INDONESIA HEALTHCARE MARKET REVIEW REPORT

FROST & SULLIVAN

Assessment of Healthcare Services Market in Purwakarta Regency (Indonesia)

Final Report

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GLOSSARY

TERMS	DESCRIPTION / DEFINITION
BPJS	Badan Penyelenggara Jaminan Sosial (Indonesian equivalent to Social Security and Health Insurance)
CAGR	Compound Annual Growth Rate
CEPAT	Community Empowerment of People against Tuberculosis
COE	Centre of Excellence
CT	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.
ECG	Electrocardiograph
EEG	Electroencephalography
ENT	Ear, Nose & Throat
GDP	Gross Domestic Product
GoI	Government of Indonesia
GPs	General Practitioners
GRDP	Gross Regional Domestic Product
HCS	Health Care Services
ICCU	Intensive Critical Care Unit
ICU	Intensive Care Unit
IMF	International Monetary Fund
IUWASH	Indonesia Urban Water, Sanitation and Hygiene program
Jabodetabek	Area including Jakarta, Bogor, Depok, Tangerang, and Bekasi
Jamsostek	Jaminan Sosial Tenaga Kerja (Indonesian equivalent to Workers' Social Security)
Jasa Marga	Government entity that plans, builds, operates and maintains toll roads in Indonesia
Jasa Raharja	Government entity that monitors road traffic accidents and related insurance claims
JCI	Joint Commission International
KARS	Komisi Akreditasi Rumah Sakit (Indonesian equivalent to Hospital Accreditation Commission)
MOH	Ministry of Health
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.
NICU	Neonatal Intensive Care Unit
OOP	Out of Pocket payments
PICU	Paediatric Intensive Care Unit
Puskesmas	Pusat Kesehatan Masyarakat (Indonesian equivalent to Centre of Public Health)
SDPDP	Siloam Doctor Partnership Development Program
SHG	Siloam Hospitals Group
SHPW	Siloam Hospitals Purwakarta
SOE	State Owned Enterprises
UHC	Universal Health Coverage program
USAID	United States Agency for International Development
USG	Ultrasonography
WHO	World Health Organisation

1 MACROECONOMIC INDICATORS

1.1 TRENDS IN GDP[1]

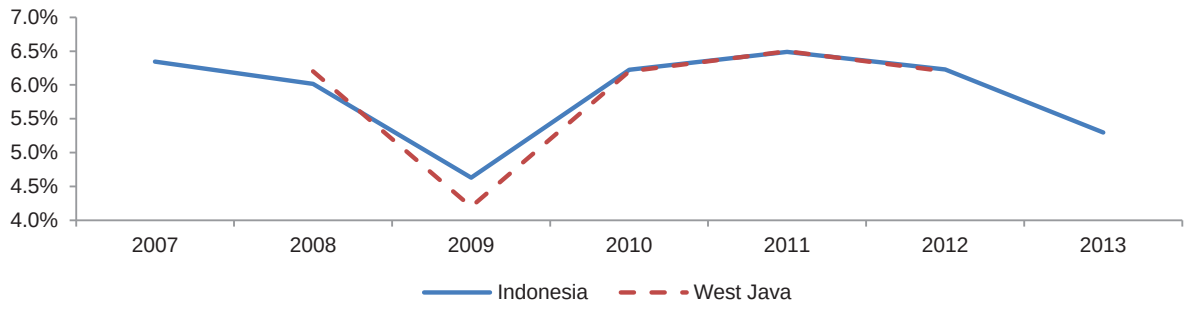
Indonesia has recovered from the global recession, and is experiencing greater economic prosperity and rising affluence, as they are largely dependent on domestic consumption rather than exports. Indonesia's real GDP expanded at a CAGR of 5.9% from 2008 to 2012. Moving forward, the GoI plans to focus on boosting investments to revive the country's GDP amidst an outflow of foreign funds from Indonesia's stock and debt markets. However, IMF believes that Indonesia's economic growth in 2014 will be better than 2013 because of the improving global economy as well as increased spending in the context of legislative and presidential elections in mid-2014. IMF also forecasted Indonesia's real GDP to grow between 5.7% and 6.2% per annum, during the period 2013-2018.

Table 1: Nominal and Real GDP for Indonesia, 2008-2012, in IDR trillion

	2008	2009	2010	2011	2012	2008–2012 CAGR
Nominal GDP	4,949	5,606	6,447	7,423	8,242	**13.6%**
Nominal GDP growth	25.3%	13.3%	15.0%	15.1%	11.0%	**N/A**
Real GDP	2,082	2,179	2,314	2,465	2,618	**5.9%**
Real GDP growth	6.0%	4.6%	6.2%	6.5%	6.2%	**N/A**

Source: IMF

Chart 1: Real GDP growth of Indonesia and Real GRDP[2] growth of West Java, 2008-2013



Source: IMF, BPS – Statistics of West Java

West Java is located in the western part of Java Island, and comprises of 26 regencies and cities, one of them being Purwakarta. The province has experienced a healthy real GRDP growth historically; a 2008–2012 CAGR of 5.8%, on par with the national growth. The following table shows West Java's nominal and real GRDP from 2008 to 2012.

[1] GDP or 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, and exports less imports that occur within a defined territory.

[2] GRDP or Gross Regional Domestic Product is the monetary value of all the finished goods and services produced in the regional economy (by resident producers), in a specific time period, usually calculated on an annual basis.

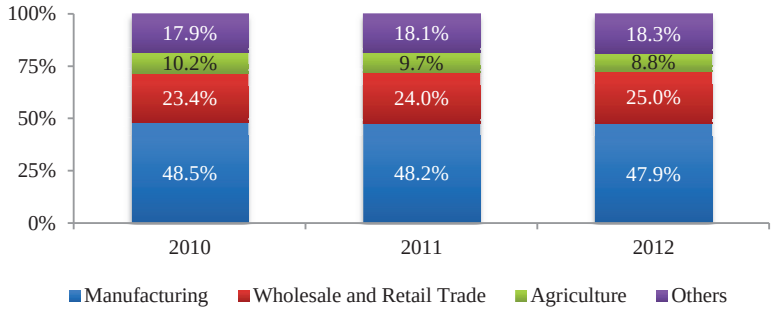
Table 2: Nominal and Real GRDP for West Java, 2008-2012, in IDR billion

	2008	2009	2010	2011	2012	2008–2012 CAGR
Nominal GRDP	633,283	689,841	771,594	860,982	946,861	**10.6%**
Nominal GRDP growth	20.4%	8.9%	11.9%	11.6%	10.0%	**N/A**
Real GRDP	291,206	303,405	322,224	343,111	364,405	**5.8%**
Real GRDP growth	6.2%	4.2%	6.2%	6.5%	6.2%	**N/A**

Source: BPS – Statistics of West Java

Purwakarta regency has followed the same economic growth as West Java and Indonesia, with a real GRDP growth of 5.8% (CAGR 2008–2012). The main economic activities in Purwakarta are manufacturing, wholesale and retail trade, agriculture, and other services. Unlike West Java, which is known for its agricultural sector (approximately 31.0% contribution to GRDP), Purwakarta's economic activity is led by its manufacturing sector (approximately 48.0% contribution to GRDP in 2012). The reminder of Purwakarta's GRDP comprises of wholesale and retail trade, agriculture, and other services.

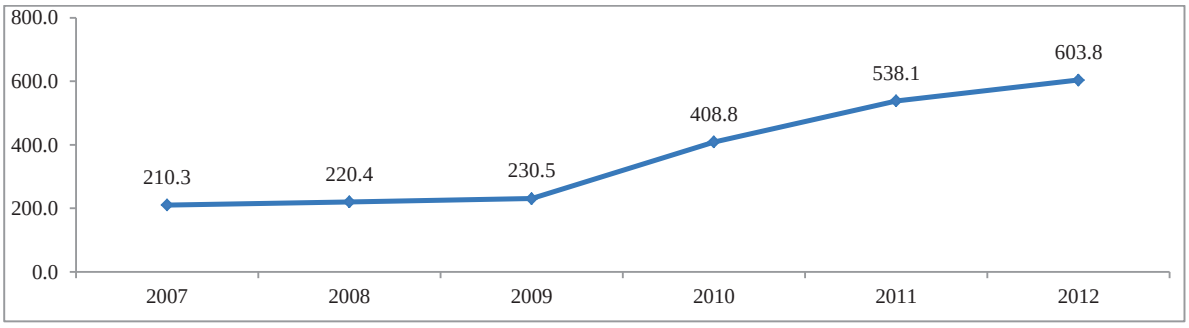
Chart 2: Composition of Purwakarta's GRDP (at constant price), 2010 – 2012



Source: Produk Domestik Regional Bruto Kabupaten Purwakarta Menurut Lapangan Usaha 2013

Purwakarta is an industrial town comprising of many manufacturing clusters and hence the manufacturing and industrial processing sector contributes to 47.9% of Purwakarta's GRDP. The manufacturing sector includes the following subsectors: large and medium enterprises, small enterprises, and household handicraft companies. Notable manufactured goods are building materials (bricks, ceramics, and tiles), garments, metal processing (steel and aluminum), precision parts, chemicals, and processed food.

Chart 3: Value of exports from Purwakarta (million USD)



Source: Purwakarta Dalam Angka 2013

The wholesale and retail trade sector contributed to a quarter of Purwakarta's GRDP in 2012. The value of goods exported from Purwakarta increased at a CAGR of 23.5% from USD 201.2 million in 2007 to USD 603.8 million in 2012. Notable export commodities include gear and shift rods, polyester, rayon fibers, and nylon filament yarn.

The agricultural sector comprises of food crops, plantations, livestock, forestry, and fisheries. Majority of these agricultural products are used for domestic consumption while the rest are exported. The agricultural sector contributed to 8.8% of Purwakarta's GRDP in 2012 and is also one of the major sources of livelihood for the residents of Purwakarta.

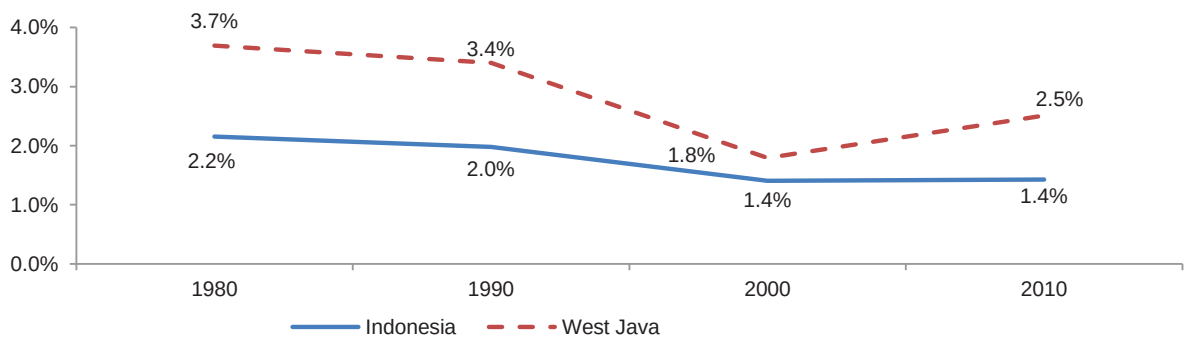
1.2 TRENDS IN POPULATION

Indonesia is the fourth largest country in the world with an estimated population of 249.8 million in 2013. According to United Nations Department of Economic and Social Affairs, Indonesia's population is forecast to increase to 277.0 million people by 2023 at a CAGR (2013–2023) of 1.0%. The population growth is concentrated in Java Island, especially Greater Jakarta area. The economic growth is also concentrated here and in cities within Jabodetabek, mainly due to the high population growth. However, congestion has prompted some businesses to consider new growth areas such as Sulawesi, Kalimantan, and Sumatra. This is attributed to the increasing number of foreign investments in these provinces to develop the industrial, commercial, and infrastructure facilities.

Indonesia's population above 60 years of age, previously maintained at 5.0% to 6.0% of the total population until the 1980s, has gradually increased to 8.1% in 2013 and is forecast to increase to 11.2% of the total population by 2023. The growth of the ageing population is expected to lead to an increase in demand for HCS due to:

- higher occurrence of non-communicable diseases such as cardiovascular diseases, cancer and age-related diseases such as arthritis and diabetes, among others;
- higher requirement for diagnosis and hospital-based inpatient and outpatient treatment; and
- longer duration of care.

