CIRCULAR DATED 23 OCTOBER 2012

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

Singapore Exchange Securities Trading Limited (the "**SGX-ST**") takes no responsibility for the accuracy of any statements or opinions made, or reports contained, in this circular dated 23 October 2012 ("**Circular**"). If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

If you have sold or transferred all your units in First Real Estate Investment Trust ("**First REIT**", and the units in First REIT "**Units**"), you should immediately forward this Circular, together with the Notice of Extraordinary General Meeting and the accompanying Proxy Form, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.

This Circular is not for distribution, directly or indirectly, in or into the United States of America ("**U.S.**"). It is not an offer of securities for sale into the U.S. The Units have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or the securities laws of any state of the U.S. or other jurisdiction, and the Units may not be offered or sold within the U.S. except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state or local securities laws. Any public offering of securities of First REIT in the U.S. would be made by means of a prospectus that would contain detailed information about First REIT and Bowsprit Capital Corporation Limited, as manager of First REIT (the "**Manager**"), as well as financial statements. The Manager does not intend to conduct a public offering of securities in the U.S.

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

(Company Registration Number: 200607070D)

**CIRCULAR TO UNITHOLDERS
IN RELATION TO:**

(1) THE PROPOSED ACQUISITION OF SILOAM HOSPITALS MANADO AND HOTEL ARYADUTA MANADO FROM AN INTERESTED PERSON; AND

(2) THE PROPOSED ACQUISITION OF SILOAM HOSPITALS MAKASSAR FROM AN INTERESTED PERSON.

Financial Adviser

Independent Financial Adviser to the Independent Directors of Bowsprit Capital Corporation Limited and the Trustee

(Company Registration Number: 200105040N)

IMPORTANT DATES AND TIMES FOR UNITHOLDERS

Last date and time for lodgement of Proxy Forms	:	**Wednesday, 7 November 2012** at **12.00 p.m.**
Date and time of Extraordinary General Meeting	:	**Friday, 9 November 2012** at **12.00 p.m.**
Place of Extraordinary General Meeting	:	**Ocean Ballroom 3** **Level 2, Pan Pacific Singapore** **7 Raffles Boulevard, Marina Square** **Singapore 039595**

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CORPORATE INFORMATION

Directors of the Manager ("Directors")	:	Mr Albert Saychuan Cheok (Chairman and Independent Director) Mr Goh Tiam Lock (Independent Director) Mr Wong Gang (Independent Director) Mr Ketut Budi Wijaya (Non-Executive Director) Dr Ronnie Tan Keh Poo (Chief Executive Officer and Director)
Registered Office of the Manager	:	50 Collyer Quay #06-01 OUE Bayfront Singapore 049321
Trustee of First REIT (the "Trustee")	:	HSBC Institutional Trust Services (Singapore) Limited 21 Collyer Quay #10-02 HSBC Building Singapore 049320
Legal Adviser for the Acquisitions (as defined herein) and to the Manager	:	Allen & Gledhill LLP One Marina Boulevard #28-00 Singapore 018989
Financial Adviser (the "Financial Adviser")	:	Oversea-Chinese Banking Corporation Limited 65 Chulia Street #09-00 OCBC Centre Singapore 049513
Legal Adviser to the Manager and the Trustee for the Acquisitions as to Indonesian Law	:	Makes & Partners Law Firm Menara Batavia, 7th Floor Jl. KH. Mas Mansyur Kav. 126 Jakarta 10220, Indonesia
Legal Adviser to the Trustee as to Singapore Law	:	Shook Lin & Bok LLP 1 Robinson Road #18-00 AIA Tower Singapore 048542
Independent Financial Adviser to the Independent Directors of the Manager and the Trustee in relation to the MD Property Acquisition, the MD Property Master Lease, the SHMK Acquisition and the SHMK Master Lease (each as defined herein)	:	Stirling Coleman Capital Limited 4 Shenton Way #07-03 SGX Centre 2 Singapore 068807
Independent Singapore Tax Adviser	:	Ernst & Young LLP One Raffles Quay North Tower, Level 18 Singapore 048583
Independent Indonesia Accounting and Tax Adviser (the "Independent Indonesia Tax Adviser")	:	PB Taxand Menara Imperium 27th Floor Jl. H.R. Rasuna Said Kav.1 Jakarta 12980 Indonesia

Independent Valuers	:	KJPP Willson & Rekan in association with Knight Frank Wisma Nugra Santana #17-08, Jl. Jend. Sudirman Kav. 7-8, Jakarta 10220, Indonesia (appointed by the Manager for the valuation of Siloam Hospitals Manado and Hotel Aryaduta Manado and Siloam Hospitals Makassar) KJPP Rengganis, Hamid & Rekan in strategic alliance with CB Richard Ellis (Pte) Ltd Menara Kuningan 8th Floor, Jl. HR. Rasuna said Blok X-7 Kav. 5. Jakarta 12940, Indonesia (appointed by the Trustee for the valuation of Siloam Hospitals Manado and Hotel Aryaduta Manado and Siloam Hospitals Makassar)
Independent Healthcare/ Hospitality Research Consultant for the Indonesia Healthcare/ Hospitality Market Review Report (the "Independent Healthcare/Hospitality Research Consultant")	:	Frost & Sullivan (S) Pte Ltd 100 Beach Road #29-01/11 Shaw Tower Singapore 189702
Unit Registrar and Unit Transfer Office	:	Boardroom Corporate & Advisory Services Pte. Ltd. 50 Raffles Place #32-01 Singapore Land Tower Singapore 048623

SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the full text of this Circular. Meanings of defined terms may be found in the Glossary on pages 42 to 49 of this Circular.

Any discrepancies in the tables included herein between the listed amounts and totals thereof are due to rounding.

INTRODUCTION

First REIT's investment policy is to invest 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[1]. In furtherance of First REIT's investment policy, the Manager is seeking the approval of unitholders of First REIT ("**Unitholders**") for the following resolutions:

(a) Resolution 1: The MD Property Acquisition (as defined herein) (Ordinary Resolution[2]); and

(b) Resolution 2: The SHMK Acquisition (as defined herein) (Ordinary Resolution).

Unitholders should note that Resolution 1 and Resolution 2 relating to the MD Property Acquisition and the SHMK Acquisition respectively are inter-conditional.

BACKGROUND OF APPROVALS SOUGHT

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. Further to this growth strategy, the Manager is seeking to acquire:

(1) Siloam Hospitals Manado and Hotel Aryaduta Manado, which is located at Jalan Sam Ratulangi No. 22, Komplek Boulevard Center and at Jalan Piere Tendean No. 1, Wenang Utara Sub District, Wenang District, Manado – North Sulawesi 95111, Republic of Indonesia (the "**MD Property**", and the proposed acquisition of the MD Property, the "**MD Property Acquisition**") for a purchase consideration of S$83.6 million (the "**MD Property Purchase Consideration**") from Evodia Strategic Investment Limited ("**Evodia**"), a company incorporated in Labuan, Malaysia and an indirect wholly-owned subsidiary of PT Lippo Karawaci Tbk (the "**Sponsor**"). The Sponsor is a company incorporated in Indonesia and is the sponsor of First REIT. The acquisition of the MD Property will be carried out by First REIT indirectly via the acquisition of Rhuddlan Investment Pte. Ltd., a company incorporated in Singapore ("**Rhuddlan**"). Rhuddlan and its wholly-owned subsidiary, Caernarfon Investment Pte. Ltd., a company incorporated in Singapore ("**Caernarfon**"), together wholly-owns PT Menara Abadi Megah, a limited liability company incorporated in Indonesia ("**PT MAM**"), which in turn holds the MD Property; and

(2) Siloam Hospitals Makassar, which is located at Jalan Metro Tanjung Bunga Kav 3 – 5, Panambungan Sub District, Mariso District, Makassar City, South Sulawesi Province, Republic of Indonesia ("**SHMK**", and the proposed acquisition of SHMK, the "**SHMK Acquisition**") for a purchase consideration of S$59.3 million (the "**SHMK Purchase Consideration**") from PT Siloam Karya Sejahtera, a limited liability company incorporated in Indonesia ("**PT SKS**"), which directly wholly-owns SHMK and is an indirect wholly-owned subsidiary of the Sponsor. For purposes of the SHMK Acquisition, First REIT has acquired a 100.0% equity interest in Raglan Investment Pte. Ltd. ("**Raglan**"), a company incorporated in Singapore, for a nominal consideration of S$1.00.

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[1] 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.

[2] "**Ordinary Resolution**" refers to a resolution proposed and passed as such by a majority being more than 50.0% of the total number of votes cast for and against such resolution at a meeting of Unitholders convened in accordance with the provisions of the trust deed dated 19 October 2006 constituting First REIT, entered into between the Trustee and the Manager, as amended, varied or supplemented from time to time (the "**Trust Deed**").

Raglan and its wholly-owned subsidiary, Carmathen Investment Pte. Ltd., a company incorporated in Singapore ("**Carmathen**"), together wholly own PT Bayutama Sukses, a limited liability company incorporated in Indonesia ("**PT BS**"). First REIT, through PT BS, will acquire SHMK from PT SKS.

The proposed MD Property Acquisition and the proposed SHMK Acquisition are collectively referred to in this Circular as the "**Acquisitions**".

