor (as the master lessee of the New SHS) will be responsible for all outgoings including, but not limited to, expenses relating to the internal and external property repairs and maintenance, landscaping, utility costs, property related taxes. Accordingly, First REIT will not be affected by any cost escalation in Indonesia of maintenance and operation expenses in relation to the New SHS.

**iii) Insurance**

At all times during the term of the New SHS Master Lease and during any period of holding over, the Sponsor shall at its cost and expense, take out and keep in force the following insurance policies:

(i) an insurance policy over all of the Sponsor's property including any and all goods and stock-in-trade in the New SHS to their full insurable value against all risks commonly insured against in respect of such property;

(ii) an insurance policy against loss of rental income, terrorism, sabotage and all risks and business interruption in the joint names of PT TPI and the Sponsor to its full market insurable amount as assessed by PT TPI, damage to the building at the New SHS and all parts thereof which the Sponsor is obliged to keep in repair under the New SHS Master Lease;

(iii) a comprehensive public liability insurance policy in the joint names of PT TPI and the Sponsor against claims for personal injury, death or property damage or loss, arising out of all operations of the Sponsor and its permitted occupiers in the New SHS; and

(iv) an insurance policy covering all of the Sponsor's property all risks (including earthquake) with such insurance coverage as appropriate and typical for the size and type of business carried out by the Sponsor at the New SHS.

The Sponsor shall pay for any increase in premium payable due to increase in sum insured for property all-risk (including earthquake), if any.

The Manager believes that the insurance policies to be taken out by the Sponsor for the New SHS are consistent with industry practice in Indonesia.

### 8.6.5 Other Considerations relating to the New SHS Master Lease

We advise that you highlight the following factor to the Independent Unitholders, which should be considered, together with the other comments and issues raised in this Letter and the contents of the Circular.

**Foreign Exchange Risk**

On 28 June 2011, the Government of the Republic of Indonesia issued Law No. 7 of 2011 concerning Currency (Undang-undang Mata Uang) ("**Law 7/2011**") and on 31 March 2015, Bank Indonesia issued the Bank Indonesia Regulation No. 17/3/PBI/2015 concerning Mandatory Use of Rupiah Currency in Indonesian Territory (Peraturan Bank Indonesia tentang Kewajiban Penggunaan Rupiah di Wilayah Negara Kesatuaan Republik Indonesia) ("**BI Regulation No.17/2015**") which implementation is further regulated in Circular Letter of Bank Indonesia No. 17/11/DKSP dated 1 June 2015. Pursuant to Law 7/2011 and BI Regulation No.17/2015, the terms and conditions of the Transaction Documents will be subject to said law and regulation.

Based on Article 21 paragraph (1) of Law 7/2011 and Article 2 paragraph (2) of BI Regulation No.17/2015, Indonesian Rupiah currency shall be used in (i) each transaction the purpose of which is to make payment, (ii) other obligations which should be settled by cash, and/or (iii) other financial transactions, in each case within the territory of the Republic of Indonesia, with exceptions as set out in Article 21 paragraph (2) of Law 7/2011 and Articles 4 and 5 of BI Regulation No.17/2015.

As an exemption, BI Regulation 17/2015 also stipulates that any agreement on payment or settlement of obligations in foreign currency which are made prior to 1 July 2015 are still valid until the expiry of the agreements. This exemption applies only for agreements relating to non-cash payment or settlement of obligations. However, the exemption will not be applicable for any extension or amendment of the agreements (particularly any amendments relating to the subject and/or object of the agreements).

Since BI Regulation No. 17/2015 as the implementing regulation of Law 7/2011 is new and untested, there is uncertainty as to how such regulation including the relevant Articles in Law 7/2011(including the above cited Articles) will be applied or interpreted.

Details on the Indonesian Currency Law, specifically on Law 7/2011 and BI 17/2015 are set out in **Section 4.8.9** of the Circular. We recommend that the Independent Directors advise the Independent Unitholders to read **Section 4.8.9** of the Circular very carefully.

We note that due to this recent change in the Indonesian Currency Law (specifically Law7/2011 and BI 17/2015), the New SHS Total Rent (comprising the New SHS Base Rent and the New SHS Variable Rent) shall be paid in Indonesian Rupiah, based on the agreed exchange rate of S$1.00 to Rp.9,700, which is fixed for the entire lease term of the New SHS Master Lease Agreement.

Although the New SHS Base Rent will be received in Indonesian Rupiah, we note that there is an adjustment mechanism provided for in the New SHS Master Lease Agreement to adjust the New SHS Base Rent for any changes in the Indonesian Rupiah / Singapore Dollar exchange rate, to ensure that the New SHS Base Rent to be received is fixed at S$8.10 million, regardless of changes to the Indonesian Rupiah / Singapore Dollar exchange rate.

There is no adjustment mechanism in place for the New SHS Variable Rent. However, we understand from the Manager that the New SHS Variable Rent will constitute only a small proportion of the New SHS Total Rent.

We further note that as the New SHS Total Rent shall be received in Indonesian Rupiah, the impact of future exchange rate fluctuations on First REIT's liabilities and property expenses cannot be accurately predicted and the Indonesian Rupiah may not be readily convertible or exchangeable or may be subject to exchange controls. There is also the risk that movements in the Indonesian Rupiah / Singapore dollar exchange rate may adversely affect repayments or repatriation of funds from Indonesia to Singapore.

In addition, we also note that First REIT's financial statements are presented in Singapore dollars. Exchange rate gains or losses will arise when the assets and liabilities in Indonesian Rupiah are

translated or exchanged into Singapore dollars for financial reporting. If the Indonesian Rupiah depreciates against the Singapore dollar, this may materially and adversely affect First REIT's financial results.

**Benefits from the Sponsor's property management and operating expertise and the use of the established "Siloam" brand for hospitals**

The Sponsor is the master lessee for the New SHS. The Sponsor is an internationally recognised corporation and is one of the largest broad-based property companies in Indonesia listed on both the Jakarta Stock Exchange and the Surabaya Stock Exchange. The Sponsor has a large property portfolio comprising townships and residential developments, commercial and retail development properties, healthcare, infrastructure and hospitality properties with a recognised track record in the planning and development of large property, infrastructure and township projects as well as ongoing maintenance, upkeep and renovation of properties.

The Sponsor ventured into the healthcare business in 1995 when it established and developed Siloam Hospitals Lippo Karawaci. Since then, it had developed and acquired several hospitals, such as Siloam Hospitals Lippo Cikarang, Siloam Hospitals Surabaya, Siloam Hospitals West Jakarta under it "Siloam" brand of hospitals and built up its expertise in managing healthcare businesses including the Indonesian properties of the Existing Portfolio.