Chart 4: Population Growth Rate in Indonesia and West Java, 1980 – 2010

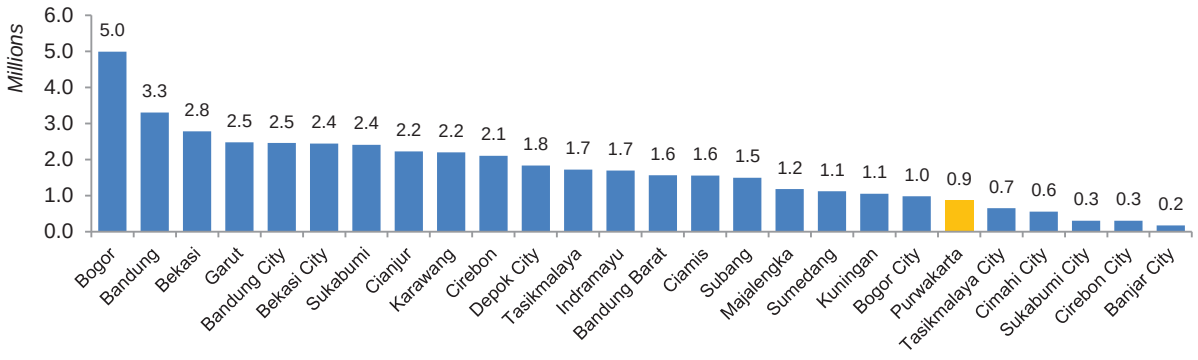


Source: Statistics of West Java, United Nations Department of Economic and Social Affairs

Such demand is expected to result in greater investments in healthcare infrastructure. This is likely to enable the further liberalization of Indonesia's HCS market. In addition, the growing middle income population in Indonesia, which is driven by the growth of the working population coupled with the growth of the economy, is expected to fuel the demand for better HCS in the country. To cope with the rising demand, both quantity and quality of hospitals are being upgraded in public and private sectors.

In 2012, West Java was the most populous province in Indonesia, with a population of 44.5 million. The population is distributed among the 26 regencies and cities, with Bogor having the highest population, followed by Bandung. Purwakarta had an estimated population of 883,000 in 2012. Located in the central part of the province, Purwakarta is the least populated regency in West Java, when compared to neighboring regencies like Subang, Karawang, West Bandung, and Cianjur. The most populous regency, Bogor, is only 125 km away from Purwakarta.

Chart 5: Population of West Java by Regencies and Cities, in thousands, 2012



Source: BPS – Statistics of West Java

1.3 GROWTH IN MIDDLE CLASS POPULATION IN INDONESIA

Indonesia houses a strong and vibrant middle class population which is growing in size. The earning capacity of Indonesians is on the rise, leading to a shift in population from the 'low-income class' to the 'middle income class'. The middle income households (households with annual earnings between USD 5,000 and USD 10,000) are estimated to be 24.6% of the total households in 2013 and expected to reach 44.3% by 2017.This increasing wealth, coupled with sedentary lifestyles, has led to a higher prevalence of chronic diseases. A rising middle class population has preference for high quality and standards of HCS, and has more affordability towards the same. The gap between the urban population's requirements and existing service offerings calls for more private participation in the healthcare delivery system.

1.4 HEALTHCARE INDICATORS

Healthcare Expenditure

The total healthcare expenditure[3] in 2012 was estimated to be USD 26.9 billion, with public expenditure[4] (government funding, social security funds, etc.) contributing to 40.0% and private expenditure[5] (OOP, private insurance, etc.) contributing the remaining 60.0%. Frost & Sullivan forecasts the total healthcare expenditure to reach USD 62.6 billion in 2018 at a CAGR of 15.1% from 2012, with the public and private spending contributing USD 25.4 billion and USD 37.2 billion respectively. The increase in public spending may be attributed to the implementation of UHC program in the next 3-5 years. Though growing at a marginally lower CAGR, the private healthcare expenditure is expected to be higher than the public healthcare expenditure in the years to come. Frost & Sullivan forecasts the total healthcare expenditure to reach 4.1% of the GDP by 2018 from 3.0% in 2012.

[3] Total healthcare expenditure is defined by OECD as the sum of expenditure on the following activities: Personal healthcare functions (curative care, rehabilitative care, long-term nursing care, ancillary services, medical goods dispensed to out-patients), Collective healthcare functions (services of prevention and public health, heath administration, health insurance), and Investment in heath(gross capital formation).

[4] Public expenditure on health is incurred by public funds. Public funds are state, regional, and local Government bodies and social security schemes. Public capital formation on health includes publicly financed investment in health.

[5] Private expenditure on health is the privately funded portion of the total healthcare expenditure. As defined by OECD, private sources of funds include out-of-pocket payments (both over-the-counter and cost-sharing), private insurance programs, charities and occupational health care. It is to be noted that this is a source of funding and does not directly translate to revenues for private hospital players.

Table 3: Public and Private healthcare expenditure, Indonesia, in USD billion, 2008 to 2018F

Healthcare Expenditure (USD billion)	2008	2009	2010	2011	2012E	2018F
Public	5.9	6.2	7.3	7.9	10.8	25.4
Private	8.7	9.3	12.9	15.3	16.1	37.2
Total	**14.6**	**15.4**	**20.2**	**23.2**	**26.9**	**62.6**

Source: 2008 to 2011 data from WHO, 2012 estimation, and 2018 forecast by Frost & Sullivan

Healthcare Infrastructure

The healthcare system in Indonesia consists of both the public and private healthcare systems. As of December 2013, there are 2,262 hospitals classified in Indonesia, of which 1,569 are public hospitals with 220,780 beds and 693 are private hospitals with 54,600 beds. The HCS market in Indonesia is underserved, which is demonstrated by Indonesia appearing at the bottom of the comparison charts for many healthcare indicators.

Table 4: Healthcare Infrastructure in Indonesia, 2008 to 2013

Number of Hospitals	2008	2009	2010	2011	2012	2013
Public	699	755	794	1,406	1,540	1,569
General	*612*	*667*	*706*	*1,127*	*1,240*	*1,276*
Specialized	*87*	*88*	*88*	*279*	*300*	*293*
Private	673	768	838	315	543	693
General	*467*	*535*	*593*	*246*	*368*	*468*
Specialized	*206*	*233*	*245*	*69*	*175*	*225*
Total Hospitals	**1,371**	**1,523**	**1,632**	**1,721**	**2,083**	**2,262**

Source: MOH Health Profiles, Rumah Sakit Online
Note: 2013 numbers are as of December 2013

In 2011, the GoI started the process of reclassifying its hospitals, in order to classify hospitals based on their capabilities and the quality of services offered. In order to be eligible for a better classification, the hospitals will have to add or improve their facilities, for example, number of staff, therapeutic area services, medical equipment, etc. Key changes noted are (i) private non-profit hospitals are now classified as public, and (ii) State owned hospitals (SOE category) which were under Other Ministries in the public classification has been reclassified as private. The net effect of these two changes has dramatically increased the number of public hospitals in 2011 – 2013.

Table 5: Healthcare Infrastructure in Indonesia, 2008 to 2013

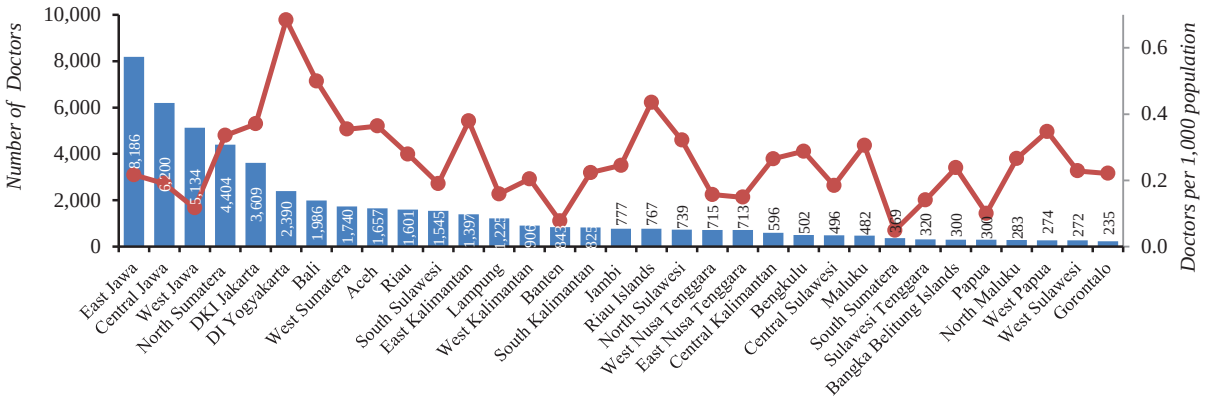
Number of Beds	2008	2009	2010	2011	2012	2013
General	128,750	141,603	143,428	148,125	213,133	222,251
Public	81,484	89,539	90,960	89,753	177,889	*179,050*
Private	47,266	52,064	52,468	58,372	35,244	*43,201*
Specialized	20,788	22,077	22,860	20,531	25,240	53,126
Public	n/a	n/a	n/a	n/a	20,179	*41,731*
Private	n/a	n/a	n/a	n/a	5,061	*11,395*
Total Beds	**149,538**	**163,680**	**166,288**	**168,656**	**238,373**	**275,377**

Source: MOH Health Profiles, Rumah Sakit Online
Note: 2013 numbers are as of December 2013

The GoI and private sector are making efforts to improve the healthcare infrastructure in Indonesia; however the country still faces challenges in terms of infrastructure. Indonesia's beds per 1,000 population ratio of 1.10, as of December 2013, is significantly lower than its regional neighbors, indicating the need for consolidated efforts to improve the current state of HCS in Indonesia. When compared against the global average of 3.00 beds per 1,000 population, Indonesia has a shortfall of approximately 475,000 beds.

In addition to the gaps in supply of hospital beds, Indonesia has a significant shortage of medical professionals across all provinces in Indonesia. There is a significant shortage of doctors and nurses in Indonesia (approximately 250,000 doctors and specialists shortfall as of December 2013); and the uneven distribution of the healthcare personnel also adds to the problem. As seen in the charts below, the distribution of doctors and nurses are concentrated in the Java Island.

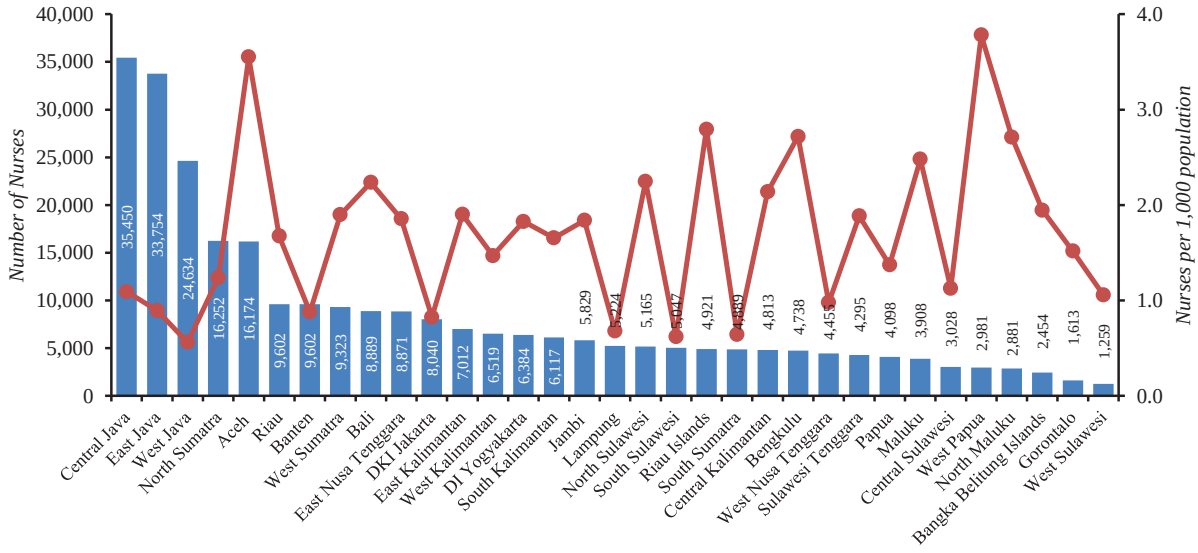
Chart 6: Doctors population in Indonesia by province, 2012(latest available year)



Source: MOH Indonesia

The GoI has instituted a mandatory policy for medical graduates to undertake six months of service in remote areas in order to overcome the shortage of doctors in rural areas. The policy of dual practice has increased utilization of both public facilities and private healthcare professionals (physicians, midwives, and nurses). MOH has invested IDR 2.92 trillion in 2012, to develop human resources in healthcare; and it further plans to invest IDR 3.73 trillion by 2014. Access to health workers in remote areas has increased through the recruitment of nutritionists, lab assistants, and nurses.