RESOLUTION 1: THE MD PROPERTY ACQUISITION

Overview

The MD Property is an 11-storey mixed use development with a basement level, comprising Siloam Hospitals Manado and Hotel Aryaduta Manado, which sit on common land titles and share a common lobby (with separate entrances). Siloam Hospitals Manado is a four-level hospital which commenced operations on 1 June 2012 with 100 beds and will target to reach maximum operational capacity of 224 beds in about three to four years' time. Hotel Aryaduta Manado is a nine-level five-star hotel with 200 guest rooms, which commenced operations on 1 January 2011. The MD Property is situated on the east side of Jalan Piere Tendean and on the west side of Jalan Sam Ratulangi, both of which are primary roads in the city centre that are lined with office buildings, shopping centres, shop houses and hotels in Manado. Notable developments in the close vicinity of the MD Property include IT Center, Mega Mall Manado and Komandan Korem (Danrem) 131/Santiago (a military office). Siloam Hospitals Manado is a Centre of Excellence[3] in trauma.

The total cost of the MD Property Acquisition, comprising the MD Property Purchase Consideration, the acquisition fee in relation to the MD Property Acquisition (the "**MD Property Acquisition Fee**")[4] payable to the Manager pursuant to the Trust Deed as well as the professional and other fees and expenses in connection with the MD Property Acquisition, is estimated to be approximately S$85.8 million (the "**MD Property Acquisition Cost**").

First REIT will, upon acquiring the MD Property, indirectly hold the MD Property through PT MAM under six 'Right to Build' (*Hak Guna Bangunan* or "**HGB**") title certificates which will expire on 18 May 2032. In Indonesia, a HGB title is the closest form of land title to the internationally recognised concept of 'leasehold' title. A holder of the HGB title has the right to erect, occupy and use buildings on the parcel of land and sell all or part of such parcel. A HGB title is granted for a maximum initial term of 30 years. By application to the relevant local land office upon the expiration of this initial term, a HGB title may be extended for an additional term not exceeding 20 years.

(Paragraph 2, page 7 of the Letter to Unitholders provides further details on the MD Property Acquisition.)

Valuation

Two independent property valuers, KJPP Willson & Rekan in association with Knight Frank ("**W&R**") and KJPP Rengganis, Hamid & Rekan in strategic alliance with CB Richard Ellis (Pte) Ltd ("**Rengganis**"), were appointed by the Manager and the Trustee respectively to value the MD Property.

The following table sets out the appraised values, the respective dates of such appraisal and the MD Property Purchase Consideration:

	Appraised Value		
Property	**By W&R as at 5 September 2012**	**By Rengganis as at 5 September 2012**	**Purchase Consideration**
	(S$ million)	**(S$ million)**	**(S$ million)**
MD Property	90.9	96.5	83.6

[3] The term "**Centre of Excellence**" is used to describe a particular area of medical specialisation, proficiency and excellence, with the relevant specialist doctors, nursing staff and state-of the-art medical equipment and facilities, at a hospital.

[4] As the MD Property Acquisition will constitute an Interested Party Transaction (as defined herein) under Appendix 6 of the Code on Collective Investment Schemes (the "**Property Funds Appendix**") issued by the Monetary Authority of Singapore (the "**MAS**"), the MD Property Acquisition Fee payable to the Manager will be in the form of Units (the "**MD Property Acquisition Fee Units**"), which shall not be sold within one year from the date of issuance, in accordance with Paragraph 5.6 of the Property Funds Appendix.

The MD Property Purchase Consideration is below the two independent valuations obtained in relation to the MD Property and represents a discount of 10.8% to S$93.7 million, which is the average of the two independent valuations of the MD Property.

Master Lease

In relation to the MD Property Acquisition, a conditional master lease agreement (the "**MD Property Master Lease Agreement**") has been entered into between PT MAM (as the MD Property master lessor) and the Sponsor (as the MD Property master lessee) on 21 September 2012 pursuant to which a master lease in relation to the MD Property will be granted to the Sponsor (the "**MD Property Master Lease**") for a lease term of 15 years, commencing from the date of completion of the MD Property SPA (as defined herein), with an option to renew for a further term of 15 years.

(Paragraph 2.7, page 10 of the Letter to Unitholders provides further details on the terms of the MD Property Master Lease.)

Method of Financing the MD Property Acquisition

The MD Property Acquisition Cost is expected to be financed by a combination of drawdown from First REIT's committed debt facility and proceeds from a private placement exercise which is proposed to be carried out by the Manager. The proportion of debt financing for the MD Property will be approximately 32.0%. The final decision regarding the proportion of debt and equity to be employed will be made at the appropriate time taking into account the relevant market conditions. Should the Manager be of the view that it would not be appropriate to carry out a private placement in the circumstances, the Manager intends to procure additional debt funding to fully finance the MD Property Acquisition Cost by debt. First REIT's current leverage is approximately 16.0%.

Interested Person Transaction[5] and Interested Party Transaction[6]

As at 16 October 2012, being the latest practicable date prior to the printing of this Circular (the "**Latest Practicable Date**"), the Sponsor directly and/or through its subsidiaries and through its interest in the Manager, has deemed interests of (i) 29.7% in First REIT and (ii) 80.0% in the Manager, and is therefore regarded as a "Controlling Unitholder"[7] of First REIT and a "Controlling Shareholder"[8] of the Manager respectively under both the Listing Manual of the SGX-ST (the "**Listing Manual**") and the Property Funds Appendix.

For the purposes of Chapter 9 of the Listing Manual and the Property Funds Appendix, Evodia, being an indirect wholly-owned subsidiary of the Sponsor (which in turn is a Controlling Unitholder of First REIT and a Controlling Shareholder of the Manager), is an Interested Person[9] and Interested Party[10] of First REIT.

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5 "**Interested Person Transaction**" means a transaction between an entity at risk and an Interested Person.

6 "**Interested Party Transaction**" has the meaning ascribed to it in paragraph 5 of the Property Funds Appendix.

7 "**Controlling Unitholder**" means a person who:

(a) holds directly or indirectly 15% or more of the nominal amount of all voting units in the property fund. The MAS may determine that such a person is not a controlling unitholder; or

(b) in fact exercises control over the property fund.

8 "**Controlling Shareholder**" means a person who:

(a) holds directly or indirectly 15% or more of the total number of issued shares excluding treasury shares in the company; or

(b) in fact exercises control over a company.

9 "**Interested Person**" means:

(a) In the case of a company, "interested person" means:

(i) a director, chief executive officer, or controlling shareholder of the issuer; or

(ii) an associate of any such director, chief executive officer, or controlling shareholder; and

(b) in the case of a REIT, shall have the meaning defined in the Code on Collective Investment Schemes issued by the MAS.

10 "**Interested Party**" means:

(a) a director, chief executive officer or controlling shareholder of the manager, or the manager, the trustee or controlling unitholder of the property fund; or

(b) an associate of any director, chief executive officer or controlling shareholder of the manager, or an associate of the manager, the trustee or any controlling unitholder of the property fund.

As such, the MD Property Acquisition will constitute an Interested Person Transaction under Chapter 9 of the Listing Manual and also an Interested Party Transaction under paragraph 5 of the Property Funds Appendix for which Unitholders' approval is required. The MD Property Master Lease will also constitute an Interested Person Transaction under Chapter 9 of the Listing Manual for which Unitholders' approval is required.

Accordingly, the approval of Unitholders is sought for the MD Property Acquisition and the MD Property Master Lease.

(Paragraph 4, page 26 of the Letter to Unitholders provides further details.)

UNITHOLDERS SHOULD NOTE THAT BY APPROVING THE MD PROPERTY ACQUISITION, THEY ARE ALSO DEEMED TO HAVE APPROVED THE MD PROPERTY MASTER LEASE.

RESOLUTION 2: THE SHMK ACQUISITION

Overview

SHMK, a new seven-storey hospital, commenced operations on 9 September 2012 with 100 beds and will target to reach maximum operational capacity of 416 beds in about four to six years' time. SHMK is located on the west side of Jalan Metro Tanjung Bunga in Tanjung Bunga, an integrated township development with many facilities. Notable developments in the close vicinity of SHMK include Hotel Aryaduta Makassar, Tanjung Bunga Marketing Office, Celebes Convention Center, Trans Makassar Mall and Losari Beach. SHMK is a Centre of Excellence in trauma and cardiology.

The total cost of the SHMK Acquisition, comprising the SHMK Purchase Consideration, the acquisition fee in relation to the SHMK Acquisition (the "**SHMK Acquisition Fee**")[11] payable to the Manager pursuant to the Trust Deed as well as the professional and other fees and expenses in connection with the SHMK Acquisition, is estimated to be approximately S$60.9 million (the "**SHMK Acquisition Cost**").

First REIT will, upon acquiring SHMK, indirectly hold SHMK through PT BS under a HGB title which will expire on 22 December 2031.[12]

(Paragraph 3, page 18 of the Letter to Unitholders provides further details on the SHMK Acquisition.)

Valuation

Two independent property valuers, W&R and Rengganis, were appointed by the Manager and the Trustee respectively to value SHMK.

The following table sets out the appraised values, the respective dates of such appraisal and the SHMK Purchase Consideration:

	Appraised Value		
Property	**By W&R as at 5 September 2012**	**By Rengganis as at 5 September 2012**	**Purchase Consideration**
	(S$ million)	**(S$ million)**	**(S$ million)**
SHMK	66.8	64.7	59.3

[11] As the SHMK Acquisition will constitute an Interested Party Transaction under the Property Funds Appendix, the SHMK Acquisition Fee payable to the Manager will be in the form of Units (the "**SHMK Acquisition Fee Units**"), which shall not be sold within one year from the date of issuance, in accordance with the Property Funds Appendix.