Upon entering into the New SHS Master Lease, the New SHS will be able to benefit from the Sponsor's expertise in property management and operating expertise as well as being managed under the "Siloam" brands, which is a well-known and established brand name for hospitals in Indonesia.

## 9 SUMMARY OF ANALYSIS

In arriving at our recommendation in respect of the IPT Transactions, we have taken into account the views and representations by the Directors and management of the Manager and the factors set out in Section 8 above. The key considerations are summarised below. Independent Unitholders should be advised to read the following in conjunction with, and in the context of, the full text of this Letter and the Circular.

**The Plot B Divestment**

a. the Manager's rationale for the Plot B Divestment, taken in the entire context of the Transaction, appears to be based on sound commercial grounds;

b. we note that the Plot B Sale Consideration is equal to the appraised value by Winarta and 6.5% above the appraised value by W&R, and 3.1% above the average of the two independent valuations for Plot B;

c. we note that the pro forma DPU after the Plot B Divestment only will decrease from 8.05 cents to 7.96 cents for FY2014 and decrease slightly from 6.21 cents to 6.19 cents for 9M2015. We understand from the Manager that the decrease in the pro forma DPU is due to the transaction costs and deferred taxation arising from the Plot B Divestment and the increase in Units in issue arising from the Plot B Divestment Fee payable to the Manager in the form of additional Units issued to the Manager;

d. we note that the pro forma NAV per Unit after the Plot B Divestment only will remain relatively unchanged as at 31 December 2014 and as at 30 September 2015;

e. we note that the pro forma total capitalisation after the Plot B Divestment only will remain relatively unchanged as at 31 December 2014 and as at 30 September 2015;

f. however, we note that the Plot B Divestment is part of a collective Transaction, which also includes the New SHS Acquisition, the Existing SHS Divestment and the New SHS Master Lease and the pro forma financial effects after the Plot B Divestment only did not take into account these other transactions;

**The Development Works and the New SHS Acquisition**

g. the Manager's rationale for the Development Works and the New SHS Acquisition, taken in the entire context of the Transaction, appears to be based on sound commercial grounds;

h. we note that the New SHS Consideration is 12.0% and 12.6% below the appraised values as determined by Winarta and W&R, respectively and is 12.3% below the average of the two independent valuations of the New SHS;

i. we note that the New SHS Consideration shall be paid in fixed instalments, according to a progress payment schedule based on the milestone achieved for the Development Works and such Progress Payments are **fixed amounts** which are not subject to any increase in the event of cost overruns;

j. we note that the Sponsor will pay First REIT a fixed rate of return on the Progress Payments equivalent to 6.0% per annum of the aggregate sum of the Progress Payments that have been paid by First REIT to the Sponsor, which will be used to cover First REIT's cost of capital for the Progress Payments for the New SHS Acquisition;

k. we note the Bank Guarantee, which will be issued by BNP in favour of PT TPI to secure and guarantee the due performance of PT SK of its obligations under the Development Works Agreement, will act as additional security in relation to the Progress Payments paid;

l. we note the Deed of Indemnity entered into by the Trustee whereby First REIT will be indemnified by PT WJP for all losses which may be incurred in connection with the Development Works, including (without limitation) all Progress Payments made, in the event the construction of the New SHS is not completed for any reason;

m. we note the significant growth potential and positive outlook for the healthcare services market in Surabaya as noted in the report titled "Independent Market Research on the Health Care Services Industry in Surabaya, Indonesia" by Frost & Sullivan;

n. we note that the pro forma DPU after the Plot B divestment, the New SHS Acquisition and the Existing SHS Divestment will increase from 8.05 cents to 8.50 cents for FY2014 and increase from 6.21 cents to 6.58 cents for 9M2015. We understand from the Manager that the increase in pro forma DPU is due to the expected increase in distributable income arising from the Transaction. We understand from the Manager that the increase in the pro forma DPU is due to the expected increase in distributable income arising from the Transaction. **Based on this, the Transaction, taken as a whole, will result in an improvement in the DPU for Unitholders of First REIT**;

o. we also note the improvements to the pro forma NAV per Unit and the total capitalisation after the Plot B Divestment, the New SHS Acquisition and the Existing SHS Divestment;

p. we note that the pro forma distribution yield of First REIT at 7.20% is within but below the average of the range of its listed comparable companies. In addition, we also note that the pro forma distribution yield of First REIT is higher than the distribution yield of Parkway Life REIT of 5.67%, being the closest comparable to First REIT in terms of property segment. Based on this, the Plot B Sale Consideration, the New SHS Consideration and the Existing SHS Sale Consideration do not appear to be unreasonable;

**The Put Option Agreement**

q. the rationale for the Put Option Agreement, taken in the entire context of the Transaction, appears to be based on sound commercial grounds;

r. based on the terms of the Put Option Agreement, in the event that First REIT is not able to obtain the Strata Title Certificates for the New SHS, First REIT will be able to at the minimum recover the investment cost on the New SHS Acquisition;

s. we note that in the event that First REIT is to exercise the Put Option to sell the New SHS, there will be no immediate replacement for the recurring revenue stream from the New SHS Master Lease;

**The Existing SHS Divestment**

t. the Manager's rationale for the Existing SHS Divestment, taken in the entire context of the Transaction, appears to be based on sound commercial grounds;

u. we note that the minimum Existing SHS Sale Consideration of S$27.5 million, is 53.6% and 23.3% higher than the appraised values as determined by Winarta and W&R, respectively and is 36.9% higher than the average of the two independent valuations for the Existing SHS;

v. we note that as the Existing SHS Master Lease will only be terminated and replaced by the New SHS Master Lease, upon First REIT taking possession of the New SHS, First REIT will continue to generate a steady rental income from the Existing SHS Master Lease while the Development Works for the New SHS is ongoing;

**The New SHS Master Lease**

w. The Manager's rationale for the New SHS Master Lease appears to be based on sound commercial grounds;

x. The estimated base property yield of the New SHS Master Lease of 9.0% is within the range of the base property yields (computed on a similar basis) of between 7.8% and 15.6% but below the average of 10.9% of all the properties in the Existing Portfolio but below the range of the base property yields (computed on a similar basis) of between 9.7% and 15.6% of the Indonesian properties in the Existing Portfolio. However, we note that the base property yield of the properties in the Existing Portfolio would have taken into account the then prevailing economic and market conditions. In particular, we note that the current yields of the Indonesian properties have since come down as their appraised values have significantly increased.