Chart 7: Nurses population in Indonesia by province, 2012(latest available year)



Source: MOH Indonesia

1.5 REGULATIONS AND GOVERNMENT POLICIES

Indonesia is a vast country with large geographical and economic disparities between sub regions. To ensure that there is positive healthcare development for the nation as a whole, healthcare efforts need to address specific healthcare issues in each region. Ordinance No.32/2004 on Provincial Government, Ordinance No.33/2004 on Balance Financing between Central and Provincial Government, and Ordinance No.38/2007 on Affairs Division between the Central, Provincial Government, and Municipal Government, all point to greater efforts and structures on planning, budget allocation, and the provision of drugs for the public sector healthcare system. These policies have to be implemented by the municipal governments. Decentralization is expected to provide greater autonomy to the regional governments in regulating their own governance systems and local affairs, including provision of healthcare services.

The shift in governmental focus towards a community-centric healthcare system since 2004 has changed the way healthcare facilities are utilized in both the public and private sectors. With recent reforms[6] in the healthcare industry, growth within the private sector will be closely linked to the increase in public health insurance coverage, as the flow of universal public health insurance funds to the private health care sector serves as a significant benefit.

A drive to ensure UHC by 2019 in Indonesia necessarily entails large-scale investments, and is creating opportunities for the private sector. This investment, coupled with the strong economic growth that is boosting Indonesians' incomes, is leading to increasing demand for HCS, equipment, and pharmaceuticals, as well as a need for more medical professionals. The country is rapidly becoming one of the world's most important healthcare markets, and international and domestic firms are increasingly benefitting as the market grows and opens up.

The GoI formed a Commission for Hospital Accreditation in 2012 for the quality assurance of hospitals in the country. This accreditation system, which is modeled closely to international standards, assesses each hospital once every three years before issuing an accreditation. As part of the Healthcare Reform 2010 to 2014, the GoI targets to have at least six JCI accredited public hospitals in five major cities. The GoI has earmarked seven flagship public hospitals to receive JCI accreditation by 2014.

The GoI formulated the Hospital Law in 2010 to further enhance the hospital standards within the country. This proposed new ruling is likely to further liberalize public-private partnerships, and also encourage domestic and/or foreign private investments into the hospital sector. This ruling increases maximum foreign hospital stake ownership from 65% to 67% and allows foreign hospital investments throughout the country, whereas previously, this was restricted only to Surabaya and Medan. The new Hospital Law is intended to raise healthcare delivery standards across the country, and is likely to serve as a 'pull factor' to retain the outbound Indonesian medical tourists in the long term to receive HCS within the country.

[6] Notable reforms in the healthcare industry include but not limited to:

(i) Social Security Act in 2004: aims to develop the UHC program for Indonesians and change the way medical doctors practice. The national health insurance program covers the entire population under the single insurance platform.

(ii) Decentralization Acts in 1999 and 2004: The decentralization policy transferred the authority and financing system for the health sector from central to local governments.

(iii) Medical Practice Act in 2004: aims to strengthen the legal enforcement in healthcare services and thereby to improve quality of care.

2 OVERVIEW OF THE HEALTHCARE SERVICES INDUSTRY IN PURWAKARTA

2.1 HEALTHCARE INDICATORS IN PURWAKARTA REGENCY

Healthcare Infrastructure

Purwakarta regency comprises of 17 sub-districts (*kecamatan*) and 183 villages. The following sub-districts are the most populous in the Purwakarta regency: Purwakarta, Plered, Sukatani, and Jatiluhur. The HCS market of Purwakarta has grown at a faster pace since 2010, especially the number of hospitals which grew at a CAGR of 25.4%. However, the number of doctors decreased marginally at a CAGR of 9.1%, but is currently compensated by majority of the doctors practicing at multiple locations, as allowed by the GoI. The following table shows the healthcare infrastructure of Purwakarta regency.

Table 6: Healthcare Infrastructure in Purwakarta Regency, 2010 – 2012

Infrastructure	2010	2011	2012	2010–2012 CAGR
Total Number of Hospitals	7	11	11	25.4%
Total Number of Public Health Centres	20	20	20	0.0%
Total Number of Pharmacies	42	43	39	-3.6%
General Doctors	69	73	57	-9.1%
Nurses	109	158	171	25.3%
Midwives	260	275	217	-8.6%

Source: BPS – Statistics of Purwakarta Regency

The following table shows the healthcare facilities available in the province of West Java and Purwakarta's position in comparison to the other regencies and cities. Though Purwakarta has the seventh largest number of hospitals in West Java, it is ranked 14th in terms of number of beds, representing the increasing number of small-sized hospitals in Purwakarta in recent years. The average number of beds per hospital in Purwakarta is approximately 60, which places the regency at the bottom of the table in the list of cities and regencies in West Java.

Table 7: Healthcare Facilities in West Java by various regencies, 2012

Infrastructure	Hospitals	Public Health Centres (Puskesmas)	Pharmacies	No. of Beds	No. of Beds per 10,000 Population
Bandung City	32	73	599	4,649	18.9
Bekasi City	33	31	344	3,434	14.0
Bekasi	32	39	48	2,051	7.4
Bogor	20	101	243	1,741	3.0
Bogor City	11	24	108	1,736	17.6
Depok City	16	32	230	1,548	8.4
Karawang	17	50	163	1,410	6.4
Cirebon	7	57	98	1,121	5.3
Sukabumi City	8	15	44	1,088	35.3
Cimahi City	4	13	59	1,056	18.8
Tasikmalaya City	14	20	81	979	15.0
Cirebon City	10	22	77	924	30.5
Bandung	7	62	258	853	2.6
Purwakarta	**11**	**20**	**39**	**848**	**9.6**

Infrastructure	Hospitals	Public Health Centres (Puskesmas)	Pharmacies	No. of Beds	No. of Beds per 10,000 Population
Kuningan	8	37	48	752	7.1
Sukabumi	6	58	52	658	3.0
Garut	3	65	69	633	2.5
Subang	7	40	114	586	3.9
Indramayu	7	49	87	488	2.9
Bandung Barat	3	31	61	440	2.8
Ciamis	5	52	64	419	2.7
Cianjur	2	45	88	393	1.8
Sumedang	2	32	68	359	3.2
Majalengka	3	32	67	336	2.8
Banjar City	3	10	23	335	18.6
Tasikmalaya	1	40	48	64	0.4
Total	**268**	**1,062**	**4,278**	**28,901**	**6.5**

Source: BPS – Statistics of West Java

Incidence of Diseases

The common causes of morbidity in Purwakarta are stroke, hypertension, diarrhea, and dengue fever. Besides these non-communicable diseases, Indonesia is vulnerable to epidemic diseases due to its huge population, large proportion of rural area, and low hygiene standards. A relevant example would be the Avian Flu (H5N1) pandemic which first appeared in Indonesia in 2005.The following tables show the high occurrence of H5N1 in Indonesia compared to other countries, as well as the especially large number of cases in the West Java province. The total number of H5N1 deaths in Indonesia represents approximately 44.0% of the total number of H5N1 deaths reported worldwide.

The numbers also show that West Java is more vulnerable than the other provinces to such an epidemic, as it is the most populous province in the country. Therefore, the province and its surrounding regions should be equipped with the necessary health facilities and experienced healthcare personnel, in order to fight such pandemic outbreaks in future.

Table 8: Avian Flu (H5N1) Cases and Deaths in Selected Countries Reported to WHO, 2003 – 2012

Country	Cases	Deaths	Province	Cases	Deaths
Indonesia	**192**	**160**	DKI Jakarta	52	44
Vietnam	123	61	**West Java**	**48**	**40**
Egypt	168	60	Banten	32	29
China	43	28	Central Java	13	12
Cambodia	21	19	Riau	10	8
Thailand	25	17	North Sumatra	8	7
Others	37	15	Others	29	20
Total	**609**	**360**	**Total**	**192**	**160**

Source: Countries data from WHO, Indonesia data provincial from Ministry of Health

Key Alliances

USAID for CEPAT Health Program

As of today, Indonesia remains among the top five countries in the world, where tuberculosis is prevalent. USAID Indonesia is a joint effort between USA and Indonesia, which deals with security, economic, social, and environmental issues. In 2013, USAID along with the Indonesian Ministry of Health launched a USD 12.0

million CEPAT program, to fight against tuberculosis by targeting the vulnerable population in urban slums, displaced and mobile population, as well as uninsured and malnourished people. The CEPAT program is also held in close collaboration with the National Tuberculosis Program, and is implemented by three Indonesian partners: Lembaga Kesehatan Nadhlatul Ulama (LKNU), Jaringan Kesehatan Masyarakat (JKM), and the Roman Catholic Diocese of Timika (RCD).The provinces benefited from this initiative are West Java, North Sumatra, West Sumatra, Banten, DKI Jakarta, East Java, Nusa Tenggara Barat, Papua and West Papua.

DAI for IUWASH Indonesia 2011 – 2016

Development Alternatives Incis a private development company based in USA. Following the success of its Environmental Services Program (2005-2010), it designed the IUWASH program to create an impact on hygiene and health in Indonesia. West Java is one of the target areas of this program. The IUWASH program hopes to increase awareness and obtain new water connections as well as improve sanitation facilities for Indonesian households. This program is likely to improve the health of Indonesians in the long run, as well as educate them on the importance of improved sanitation and hygiene practices.

Unilever Indonesia's Public Health Education Program

Unilever Indonesia, a leading home and personal care company, runs its Public Health Education (PHE) program since 2005 and has educated two million people and trained more than 50,000 people. West Java is one of the provinces included in the program, particularly the school PHE program. Unilever Indonesia Foundation strengthens Indonesia's School Health program through education and awareness. The health messages are also shared with mothers in order to instill the knowledge within homes. The program is also in support of Indonesia's Little Doctors program, which trains students as health stewards to monitor hygiene and environmental cleanliness.

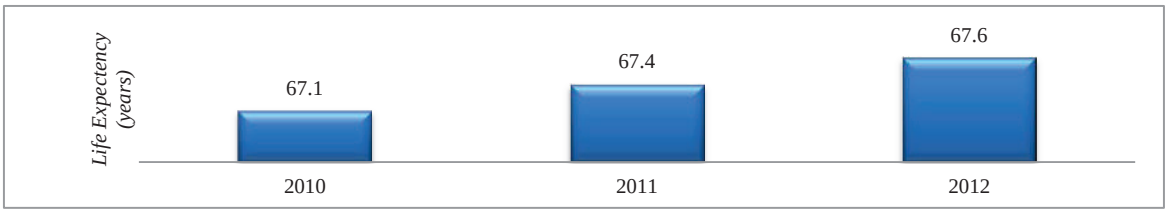
2.2 HEALTHCARE MARKET DYNAMICS IN PURWAKARTA

Growth Drivers of the Healthcare Services Market in Purwakarta

a) Longer Life Expectancy

The continuous increase in life expectancy and the decline in fertility rates are the major factors underlying the growing elderly demographic in Indonesia, which in turn is driving the demand for hospital based HCS as well as primary care. As shown in Chart 8, life expectancy in Purwakarta has gradually increased from 67.1 years in 2010 to 67.6 years in 2012. This increase in life expectancy, will eventually contribute to age-related conditions such as cardiovascular diseases, diabetes, macular degeneration, and bone related problems (arthritis and osteoporosis).