[12] The HGB titles in respect of the MD Property and SHMK were granted by the Badan Pertanahan Nasional (national land office of Indonesia) (the "**National Land Office**") at different times. In addition, the National Land Office has the discretion to determine the tenure of the HGB titles to be granted subject to the relevant maximum limit. For the above reasons, the tenure of the HGB titles for the MD Property and SHMK are not the same. A HGB title is granted for a maximum initial term of 30 years. By application to the relevant local land office upon the expiration of this initial term, a HGB title may be extended for an additional term not exceeding 20 years. The Manager understands from its experience that this is the standard industry practice for properties in Indonesia like the MD Property and SHMK.

The SHMK Purchase Consideration is below the two independent valuations obtained in relation to SHMK and represents a discount of 9.8% to S$65.8 million, which is the average of the two independent valuations of SHMK.

Master Lease

In relation to the SHMK Acquisition, a conditional master lease agreement (the "**SHMK Master Lease Agreement**") has been entered into between PT BS (as the SHMK master lessor) and the Sponsor (as the SHMK master lessee) on 21 September 2012 pursuant to which a master lease in relation to SHMK will be granted to the Sponsor (the "**SHMK Master Lease**") for a lease term of 15 years, commencing from the date of completion of the SHMK SPA (as defined herein) with an option to renew for a further term of 15 years.

(Paragraph 3.7, page 21 of the Letter to Unitholders provides further details on the terms of the SHMK Master Lease.)

Method of Financing the SHMK Acquisition

The SHMK Acquisition Cost is expected to be financed fully by a drawdown from First REIT's committed debt facility.

Interested Person Transaction and Interested Party Transaction

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) 29.7% in First REIT and (ii) 80.0% in the Manager, and is therefore regarded as a "Controlling Unitholder" of First REIT and a "Controlling Shareholder" of the Manager respectively under both the Listing Manual and the Property Funds Appendix.

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

As such, the SHMK Acquisition will constitute an Interested Person Transaction under Chapter 9 of the Listing Manual and also an Interested Party Transaction under paragraph 5 of the Property Funds Appendix for which Unitholders' approval is required. The SHMK Master Lease will also constitute an Interested Person Transaction under Chapter 9 of the Listing Manual for which Unitholders' approval is required.

Accordingly, the approval of Unitholders is sought for the SHMK Acquisition and the SHMK Master Lease.

(Paragraph 4, page 26 of the Letter to Unitholders provides further details.)

UNITHOLDERS SHOULD NOTE THAT BY APPROVING THE SHMK ACQUISITION, THEY ARE ALSO DEEMED TO HAVE APPROVED THE SHMK MASTER LEASE.

RATIONALE FOR THE ACQUISITIONS

The Manager believes that the Acquisitions will bring, among others, the following key benefits to Unitholders:

(i) acquisition of attractive and high quality properties in Manado City and Makassar City, Indonesia, at prices below valuation;

(ii) increased income stability of First REIT through the MD Property Master Lease Agreement and the SHMK Master Lease Agreement and an increase in First REIT's weighted average lease to expiry;

(iii) increased absolute size of First REIT's asset base which may raise the profile of First REIT among global investors and an increased portfolio size which is expected to enhance First REIT's competitive positioning and ability to pursue future acquisitions;

(iv) the Acquisitions would enable First REIT to grow through the acquisition of two hospitals, which enhances the diversification of First REIT's portfolio across locations and medical specialisations, and a hotel that *inter alia* provides for complementary services for Siloam Hospitals Manado; and

(v) increase in attractiveness of the Enlarged Portfolio[13] given the reduction in the weighted average age of the properties in the Enlarged Portfolio comprising the MD Property and SHMK that are newly refurbished and built.

(Paragraph 5, page 31 of the Letter to Unitholders provides further details)

PRO FORMA FINANCIAL INFORMATION

Pro Forma Financial Effects of the Acquisitions

The pro forma financial effects of the Acquisitions presented below are strictly for illustrative purposes only and were prepared based on the audited consolidated financial statements of First REIT and its subsidiaries for the financial year of 2011 (the "**FY2011 Audited Consolidated Financial Statements**") and the unaudited financial statements of First REIT and its subsidiaries for the six months ended 30 June 2012 (the "**6M2012 Unaudited Financial Statements"**) and on the assumptions set out at paragraph 6.1, page 33 of the Letter to Unitholders, which states, among others, that the DPU was calculated having taken into account the relevant financing costs as well as the issuance of new Units pursuant to the private placement and acquisition fees.

Financial Year ended 31 December 2011

The pro forma financial effects of the Acquisitions on (i) the distribution per Unit ("**DPU**") for First REIT's financial year ended 31 December 2011 ("**FY2011**"), as if First REIT had purchased the MD Property and SHMK (collectively, the "**Properties**") on 1 January 2011, and held the Properties through to 31 December 2011, and (ii) the net asset value ("**NAV**") per Unit as at 31 December 2011, as if First REIT had purchased the Properties on 31 December 2011, are as follows:

	FY2011	
	Before the Acquisitions(1)	**After the Acquisitions**
Distributable Income (S$'000)	43,934	49,071
DPU (cents)	7.01	7.45
NAV per Unit (S$)	0.81	0.84

Note:

(1) Based on the FY2011 Audited Consolidated Financial Statements.

Six Months ended 30 June 2012

The pro forma financial effects of the Acquisitions on (i) the DPU for the six months ended 30 June 2012, as if First REIT had purchased the Properties on 1 January 2012, and held the Properties through to 30 June 2012, and (ii) the NAV per Unit as at 30 June 2012, as if First REIT had purchased the Properties on 30 June 2012, are as follows:

	For the six months ended 30 June 2012	
	Before the Acquisitions(1)	**After the Acquisitions**
Distributable Income (S$'000)	24,310	26,864
DPU (cents)	3.86	4.06
NAV per Unit (S$)	0.80	0.83

Note:

(1) Based on the 6M2012 Unaudited Financial Statements.

(Paragraph 6, page 33 of the Letter to Unitholders provides further details and assumptions on the pro forma financial effects of the acquisitions.)

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[13] "**Enlarged Portfolio**" consists of the MD Property, SHMK and the Existing Portfolio (as defined herein).

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

Directors of the Manager

Mr Albert Saychuan Cheok (Chairman and Independent Director)
Mr Goh Tiam Lock (Independent Director)
Mr Wong Gang (Independent Director)
Mr Ketut Budi Wijaya (Non-Executive Director)
Dr Ronnie Tan Keh Poo (Chief Executive Officer and Director)

Registered Office

50 Collyer Quay, #06-01
OUE Bayfront
Singapore 049321

23 October 2012

To: Unitholders of First Real Estate Investment Trust

Dear Sir/Madam

1. SUMMARY OF APPROVALS REQUIRED

First REIT's investment policy is to invest 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. In furtherance of First REIT's investment policy, the Manager is seeking the approval of Unitholders by way of Ordinary Resolutions at an extraordinary general meeting of Unitholders (the "**EGM**") for the following resolutions:

(a) Resolution 1: the MD Property Acquisition; and

(b) Resolution 2: the SHMK Acquisition.

Unitholders should note that Resolution 1 and Resolution 2 relating to the MD Property Acquisition and the SHMK Acquisition respectively are inter-conditional.

2. THE PROPOSED MD PROPERTY ACQUISITION

2.1 Description of MD Property

The MD Property, located at Jalan Sam Ratulangi No. 22, Komplek Boulevard Center and at Jalan Piere Tendean No. 1, Wenang Utara Sub District, Wenang District, Manado – North Sulawesi 95111, Republic of Indonesia, is an 11-storey mixed use development with a basement level comprising Siloam Hospitals Manado and Hotel Aryaduta Manado, which sit on common land titles and share a common lobby (with separate entrances). Siloam Hospitals Manado is a four-level hospital which commenced operations on 1 June 2012 with 100 beds and will target to reach maximum operational capacity of 224 beds in about three to four years' time. Hotel Aryaduta Manado is a nine-level five-star hotel with 200 guest rooms, which commenced operations on 1 January 2011. The MD Property is situated on the east side of Jalan Piere Tendean and on the west side of Jalan Sam Ratulangi, both of which are primary roads in the city centre that are lined with office buildings, shopping centres, shop houses and hotels. Notable developments in the close vicinity of the MD Property include IT Center, Mega Mall Manado and Komandan Korem (Danrem) 131/Santiago (a military office). Siloam Hospitals Manado is a Centre of Excellence in trauma.