y. the base property yield of the New SHS Master Lease at 9.0% is within the range of the current base yields of between 8.0% and 10.1% and above the average of 8.7% of all the properties in the Existing Portfolio and within the range of the current base yields of between 8.0% and 9.1% and above the average of 8.4% of the Indonesian properties in the Existing Portfolio;

z. the base property yield of the New SHS Master Lease at 9.0% is within the range of the current yields of between 8.0% and 10.1% but slightly above the average of 8.9% of all the properties in the Existing Portfolio and within the range of the current yields of between 8.0% and 9.7% and above the average of 8.7% of the Indonesian properties in the Existing Portfolio;

aa. the adjustment features to the base rent and the variable rent component under the terms of the New SHS Master Lease will provide potential further upside to the total rent and property yield and will also allow First REIT to benefit from the growth of the healthcare industry in Surabaya, Indonesia;

bb. with the New SHS Master Lease in place, First REIT will benefit from the increase in its weighted average years to lease expiry from approximately 10.8 years from that of the Existing Portfolio as at 31 December 2014 to approximately 11.3 years for its Enlarged Portfolio after completion of the Transaction;

cc. the return on base rent of 9.0% for New SHS Master Lease compares favourably to the return on base rent of 3.9% for the master leases of Parkway Life REIT, 7.2% for the Indonesia properties of Al A'qar REIT, and 7.8% for the Singapore properties of First REIT;

dd. there are no annual adjustment features to the base rent in the master lease agreements of Parkway Life REIT and Al A'qar REIT. Both the Singapore and Indonesian properties of the Existing Portfolio and the New SHS Master Lease provide for potential upward adjustment to the base rent, based on two times the increase in the consumer price index of Singapore for the preceding calendar year, subject to a floor of 0% and cap of 2.0%;

ee. the variable rent for the New SHS Master Leases is up to 2.0% of the surplus in the audited gross operating revenue (depending on the year-on-year growth of the gross operating

revenue). In comparison, the variable rent for the master leases of Parkway Life REIT is fixed at 3.8% of the adjusted hospital revenue, while the gross lease rental for Al A'qar REIT is approximately 7.2% of the purchase consideration. The Singapore properties in the Existing Portfolio do not have any variable rent component;

ff. the variable rent structure for the New SHS Master Lease is the same as the variable rent structure for Siloam Sriwijaya, Siloam Hospital Purwakarta, Siloam Hospital Bali, Siloam Hospital TB Simatupang, Siloam Hospitals Manado and Hotel Aryaduta Manado and Siloam Hospitals Makassar. Variable rent will only be payable from the fourth year onwards. We understand that this is to allow conservation of cash flow thereby enabling the tenant to step up and enhance its operations to an optimal level;

gg. under the terms of the New SHS Master Lease, the Sponsor shall not sub-let the New SHS without the prior written consent of PT TPI (such consent not to be unreasonably withheld) and all subletting shall be subject to such terms and conditions which the Indonesian Company may impose. The sub-lessee must also be of good repute and sound financial standing;

hh. the Sponsor (as the master lessee of the New SHS) will be responsible for all outgoings including, but not limited to, expenses relating to the internal and external property repairs and maintenance, landscaping, utility costs, property related taxes. Accordingly, First REIT will not be affected by any cost escalation in Indonesia of maintenance and operation expenses in relation to the New SHS;

ii. at all times during the term of the New SHS Master Lease and during any period of holding over, the Sponsor shall at its cost and expense, take out and keep in force relevant insurance policies;

jj. although the New SHS Base Rent will be received in Indonesian Rupiah, we note that there is an adjustment mechanism provided for in the New SHS Master Lease Agreement to adjust the New SHS Base Rent for any changes in the Indonesian Rupiah / Singapore Dollar exchange rate, to ensure that the New SHS Base Rent to be received is fixed at S$8.10 million, regardless of changes to the Indonesian Rupiah / Singapore Dollar exchange rate;

kk. we note that as the New SHS Total Rent shall be received in Indonesian Rupiah due to the recent change in the Indonesian Currency Law, there is a risk that movements in the Indonesian Rupiah / Singapore dollar exchange rate may adversely affect repayments or repatriation of funds from Indonesia to Singapore;

ll. we further note that First REIT's financial statements are presented in Singapore dollars, therefore exchange rate gains or losses will arise when the assets and liabilities in Indonesian Rupiah are translated or exchanged into Singapore dollars for financial reporting and if the Indonesian Rupiah depreciates against the Singapore dollar, this may materially and adversely affect First REIT's financial results; and

mm. First REIT will be able to benefit from the Lessees' property management and operating expertise and the use of the established "Siloam" brand names for hospitals.

## 10 RECOMMENDATION AND CONCLUSION

Having carefully considered the information available to us, and based upon the monetary, industry, market, economic and other relevant conditions subsisting on the Latest Practicable Date and based on the factors set out in Section 9 above, and subject to the qualifications and assumptions made herein, we are of the view that the IPT Transactions; comprising (i) the Plot B Divestment, (ii) the Development Works and the New SHS Acquisition, (iii) the Put Option, (iv) the Existing SHS Divestment and (v) the New SHS Master Lease, which collectively make up the Transaction, are based on normal commercial terms and are not prejudicial to the interests of First REIT and its Independent Unitholders.

Accordingly, we are of the view that the Independent Directors should recommend that the Independent Unitholders vote in favour of the Transaction to be proposed at the EGM.

In performing our evaluation and arriving at these conclusions, we wish to emphasise that the opinion set forth herein is based solely on publicly available information and information provided by the Directors and the management of the Manager and therefore does not reflect any projections or future financial performance of First REIT after the completion of the Transaction and is based on the economic and market conditions prevailing as of the date of this Letter. Our advice is strictly confined to our views on the IPT Transactions.

This Letter (for inclusion in the Circular) is addressed to the Independent Directors and the Trustee for their benefit, in connection with and for the purpose of their consideration of the Transaction. The recommendation made by the Independent Directors to the Independent Unitholders in relation to the Transaction remains the responsibility of the Independent Directors.

This Letter is governed by, and construed in accordance with, the laws of Singapore, and is strictly limited to the matters stated herein and does not imply by implication to any other matter.

Yours faithfully
For and on behalf of
**STIRLING COLEMAN CAPITAL LIMITED**

ANG LIAN KIAT
DIRECTOR

YAP YEONG KEEN
DIRECTOR

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# SINGAPORE TAX CONSIDERATIONS

*The following summary of certain Singapore income tax considerations to Unitholders in respect of the Transaction is based upon tax laws, regulations, rulings and decisions now in effect (including measures announced in the Singapore Budget 2015 on 23 February 2015), all of which are subject to change (possibly with retroactive effect). The summary is prepared on the basis of the holding structure for the Transaction as set out in paragraph 4.2, page 22 of the Circular. The summary is not a tax advice and does not purport to be a comprehensive description of all the considerations that may be relevant to Unitholders. Unitholders should consult their own tax advisers on the tax implications that may apply to their own individual circumstances.*

## Singapore Income Tax

### *Income derived from the New SHS*

The rental income and other related income earned from the New SHS will be received in Singapore by the relevant Singapore subsidiaries of First REIT in a combination of some of the following forms:

(i) dividend income;

(ii) interest income; and

(iii) proceeds from repayment of shareholder's loans.