Chart 8: Average life expectancy in Purwakarta, 2010-2012

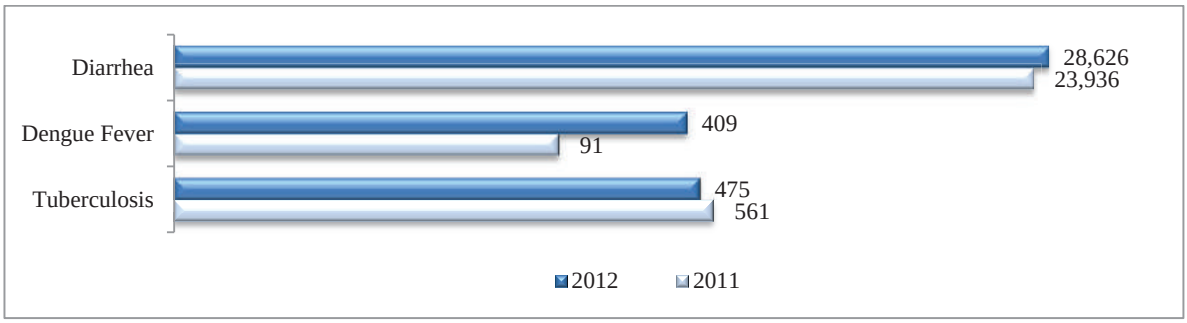


Source: BPS of Purwakarta

b) Increased Incidence of Communicable and Non-Communicable Diseases

The common causes of morbidity in Purwakarta are stroke, followed by hypertension, diarrhea, and dengue fever. The treatment for non-communicable diseases require a higher level of in-patient, secondary and tertiary care; sophisticated medical and laboratory facilities and well-trained healthcare professionals, leading to overall higher costs in treatments.

Chart 9: Incidence of selected health conditions in Purwakarta, 2011 and 2012

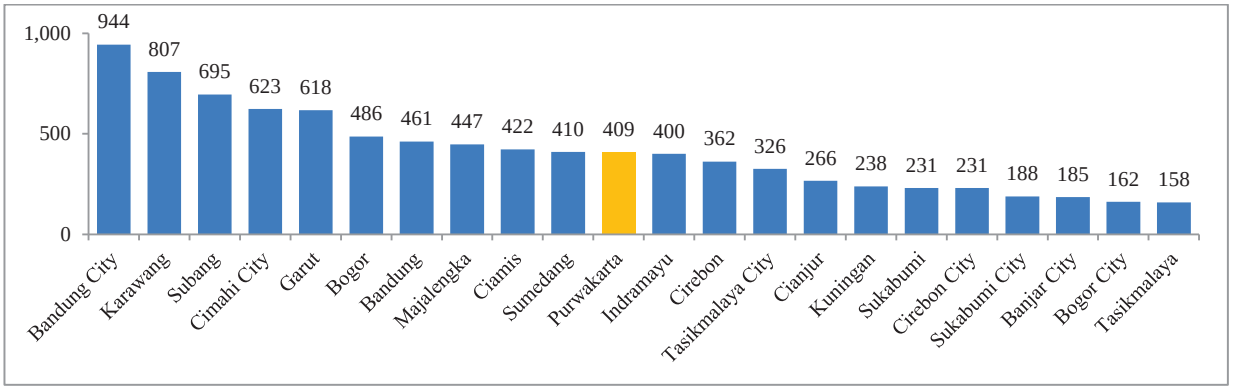


Source: BPS of West Java

c) Accidents and Occupational Injuries on the Rise

The young demographic profile of Purwakarta engages in reckless or careless driving, which has led to an increased number of traffic accidents. According to Purwakarta Police Statistics, in 2012, there were 409 traffic accidents in Purwakarta, with 37.0% of victims sustaining serious injuries. The graph below shows the number of traffic accidents recorded in all the regencies of West Java. Despite being the sixth-smallest regency in West Java, traffic accidents in Purwakarta were more frequent than 11 other regencies.

Chart 10: Number of Traffic Accidents in West Java by regencies, 2012



Source: BPS of West Java

The existence of many industrial areas such as Bukit Indah Industrial City, Jatiluhur Power Plant, Indotaisei, and Garment Industrial City, has led to the high incidence of occupational injuries in Purwakarta. Thus, the demand for emergency and trauma care is increasing in Purwakarta, representing a significant driver for the HCS market.

d) Purwakarta turning into an alternate destination for Jakarta and Bandung

Jakarta contributes one-fifth of the country's economic output; however, the city is densely populated and saturated, leading to the gradual shift of manufacturing sector to nearby cities like Bandung and Purwakarta. Purwakarta and Bandung have proven HCS infrastructure; however, given that Purwakarta is strategically

located in between Jakarta and Banding, it represents an alternate HCS destination for residents from Indramayu and Subang, who previously used to travel long for availing good quality HCS.

The estimated travel time and cost of HCS is relatively lower in Purwakarta compared to other cities with a good HCS infrastructure. The Purwakarta-Bandung highway is acting as a gateway for the rural population to avail HCS in Purwakarta. The increasing number of private hospitals being set up in Purwakarta since 2009 is attracting patients from a wider catchment area, driving the demand for HCS market. Moreover, many companies from the industrial estates of Purwakarta have tie ups with leading hospitals to carry out the medical check-ups for their employees. Such medical check-ups lead to diagnosis of prevalent disease conditions at an early stage and thereby leading to an increased demand for HCS.

e) Increase in competition leading to reduction in cost of HCS

Leading private hospitals in Purwakarta are located in close proximity to each other, thus their HCS and catchment areas tend to overlap. Given that the current HCS facilities and equipments are similar, the private hospitals reduce the cost of HCS at regular intervals, in order to differentiate themselves from their competitors. Such an increase in competition has been a growth driver for the HCS market, as the low prices attract low to middle income population towards private hospitals, thereby increasing the demand for HCS in Purwakarta.

f) Growth of middle class population in surrounding regencies such as Indramayu

West Java is home to many of Indonesia's fast growing middle class population. The earning capacity of Indonesians is on the rise, the population is moving from poor to middle and upper middle class, thereby developing the ability to spend on consumer products and services including HCS. Regencies such as Indramayu do not have good HCS facilities, but the residents are able to afford better HCS, and are willing to travel for these needs. This has benefited Jakarta, Banding, and Purwakarta, which provide such services. As travel costs are increasingly insignificant, the demand for HCS in Purwakarta is expected to rise, at least until the HCS infrastructure develops in neighboring regencies.

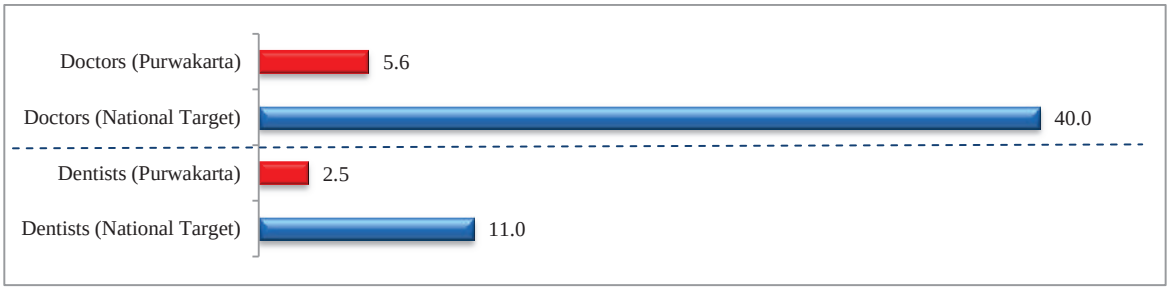
Restraints & Challenges of the Healthcare Services Market in Purwakarta

a) Limited Number of Specialists and Healthcare Professionals

Indonesia has a significant shortage of medical professionals across all provinces, which can be observed in Purwakarta as well. There is a significant shortage of doctors and specialists in Purwakarta and the uneven distribution of the healthcare personnel also adds to the challenges.

The following chart depicts the current healthcare workforce in Purwakarta. As portrayed in the chart below, approximately six doctors and three dentists are catering to every 100,000 of Purwakarta's population. This number is significantly lower than that of the national target of 40 doctors and 11 dentists per 100,000 population. Industry experts believe that the shortage of doctors and specialists is attributed to the low incentives on offer – financial compensation and quality of living conditions. Many of these healthcare personnel prefer to work in the high density cities of Indonesia or go overseas for better incentives.

Chart 11: Number of Doctors and Dentists per 100,000 population (Purwakarta & National Target), 2012



Source: MOH

b) Poor Public Infrastructure

Public infrastructures in provinces other than Jakarta remain inadequate. According to BPS Purwakarta, approximately 25.0% of all roads in Purwakarta are damaged or in poor condition. The lack of road transport facilities and poor public infrastructure hinders easy access to HCS facilities.

c) Low awareness levels of one's own health

Low awareness levels ultimately stem from the rural areas of West Java, which make up 55% of the total number of villages in the province in 2012. Despite the high literacy rate of West Java in 2012, the rural population does not take proactive measures to monitor their own health. They tend to turn towards self-medication, traditional and/or home-made remedies for majority of the medical conditions. They do not visit a Puskesmas or a general hospital, until their medical condition develops into a health disorder. Most health campaigns conducted at Puskesmas and healthcare information advertised via brochures, banners and posters in public are neglected by the rural population. Such low awareness levels act as a restraint to the growth of HCS market in Purwakarta.

d) Financial Ability of Rural (and Lower Income) Population to Pay Hospital Bills

Long waiting list in the only public hospital in Purwakarta (RSUD Bayu Asih) forces patients to occupy Class III beds of private hospitals. All private hospitals in Purwakarta are catering to this demand by providing HCS to such lower income patients. They are used to provide this service based on Jamsostek payment packages, even before the implementation of UHC program. However, the rural and lower income population in and around Purwakarta occasionally falls short of paying the hospital bills. Though the patient volumes are increasing, it does not always convert into hospital revenues.

e) Restrictive Regulations Governing Healthcare Services

The GoI permits licensed doctors to practice at up to a maximum of three different hospitals, provided part-time employment status is attained at each hospital. Given the non-availability created by this government ruling, it is common for doctors in Purwakarta to practice every day in, up to three hospitals, including a government hospital, a private hospital, and their own private practice. This has led to severe shortage of specialists in Purwakarta. For example, Urology is a widespread disease in West Java, but there are less than 50 Urologists for about 40 districts, resulting in some patients lacking treatment until the chronic stage.

Barriers to Enter the Healthcare Services Market in Purwakarta

a) Difficulty in Obtaining Licenses

In order to commission a new hospital, a variety of licenses have to be obtained from both GoI and other local administrative bodies. In Purwakarta, building a hospital is not a barrier to entry for new entrants, as building permits can be obtained easily. However, the difficulties associated with obtaining an operating license and fulfilling other regulatory requirements would either delay or fend off potential HCS providers from entering the market.

b) Agreements Already Made between Existing Hospitals and Corporate Clients

Many companies from the industrial estates of Purwakarta have existing agreements with leading private hospitals to carry out routine medical check-ups for their employees. Though such medical check-ups lead to diagnosis of prevalent disease conditions at an early stage and are likely to create an increased demand for HCS, it is to be noted that only 20.0% to 30.0% of those corporate agreements get converted into patient traffic. The already existing corporate agreements and the below average utilization rate makes it difficult for new entrants to penetrate into the industrial patient base.

c) Patients Trust Older Brand Names

Purwakarta has seen a sudden rise in the number of private hospitals since 2010, which has increased the competition in the private HCS space, leading to constant reduction in cost of providing HCS. Though this turns out to be a demand driver, any new entrant to the market may find it difficult to provide better HCS and at a lower cost than existing players. It is also observed that patients trust older brand names and may not easily turn towards new players.

Industry Outlook

There is room for improvement in Purwakarta's HCS market. The regency is growing into an alternate destination for Jakarta and Bandung, but the mediocre standard of HCS infrastructure and non-availability of state-of-the-art medical equipment serve as a hindrance to the market growth.

The market is served predominantly by private HCS providers, at least half of them operating in Purwakarta only since 2010. The increase in competition has led to constant cost reduction and more demand, but has also restrained the hospitals from improving the quality of their services. Going forward, HCS providers have to prioritize their strategies and work towards making higher quality care as their differentiator, rather than cost reduction.

Purwakarta already has sufficient number of hospitals; however a significant portion of Purwakarta's population is underserved due to the shortage of specialists. There is an immediate need to address this issue, without which the currently stretched HCS system will find itself facing a situation of being unable to cater to the increasing demand and gradually changing disease profiles. Also important is the ability of hospital managements to compensate the specialists with suitable living conditions and employee benefits, so that they are happy to practice in a developing area like Purwakarta.

Rural Indonesia is expected to be more health conscious and proactively monitor its health condition, leading to routine medical checkups and early diagnosis and treatment of medical conditions. The efforts taken by the government and private sector in creating health awareness is likely to payoff in the next 5 to 10 years. The implementation of UHC is expected to favor most private hospitals in Purwakarta, as they are already catering to lower income patients through the public insurance programs.