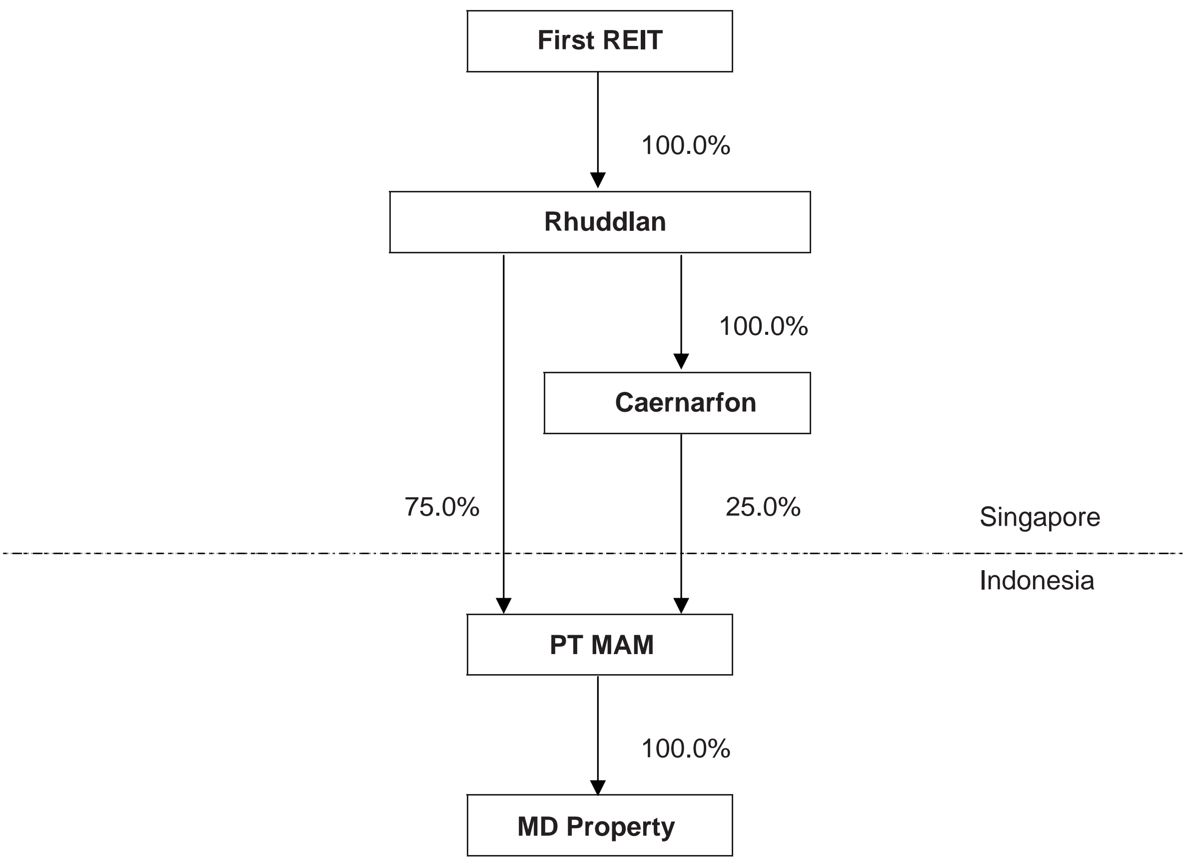
(**APPENDIX A** of this Circular provides further details on the MD Property.)

2.2 Structure of the MD Property Acquisition

The MD Property is entirely owned by PT MAM, a special purpose vehicle incorporated in Indonesia on 23 January 2008 for the purpose of holding the MD Property. PT MAM is in turn 75.0% and 25.0% owned by Rhuddlan and Caernarfon respectively[14]. Rhuddlan and Caernarfon are companies incorporated in Singapore on 1 December 2011 and 8 December 2011, respectively. Caernarfon is a wholly-owned subsidiary of Rhuddlan, and Rhuddlan is wholly-owned by Evodia, a company incorporated in Labuan, Malaysia on 30 August 2007 which is an indirect wholly-owned subsidiary of the Sponsor. First REIT proposes to acquire the MD Property through the acquisition of the entire issued share capital of Rhuddlan from Evodia. Evodia is present in the current holding structure of the MD Property by the Sponsor. This structure will have no impact on First REIT before or after the acquisition. For the avoidance of doubt, First REIT will not be holding Evodia, which is the vendor.

On 21 September 2012, the Trustee entered into a conditional sale and purchase agreement with Evodia (the "**MD Property SPA**") pursuant to which the Trustee proposed to acquire the entire share capital of Rhuddlan. Under Indonesian law, First REIT would not be considered a legal entity, and therefore it may not directly own land in Indonesia or shares in an Indonesian limited liability company. In addition, pursuant to Indonesian Company Law, an Indonesian limited liability company must be owned by at least two entities. The proposed holding structure is consistent with Indonesian Company Law.

The following chart sets out the structure under which the MD Property will be held by First REIT upon completion of the MD Property Acquisition, as well as the resulting shareholding and ownership interest in the entities set out below.



[14] First REIT is not able to acquire PT MAM and PT BS directly, as pursuant to Indonesian Company Law article 7(1), an Indonesian limited liability company must be held by two or more individuals and/or companies. The proposed holding structure of MD Property is consistent with Indonesian Company Law. Under Indonesia law, First REIT would not be considered a legal entity; therefore, it may not directly own land in Indonesia or shares in an Indonesian limited liability company.

2.3 Valuation and Purchase Consideration

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

(**APPENDIX B** provides further details on the Independent Valuers' respective valuations.)

	Appraised Value		
Property	**By W&R as at 5 September 2012**	**By Rengganis as at 5 September 2012**	**Purchase Consideration**
	(S$ million)	**(S$ million)**	**(S$ million)**
MD Property	90.9	96.5	83.6

The MD Property Purchase Consideration is below the two independent valuations obtained in relation to the MD Property and represents a discount of 10.8% to S$93.7 million, which is the average of the two independent valuations of the MD Property.

2.4 Experience and track record of the Independent Valuers

Further to the decree of the Ministry of Finance, Indonesia ("**MOF Indonesia**"), (No. 125/PMK.01/2008) on public appraisal services (the "**Decree**"), public appraisers are not permitted to provide appraisal services in Indonesia unless they have the status of Kantor Jasa Penilai Publik ("**KJPP**"), or Accredited Public Appraiser Firms, to provide such appraisal services. The Decree does not address the issue of foreign appraisers, but is intended to regulate the conduct of public appraisal services in Indonesia and it is likely that all relevant Indonesian governmental authorities would only recognise and accept appraisal reports from appraisers with KJPP status. As international valuers do not have KJPP status, the Independent Valuers were engaged.

W&R

W&R was established in 2009, in accordance with the Decree and provides property valuation and consultancy services. W&R, formerly the valuation department of PT Willson Properti Advisindo which was established in 2001, is registered with the Masyarakat Profesi Penilai Indonesia (the Indonesian Society of Appraisers) ("**MAPPI**") and is also a licensed public valuer/appraiser with MOF Indonesia. Its valuation staff has international and domestic experience and its clientele includes major international and local companies.

Rengganis

Rengganis was established in 2008 in accordance with the Decree and provides independent valuation and advisory services. Rengganis, formerly the valuation department of PT Heburinas Nusantara which was established in 1984, is registered with MAPPI and is also a licensed public valuer with MOF Indonesia. Its valuation staff has international and domestic experience and its clientele includes major international and local companies.

2.5 Conditions precedent for the Completion of the MD Property Acquisition

Completion of the sale and purchase of the MD Property under the MD Property SPA is conditional upon the fulfilment or waiver (as the case may be) of, among others, the following:

2.5.1 the approval by Unitholders to be given at the EGM for the MD Property Acquisition and the MD Property Master Lease;

2.5.2 the approval by Unitholders to be given at the EGM for the SHMK Acquisition and the SHMK Master Lease;

2.5.3 First REIT securing sufficient financing to undertake the Acquisitions and the agreements for such financing not having been terminated and being unconditional in all respects; and

2.5.4 there being no adverse change to the financial condition of the Sponsor (as the MD Property master lessee) or its ability to make payment to First REIT under the MD Property Master Lease Agreement.

The conditions precedent set out at sub-paragraphs 2.5.1 and 2.5.2 above are subject to the approval of the independent Unitholders at the EGM. On the securing of financing, please see paragraph 2.10 below. The condition precedent set out at sub-paragraph 2.5.4 above is subject to there being no adverse change to the financial condition of the Sponsor (as the MD Property master lessee) or its ability to make payment to First REIT under the MD Property Master Lease Agreement – this is intended for the benefit and protection of First REIT and its independent Unitholders.

2.6 Indemnity in relation to the MD Property SPA

The Trustee has also entered into a deed of indemnity with the Sponsor pursuant to which the Sponsor will, subject to certain conditions, indemnify the Trustee against liabilities or damages suffered by the Trustee arising from the MD Property SPA.

"Certain conditions" include, among others, the conditions that:

(a) the maximum aggregate liability in respect of all claims under the deed of indemnity shall not exceed the purchase price;

(b) written particulars shall have been notified in writing to the indemnifying party before the expiry of a period of 48 months for taxation claims and 24 months for any other claims from the date of completion; and

(c) unless such claim has already been settled to the satisfaction of the Trustee, proceedings in respect of the claim shall have been commenced by being both issued and served within four months of the expiry of the period mentioned in sub-paragraph (b) above.

2.7 MD Property Master Lease Agreement

In relation to the MD Property Acquisition, the MD Property Master Lease Agreement has been entered into between PT MAM (as the MD Property master lessor) and the Sponsor (as the MD Property master lessee) on 21 September 2012 pursuant to which the MD Property Master Lease will be granted to the Sponsor for a lease term of 15 years, commencing from the date of completion of the MD Property SPA, with an option to renew for a further term of 15 years.

2.7.1 Base Rent

The MD Property Master Lease is granted at an initial base rent of S$8,400,000 (the "**MD Property Base Rent**") per annum, an amount which was arrived at after the Manager had set a required initial yield which was then negotiated and agreed upon with the Sponsor on an arms' length basis. In the absence of direct asset comparables, the Manager had used three of its existing properties, Siloam Hospitals Lippo Village, Imperial Aryaduta Hotel & Country Club and Siloam Hospitals Surabaya, for which the tenants are currently paying S$3.91, S$1.68 and S$2.59 per square foot ("**sq ft**") per month respectively as a comparison with the MD Property and for which the tenant of the MD Property will be paying S$1.80 per sq ft per month based on the contracted base rent. The basis for the rental of S$1.80 per sq ft per month is arrived at based on commercial negotiations between willing parties (i.e. lessee and lessor). Furthermore, the Manager regards this property as primarily for hotel use (as its gross floor area ("**GFA**") for hotel use is much larger than that for hospital use), and therefore, it is also comparable with First REIT's Imperial Aryaduta Hotel & Country Club's rental of S$1.68 per sq ft per month. At this rental rate, First REIT is able to achieve the Manager's required rate of return. As the yield in relation to the annual MD Property Base Rent meets the Manager's commercial requirements and is in line with current market rates, the Manager is of the view that it is reasonable.