The dividend income received in Singapore by the relevant Singapore subsidiaries (the "**Foreign Dividend Income**") will be exempt from tax under Section 13(8) of the Income Tax Act, Chapter 134 of Singapore (the "**Income Tax Act**") provided that each of the relevant Singapore subsidiaries is a tax resident of Singapore and the following conditions are met:

(i) in the year the Foreign Dividend Income is received in Singapore, the headline corporate tax rate of the jurisdiction from which it is received is at least 15.0%;

(ii) the Foreign Dividend Income has been subjected to tax in the jurisdiction from which it is received; and

(iii) the Singapore Comptroller of Income Tax is satisfied that the tax exemption would be beneficial to the relevant Singapore subsidiaries.

PIPL will seek a confirmation from the Inland Revenue Authority of Singapore ("**IRAS**") that it is satisfied that the interest income that it will receive in Singapore from PT TPI on shareholder's loans that it will extend to PT TPI meet the qualifying conditions for the tax exemption granted to Singapore real estate investment trusts under Section 13(12) of the Income Tax Act.

On the basis that the completion of the Transaction will occur before 31 March 2020, this tax exemption, if confirmed by the IRAS, will apply to the interest income that PIPL will receive in Singapore so long as PIPL continues to beneficially own, directly or indirectly, the New SHS and all the qualifying conditions for the tax exemption are met.

Cash that cannot be repatriated by PT TPI in the form of dividends may be used by it to repay the principal amount of shareholder's loans extended by PIPL. The proceeds from the repayment of shareholder's loans received in Singapore by PIPL are capital receipts and hence not subject to Singapore income tax.

First REIT will in turn receive dividends and redemption (at cost) of preference shares from the relevant Singapore subsidiaries. Provided that these relevant Singapore subsidiaries are residents of Singapore for income tax purposes, the dividends received by First REIT will be one-tier (tax-exempt) dividends and hence exempt from Singapore income tax. The proceeds from redemption (at cost) of preference shares received by First REIT are capital receipts and not subject to Singapore income tax.

***Income derived from the Existing SHS***

The Transaction should not affect the current tax treatment applicable to income / receipts derived by First REIT and the relevant subsidiaries directly or indirectly from PT TPI in respect of rental income and other related income derived from the Existing SHS. In relation to the interest income which originates from the Existing SHS, the exemption under Section 13(12) of the Income Tax Act has been granted on such income to the relevant Singapore subsidiary. In order for the interest income to qualify for the tax exemption under Section 13(12) of the Income Tax Act, the income must be received in Singapore before the Existing SHS ceases to be owned by PT TPI.

***Distributions to Unitholders***

Distributions made by First REIT out of the income or cashflow generated from the New SHS may comprise either or both of the following two components:

(i) tax-exempt income component ("**Tax-Exempt Income Distributions**"); and

(ii) capital component ("**Capital Distributions**").

Tax-Exempt Income Distributions refer to distributions made by First REIT out of its tax-exempt income (which comprises mainly the one-tier (tax-exempt) dividends that it will receive from the relevant Singapore subsidiaries). Such distributions are exempt from Singapore income tax in the hands of Unitholders. No tax will be deducted at source on such distributions.

For this purpose, the amount of Tax-Exempt Income Distributions that First REIT can distribute for a distribution period will be to the extent of the amount of tax-exempt income that it has received or is entitled to receive in that distribution period. Any distribution made for a distribution period out of profits or income which First REIT is entitled to receive as its own tax-exempt income after the end of that distribution period will be treated as a capital distribution and the tax treatment described in the next paragraph on "Capital Distributions" will apply. The amount of such tax-exempt income that is subsequently received may be used to frank tax-exempt income distributions for subsequent distribution periods.

Capital Distributions refer, *inter alia*, to distributions made by First REIT out of proceeds received from the redemption of preference shares. Unitholders will not be subject to Singapore income tax on such distributions. These distributions are treated as returns of capital for Singapore income tax purposes and the amount of Capital Distributions will be applied to reduce the cost of Units held by Unitholders. Accordingly, the reduced cost base will be used for the purpose of calculating the amount of taxable trading gains for those Unitholders who hold Units as trading or business assets and are liable to Singapore income tax on gains arising from the disposal of Units. If the amount of Capital Distributions exceeds the cost or the reduced cost, as the case may be, of Units, the excess will be subject to tax as trading income of such Unitholders.

# INDEPENDENT INDONESIA TAXATION REPORT

pb Taxand

Jakarta, December 1st, 2015

Letter No. TAJ-151949

**The Board of Directors**
**Bowsprit Capital Corporation Limited**
**As Manager (the "Manager") of First Real Estate Investment Trust**
**50 Collyer Quay**
**#06-01 OUE Bayfront**
**Singapore 049321**

**HSBC Institutional Trust Services (Singapore) Limited**
**As Trustee of First Real Estate Investment Trust**
**21 Collyer Quay**
**#10-02 HSBC Building**
**Singapore 049320**