The residential and commercial developments in and around Purwakarta is likely to turn the small industrial area into a prime commercial hub. Such developments are expected to allow the growth of middle income and affluent local residents, as well as the expatriate community. The planned new highway to Cikampek[7] is expected to support the economic growth of Purwakarta and provide easy access to patients from an expanded catchment area. Improving HCS quality as well as upgrading the service portfolio is critical to survive in the long run.

[7]Cikampek is a sub district of Karawang Regency, approximately 20 km from Purwakarta.

2.3 OVERVIEW OF SILOAM HOSPITALS PURWAKARTA (SHPW)

RS Efarina Etaham (*the former business name of SHPW*) started its operations as a maternity hospital in 2005 and progressively grew into a multi-specialty hospital in 2006. As of today, RS Efarina Etaham is the oldest private hospital and the only Class B hospital[8] in Purwakarta. The hospital completed a major renovation in Q1 2014 and currently comprises of a 3-storey hospital building and 5-storey hospital building adjoined to each other. The name of the hospital has been changed to SHPW post the renovation.

Hospital Workforce

As of January 2014, SHPW has 23 doctors; which include 5 Resident Medical Officers, 7 exclusive / full-time specialists, and 11visiting / part-time specialists. Other staffs include 94 nurses, 42 allied health professionals, and 79 non-medical staff. Various specialties offered by SHPW include Internal Medicine, Anesthesiology, Cardiology, Obstetrics & Gynecology, Neurology, General Surgery, and Medical Rehabilitation. SHPW plans to increase this head count progressively, during its period of transition into a Siloam hospital. Furthermore, the hospital has also established attractive partnership and revenue sharing models for its doctors through its Siloam Doctor Partnership Development Program.

SHPW 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 hospitals, provided part-time employment status is attained at each hospital. SHPW 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.

Use of Technology

SHPW is currently equipped with advanced diagnostic technologies including 64-slice dual source CT Scanner (highest resolution in Purwakarta and Subang), X-ray machine with Fluoroscopy and C-Arm, fully equipped medical checkup facility (spirometry, audiometry, and treadmill). Hemodialys is equipment will be added in mid-2014. Currently there is no MRI equipment in any hospital in Purwakarta, but SHPW will be able to provide its patients, easy access to the MRI equipment at Siloam Hospital Lippo Cikarang, located about 55 km from Purwakarta.

To facilitate operations, SHPW is likely to install Hospital Information System and Electronic Resource Planning systems for its patient record and clinical data maintenance. Furthermore, SHPW is working towards installing video conferencing capabilities and telemedicine hub supported with high speed wireless internet, linking the hospital with other Siloam Hospitals.

Centres of Excellence (COE)

Catering to both inpatients and outpatients, SHPW is committed to providing high quality affordable services and care for patients' physical and emotional wellness. SHPW has COEs for:

- ***Emergency and Trauma Care***: The COE is served by well-trained medical personnel and includes a well-equipped emergency & trauma department which is currently on par with Siloam standards.
- ***Health Ministry's Social Security Program* (*BPJS*)**: SHPW is currently the only private hospital in and around Purwakarta, to be registered to treat patients under the BPJS program. Most patients prefer a private hospital rather than government hospital for treatments under this program.

[8] Class A hospitals are highly specialized referral centers, with a minimum of 400 hospital beds. Class B hospitals are specialized referral centers with up to 18 specialty and sub-specialty departments, with a minimum of 200 hospital beds. Class C hospitals are general hospitals designed to provide basic specialist services like internal medicine, obstetrics and gynecology, and pediatrics, with a minimum of 100 hospital beds. Class D hospitals are designed to provide general healthcare services, 2 basic specialist services, with a minimum of 50 hospital beds. Both Class C and D hospitals are predominantly located in rural areas and are owned by the respective district governments.

SWOT Analysis of SHPW

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

Table9: SWOT analysis of SHPW

Strengths	**Weakness**
▪ Brand name: The brand name built by Efarina Etaham, as the oldest private hospital and the only Class B hospital in Purwakarta is commendable. Both brand names – Efarina Etaham and Siloam – are trusted and always associated with quality healthcare services. ▪ Leverage on group infrastructure: SHPW has the ability to leverage on the strengths of its parent company's expertise and networks ▪ Strong financial and operational capabilities: SHG's planned expansion of 40 hospitals across Indonesia is likely to create economies of scale for subsidiary hospitals ▪ Strategic location: SHPW is located in a prime location in Purwakarta – Jalan Bungur Sari – which is a busy main road and is easily accessible by the neighbourhood. SHPW is also located within 55 km from Siloam Lippo Cikarang, enabling economies of scale. ▪ Conducive facilities: Wards, clinical facilities and hospital building are equipped with advanced diagnostic equipments. ▪ Marketing programs: In order to boost market awareness, SHPW has initiated several marketing programs that includes health education campaigns and putting up billboards and posters across Purwakarta.	▪ Lack of specialists: There is a lack of local specialists and health professionals in Purwakarta; this resource constraint will be more significant when SHPW attempts to expand its service offerings in near future. However, the ability to transfer senior specialists from group hospitals to train and mentor the young recruits can benefit SHPW. ▪ Access to the hospital: Though located in a strategic location (main road), access through public transportation is comparatively difficult. Purwakarta being an industrial town, rather than a residential town, also plays a role in this weakness, which applies to all the hospitals. ▪ Low health awareness of local population: The local residents of Purwakarta and its surrounding areas have limited awareness of their own health and do not visit hospitals unless it is very critical. Effort is required from the local government and hospitals to educate the local population of healthy lifestyle and available healthcare facilities.
Opportunities	**Threats**
▪ Residential and commercial developments: The commercial neighbourhood of Jalan Raya Banjarsari and Jalan Bungursariis likely to transform into a leading prime commercial hub of Purwakarta, allowing the growth of middle income and affluent local residents. Expatriate community is also expected to rise in near future. ▪ New highway to Cikampek (Karawang regency): The planned new highway is expected to support the economic growth of Purwakarta and provide easy access to patients from an expanded catchment area. ▪ Implementation of UHC in 2014: Since most private hospitals in Purwakarta are already catering to lower income patients through the existing public insurance schemes, the implementation of UHC is likely to create more opportunities for SHPW.	▪ General perception: The change in brand name (Efarina Etaham to Siloam) and the associated restructuring of the hospital building may trigger the general perception that SHPW caters only to the upper middle income and affluent patients. ▪ Ability to pay bills: The majority of patients in and around Purwakarta are low to middle income industrial workers. It is widely accepted that the ability of Purwakarta's population to pay hospital bills is low and hence hospitals may face delays in collecting the bills.

Location Map

Map1: SHPW Location Map and Travelling Distance to Key Landmarks



Source: Frost & Sullivan
Note: The distance mentioned in kilometre is the travelling distance from SHPW and not the linear distance between the two places.

Map2: Snapshots of Target Catchment Area within 15 km radius of SHPW



Source: Google Map, Frost & Sullivan

Demand Analysis

Primary Catchment Area: Areas within 15 km radius of SHPW

The main catchment area within the 15 km radius of SHPW includes several sub-districts of Purwakarta. Table 10 profiles the key target customers and the HCS preferred in each catchment district.

Table 10: Patient Profile in the Catchment Area within 15 km radius of SHPW

Catchment Districts	Population (2012)	Distance to SHPW	Target Patients	Key Services Required
Babakancikao	49,414	7-8 km	• Mainly middle income population • Industrial workers	• Pediatric Service • Dentistry • General health consultation
Bungursari	53,406	5-6 km	• Middle to high income population • Government officers • Industrial workers • Transit visitors	• Internal medicine • Dentistry • Paediatric Service • Emergency & Trauma • ENT
Campaka	42,583	6-7 km	• Middle to high income population • Government officers • Industrial workers	• Dentistry • Emergency & Trauma • Paediatric Service
Pasawahan	42,139	11-12 km	• Mainly low to middle income population • Tourism industry & farming workers	• Pediatric Service • Dentistry • Nutrition consultation

Source: Interview with Purwakarta Health Department, Frost & Sullivan

Secondary Catchment Area: Areas beyond 15 km radius of SHPW

Other parts of Purwakarta such as Bojong, Darangdan, Jatiluhur and Plered are likely to be a good patient base for SHPW. As of 2012, the total population of these four catchment districts was approximately 247,000. Within the secondary catchment area, there is one public hospital, one maternity hospital and four community health centers serving the population. The current healthcare delivery systems in these areas mostly offer limited HCS and modalities.

Table 11: Patient Profile in the Catchment Area beyond 15 km radius of SHPW

Catchment Area	Population (2012)	Distance to SHPW	Current Healthcare Infrastructure	Target Patients
Bojong	46,575	34 km	• Community Health Centers : 1	• Middle income population • Government officers • Farming workers
Darangdan	62,100	39 km	• Community Health Centers : 1	• Middle income households
Jatiluhur	64,406	20 km	• Maternity Hospital : 1 • Community Health Centers : 1	• Middle income to affluent population • Fishery and tourism industry workers
Plered	73,987	33 km	• Public Hospitals : 1 • Community Health Centers : 1	• Middle income population • Industry workers

Source: Interview with Purwakarta Health Department, Google Map, Frost & Sullivan

The positioning of SHPW as a state-of-the-art private hospital is, likely to address the current needs for advanced and premium healthcare services in Purwakarta. The establishment of SHPW as an international standard hospital is also well positioned to retain affluent medical patients to seek for treatment within the province.

As of today, majority of Purwakarta hospitals are yet to meet local/international accreditation standards, as they lack advanced medical equipments and quality HCS. These factors have driven the patients from the affluent population to seek treatments in major cities, such as Jakarta or Bandung. Hence, there is a need for more accessible and advanced healthcare facilities to be present within the province to meet the healthcare demands of this population group.

SHPW's Branding Strategies

SHPW is 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, SHPW is also likely to position itself as a "value for money" state-of-the-art private general hospital that targets to serve patients from all socio-economic classes.

a) Excellence in Emergency Services

Being an industrial town, it is common for hospitals in Purwakarta to witness a large number of patients with occupational injuries and victims of traffic accidents. The Emergency department in SHPW 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.

SHPW has agreements with Jasa Marga, Jasa Raharja, and the police department to handle victims of traffic accident within/near the area Purwakarta. SHPW has also tied up with Jamsostek to handle victims of occupational accidents in companies in and around Purwakarta. Such initiatives have positioned SHPW as the destination of choice for emergency services in Purwakarta.

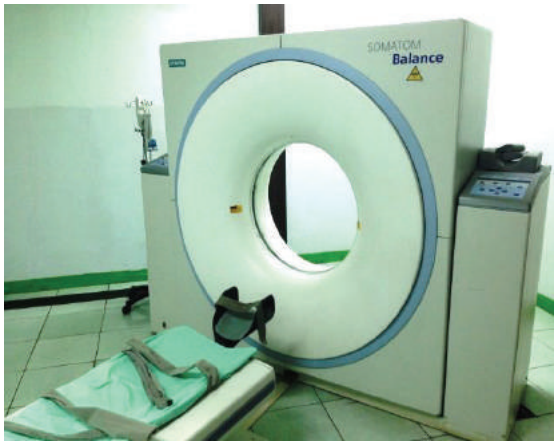
b) State-of-the-art Equipments and Technologies

SHPW is currently equipped with advanced diagnostic technologies including 64-slice dual source CT Scanner (highest resolution in Purwakarta and Subang), X-ray machine with Fluoroscopy and C-Arm. To ensure optimal service quality, SHPW will implement its clinical operation based on the JCI accreditation protocols currently used at the Siloam Hospitals Lippo Village Headquarters at Jakarta. The hospital manager at SHPW 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 equipment, conducive environment, well-structured medical practice protocols, and reputable brand name of Siloam are likely to be 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.

Table 12: SHPW infrastructure and state-of-the-art equipments

SHPW Building Exterior Look	
	
SHPW Building Lobby	
	
VIP Room	
	

Class I Ward	
	
Jamsostek Helpdesk	**Polyclinics**
	
64-slice CT Scanner	**Emergency Room**
	

Source: Frost & Sullivan

c) Robust Doctor Partnership Program

SHG regards the medical workforce as one of the fundamental factors for success. Hence, Siloam Doctor Partnership Development Program (SDPDP), which provides attractive remuneration packages, benefits, and career development opportunities, manages all doctor engagements established at SHPW. In order to qualify for the SDPDP, participating full time doctors are required to practice for at least 40 hours per month at SHPW.