(Paragraph 2.7.10 below provides details of the opinion of the audit committee of the Manager, being Mr Albert Saychuan Cheok, Mr Goh Tiam Lock and Mr Wong Gang (the "**Audit Committee**") on the MD Property Base Rent for the first year of the MD Property Master Lease.)

The MD Property Base Rent is payable quarterly in advance and will be subject to increase every year after the initial period of three years from the commencement of the MD Property Master Lease, at a rate equal to twice the percentage increase of the Consumer Price Index of Singapore (the "**Singapore CPI**") for the preceding calendar year, subject to a floor of 0.0% and a cap of 2.0%. Siloam Hospitals Manado only commenced operations on 1 June 2012, and Hotel Aryaduta Manado only commenced operations on 1 January 2011. The freeze in the MD Property Base Rent amount will allow the tenant's operations to stabilize before the tenant is required to pay higher rental amounts via the rental escalation. Rental escalation in relation to the MD Property is pegged to the Singapore CPI as the rental is payable in Singapore dollars, as is the case with the Existing Portfolio[15]. In general, the capitalisation rates for Indonesia assets have been declining due to improvements in the macro-economics of Indonesia over the past 6 years. Therefore, the acquisition yields for both Properties are "tighter" in comparison with historical acquisitions which the Manager had made in the past for First REIT's Indonesia assets. The historical trends of the Singapore CPI (the average Singapore CPI was approximately 1.6% over the 15-year period between 1997 and 2011) provide assurance that the rental adjustments will be relatively stable compared with the Consumer Price Index of Indonesia (the "**Indonesia CPI**"). This is in line with First REIT's intent to offer stable distributions to investors. As the MD Property's annual rental income is denominated in Singapore dollars, there is no risk of exchange rate exposure vis-à-vis the Indonesian Rupiah. Accordingly, in Singapore dollar terms, there would be no real reduction in the rental rate when compared to the long term inflation rate in Singapore.

The Manager is also of the view that the cap of 2.0% is reasonable as it is consistent with the Existing Portfolio. For the avoidance of doubt, a negative Singapore CPI will not decrease the annual MD Property Base Rent.

2.7.2 Variable Rent

Variable rent is payable quarterly in advance and no variable rent will be payable in the first, second and third year of the MD Property Master Lease. No variable rent will be payable for the first three years of operations as this will enable the tenant to conserve its cash flow to step up and enhance its operations to an optimal level. Variable rent for the fourth year of the MD Property Master Lease is based on the audited gross operating revenue growth of the MD Property and is calculated as described in paragraph 2.7.4. Thereafter, from the fifth year of the MD Property Master Lease Agreement onwards, variable rent is based on the gross operating revenue growth of the Properties[16], and the ratio of the MD Property Total Rent for the preceding year of the MD Property Master Lease will be applied to apportion the variable rent payable in a year (both as described in paragraphs 2.7.4 and 2.7.5[17]). The Manager also wishes to note that the MD Property Base Rent already forms the main bulk of

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15 The portfolio of properties currently held by First REIT, consisting of: its properties in Indonesia; Mochtar Riady Comprehensive Cancer Centre, Siloam Hospitals Lippo Cikarang, Siloam Hospitals Lippo Village, Siloam Hospitals Kebon Jeruk, Siloam Hospitals Surabaya, Imperial Aryaduta Hotel & Country Club; its properties in Singapore, Pacific Healthcare Nursing Home @ Bukit Merah, Pacific Healthcare Nursing Home II @ Bukit Panjang, The Lentor Residence; and its property in the Republic of South Korea, Sarang Hospital.

16 The gross operating revenue growth of SHMK is included in the computation of the variable rent of the MD Property and vice versa to ensure that the variable rent of each of the MD Property and SHMK remain stable should the rental from any one of them experience low growth for any reason. Such method of computation for purposes of stabilisation of variable rent is similar to the computation of variable rent for the Existing Portfolio. The rationale for inclusion only in the fifth year is to allow for the stabilisation of the MD Property's operations as Siloam Hospitals Manado only began operations on 1 June 2012, and Hotel Aryaduta Manado only commenced operations on 1 January 2011.

17 As computation of the variable rent of the MD Property will be based on the aggregate gross operating revenue growth of the Properties, the ratio of the MD Property Total Rent paid in the preceding year is employed in order to obtain a fair apportionment of variable rent that the Sponsor is required to pay for the MD Property. Based on this method of computation, an aggregate amount of the variable rent in relation to the Properties will be arrived at. Accordingly, apportionment is necessary to determine the variable rent payable for the MD Property.

the MD Property Total Rent[18] which adequately achieves First REIT's required rate of return. The variable rent of the MD Property constitutes a small proportion of the MD Property Total Rent and it should be regarded as an additional bonus element.

2.7.3 Fixed Exchange Rate

The MD Property 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 variable rent of the MD Property will be paid according to the exchange rate of S$1.00 to Rp. 7,000 (which shall be fixed for the entire lease term).

2.7.4 Computation of Variable Rent for the Fourth Year of the MD Property Master Lease

No variable rent will be payable in the first, second and third year of the MD Property Master Lease. For the fourth year of the MD Property Master Lease, the variable rent payable is computed as follows:

- where the audited gross operating revenue for the MD Property for the preceding financial year exceeds the audited gross operating revenue for the further preceding financial year by an amount that is 5.0% or more but less than 15.0%, the variable rent payable by the MD Property master lessee shall be equivalent to 0.75% of such excess amount;

- where the audited gross operating revenue for the MD Property for the preceding financial year exceeds the audited gross operating revenue for the further preceding financial year by an amount that is 15.0% or more but less than 30.0%, the variable rent payable by the MD Property master lessee shall be equivalent to 1.25% of such excess amount; and

- where the audited gross operating revenue for the MD Property for the preceding financial year exceeds the audited gross operating revenue for the further preceding financial year by an amount of 30.0% or more, the variable rent payable by the MD Property master lessee shall be equivalent to 2.00% of such excess amount.

For the avoidance of doubt, when the gross operating revenue of the preceding financial year of the lessee does not exceed the gross operating revenue of the further preceding financial year by 5.0% or more, no variable rent shall be payable.

2.7.5 Computation of Variable Rent from and including the Fifth Year of the MD Property Master Lease

From and including the fifth year of the MD Property Master Lease, the variable rent payable is computed as follows:

$$\text{Variable rent payable under the MD Property Master Lease} = VR \times \frac{D}{E}$$

Where:

VR is the variable rent payable for the Properties;

D is the MD Property Total Rent in the preceding year of the MD Property Master Lease; and

E is the aggregate of the MD Property Total Rent in the preceding year of the MD Property Master Lease and the SHMK Total Rent (as defined herein) in the preceding year of the SHMK Master Lease.

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[18] The "**MD Property Total Rent**" refers to the sum of the MD Property Base Rent and the MD Property's variable rent.

2.7.6 Illustration of Computation of Variable Rent

(i) **Assumptions**

The following is an illustration of the computation of the variable rent in relation to MD Property for the fourth and fifth year of lease based on the assumptions that:

in relation to the fourth year of lease

(a) the MD Property Master Lease commenced on 1 January 2012;

(b) the fourth year of lease will commence on 1 January 2015;

(c) the MD Property's gross operating revenue for the financial year ended 31 December 2013 ("**FY2013**") is Rp. 140,000,000,000;

(d) the MD Property's gross operating revenue for the financial year ended 31 December 2014 ("**FY2014**") is Rp. 200,000,000,000; and

(e) further to paragraphs 2.7.6(i)(c) and (d) above, MD Property's gross operating revenue growth for FY2014 over that of FY2013 is 42.9% and the surplus of MD Property's gross operating revenue for FY2014 over that of FY2013 is Rp. 60,000,000,000;

in relation to the fifth year of lease

(f) the fifth year of lease will commence on 1 January 2016;

(g) the aggregate rental (including base and variable rent) paid in relation to the MD Property in the fourth year of lease is S$8,739,429[19];

(h) the aggregate rental (including base and variable rent) paid in relation to SHMK in the fourth year of lease is S$6,013,571[20];

(i) the MD Property's gross operating revenue for FY2014 and the financial year ended 31 December 2015 ("**FY2015**") are Rp. 200,000,000,000 and Rp. 250,000,000,000 respectively;

(j) SHMK's gross operating revenue for FY2014 and FY2015 are Rp. 150,000,000,000 and Rp. 190,000,000,000 respectively;

(k) further to paragraphs 2.7.6(i)(i) and (j) above, the aggregate gross operating revenue for the Properties for FY2014 and FY2015 are Rp. 350,000,000,000 and Rp. 440,000,000,000 respectively; and

(l) further to paragraph 2.7.6(i)(k) above, the Properties' gross operating revenue growth for FY2015 over that of FY2014 is approximately 25.7% and the surplus of the Properties gross operating revenue for FY2015 over that of FY2014 is Rp. 90,000,000,000.

(ii) **Variable rent for the fourth year**

Based on the assumptions set out in paragraph 2.7.6(i) above, the variable rent in respect of the MD Property for the fourth year of lease will be 2.00% x Rp. 60,000,000,000 (i.e. Rp. 1,200,000,000 or approximately S$171,429[21]). The rate of 2.00% is derived from the terms of the MD Property Master Lease Agreement for computation of the MD Property's variable rent as set out in paragraph 2.7.4 above.