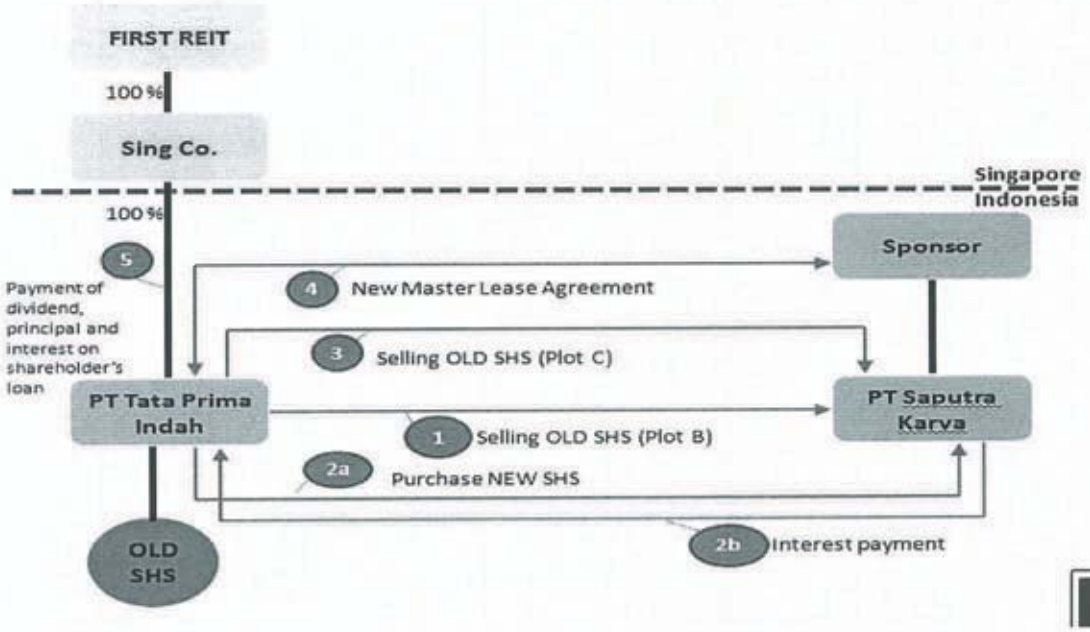
Dear Sirs,

**Re: Tax Implications on the Acquisition of New Siloam Hospitals Surabaya and the Divestment of Old Siloam Hospitals Surabaya to PT Sapura Karya by First REIT**

This letter has been prepared for First REIT, a real estate investment trust. The purpose of this letter is to provide a general overview of the Indonesian tax implications attributable to the transactions of First REIT ("REIT") in Indonesia.

Please find below our tax opinion on the above matter:

**Transaction Scheme:**



**Notes:**

**Sing Co.** : **- Primerich Investments Pte. Ltd. (99.98% ownership); and**
**- Surabaya Hospitals Investments Pte. Ltd. (0.02% ownership)**

**Facts:**

(1) TPI will sell part of area (Plot B) of the old Siloam Hospital (old SHS) to SPK.

(2) a. PT Tata Prima Indah (TPI) will purchase the new Siloam Hospitals (new SHS) from PT Saputra Karya (SPK). TPI will settle the payment for the new SHS to SPK gradually based on the progress of development of the new SHS.

b. During the construction period of the New SHS, SPK will pay some interest for each of the progress payments received from TPI.

(3) TPI will sell the remaining area (Plot C) of the old SHS to SPK.

(4) Upon the completion of the new SHS, there will be a new master lease agreement between TPI and the Sponsor.

(5) TPI will pay the dividend, principal and interest on shareholder's loan.

**Discussion:**

1. **Sale of Plot B of the Old SHS to SPK**

- **TPI as the Seller**

**Article 4(2) Final Income Tax**

TPI has to pay the 5% final income tax from whichever is higher between the value on the transfer of right to land and/or building or the tax object sale value (NJOP) as determined by the head of the local government. The final income tax still needs to be reported in the income tax return but it does not have to be combined with the other income which are not subject to final income tax in the calculation of TPI's taxable income in the relevant tax year.

**Value Added Tax (VAT)**

TPI must charge the 10% VAT on the sale of old SHS to SPK. The said VAT can be treated as input VAT for SPK.

- **SPK as the Buyer**

**Property Title Acquisition Duty**

The purchase of the old SHS from TPI is subject to the property title acquisition duty ("*Biaya Perolehan Hak Atas Tanah dan Bangunan* - BPHTB") at the rate of 5% of whichever is higher between the purchase price or the tax object sale value (NJOP) as determined by the head of the local government.

**Value Added Tax (VAT)**

The VAT charged by TPI can be treated as input VAT, which can be used to offset the output VAT of SPK.

2. **A. Purchase of the New SHS**

- **SPK as the Seller**

**Article 4(2) Final Income Tax**

The income received from TPI will be subject to 5% final tax from whichever is higher between the gross amount of the value on the transfer of right land and/or building or the tax object sale value (NJOP) as determined by the head of the local government. The final tax will be payable on every installment or progress payment. The imposition of final income tax does not mean that the income from the sale of land and/or building does not need to be reported in the annual income tax return (*SPT PPh*). The income still needs to be reported in the income tax return, but it does not need to be combined with the other income, which are not subject to final income tax in the calculation of the taxable income in the relevant tax year.

**Value Added Tax (VAT)**

SPK has to charge a 10% VAT on the sale of the new SHS for every installment or progress payment received from TPI. The said VAT can be treated as input VAT for TPI.

- **TPI as the Buyer**

**Property Title Acquisition Duty**

The purchase of the new SHS from SPK is subject to property title acquisition duty at the rate of 5% of whichever is higher between the purchase price or the tax object sale value (NJOP) as determined by the head of the local government. The property title acquisition duty will be payable after TPI and SPK have signed the Sale and Purchase Agreement.

**Value Added Tax (VAT)**

TPI will pay the VAT at the rate of ten percent (10%) on the purchase of new SHS. The VAT should be charged on the payment of installment or progress payment to SPK. The VAT charges by SPK will be treated as input VAT, which can be used to offset the output VAT from the rental income of TPI.

2. B. **Interest Payment**

- **TPI as Creditor**

**Corporate Income Tax Return**

Interest of the progress payment which received by TPI is subject to Corporate Income Tax at the rate of 25%. Furthermore, Article 23 income tax that had already been withheld by SPK can be treated as tax credit against its Corporate Income Tax payable.

- **SPK as Debtor**

**Article 23 Income Tax Return**

Interest of the progress payment which paid to TPI is subject to Income Tax Article 23 at the rate of 15%. Furthermore, the debtor must be withheld every payment of interest to TPI and reported to Monthly Income Tax Return Article 23.

3. **Sale of Plot C of the Old SHS to SPK**

- **TPI as the Seller**

**Article 4(2) Final Income Tax**

TPI has to pay the 5% final income tax from whichever is higher between the value on the transfer of right to land and/or building or the tax object sale value (NJOP) as determined by the head of the local government. The final income tax still needs to be reported in the income tax return but it does not have to be combined with the other income which are not subject to final income tax in the calculation of TPI's taxable income in the relevant tax year.

**Value Added Tax (VAT)**

TPI must charge the 10% VAT on the sale of old SHS to SPK. The said VAT can be treated as input VAT for SPK.

- **SPK as the Buyer**

**Property Title Acquisition Duty**

The purchase of the old SHS from TPI is subject to the property title acquisition duty at the rate of 5% of whichever is higher between the purchase price or the tax object sale value (NJOP) as determined by the head of the local government.

**Value Added Tax (VAT)**

The VAT charged by TPI can be treated as input VAT, which can be used to offset the output VAT of SPK.

4. **New Master Lease Agreement**

- **TPI as the Lessor**

**Corporate Income Tax**

Any kind of rental income (including advance of rental payment, service charge, if any) received by TPI is subject to 10% final income tax, as has been stipulated in Paragraph 2 of Article 4 of the Income Tax Law.
The imposition of final income tax does not mean that the income from the Sponsor in term of rental payment does not need to be reported in the annual income tax return (SPT PPh). The income still needs to be reported

in the income tax return, but it does not need to be combined with the other incomes, which are not subject to final tax in the calculation of the taxable income in the relevant tax year.