Doctors at SHPW can fall under the following categories:

Full time doctors	Exclusive employment with SHPW, unable to practice in other hospitals, minimal income model where SHPW will reimburse any shortfall from the pre-agreed minimal income during the first year of employment.
Part time doctors	Able to practice in other hospitals, will be provided with outpatient clinic suite, able to utilize all facilities within SHPW, and should be based in SHPW for 2 to 3 hours per day.
Visiting doctors	Able to practice in other hospitals, will not be provided with outpatient clinic suite, able to refer patients for facility usage at SHPW, and should be based in SHPW for 1 to 2days per week.

Depending on the employment nature of the doctor (full time, part time, or visiting basis), remuneration packages may include guaranteed base income, or high profit sharing arrangements. Furthermore, SHPW provides comprehensive benefits, such as lifetime health insurance coverage for the practicing doctor and their immediate family members. Participating doctors receive sponsorship for local and overseas clinical training.

Concurrently, SHPW will regularly conduct clinical symposiums and hospital visit sessions to increase the awareness of SHPW's clinical facilities and capability, thus increasing the attractiveness of SHPW as a practicing location for the local doctor community. Through more conducive practice location, advanced facilities, and more attractive remuneration schemes, SHPW 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 SHPW. This recruitment strategy will simultaneously serve as one of the key patient attraction models for SHPW.

d) 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 headquarter. According to SHPW, SHG is currently the only private hospital group in Indonesia to possess the system that allows doctors to conduct consultations, assess diagnostic scan reports, and provide 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. Once implemented in SHPW (*currently under transition period from Efarina Etaham to SHPW*), doctors in SHPW will be able to make third party validated clinical decisions to ensure optimal patient safety and treatment outcomes.

Competitive Landscape of SHPW

Frost & Sullivan has identified the following hospitals as comparable / competitors to SHPW:

- RS MH Thamrin
- RS Bhakti Husada II
- RSUD Bayu Asih

RS MH Thamrin



RS MH Thamrin is managed by the Radjak Group and was founded in Purwakarta in 2009. It is one of the leading private hospitals in Purwakarta, located on the main road Jalan Bungursari. As of today, the hospital has approximately 150 beds and their centre of excellence is pulmonology and intensive care services.

RS Bhakti Husada II

The Bhakti Husada Foundation established its first hospital, RS Bhakti Husada in 1998, in Cikarang. In 2009, the group established its second hospital, RS Bhakti Husada II in Purwakarta. As of today, the hospital has over 100 beds, and employs more than 20 doctors and 100 nurses.



RSUD Bayu Asih



RSUD Bayu Asih is the only public hospital in Purwakarta, which has a history of over 80 years. Established in 1930, the hospital currently has 252 beds, and employs 54 doctors and 290 nurses. The hospital still serves as the first destination for industrial workers and their families, who generally belong to the low to middle income group. The occupancy levels are greater than 80.0%, leading the middle income population to occupy the Class III beds in private hospitals.

Table13: Brief profiles of SHPW and its key competitors in Purwakarta

	SHPW	Bayu Asih	MH Thamrin	Bhakti Husada II
Ownership	Siloam Hospitals Group	Government of Purwakarta	Radjak Group	Bhakti Husada Foundation
Type of Ownership	Private	Public	Private	Private
Year of Establishment	2014 (started using Siloam brand name)	1930	2009	2009
Awards and Accreditation	National Accreditation 2009	Full Accreditation – 5 Svcs	Full Accreditation – 12 Svcs	Full Accreditation – 14 Svcs
Centre of Excellence	Trauma & Emergency	Orthopedic, Neuro, Cardio	Pulmonology, Intensive Care	IVA Test
Distance from SHPW	N/A	6.7 km	3.3 km	6.6km
Primary Catchment Area	Jalan Bungursari	Jalan Veteran	Jalan Bungursari	Jalan Raya Sadang-Subang
Number of Doctors	23	54	47	20
Number of Nurses	94	289	150-200	90-100
Number of Beds	203	252	150	110
Beds Occupancy Rate (2013)	45 – 50%	75–80%	78%	70–75%
Estimated inpatient volume	400-500/month	800-900/month	60-65/month	50-60/month
Types of Beds				
VVIP	√	√	√	√
VIP	√	√	√	√
Class 1	√	√	√	√
Class 2	√	√	√	√
Class 3	√	√	√	√
ICU	√	√	√	√
ICCU	x	x	x	x
NICU	√	√	√	√
PICU	x	x	√	√
Operation Room	√	√	√	√
Delivery Room	√	√	√	√
Specialties				
Cardiology	√	x	√	x
Dentistry	√	√	√	√
Dermatology	√	√	√	x
ENT	√	√	√	√
General Surgery	√	√	√	√
Hemodialysis	Will be available mid-2014	x	x	x
Intensive Care	√	√	√	√
Internal Medicine	√	√	√	√
Neurology	√	√	√	x
Ophthalmology	√	√	√	x
Orthopedic Surgery	√	√	√	√
Paediatrics, O&G	√	√	√	√
Medical Rehabilitation & Physiotherapy	√	√	√	√

	SHPW	Bayu Asih	MH Thamrin	Bhakti Husada II
Radiology	√	√	√	√
Trauma	√	x	x	x
Urology	√	x	√	x
Modalities				
X-ray	with fluoroscopy	√	x	√
USG	4G	√	√	√
EEG	√	x	√	x
ECG	√	√	x	√
CT-Scanner	√	√	√	√
MRI	x	x	x	x
Endoscopy	√	x	x	x
Mammography	√	x	x	x

Source: Hospital Interviews, Frost & Sullivan

SHPW's Pricing Strategies

Given the increasing competition in the private HCS space and associated reduction in cost of HCS, SHPW uses competitive pricing policy as part of its marketing strategy. Based on Frost & Sullivan analysis, average inpatient ward charges at SHPW are at least 25% to 30% lower than its closest competitor RS MH Thamrin. As illustrated in Table 3-9, SHPW's pricing for the second and third class wards (targeted at low income to poor population) are approximately 18% to 30% lower than the comparable private hospitals in Purwakarta, while its high end wards, such as the VVIP and VIP wards are priced at similar lower levels – approximately 20% to 40% lower than the competitors.

Table 14: Pricing comparison of inpatient ward Charges for SHPW (IDR per overnight stay)

Ward Type	SHPW	RS MH Thamrin	RS Bhakti Husada II	RSUD Bayu Asih
Presidential Suite	1,100,000	N/A	N/A	257,150
Super VIP / VVIP	N/A	600,000	N/A	210,900
VIP	400,000	500,000	N/A	180,000
1st Class	200,000	350,000	364,500	140,600
2nd Class	150,000	210,000	185,000	80,600
3rd Class	75,000	110,000	86,500	53,000

Source: Frost & Sullivan

It is to be noted that, in terms of all wards, SHPW has maintained a lower pricing than its closest competitor RS MH Thamrin. Being the first and oldest private hospital in Purwakarta, and being able to offer good quality HCS at competitive prices, SHPW stands a good opportunity to attract the low to middle income patient groups in Purwakarta. The transition into Siloam standards by mid-2014 is likely to enable SHPW to attract the expatriate community. The lower price coupled with better standard of care, more advanced technology, and more conducive medical care environment generates good value for its patients.

Conclusion

Being home to more than 75 companies, Purwakarta is likely to continue to be the destination for heavy industries. In the short to mid-term, Emergency & Trauma Centre services are likely to remain as the major revenue driver for SHPW, especially due to the traffic and workplace related accidents. In the long run, SHPW can tap into urology and pathology related care, as cases of these illnesses are increasing in Purwakarta.

The next key target for SHPW is to become the preferred healthcare service provider for the industrial and residential population. Many hospitals in Purwakarta are strengthening their tie-ups with industrial clients and are also treating lower income patients under the public insurance program. Hence securing a large group of loyal patients via loyalty programs and word-of-mouth marketing is very important for SHPW's future growth.

SHPW's marketing and advertising efforts through radio, billboards, flyers, newsletters, and community events are likely to increase the awareness on health and position SHPW as a state-of-the-art private hospital in Purwakarta. SHPW's proximity and connectivity to Siloam Lippo Cikarang will enable sharing of resources (specialists) and equipments (MRI, etc.), thereby providing SHPW an edge over other service providers.

SHPW's growth depends largely on the hospital's ability to quickly transform from Efarina Etaham into a Siloam brand and also in securing the right manpower. SHPW needs to overcome the problem of non-availability of specialists and their unwillingness to work in Purwakarta. Once the specialists are in, SDPDP (which is widely used within SHG) is expected to retain them in the hospital.

IFA LETTER

STIRLING COLEMAN CAPITAL LIMITED

(Company registration no.200105040N)

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

11 April 2014

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 THE PROPOSED MASTER LEASE OF THE SILOAM HOSPITALS PURWAKARTA

*For the purpose of this letter, capitalised terms not otherwise defined shall have the meaning given to them in the circular dated 11 April 2014 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.

As part of First REIT's growth strategy, the Manager is committed to pursuing acquisition opportunities that will enhance First REIT's asset base and maintain an attractive cash flow and yield profile.

1.1 THE SHPW MASTER LEASE

In relation to the acquisition of Siloam Hospitals Purwakarta (the "**SHPW Acquisition**"), a conditional master lease agreement (the "**SHPW Master Lease Agreement**") will be entered into between the Indonesian Company (as the master lessor of SHPW) and PT MPU (as the master lessee of SHPW) pursuant to which a master lease in relation to SHPW will be granted to PT MPU (the "**SHPW Master Lease**") for a lease term of 15 years, commencing from the date of completion of the SHPW SPA with an option to renew for a further term of 15 years.

Each of PT PEA and PT MPU (as the master lessee of SHPW) is not an Interested Person of the Sponsor under Chapter 9 of the Listing Manual or an Interested Party of the Sponsor under paragraph 5 of the Property Funds Appendix. Therefore, the SHPW Acquisition and the SHPW Master Lease are neither Interested Person Transactions under Chapter 9 of the Listing Manual nor Interested Party Transactions under paragraph 5 of the Property Funds Appendix.

While the approval of Unitholders is not required for the SHPW Acquisition and the SHPW Master Lease, for good corporate governance and transparency, the Manager is seeking the approval of the Unitholders for the SHPW Acquisition and the SHPW Master Lease on a voluntary basis as PT MPU will be sub-leasing SHPW to PT SIH (which is an indirect subsidiary of the Sponsor), or to a subsidiary of PT SIH.

As at the Latest Practicable Date, the Sponsor directly and/or through its subsidiaries and through its interest in the Manager, has deemed interests of (i) 33.59% 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.

2 TERMS OF REFERENCE

Stirling Coleman has been appointed to advise the Independent Directors on whether the SHPW Master Lease is on normal commercial terms and prejudicial to the interests of First REIT and its Independent Unitholders.

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

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

We have confined our evaluation to the commercial terms of the SHPW Master Lease and our terms of reference do not require us to evaluate or comment on the risks and/or merits of the SHPW Master Lease or the future prospects of First REIT, including whether the SHPW Master Lease is 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 SHPW Master Lease 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.

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 SHPW Master Lease.

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 SHPW Master Lease as set out in section 7 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 SHPW MASTER LEASE

Detailed descriptions of the SHPW Master Lease are set out in section 2.7 of the Letter to Unitholders. We recommend that the Independent Directors advise Independent Unitholders to read these sections of the Letter to Unitholders very carefully.

4 EVALUATION OF THE SHPW MASTER LEASE

In arriving at our opinion, as to whether the SHPW Master Lease is on normal commercial terms and prejudicial to the interests of First REIT and its Independent Unitholders, we have performed among other things, the following analysis:

- Rationale for the SHPW Master Lease to assess whether the objectives of the SHPW Master Lease are prejudicial to interests of First REIT and its Independent Unitholders;
- analysis of the impact of the SHPW Master Lease on property yields of First REIT;
- analysis of the key financial terms of the SHPW Master Lease as compared to other master lease agreements of properties used for healthcare and/or healthcare-related purposes owned by REITs listed in South-East Asia;
- analysis of the other commercial terms of the SHPW Master Lease; and
- other considerations relating to the SHPW Master Lease.