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19 Based on the fixed exchange rate of S$1.00: Rp. 7,000.

20 Based on the fixed exchange rate of S$1.00: Rp. 7,000.

21 Based on the fixed exchange rate of S$1.00: Rp. 7,000.

(iii) **Variable rent for the fifth year**

Step *1*

Based on the assumptions set out in paragraph 2.7.6(i) above, the variable rent in respect of the Properties for the fifth year of lease will be 1.25% x Rp. 90,000,000,000[22] (i.e. Rp. 1,125,000,000 or approximately S$160,714[(1)]). The rate of 1.25% is part of the terms of the MD Property Master Lease Agreement for computation of MD Property's variable rent as set out in paragraph 2.7.5 above.

Step 2

The variable rent payable for MD Property for the fifth year of lease is computed as follows:

$$\text{S\$160,714}^{(1)} \times \frac{\text{S\$8,739,429}^{(2),(4)}}{(\text{S\$8,739,429} + \text{S\$6,013,571})^{(3),(4)}} = \text{S\$95,204}^{(4)}$$

Notes:

(1) The total variable rent payable in respect of the Properties in the fifth year of lease.

(2) The aggregate rental (including base and variable rent) paid in relation to MD Property in the fourth year of lease.

(3) The aggregate of the rental (including base and variable rent) paid in relation to MD Property and SHMK in the fourth year of lease.

(4) Based on the fixed exchange rate of S$1.00: Rp. 7,000.

2.7.7 Assignment/Subletting

The Sponsor, as master lessee, may sublet the MD Property to sub-tenants, subject to such conditions as PT MAM may reasonably impose.

PT MAM's prior written consent is required for any assignment of the MD Property Master Lease by the Sponsor, except in the case of an assignment by the Sponsor to its subsidiary. In an assignment by the Sponsor to its subsidiary, PT MAM's consent is not required but such assignment shall be subject to a condition that in the event of default by the assignee, the lease will revert to the Sponsor as the lessee.

2.7.8 Maintenance and other Operating Expenses of the MD Property

The costs of maintenance and operating expenses in relation to the MD Property will be borne by the Sponsor, as the master lessee, as is the case with the properties in First REIT's Existing Portfolio. Accordingly, First REIT will not be affected by any cost escalation in Indonesia of maintenance and operating expenses in relation to the MD Property.

2.7.9 Conditions Precedent

Completion of the MD Property Master Lease Agreement is conditional upon the fulfilment or waiver (as the case may be) of, among others, the following:

(i) the approval by Unitholders to be given at the EGM for the MD Property Acquisition and the MD Property Master Lease;

(ii) the approval by Unitholders to be given at the EGM for the SHMK Acquisition and the SHMK Master Lease;

(iii) First REIT securing sufficient financing to undertake the Acquisitions and the agreements for such financing not having been terminated and being unconditional in all respects; and

[22] Rp. 90,000,000,000 is the aggregate gross operating revenue surplus of the Properties for FY2015 over that of FY2014.

(iv) there being no adverse change to the financial condition of the Sponsor (as the MD Property master lessee) or its ability to make payment to First REIT under the MD Property Master Lease Agreement.

The conditions precedent set out at sub-paragraphs 2.7.9(i) and 2.7.9(ii) are subject to the approval of the independent Unitholders at the EGM. On the securing of financing, please see paragraph 2.10 below. The condition precedent set out at sub-paragraph 2.7.9(iv) is subject to there being no adverse change to the financial condition of the Sponsor (as the MD Property master lessee) or its ability to make payment to First REIT under the MD Property Master Lease Agreement – this is intended for the benefit and protection of First REIT and its independent Unitholders.

2.7.10 Audit Committee's opinion on the MD Property Base Rent for the first year of the MD Property Master Lease

The size, location and age of Siloam Hospitals Lippo Village, the Imperial Aryaduta Hotel & Country Club and Siloam Hospitals Surabaya are set out in the table below:

Property	Location	GFA (sqm)	Age of Property (years)
Siloam Hospitals Lippo Village	Lippo Karawaci Township	27,284.00	17.5
Imperial Aryaduta Hotel & Country Club	Lippo Karawaci Township	17,427.00	18.5
Siloam Hospitals Surabaya	Surabaya City	9,227.00	35.5

The table below sets out the current yields of Siloam Hospitals Lippo Village, Imperial Aryaduta Hotel & Country Club, Siloam Hospitals Surabaya and MD Property:

Property	Current Yield (% p.a.)
Siloam Hospitals Lippo Village	9.0%
Imperial Aryaduta Hotel & Country Club	10.7%
Siloam Hospitals Surabaya	10.0%
MD Property	10.0%

Based on the current yields as shown in the table above, the Manager is of the opinion that the MD Property's rental yield is comparable to that of the other properties, and the rental rate is therefore reasonable. Furthermore, rental yields vary from asset to asset depending on the inherent characteristics of the assets.

The Audit Committee is of the opinion that it is reasonable to benchmark the rental rates of the MD Property to those of Siloam Hospitals Lippo Village, Siloam Hospitals Surabaya and Imperial Aryaduta Hotel & Country Club for the following reasons:

(i) each of Siloam Hospitals Manado, Siloam Hospitals Lippo Village and Siloam Hospitals Surabaya are primary, secondary and tertiary-care hospitals which are providing advanced and high-quality medical care and facilities;

(ii) each of Siloam Hospitals Manado, Siloam Hospitals Lippo Village and Siloam Hospitals Surabaya serve the middle to upper middle-income patient brackets within the catchment areas of Manado City, Lippo Karawaci Township and Surabaya City respectively; and

(iii) while Hotel Aryaduta Manado is located in the same building as Siloam Hospitals Manado, Imperial Aryaduta Hotel & Country Club is located near Siloam Hospitals Lippo Village, and hence both provide accommodation for out-of-town inpatients, outpatients and day-surgery patients, as well as their families, for the respective hospitals.

In view of the above reasons and Siloam Hospitals Lippo Village, Imperial Aryaduta Hotel & Country Club's and Siloam Hospitals Surabaya's current rental of S$3.91, S$1.68 and S$2.59 per sq ft per month respectively, the Audit Committee is also of the opinion that the MD Property's rental rate of S$1.80 per sq ft per month for the first year of the MD Property Master Lease under the MD Property Master Lease Agreement is reasonable.

2.7.11 Indonesian Currency Law

On 28 June 2011, the Government of the Republic of Indonesia issued Law No. 7 of 2011 on Currency (*Mata Uang*) ("**Law No. 7/2011**"), which provides that the Indonesian rupiah currency shall be used in every payment transaction, fulfilment of other money obligations and/or other financial transactions within the territory of the Republic of Indonesia, except in cases involving certain transactions for the implementation of the state budget, grants to or from other countries, international trade transactions, foreign currency bank deposits and international financing transactions.

In addition, it is provided that a person is prohibited from refusing to receive Indonesian rupiah for payment or fulfilment of an obligation to be fulfilled in rupiah and/or for other financial transactions within the territory of the Republic of Indonesia, unless there is doubt as to the authenticity of the Indonesian rupiah and that the above is exempted for foreign currency payments or fulfilment of obligations which have been agreed in writing. [23]

The implementing regulation for Law No. 7/2011 is to be issued within 1 (one) year from its effective date of 28 June 2011 but as of the Latest Practicable Date has yet to be issued, other than the enactment of Bank of Indonesia Regulation No. 14/7/PBI/2012 concerning the management of Rupiah currency by Bank of Indonesia. Since Law No. 7/2011 is new and untested, there is uncertainty as to how this law will be interpreted or applied in relation to the MD Property Master Lease Agreement.

In any case, it is provided in the MD Property Master Lease Agreement that if as a result of any enactment of a new law, the MD Property Total Rent is required to be paid in Indonesian Rupiah, the MD Property master lessee shall:

(i) with effect from the date that such requirement comes into effect, pay the MD Property Total Rent in Indonesian Rupiah in such amount equivalent to the MD Property Total Rent in Singapore Dollars at the prevailing conversion rate of the Bank of Indonesia; and

(ii) bear any hedging and other costs of the MD Property master lessor in order to ensure that the MD Property Total Rent is not less than the amount that the MD Property master lessor would have received had the MD Property Total Rent been paid by the MD Property master lessee in Singapore Dollars.

2.8 Completion

Completion of the sale and purchase of the MD Property under the MD Property SPA is expected to take place as soon as practicable after raising adequate proceeds for the Acquisitions and after the conditions precedent set out in the MD Property SPA have been fulfilled.

[23] Article 23 of Law No. 7/2011.

2.9 Costs of the MD Property Acquisition

The MD Property Acquisition Cost is currently estimated to be approximately S$85.8 million, comprising the following:

2.9.1 the MD Property Purchase Consideration of S$83.6 million;

2.9.2 the MD Property Acquisition Fee[24] of approximately S$836,000 payable to the Manager pursuant to Clause 14.2.1 of the Trust Deed which shall be payable in the form of the MD Property Acquisition Fee Units[25]; and

2.9.3 the estimated professional and other fees and expenses of approximately S$1.4 million[26] incurred by First REIT in connection with the MD Property Acquisition.

2.10 Method of Financing the MD Property Acquisition

The MD Property Acquisition Cost is expected to be financed by a combination of drawdown from First REIT's committed debt facility and proceeds from a private placement exercise which is proposed to be carried out by the Manager. The proportion of debt financing for the MD Property will be approximately 32.0%. The final decision regarding the proportion of debt and equity to be employed will be made at the appropriate time taking into account the relevant market conditions. Should the Manager be of the view that it would not be appropriate to carry out a private placement in the circumstances, the Manager intends to procure additional debt funding to fully finance the MD Property Acquisition Cost by debt. First REIT's current leverage is approximately 16.0%.