**Value Added Tax on the Rental of Land and/or Buildings**

TPI must charge the VAT on the advance rental payment of land and/or building to Lessee (Sponsor) at the rate of ten percent (10%).

- **Sponsor as the Lessee**

**Article 4(2) Final Income Tax**

Any payments to TPI which are related to the rental payment of land and/or building will be subject to a final income tax at the rate of ten percent (10%) from the gross value of the rental of land and/or building, including the service charge (if any).

Sponsor must withhold the final income tax, issue the withholding tax slip to TPI and pay the tax to the State Treasury.

**Value Added Tax on the Rental of Land and/or Building**

The VAT charged by TPI can be used as prepaid input VAT which can be used to offset the Sponsor's output VAT.

5. **Payment of Dividend and Interest on Shareholder's Loan**

- **TPI**

**Payment of Dividends from TPI to Sing Co.**

**Value Added Tax**

There will be no VAT implication on the payment of dividend.

**Article 26 Income Tax**

The Indonesian Income Tax Law generally requires a twenty percent (20%) tax to be withheld on the payment of dividend from an Indonesian taxpayer to an offshore taxpayer. Under the tax treaty between Singapore and Indonesia, the rate of withholding tax is reduced to ten percent (10%) on the payment of dividend.

The reduced withholding tax rate of ten percent (10%) which set out in the Singapore-Indonesia tax treaty can be used on the payment of dividend by TPI to Sing Co. if Sing Co. can fulfill the conditions set out in Article 4 paragraph 2 of Director General of Taxes Regulation No. 62/PJ./2009 dated November 5, 2009 which has been amended by Director General of Taxes Regulation No. 25/PJ/2010 dated April 30, 2010 regarding the *Prevention of Tax Treaty Abuse, as follow*:

1. The company is established in the tax treaty partner country or has a structure/scheme transaction arrangement which is not solely intended to take advantage of a tax treaty benefit; and
2. Its operation is managed by the management itself who has sufficient authority to do transactions; and
3. The company has employees; and
4. The company has activities or active business; and
5. The Indonesia sourced income is subject to tax in the recipient country; and
6. The company does not use more than fifty percent (50%) of its total income to fulfill its obligations to other parties in the form of interest, royalty or other types of compensation.

Further, Sing Co. also has to submit the original copy of its Certificate of Domicile (DGT Form 1) to TPI to demonstrate that it is the beneficial owner of the dividend payment.

Moreover, Indonesian Tax Regulations do not regulate when a dividend should be declared. Meanwhile, the time when dividend can be declared and remitted by TPI to the Sing Co. should be in accordance to the rules set out in the Indonesian General Accepted Accounting Principle ("GAAP").

There is no need for the TPI to obtain tax clearance in order to declare or remit dividends.

## Payments Related to Shareholder's Loans

- **The Repayment of Principal**

  The repayment of principal from the shareholder's loans will not be subject to any form of Indonesian tax.

- **Payment of Interest**

  **Article 26 Income Tax**

  The Indonesian Income Tax Law generally requires a twenty percent (20%) tax to be withheld on the payment of interest from an Indonesian taxpayer to an offshore taxpayer. Under the tax treaty between

Singapore and Indonesia, the rate of withholding tax is reduced to ten percent (10%) on the payment of interest.

The reduced withholding tax rate of ten percent (10%) set out in the Singapore-Indonesia tax treaty can be used on the payment of interest by TPI to Sing Co. if Sing Co. can fulfill the conditions set out in Article 4 paragraph 2 of Director General of Taxes Regulation No. 62/PJ./2009 dated November 5, 2009 which has been amended by Director General of Taxes Regulation No. 25/PJ/2010 dated April 30, 2010 regarding the *Prevention of Tax Treaty Abuse, as follow*:

1. The company is established in the tax treaty partner country or has a structure/scheme transaction arrangement which is not solely intended to take advantage of a tax treaty benefit; and
2. Its operation is managed by the management itself who has sufficient authority to do transactions; and
3. The company has employees; and
4. The company has activities or active business; and
5. The Indonesia sourced income is subject to tax in the recipient country; and
6. The company does not use more than fifty percent (50%) of its total income to fulfill its obligations to other parties in the form of interest, royalty or other types of compensation.

Further, Sing Co. also has to submit the original copy of its Certificate of Domicile (DGT Form 1) to TPI to demonstrate that it is a beneficial owner of the interest payment.

There is no need for the TPI to obtain tax clearance in order to remit interest.

**Risk Factors**

Paragraph (3) of Article 18 of Law No. 36/2008 on Income Tax states that the Director General of Taxes is authorized to re-determine the amount of income and reduction as well as determine debt as capital in calculating the amount of taxable income for a taxpayer possessing a special relationship with another taxpayer in accordance with equity and common business practice that is not influenced by a special relationship by means of price-ratio method among independent parties, re-sale price method, costs-plus method, or other methods.

Furthermore Paragraph (4) of Article 18 of Law No. 36/2008 on Income Tax states that the special relation as intended in paragraph (3) up to paragraph (3d), Article 9 paragraph (1) sub-paragraph f, and Article 10 paragraph (1) shall be deemed in existence if:

a. Taxpayer has capital participation directly or indirectly a minimum of twenty five percent (25%) at other Taxpayer; relation between Taxpayer with a minimum

participation of twenty five percent (25%) at two Taxpayers or more; or relation between two Taxpayer or more mentioned latter;

b. Taxpayer controls other Taxpayer or two or more Taxpayers that are under the same possession both directly and indirectly; or
c. there is family relation both biologically and by marriage in vertical and/or horizontal lineage of the first degree.

Based on the above regulation, the tax authority may deem that the parties involved in the transactions are having a special relationship. In such a case, the tax authority has the right to re-determine the value of each transaction to reflect the market value that is applicable in a non-related party transaction.

***Disclaimer***

*This opinion is furnished to the abovementioned addressees for their sole benefit in connection with the plan to develop the new SHS, divest the old SHS and acquire the new SHS. Should this opinion be shown to any third party, then it is agreed that it is done on the basis that our opinion may not be relied upon by any other persons, companies or institutions. Moreover, there is a possibility that the interpretation of the tax laws and regulations on the transactions may give a different result with the tax authority.*

Should you have any questions regarding this matter, please do not hesitate to contact us.