4.1 Rationale for the SHPW Master Lease

The Manager's rationale for the SHPW Master Lease is set out in section 5 of the Letter to Unitholders. We reproduce below extracts relevant to the SHPW Master Lease.

"Unique opportunity to invest in a growing niche market in Purwakarta, West Java

The Manager is of the view that this is a unique opportunity to acquire a good quality hospital in Purwakarta, West Java, which is a growing niche market. According to Frost & Sullivan, Purwakarta has a real Gross Regional Domestic Product compound annual growth rate of 5.8% from 2008 to 2012, where manufacturing, wholesale and retail trade, agriculture are the key contributing industries (see Appendix C of the Circular for further details). The Manager believes that SHPW is well-positioned for the middle to upper middle-income segment of the healthcare market due to the growing residential and industrial areas in Purwakarta, considering that Jakarta is densely populated and saturated, leading to the gradual shift towards nearby cities like Purwakarta and Bandung.

Furthermore, Purwakarta is strategically located in between Jakarta and Bandung, which means that it is able to attract residents from Indramayu and Subang, who previously had to travel long distances to receive good quality healthcare services. The Purwakarta-Bandung highway also acts as a gateway for the rural population to avail themselves of healthcare services in Purwakarta.

Increased income stability of First REIT through the SHPW Master Lease Agreement and an increase in First REIT's weighted average lease to expiry

The SHPW Master Lease will be beneficial to First REIT as SHPW 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 SHPW 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 SHPW, security deposits equivalent to six months of SHPW's annual rental payable (amounting to S$1.7 million) will be made to First REIT in the form of bankers' guarantees. This security deposit amount will be adjusted at relevant rent review dates.

The SHPW 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 have tenures of 10 years or 15 years. With the SHPW Acquisition, First REIT will benefit from the increase in the Enlarged Portfolio's weighted average lease to expiry based on secured Gross Rental Income with SHPW contributing 4.6% of First REIT's total Gross Rental Income under the SHPW Master Lease Agreement. The weighted average lease to expiry of the Enlarged Portfolio will increase from approximately 11.3 years from that of the Existing Portfolio as at 31 December 2013 to approximately 11.5 years after the completion of the SHPW Acquisition."

4.2 Analysis of the impact of the SHPW Master Lease on property yields of First REIT

The base property yield[1] of the SHPW Master Lease is 10.97% based on the Purchase Consideration and the annual base rent of S$3.40 million guaranteed under the SHPW Master Lease Agreement.

The estimated base property yield of the SHPW Master Lease of 10.97% is within the range of the base property yields of between 7.80% and 15.60% of the Existing Portfolio of First REIT computed on a similar basis and slightly above the average of 10.93%. When compared only against the Indonesian properties in the Existing Portfolio, we note that the estimated base property yield of the SHPW Master Lease of 10.97% is within the range of the base property yields of between 9.70% and 15.60% of the Indonesian properties in the Existing Portfolio computed on a similar basis, but below the average of 11.76%.

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[2] of the Indonesian properties have since come down as their appraised values

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1 Base property yield is calculated based on the initial base rent divided by the purchase consideration

2 Current yield is calculated by dividing the total (base and variable) rent by the appraised value as at 31 December 2013

have increased significantly. The base property yield of the SHPW Master Lease at 10.97% is above the range of the current yields of between 8.16% and 9.94% of the Indonesian properties in the Existing Portfolio.

Further, we note the adjustment features in the SHPW Master Lease such as the adjustment to the base rent and the variable rent component can provide further potential upside to the total rent and in turn increase the total property yield of the SHPW 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 and its subsidiary, which is the sub-lessee for the SHPW Master Lease is also the master lessee for the Indonesia properties in the Existing Portfolio.

The SHPW 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. Currently, the years to lease expiry of the properties in the Existing Portfolio are between 4 to 14 years. With the SHPW Master Lease in place, First REIT will benefit from the increase in its weighted average years to lease expiry for its Enlarged Portfolio.

4.3 Comparison of the key financial terms in the SHPW 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.

For our purpose, we made a comparison of the key financial terms of the SHPW Master Lease to the master lease agreements for properties used for healthcare-related and retail-related purposes, set out in the table below:

Companies / REIT	Return on base rent[(1)]	Annual adjustment to base rent	Variable rent
SHPW Master Lease	10.97%	Payable from the fourth year of lease based on: Base rent x (2 x CPI[(2)] % increase) Subject to floor of 0% and cap of 2%. The base rent is payable quarterly in advance.	Payable from the fourth year of lease based on fixed exchange rate of S$1 = Rp. 9,500 and computed based on the following formula: (a) If GORG% < 5%, no variable rent paid; (b) If 5% < GORG% < 15%, variable rent = 0.75% of GORS; (c) If 15% < GORG% < 30%, variable rent = 1.25% of GORS; (d) If 30% < GORG%, variable rent = 2.0% of GORS whereby: **GORG%** is equivalent to the percentage growth in gross operating revenue in the preceding financial year compared to the year before that; and

Companies / REIT	Return on base rent[1]	Annual adjustment to base rent	Variable rent
			GORS is equivalent to the surplus of the gross operating revenue of the preceding financial year over the GOR of the year before that. The variable rent is payable quarterly in advance.
Healthcare-related			
Parkway Life REIT (Properties are in Singapore)	3.9%	None	Equivalent to 3.8% of the adjusted hospital revenue[3] of the preceding financial year. Provided that total rent payable (base + variable) shall not be lower than: Total rent for preceding year x {1 + (CPI + 1%)}, where if CPI is negative, it is deemed to be zero.
Indonesia properties in the Al – A'qar Healthcare REIT[4]	6.5% to 14.5%[5]	None	None
Indonesia properties in the Existing Portfolio	9.7% to 15.6%	Payable from the fourth year of lease based on: Base rent x (2 x CPI % increase) Subject to floor of 0% and cap of 2%.	Siloam Hospitals Bali, Siloam Hospitals TB Simatupang, Siloam Hospitals Manado & Hotel Aryaduta Manado and Siloam Hospitals Makassar which were the 4 most recent acquisitions by First REIT. Same computation basis as the variable rent for the SHPW Master Lease. Other Indonesia properties in the Existing Portfolio Payable from the second year of lease based on fixed exchange rate of S$1 = Rp. 6,600 and based on the following formula: (a) If GORG% < 5%, no variable rent paid; (b) If 5% < GORG% < 15%, variable rent = 0.75% of GOR; (c) If 15% < GORG% < 30%, variable rent = 1.25% of GOR; (d) If 30% < GORG%, variable rent = 2.0% of GOR whereby: **GORG%** is equivalent to the percentage growth in gross operating revenue in the preceding financial year compared to the year before that; and **GOR** is equivalent to the gross operating revenue of the preceding financial year.

Source: Extracted from the prospectus or latest available annual report of the relevant REITs

Notes:

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

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

(3) 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.

(4) Listed on Bursa Malaysia.

(5) For the first year, gross lease rental shall be between 10.0% and 11.5% of the purchase consideration, with the final amount to be negotiated between both parties. From the second year onwards, the gross lease rental with a cap of 14.5% per annum of the purchase consideration, shall be negotiated between both parties. In any event, gross lease rental shall not result in the cash flows from the Indonesia SPV to Al-A'qar to be below 6.5% per annum of the purchase consideration.

In our comparison of the key financial terms of the SHPW Master Lease, we note the following:

- The return on base rent of 10.97% for the SHPW Master Lease compares favorably to the return on base rent of 3.9% for the master leases of Parkway Life REIT.

- The return on base rent of 10.97% for the SHPW Master Lease is within the range of between 6.5% and 14.5% for the Indonesia properties of Al A'qar REIT and 9.7% and 15.6% for the Indonesia properties in the Existing Portfolio.

  As mentioned in section 4.2 above, we note that the current yields of the Indonesian properties in the Existing Portfolio (computed based on the current total rent and the latest appraised value) have since decreased to between 8.16% and 9.94% 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 the Indonesia properties of Al A'qar REIT. The Indonesian properties in the Existing Portfolio have the same adjustment to base rent as the SHPW Master Lease.

- The variable rent for the SHPW Master Lease 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. The Indonesia properties of Al A'qar REIT have no variable rent component.

- the variable rent structure for the SHPW Master Lease is the same as the variable rent structure for Siloam Hospitals Bali, Siloam Hospitals TB Simatupang, Siloam Hospitals Manado & Hotel Aryaduta Manado and Siloam Hospitals Makassar, which were the 4 most recent acquisitions made by First REIT. 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.

4.4 Other commercial terms of the SHPW Master Lease

4.4.1 Fixed exchange rate

The SHPW Total Rent shall be paid in Singapore dollars. In respect of the variable rent, if the gross operating revenue on which the calculation of the variable rent is based is calculated in Indonesian Rupiah, the SHPW Total Rent will be paid according to the exchange rate of S$1.00 to Rp. 9,500 (which shall be fixed for the entire lease term).

4.4.2 Assignment/Subletting

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

PT MPU shall not sublet SHPW without the prior written consent of the Indonesian Company (such consent not to be unreasonably withheld) and subject to such terms and conditions which the Indonesian Company may impose, provided always that PT MPU shall not be required to seek the consent of the Indonesian Company, but only notify the Indonesian Company in writing, in the event of any sublease of SHPW by PT MPU to PT SIH or a subsidiary of PT SIH.

4.4.3 Maintenance and other operating expenses of SHPW

PT MPU (as the master lessee of SHPW) 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 SHPW.

4.4.4 Insurance

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

(i) an insurance policy over all of PT MPU's property including any and all goods and stock-in-trade in SHPW 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 the Indonesian Company and PT MPU to its full market insurable amount as assessed by the Indonesian Company, damage to the building at SHPW and all parts thereof which PT MPU is obliged to keep in repair under the SHPW Master Lease;

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

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

PT MPU 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 taken out by PT MPU for SHPW are consistent with industry practice in Indonesia.

4.5 Other considerations relating to the SHPW 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.

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

PT SIH, the sub-lessee of SHPW, is an indirect subsidiary of the Sponsor, which 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 its "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 SHPW Sub Lease Agreement, SHPW will be able to benefit from the Sponsor's expertise in property management and operating expertise as well as being managed under the "Siloam" brand, which is a well-known and established brand name for hospitals in Indonesia.

5 SUMMARY OF ANALYSIS

In arriving at our recommendation in respect of the SHPW Master Lease, we have taken into account the views and representations by the Directors and management of the Manager and the factors set out in Section 4 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.

a. the Manager's rationale for the Master Leases appears to be based on sound commercial grounds;

b. the estimated base property yields of the SHPW Master Lease of 10.97% is within the range of the base property yields of between 9.70% and 15.60% of the Indonesian properties in the Existing Portfolio computed on a similar basis, but below the average of 11.76%. 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 (computed based on the current total rent and the latest appraised value) of the Indonesian properties in the Existing Portfolio have since come down as their appraised values have increased significantly. In this respect, the base property yields of the SHPW Master Lease at 10.97% is above the range of the current yields of between 8.16% and 9.94% of the Indonesian properties in the Existing Portfolio;

c. the SHPW Master Lease will allow First REIT to benefit from the increase in its weighted average years to lease expiry for its Enlarged Portfolio;

d. the adjustments to the base rent and variable rent component under the terms of the 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 Purwakarta;

e. the return on base rent of 10.97% for the SHPW Master Lease compares favorably to the return on base rent of 3.9% for the master leases of Parkway Life REIT;

f. the return on base rent of 10.97% for the SHPW Master Lease is within the range of between 6.5% and 14.5% for the Indonesia properties of Al A'qar REIT and between 9.7% and 15.6% for the Indonesia properties in the Existing Portfolio. As mentioned above, we also noted above that the current yields of the Indonesian properties in the Existing Portfolio have since decreased as their appraised values of these Indonesian properties have increased significantly;

g. the SHPW Master Lease provides 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%. There are no annual adjustment features to the base rent in the master lease agreements of Parkway Life REIT and the Indonesia properties of Al A'qar REIT;

h. the variable rent for the SHPW Master Leases is up to 2.0% of the surplus in the audited gross operating revenue of the hospital (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 there is no variable rent component for the Indonesia properties of Al A'qar REIT;

i. the variable rent structure for the SHPW Master Lease is the same as the variable rent structure for Siloam Hospitals TB Simatupang, Siloam Hospitals Bali, Siloam Hospitals Manado and Siloam Hospitals Makassar, which were the 4 most recent acquisitions made by First REIT. 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;

j. even though SHPW is located in Indonesia, the rental income to be received from the Sponsor will be denominated in Singapore Dollars under the SHPW Master Lease. This will eliminate any foreign currency exchange risk that First REIT may face from its rental income;

k. under the terms of the SHPW Master Lease, PT MPU is not allowed to sublet SHPW without the prior written consent of the Indonesian Company (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;

l. PT MPU (as the SHPW master lessee) 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 SHPW;

m. at all times during the term of the SHPW Master Lease and during any period of holding over, PT MPU shall at its cost and expense, take out and keep in force relevant insurance policies in the joint names of the Trustee, the Indonesian Company, PT MPU, and the other interested parties; and

n. through the sub-lessee agreement between PT MPU and PT SIH, First REIT will be able to benefit from the Sponsor's property management and operating expertise and the use of the established "Siloam" brand name for hospitals.