2.11 HGB Title

First REIT will, upon acquiring the MD Property, indirectly hold the MD Property through PT MAM under six HGB title certificates expiring on 18 May 2032. In Indonesia, a HGB title is the closest form of land title to the internationally recognised concept of 'leasehold' title. A holder of the HGB title has the right to erect, occupy and use buildings on the parcel of land and sell all or part of such parcel. This right is transferable and may be encumbered.

A HGB title is granted for a maximum initial term of 30 years. By application to the relevant local land office upon the expiration of this initial term, a HGB title may be extended for an additional term not exceeding 20 years. The application for an extension must be made no later than two years prior to the expiration of the initial term at the National Land Office. Upon the expiration of the extension, the land owner may apply for a renewal and a new HGB title may be granted on the same land to the same owner by fulfilling certain requirements. The application for the new HGB title should be made no later than two years prior to the expiration of the extension. The cost of extension is determined based on certain formulas as stipulated by the National Land Office. The National Land Office tends to grant an extension or renewal of HGB titles, subject to there being no changes in zoning policies by the government, abandonment of the land, destruction of land, egregious breaches of the conditions of the current HGB title by the owners of the land, and revocation of the HGB title due to public interest considerations.

The Manager had previously successfully renewed the HGB titles of Siloam Hospitals Surabaya. Siloam Hospitals Surabaya is held under HGB Certificate No. 325 / Gubeng, HGB Certificate No. 343 / Gubeng, HGB Certificate No. 340 / Gubeng, HGB Certificate No. 476 / Gubeng, HGB Certificate No. 494 / Gubeng, HGB Certificate No. 408 / Gubeng, HGB Certificate No. 410 / Gubeng, HGB Certificate No. 243K / Gubeng and HGB Certificate No. 264 / Gubeng. Two of these HGB titles, being HGB Certificate No. 243K / Gubeng and HGB Certificate No. 264 / Gubeng, expired on 1 February 2009 and 19 September 2010 respectively. The Manager had on 12 November 2008 and 20 November 2008 successfully renewed both HGB Certificate No. 243K / Gubeng and HGB Certificate No. 264 / Gubeng till 31 January 2029 and 18 September 2030 respectively.

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[24] Being 1.0% of the MD Property Purchase Consideration.

[25] As the MD Property Acquisition will constitute an Interested Party Transaction under the Property Funds Appendix, the MD Property Acquisition Fee payable to the Manager will be in the form of the MD Property Acquisition Fee Units, which shall not be sold within one year from the date of issuance, in accordance with Paragraph 5.6 of the Property Funds Appendix.

[26] It is expected that most of the professional and other fees and expenses in connection with the MD Property Acquisition will be incurred by First REIT even if the Manager does not proceed with the MD Property Acquisition.

The Manager had also successfully renewed three HGB title of Siloam Hospitals Lippo Village. Siloam Hospitals Lippo Village is held under HGB Certificate No. 9687 / Bencongan, HGB Certificate No. 4439 / Bencongan, HGB Certificate No. 9688 / Bencongan, HGB Certificate No. 6938 / Bencongan, HGB Certificate No. 3867 / Bencongan, HGB Certificate No. 10186 / Bencongan and HGB Certificate No. 10187 / Bencongan. Three of these HGB titles, being HGB Certificate No. 9687 / Bencongan, HGB Certificate No. 4439 / Bencongan and HGB Certificate No. 9688 / Bencongan expired on 25 December 2011, 26 July 2012 and 26 July 2012 respectively. The Manager had on 2 May 2011 successfully renewed HGB Certificate No. 9687 / Bencongan till 25 December 2031 and on 25 January 2012 successfully renewed HGB Certificate No. 4439 / Bencongan and HGB Certificate No. 9688 / Bencongan to 26 July 2032.

The Manager had also successfully renewed four HGB titles of Imperial Aryaduta Hotel & Country Club. Imperial Aryaduta Hotel & Country Club is held under HGB Certificate No. 9392 / Bencongan, HGB Certificate No. 9393 / Bencongan, HGB Certificate No. 10859 / Bencongan, HGB Certificate No. 14411 / Bencongan, HGB Certificate No. 9678 / Bencongan, HGB Certificate No. 9679 / Bencongan, HGB Certificate No. 9680 / Bencongan, HGB Certificate No. 9681 / Bencongan, HGB Certificate No. 9682 / Bencongan, HGB Certificate No. 9683 / Bencongan, HGB Certificate No. 10856 / Bencongan, HGB Certificate No. 10857 / Bencongan, HGB Certificate No. 00061 / Bencongan Indah, HGB Certificate No. 00062 / Bencongan Indah and HGB Certificate No. 00063 / Bencongan Indah. Four of these HGB titles, being HGB Certificate No. 9392 / Bencongan, HGB Certificate No. 9393 / Bencongan, HGB Certificate No. 10859 / Bencongan and HGB Certificate No. 14411 / Bencongan expired on 26 July 2012. The Manager had on 4 April 2012 successfully renewed HGB Certificate No. 9392 / Bencongan, HGB Certificate No. 9393 / Bencongan, HGB Certificate No. 10859 / Bencongan and HGB Certificate No. 14411 / Bencongan till 26 July 2032.

Pursuant to one of the Building Construction Licenses of the MD Property, the MD Property is located and constructed on six connected parcels of land represented by six HGB title certificates. This is similar to some of the Indonesia properties in First REIT's existing portfolio where a single property is constructed on parcels of land which are represented by more than one HGB title certificate:

Property	No. of HGB Title Certificates
Siloam Hospitals Lippo Village	7
Siloam Hospitals Kebon Jeruk	1
Siloam Hospitals Surabaya	9
Imperial Aryaduta Hotel & Country Club	15
Mochtar Riady Comprehensive Cancer Centre	1
Siloam Hospitals Lippo Cikarang	1

3. THE PROPOSED SHMK ACQUISITION

3.1 Description of SHMK

SHMK is located at Jalan Metro Tanjung Bunga Kav 3 – 5, Panambungan Sub District, Mariso District, Makassar City, South Sulawesi Province, Republic of Indonesia. SHMK, a new seven-storey hospital, commenced operations on 9 September 2012 with 100 beds and will target to reach maximum operational capacity of 416 beds in about four to six years' time. SHMK is located on the west side of Jalan Metro Tanjung Bunga and in Tanjung Bunga, an integrated township development with many facilities. Notable developments in the close vicinity of SHMK include Hotel Aryaduta Makassar, Tanjung Bunga Marketing Office, Celebes Convention Center, Trans Makassar Mall and Losari Beach. SHMK is a Centre of Excellence in trauma and cardiology.

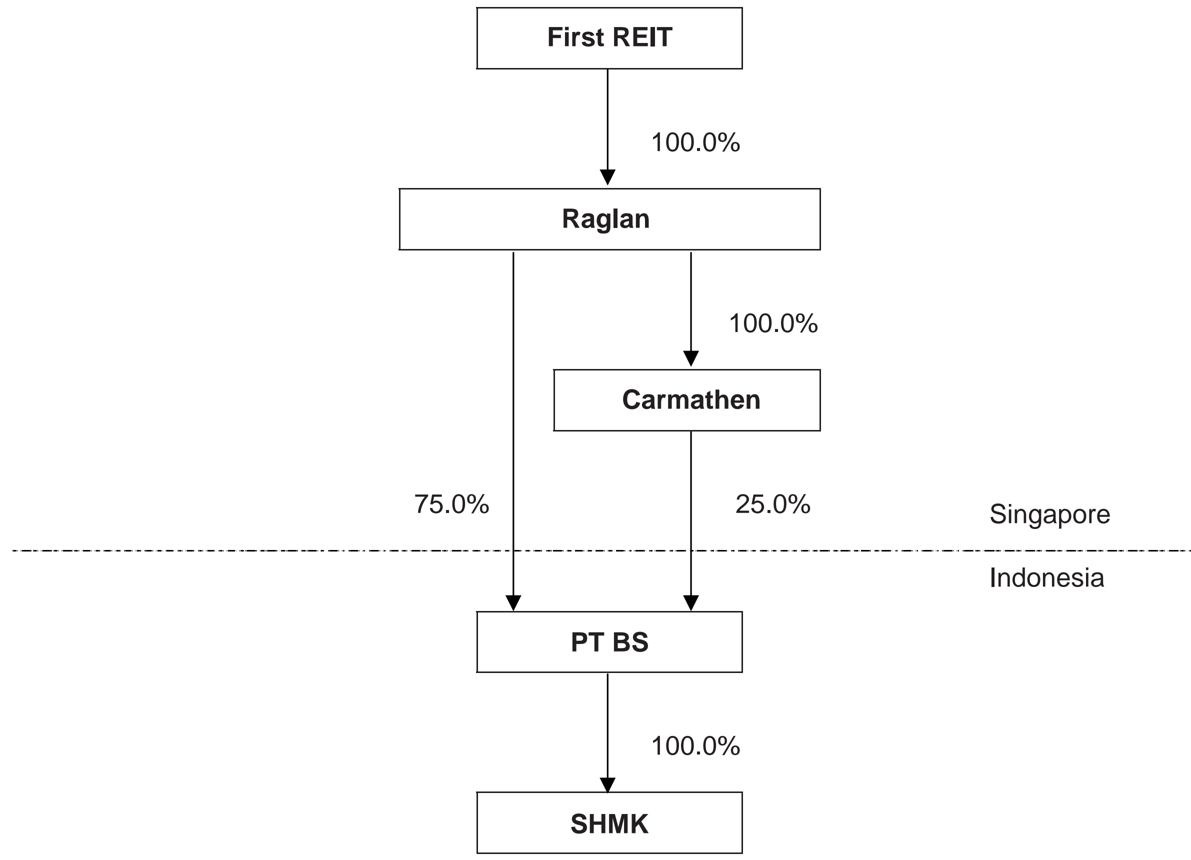
(**APPENDIX A** of this Circular provides further details about SHMK.)