Sincerely yours,

**Aristo Mahyadi**
*Partner*

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# NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an EXTRAORDINARY GENERAL MEETING of First Real Estate Investment Trust ("**First REIT**") will be held at Taurus Room, Level 1, Marina Mandarin Singapore, 6 Raffles Boulevard, Marina Square, Singapore 039594 on Tuesday, 29 December 2015, at 9.30 a.m. (the "**EGM**"), for the purpose of considering and, if thought fit, passing, with or without modifications, the following which will be proposed as an Ordinary Resolution:

**ORDINARY RESOLUTION**

**1. THE TRANSACTION IN RELATION TO SILOAM HOSPITALS SURABAYA WITH AN INTERESTED PERSON**

That approval be and is hereby given for:

(i) **Divestment of Plot B**

the divestment of the plot of land ("**Plot B**") which is owned by PT Tata Prima Indah ("**PT TPI**"), a limited liability company incorporated in Indonesia and an indirect wholly-owned subsidiary of First REIT to PT Saputra Karya ("**PT SK**"), a limited liability company incorporated in Indonesia and an indirect wholly-owned subsidiary of PT Lippo Karawaci Tbk, a company incorporated in Indonesia and the sponsor of First REIT (the "**Sponsor**") (the "**Plot B Divestment**"), at the sale consideration described in the circular dated 14 December 2015 issued by Bowsprit Capital Corporation Limited as manager of First REIT (the "**Manager**"), to holders of units in First REIT ("**Unitholders**", and the circular dated 14 December 2015 issued by the Manager, the "**Circular**") on the terms and conditions set out in the conditional sale and purchase agreement dated 20 October 2015 entered into between PT TPI and PT SK and for all payment of all fees and expenses relating to the Plot B Divestment, such divestment being an "interested person transaction" under Chapter 9 of the Listing Manual of Singapore Exchange Securities Trading Limited (the "**SGX-ST**", and the Listing Manual of the SGX-ST, the "**Listing Manual**") as well as an "interested party transaction" (as defined in Appendix 6 of the Code on Collective Investment Schemes issued by the Monetary Authority of Singapore in relation to real estate investment trusts (the "**Property Funds Appendix**"));

(ii) **Development Works**

the development works on Plot B and the Sponsor's land adjacent to Plot B ("**Plot A**" and the development works on Plot A and Plot B, the "**Development Works**") on the terms and conditions set out in the development works agreement for the New SHS (as defined herein) (the "**Development Works Agreement**") dated 20 October 2015 entered into between PT TPI and PT SK and for all payments of all fees and expenses relating to the Development Works, such transaction being an "interested person transaction" (as defined under Chapter 9 of the Listing Manual) as well as an "interested party transaction" (as defined in the Property Funds Appendix);

(iii) **The New SHS Acquisition and New SHS Master Lease**

(a) the acquisition of the new hospital to be built pursuant to the Development Works (the "**New SHS**" and the New SHS acquisition, the "**New SHS Acquisition**") from PT SK, at the purchase consideration described in the Circular and on the terms and conditions set out in the Development Works Agreement entered into between PT TPI and PT SK, and for payment of all fees and expenses relating to the New SHS Acquisition, such acquisition being an "interested person transaction" (as defined under Chapter 9 of the Listing Manual) as well as an "interested party transaction" (as defined in the Property Funds Appendix);

(b) the grant of a master lease of the New SHS to the Sponsor (the "**New SHS Master Lease**") (which constitutes an "interested person transaction" under Chapter 9 of the Listing Manual) on the terms and conditions set out in the master lease agreement which will be entered into between PT TPI and the Sponsor; and

(c) the termination of the existing master lease agreement between PT TPI (as the master lessor of the existing Siloam Hospitals Surabaya (the "**Existing SHS**")) and the Sponsor (as the master lessee of the Existing SHS) (the "**Existing SHS Master Lease Agreement**"); and

(iv) **Divestment of the Existing SHS**

the divestment of the Existing SHS which is owned by PT TPI to PT SK (the "**Existing SHS Divestment**"), at the sale consideration described in the Circular issued by the Manager to the Unitholders on the terms and conditions set out in the conditional sale and purchase agreement dated 20 October 2015 entered into between PT TPI and PT SK and for all payment of all fees and expenses relating to the Existing SHS Divestment (as described in the Circular), such divestment being an "interested person transaction" (as defined under Chapter 9 of the Listing Manual) as well as an "interested party transaction" (as defined in the Property Funds Appendix),

(collectively the "**Transaction**"); and

(v) the Manager, any director of the Manager ("**Director**") and HSBC Institutional Trust Services (Singapore) Limited, in its capacity as trustee of First REIT (the "**Trustee**"), be and are hereby severally authorised to complete and do all such acts and things (including executing all such documents as may be required) as the Manager, such Director or, as the case may be, the Trustee may consider expedient or necessary or in the interests of First REIT to give effect to the Transaction.

BY ORDER OF THE BOARD
Bowsprit Capital Corporation Limited
(as manager of First Real Estate Investment Trust)
(Company Registration No. 200607070D)

Susie Low
Company Secretary
Singapore
14 December 2015

**Important Notice**:

(1) A unitholder of First REIT entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint not more than two proxies to attend and vote in his/her stead. A proxy need not be a unitholder of First REIT.

(2) Where a unitholder of First REIT appoints more than one proxy, the appointments shall be invalid unless he/she specifies the proportion of his/her holding (expressed as a percentage of the whole) to be represented by each proxy.

(3) The instrument appointing a proxy must be lodged at the Unit Registrar's Office at Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623, not less than 48 hours before the time appointed for the Extraordinary General Meeting.

**Personal Data Privacy:**
By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the EGM and/or any adjournment thereof, a Unitholder (i) consents to the collection, use and disclosure of the Unitholder's personal data by First REIT (or its agents) for the purpose of the processing and administration by First REIT (or its agents) of proxies and representatives appointed for the EGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the EGM (including any adjournment thereof), and in order for First REIT (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), (ii) warrants that where the Unitholder discloses the personal data of the Unitholder's proxy(ies) and/or representative(s) to First REIT (or its agents), the Unitholder has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by First REIT (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the Unitholder will indemnify First REIT in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the Unitholder's breach of warranty.

# FIRST REAL ESTATE INVESTMENT TRUST

(Constituted in the Republic of Singapore
pursuant to a trust deed dated 19 October 2006 (as amended))
Managed by Bowsprit Capital Corporation Limited
(as manager of First Real Estate Investment Trust)
(Company Registration No. 200607070D)

**IMPORTANT:**

1. For investors who have used their CPF money to buy units in First REIT, this Circular is forwarded to them at the request of their CPF Approved Nominees and is sent FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF Investors and shall be ineffective for all intents and purposes if used or is purported to be used by them.
3. CPF Investors who wish to attend the Extraordinary General Meeting as observers have to submit their requests through their CPF Approved Nominees within the time frame specified. If they also wish to vote, they must submit their voting instructions to the CPF Approved Nominees within the time frame specified to enable them to vote on their behalf.
4. **PLEASE READ THE NOTES TO THE PROXY FORM.**

**Personal data privacy**

By submitting an instrument appointing a proxy(ies) and/or representative(s), the Unitholder accepts and agrees to the personal data privacy terms set out in the Notice of Extraordinary General Meeting dated 14 December 2015.