6 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 5 above, and subject to the qualifications and assumptions made herein, we are of the view that the SHPW Master Lease is on normal commercial terms and 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 Independent Unitholders vote in favour of the SHPW Master Lease 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 SHPW Master Lease 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 SHPW Master Lease.

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 SHPW Master Lease. The recommendation made by the Independent Directors to the Independent Unitholders in relation to the SHPW Master Lease 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

YAP YEONG KEEN	ANG LIAN KIAT
DIRECTOR	DIRECTOR

SINGAPORE TAX CONSIDERATIONS

The following summary of certain Singapore income tax considerations to Unitholders in respect of the SHPW Acquisition is based upon tax laws, regulations, rulings and decisions now in effect, all of which are subject to change (possibly with retroactive effect). 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 SHPW

The rental income and other related income earned from SHPW will be received in Singapore by the relevant Singapore subsidiaries 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 subsidiary.

Finura Investments will make an application to the Inland Revenue Authority of Singapore to exempt the interest income received in Singapore from Singapore income tax under Section 13(12) of the Income Tax Act.

This tax exemption, if granted to Finura Investments, will be subject to stipulated conditions and will only apply to interest income received in Singapore on or before 31 March 2015. Unless the tax exemption is subsequently extended by the Singapore Government, any of such interest income received in Singapore after 31 March 2015 may be subject to Singapore income tax at the prevailing corporate rate of tax, currently at 17.0%. Finura Investments should be entitled to claim a credit for the amount of Indonesian withholding tax suffered against the Singapore income tax payable on the net interest income (i.e. after deducting allowable expenses, if any). The amount of credit that can be claimed is the lower of the actual foreign tax paid or the amount of Singapore tax payable on such net interest income.

Cash that cannot be repatriated by the Indonesian subsidiary in the form of dividends may be used by this Indonesian subsidiary to repay the principal amount of shareholder's loans extended by Finura Investments. The proceeds from the repayment of shareholder's loans received in Singapore by Finura Investments 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 Finura Investments. Provided Finura Investments is a resident 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.

Distributions to Unitholders

Distributions made by First REIT out of the income or cashflow generated from SHPW 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 Finura Investments). 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 INDONESIAN TAXATION REPORT

Taxand

Jakarta, April 1, 2014

Letter No. TAJ-0628

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

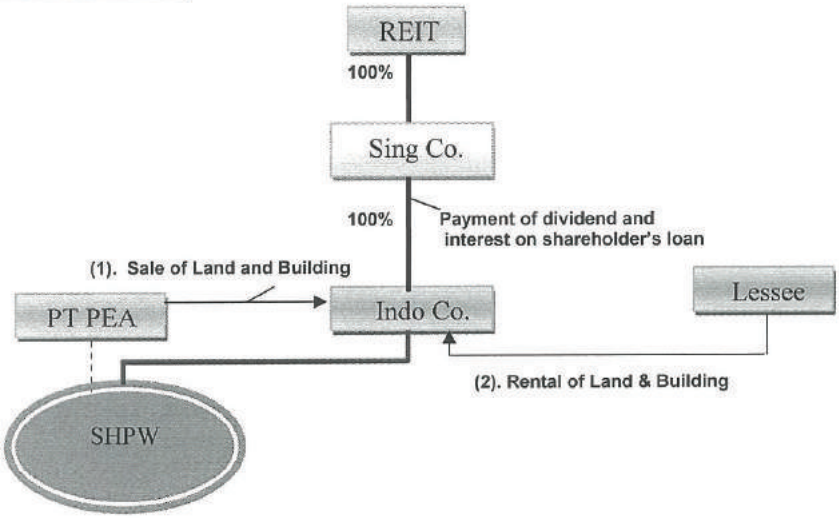
Dear Sirs,

Re: Tax Implications on acquisition of Land& Building and Shares by First REIT

This letter has been prepared for First REIT, a Real Estate Investment Trust, to be included in the submission for Singapore Exchange Securities Trading Limited (the "SGX-ST"). The purpose of this letter is to provide a general overview of the Indonesian tax implications attributable to the transactions by First REIT ("REIT") in Indonesia.

Herewith, please find below our tax opinion on the above matter:

Transaction Scheme:



PB Taxand
Menara Imperium, 27th Fl., Jl. H.R. Rasuna Said Kav. 1, Jakarta 12980, Indonesia
Ph. +62 21 8399 9919 Fx. +62 21 8379 3939 www.pbtaxand.com

Taxand

Notes :

Sing Co. : - **Finura Investments Pte. Ltd. (75% ownership); and**
- **Glamis Investments Pte. Ltd. (25% ownership)**

Fact :

"(1)" :
REIT intends to acquire the land and building of Siloam Hospitals Purwakarta ("SHPW") from PT Purimas Elok Asri ("PT PEA") through its subsidiary an Indonesian Company (Indo Co.).

"(2)" :
Lessee will lease land and building of SHPW from Indo Co. ("Lessors").

Discussion:

A. **Purchase of Land and Building from PT PEA by Indo Co.**

- **Indo Co.**

Land and Building Acquisition Tax
The purchase of land and building from PT PEA by Indo Co. is subject to the land and building acquisition tax at the rate of 5%, whichever is higher between the purchase price or the Sale Value of the Tax Object (NJOP) as determined by the head of local government.

Value Added Tax (VAT)
Indo Co. will be charged VAT at the rate of ten per cent (10%) on the purchase of land and building by PT PEA. However, the VAT charges by PT PEA will be treated as input VAT, which can be used to offset the output VAT from rental income of Indo Co.

B. Rent of Land and/or Building by Lessee to Lessors

- **Lessors**

Corporate Income Tax
The rental income (including the service charge, if any) from Lessors is subject to final income tax, as stated in Article 4 paragraph 2 of the Income Tax Law.

The imposition of final income tax does not mean that the income from the lease 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 is not subject to final income tax in the calculation of the taxable income in the relevant tax year.

Value Added Tax on the Rent of Land and/or Buildings
Lessors must charge VAT on the rent of land and/or building including service charge (if any) to Lessee at the rate of ten per cent (10%).

- **Lessee**

Article 4(2) Withholding Income Tax
The payment of rental on land and/or buildings leased by Lessee to Lessors will be subject to a final income tax at the rate of ten (10) per cent on the gross value of the rental of land and/or building, including the service charge (if any).

C. Payment of Dividends from Indo Co. to Sing Co.

- **Indo Co.**

Value Added Tax on Payment of Dividend
There will be no VAT on the payment of dividend.

Article 26 Withholding Income Tax on Payment of Dividend
The Indonesian tax laws generally require a twenty (20) per cent 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 (10) per cent on the payment of dividend.

The reduced withholding tax rate of ten (10) per cent set out in the Singapore-Indonesia tax treaty can be used on the payment of dividend by Indo Co. 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*:

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.

and Sing Co. must submit the original copy of its Certificate of Domicile (DGT Form 1) to Indo Co. to demonstrate that it is the beneficial owner of the dividend payment.

Indonesian tax laws do not regulate when a dividend should be declared. Meanwhile, the time when dividend can be declared and remitted by Indo Co. 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 Indo Co. to obtain tax clearance in order to declare or remit dividends.

D. Payment of Shareholders' Loans

- **Indo Co.**

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

Interest on shareholders' loan
The Indonesian tax rules generally require a twenty (20) per cent 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 (10) per cent on the payment of interest.

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The reduced withholding tax rate of ten (10) per cent set out in the Singapore-Indonesia tax treaty can be used on the payment of interest by Indo Co. 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*:

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.

and Sing Co. must submit the original copy of its Certificate of Domicile (DGT Form 1) to Indo Co. to demonstrate that it is a beneficial owner of the interest payment.

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

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

Sincerely yours,

Aristo Tjahyadi
Partner

Taxand

FIRST REAL ESTATE INVESTMENT TRUST

(Constituted in the Republic of Singapore
pursuant to a trust deed dated 19 October 2006 (as amended))

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 Mandarin Ballroom III, Level 6, Main Tower, Mandarin Orchard Singapore, 333 Orchard Road, Singapore 238867 on Wednesday, 30 April 2014, at 3:00 p.m. (or as soon thereafter following the conclusion or adjournment of the Annual General Meeting of First REIT to be held at 2:30 p.m. on the same day and at the same place) (the "**EGM**"), for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions:

ORDINARY RESOLUTION

1. THE SHPW ACQUISITION AND THE SHPW MASTER LEASE

That subject to and conditional upon the passing of Resolution 2:

(i) approval be and is hereby given for the acquisition (the "**SHPW Acquisition**") of Siloam Hospitals Purwakarta ("**SHPW**") by Finura Investments (a direct wholly-owned subsidiary of First REIT), or its wholly-owned subsidiary, from PT Purimas Elok Asri ("**PT PEA**"), an indirect wholly-owned subsidiary of PT Metropolis Propertindo Utama ("**PT MPU**"), based on the terms and conditions as described in the circular dated 11 April 2014 (the "**Circular**") issued by Bowsprit Capital Corporation Limited, in its capacity as manager of First REIT (the "**Manager**"), to holders of units in First REIT ("**Unitholders**"), as well as for the payment of all fees and expenses relating to the SHPW Acquisition;

(ii) approval be and is hereby given for the grant of a master lease of SHPW to PT MPU (the "**SHPW Master Lease**"), based on the terms and conditions as described in the Circular; and

(iii) 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 SHPW Acquisition and the SHPW Master Lease.

2. THE PROPOSED ISSUANCE OF THE CONSIDERATION UNITS

That subject to and conditional upon the passing of Resolution 1:

(i) approval be and is hereby given for the Manager to issue the Consideration Units (as defined in the Circular) for the purpose of the SHPW Acquisition; and

(ii) the Manager, any Director and 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 issuance of the Consideration Units.

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

Elizabeth Krishnan
Company Secretary
Singapore
11 April 2014

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 registered office of the Manager at 50 Collyer Quay, #06-01 OUE Bayfront, Singapore 049321, not less than 48 hours before the time appointed for the Extraordinary General Meeting.

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.**

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 Mandarin Ballroom III, Level 6, Main Tower, Mandarin Orchard Singapore, 333 Orchard Road, Singapore 238867 on Wednesday, 30 April 2014, at 3:00 p.m. (or as soon thereafter following the conclusion or adjournment of the Annual General Meeting of First REIT to be held at 2:30 p.m. on the same day and at the same place) and any adjournment thereof. I/We direct my/our proxy/proxies to vote for or against the resolutions 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.

	Resolutions	**To be used in the event of a poll**	
		No. of Votes for *	**No. of Votes Against ***
	ORDINARY RESOLUTION		
1	To approve the SHPW Acquisition and the SHPW Master Lease (Conditional upon Resolution 2 being passed)		
2	To approve the proposed issuance of the Consideration Units (Conditional upon Resolution 1 being passed)		

* 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 _____ 2014

Total number of Units held

_____

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

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 registered office of the Manager at 50 Collyer Quay, #06-01 OUE Bayfront, Singapore 049321, not less than 48 hours before the time set for the Extraordinary General Meeting.

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AFFIX
POSTAGE
STAMP

The Company Secretary
Bowsprit Capital Corporation Limited
(as manager of First Real Estate Investment Trust)
50 Collyer Quay #06-01
OUE Bayfront, Singapore 049321

2nd fold here

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.

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 registered office of the Manager at 50 Collyer Quay, #06-01 OUE Bayfront, Singapore 049321, not less than 48 hours before the time appointed for holding the Extraordinary General Meeting.