## PROXY FORM
## EXTRAORDINARY GENERAL MEETING

I/We _____ (Name)

of _____ (Address)

being a unitholder/unitholders of First Real Estate Investment Trust ("**First REIT**"), hereby appoint:

| **Name** | **NRIC/Passport Number** | **Proportion of Unitholdings** | |
|---|---|---|---|
| | | **No. of Units** | % |
| **Address** | | | |

and/or (delete as appropriate)

| **Name** | **NRIC/Passport Number** | **Proportion of Unitholdings** | |
|---|---|---|---|
| | | **No. of Units** | % |
| **Address** | | | |

or, both of whom failing, the Chairman of the Extraordinary General Meeting as my/our proxy/proxies to attend and to vote for me/us on my/our behalf at the Extraordinary General Meeting of First REIT to be held at Taurus Room, Level 1, Marina Mandarin Singapore, 6 Raffles Boulevard, Marina Square, Singapore 039594, on Tuesday, 29 December 2015, at 9.30 a.m. and any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the Resolution to be proposed at the Extraordinary General Meeting as indicated hereunder. If no specific direction as to voting is given, the proxy/proxies will vote or abstain from voting at his/her/their discretion, as he/she/they may on any other matter arising at the Extraordinary General Meeting.

| | **Resolution** | **To be used in the event of a poll** | |
|---|---|---|---|
| | | **No. of Votes For *** | **No. of Votes Against *** |
| 1 | To approve the Transaction in relation to Siloam Hospitals Surabaya with an Interested Person | | |

* If you wish to exercise all your votes "For" or "Against", please tick (✓) within the box provided. Alternatively, please indicate the number of votes as appropriate.

Dated this _____ day of _____ 2015

_____

Signature(s) of unitholder(s)/Common Seal

| **Total number of Units held** |
|---|
| |

**IMPORTANT: PLEASE READ THE NOTES TO PROXY FORM BELOW**

**Notes to Proxy Form**

1. A unitholder of First Real Estate Investment Trust ("**First REIT**" and a unitholder of First REIT, "**Unitholder**") entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a Unitholder.
2. Where a Unitholder appoints more than one proxy, the appointments shall be invalid unless he/she specifies the proportion of his/her holding (expressed as a percentage of the whole) to be represented by each proxy.
3. Completion and return of this instrument appointing a proxy shall not preclude a Unitholder from attending and voting at the Extraordinary General Meeting. Any appointment of a proxy or proxies shall be deemed to be revoked if a Unitholder attends the Extraordinary General Meeting in person, and in such event, First REIT reserves the right to refuse to admit any person or persons appointed under the instrument of proxy to the Extraordinary General Meeting.
4. A Unitholder should insert the total number of units in First REIT ("**Units**") held. If the Unitholder has Units entered against his/her name in the Depository Register maintained by The Central Depository (Pte) Limited ("**CDP**"), he/she should insert that number of Units. If the Unitholder has Units registered in his/her name in the Register of Unitholders of First REIT, he/she should insert that number of Units. If the Unitholder has Units entered against his/her name in the said Depository Register and registered in his/her name in the Register of Unitholders, he/she should insert the aggregate number of Units. If no number is inserted, this form of proxy will be deemed to relate to all the Units held by the Unitholder.
5. The instrument appointing a proxy or proxies (the "**Proxy Form**") must be deposited at the Unit Registrar's Office at Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623, not less than 48 hours before the time set for the Extraordinary General Meeting.
6. The Proxy Form must be under the hand of the appointor or of his/her attorney duly authorised in writing. Where the Proxy Form is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or a duly authorised officer.

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Affix
Postage
Stamp

**The Company Secretary**
**Bowsprit Capital Corporation Limited**
**(as manager of First Real Estate Investment Trust)**

c/o Boardroom Corporate & Advisory Services Pte. Ltd.
50 Raffles Place
#32-01 Singapore Land Tower
Singapore 048623

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7. Where the Proxy Form is signed on behalf of the appointor by an attorney or a duly authorised officer, the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority must (failing previous registration with Bowsprit Capital Corporation Limited, as manager of First REIT (the "**Manager**")) be lodged with the Proxy Form; failing which the instrument may be treated as invalid.
8. A corporation which is a Unitholder may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Extraordinary General Meeting and the person so authorised shall upon production of a copy of such resolution certified by a director of the corporation to be a true copy, be entitled to exercise the powers on behalf of the corporation so represented as the corporation could exercise in person if it were an individual.
9. The Manager and/or the Unit Registrar shall be entitled to reject a Proxy Form which is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the Proxy Form. In addition, in the case of Units entered in the Depository Register, the Manager and/or the Unit Registrar may reject a Proxy Form if the Unitholder, being the appointor, is not shown to have Units entered against his/her name in the Depository Register as at 48 hours before the time appointed for holding the Extraordinary General Meeting, as certified by CDP to the Manager.
10. All Unitholders will be bound by the outcome of the Extraordinary General Meeting regardless of whether they have attended or voted at the Extraordinary General Meeting.
11. On a poll, every Unitholder who is present in person or by proxy shall have one vote for every Unit of which he/she is the Unitholder. A person entitled to more than one vote need not use all his/her votes or cast them the same way.
12. CPF Approved Nominees acting on the request of the CPF investors who wish to attend the Extraordinary General Meeting as observers are requested to submit in writing, a list with details of the CPF Investors' names, NRIC/Passport numbers, addresses and number of Units held. The list, signed by an authorised signatory of the relevant CPF Approved Nominees, should reach the Unit Registrar's Office at Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623, not less than 48 hours before the time appointed for holding the Extraordinary General Meeting.

**Personal Data Privacy:**

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the EGM and/or any adjournment thereof, a Unitholder (i) consents to the collection, use and disclosure of the Unitholder's personal data by First REIT (or its agents) for the purpose of the processing and administration by First REIT (or its agents) of proxies and representatives appointed for the EGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the EGM (including any adjournment thereof), and in order for First REIT (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), (ii) warrants that where the Unitholder discloses the personal data of the Unitholder's proxy(ies) and/or representative(s) to First REIT (or its agents), the Unitholder has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by First REIT (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the Unitholder will indemnify First REIT in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the Unitholder's breach of warranty.

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