3.2 Structure of the SHMK Acquisition

SHMK is entirely owned by PT SKS, an indirect wholly-owned indirect subsidiary of the Sponsor incorporated on 20 March 2006. First REIT will indirectly acquire SHMK from PT SKS through PT BS, which was incorporated on 5 August 2011. First REIT's wholly-owned subsidiary, Raglan, and Raglan's wholly-owned subsidiary, Carmathen, together respectively own 75.0% and 25.0% of the issued share capital of PT BS. Raglan was incorporated on 1 December 2011 and Carmathen was incorporated on 8 December 2011.

On 21 September 2012, PT BS entered into a conditional land sale and purchase agreement with PT SKS (the "**SHMK SPA**") pursuant to which PT BS proposes to acquire SHMK at the SHMK Purchase Consideration.

The following chart sets out the structure under which SHMK will be indirectly held by First REIT through PT BS upon completion of the SHMK Acquisition, as well as the resulting shareholding and ownership interest in the entities set out below.



3.3 Valuation and Purchase Consideration

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

(**APPENDIX B** provides further details on the Independent Valuers' respective valuations.)

Property	Appraised Value		Purchase Consideration
	By W&R as at 5 September 2012	By Rengganis as at 5 September 2012	
	(S$ million)	(S$ million)	(S$ million)
SHMK	66.8	64.7	59.3

The SHMK Purchase Consideration is below the two independent valuations obtained in relation to SHMK and represents a discount of 9.8% to S$65.8 million, which is the average of the two independent valuations of SHMK.

3.4 Experience and track record of the Independent Valuers

(Paragraph 2.4 above provides further details of the experience and track record of the Independent Valuers.)

3.5 Conditions precedent for the Completion of the SHMK Acquisition

Completion of the sale and purchase of SHMK under the SHMK SPA is conditional upon the fulfilment or waiver (as the case may be) of, among others, the following:

3.5.1 the approval by Unitholders to be given at the EGM for the MD Property Acquisition and the MD Property Master Lease;

3.5.2 the approval by Unitholders to be given at the EGM for the SHMK Acquisition and the SHMK Master Lease;

3.5.3 First REIT securing sufficient financing to undertake the Acquisitions and the agreements for such financing not having been terminated and being unconditional in all respects; and

3.5.4 there being no adverse change to the financial condition of the Sponsor (as SHMK master lessee) or its ability to make payment to First REIT under the SHMK Master Lease Agreement.

The conditions precedent set out at sub-paragraphs 3.5.1 and 3.5.2 above are subject to the approval of the independent Unitholders at the EGM. On the securing of financing, please see paragraph 3.10 below. The condition precedent set out at sub-paragraph 3.5.4 above is subject to there being no adverse change to the financial condition of the Sponsor (as the SHMK master lessee) or its ability to make payment to First REIT under the SHMK Master Lease Agreement – this is intended for the benefit and protection of First REIT and its independent Unitholders.

3.6 Indemnity in relation to the SHMK SPA

The Trustee has also entered into a deed of indemnity with the Sponsor pursuant to which the Sponsor will, subject to certain conditions, indemnify the Trustee against liabilities or damages suffered by the Trustee arising from the SHMK SPA.

"Certain conditions" include, among others, the conditions that:

(a) the maximum aggregate liability in respect of all claims under the deed of indemnity shall not exceed the purchase price;

(b) written particulars shall have been notified in writing to the indemnifying party before the expiry of a period of 48 months for taxation claims and 24 months for any other claims from the date of completion; and

(c) unless such claim has already been settled to the satisfaction of the Trustee, proceedings in respect of the claim shall have been commenced by being both issued and served within four months of the expiry of the period mentioned in sub-paragraph (b) above.

3.7 The SHMK Master Lease Agreement

In relation to the SHMK Acquisition, the SHMK Master Lease Agreement has been entered into between PT BS (as the SHMK master lessor) and the Sponsor (as the SHMK master lessee) on 21 September 2012 pursuant to which the SHMK Master Lease will be granted to the Sponsor for a lease term of 15 years, commencing from the date of completion of the SHMK SPA with an option to renew for a further term of 15 years.

3.7.1 Base Rent

The SHMK Master Lease is granted at an initial base rent of S$5,750,000 (the "**SHMK Base Rent**") per annum, an amount which was arrived at after the Manager had set a required initial yield which was then negotiated and agreed upon with the Sponsor on an arms' length basis. In the absence of direct hospital asset comparables, the Manager had used one of its existing properties, Siloam Hospitals Kebon Jeruk, for which the tenant is currently paying S$3.30 per sq ft per month as a comparison with SHMK and for which the tenant will be paying S$3.11 per sq ft per month based on the contracted base rent. The rate of S$3.11 per sq ft per month was arrived at based on commercial negotiations between willing parties. At this rental rate, First REIT will be able to achieve its required rate of return. This rental rate is also in line with the current rental of the closest of the comparable assets in First REIT's portfolio, namely Siloam Hospitals Kebon Jeruk. As the yield in relation to the annual SHMK Base Rent meets the Manager's commercial requirements and is in line with current market rates, the Manager is of the view that it is reasonable.

(Paragraph 3.7.10 below provides details of the opinion of the Audit Committee on the SHMK Base Rent for the first year of the SHMK Master Lease.)

The SHMK Base Rent is payable quarterly in advance and will be subject to increase every year after the initial period of three years from the commencement of the SHMK Master Lease, at a rate equal to twice the percentage increase of the Singapore CPI for the preceding calendar year, subject to a floor of 0.0% and a cap of 2.0%. Rental escalation in relation to SHMK is pegged to the Singapore CPI as the rental is payable in Singapore dollars, as is the case with the Existing Portfolio. In general, the capitalisation rates for Indonesia assets have been declining due to improvements in the macro-economics of Indonesia over the past 6 years. Therefore, the acquisition yields for both Properties are "tighter" in comparison with historical acquisitions which the Manager had made in the past for First REIT's Indonesia assets. The historical trends of the Singapore CPI (the average Singapore CPI was approximately 1.6% over the 15-year period between 1997 and 2011) provide assurance that the rental adjustments will be relatively stable compared with the Indonesia CPI. This is in line with First REIT's intent to offer stable distributions to investors. As SHMK's annual rental income is denominated in Singapore dollars, which has been agreed by the parties and stipulated in the SHMK Master Lease Agreement, there is no risk of exchange rate exposure vis-à-vis the Indonesian Rupiah. Accordingly, in Singapore dollar terms, there would be no real reduction in the rental rate when compared to the long run inflation rate in Singapore.

The Manager is also of the view that the cap of 2.0% is reasonable as it is consistent with the Existing Portfolio. For the avoidance of doubt, a negative Singapore CPI will not decrease the annual SHMK Base Rent.

3.7.2 Variable Rent

Variable rent is payable quarterly in advance and no variable rent will be payable in the first, second and third year of the SHMK Master Lease. No variable rent will be payable for the first three years of operations as this will enable the tenant to conserve its cashflow to step up and enhance its operations to an optimal level. Variable rent for the fourth year of the SHMK Master Lease is based on the audited gross operating revenue growth of SHMK and is calculated as described in paragraph 3.7.4. Thereafter, from the fifth year of the SHMK Master Lease Agreement onwards, variable rent is based on the gross operating revenue

growth of the Properties[27], and the ratio of the SHMK Total Rent[28] for the preceding year of the SHMK Master Lease will be applied to apportion the variable rent payable in a year (both as described in paragraphs 2.7.5 and 3.7.5[29]). The Manager also wishes to note that the SHMK Base Rent already forms the main bulk of the SHMK Total Rent which adequately achieves First REIT's required rate of return. The variable rent of SHMK constitutes a small proportion of the SHMK Total Rent and it should be regarded as an additional bonus element.

3.7.3 Fixed Exchange Rate

The SHMK 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 variable rent of SHMK will be paid according to the exchange rate of S$1.00 to Rp. 7,000 (which shall be fixed for the entire lease term).

3.7.4 Computation of Variable Rent for the Fourth Year of the SHMK Master Lease

No variable rent will be payable in the first, second and third year of the SHMK Master Lease. For the fourth year of the SHMK Master Lease, the variable rent payable is computed as follows:

- where the audited gross operating revenue for SHMK for the preceding financial year exceeds the audited gross operating revenue for the further preceding financial year by an amount that is 5.0% or more but less than 15.0%, the variable rent payable by the SHMK master lessee shall be equivalent to 0.75% of such excess amount;

- where the audited gross operating revenue for SHMK for the preceding financial year exceeds the audited gross operating revenue for the further preceding financial year by an amount that is 15.0% or more but less than 30.0%, the variable rent payable by SHMK master lessee shall be equivalent to 1.25% of such excess amount; and

- where the audited gross operating revenue for SHMK for the preceding financial year exceeds the audited gross operating revenue for the further preceding financial year by an amount of 30.0% or more, the variable rent payable by SHMK master lessee shall be equivalent to 2.00% of such excess amount.

For the avoidance of doubt, when the gross operating revenue of the preceding financial year of the lessee does not exceed the gross operating revenue of the further preceding financial year by 5.0% or more, no variable rent is payable.

3.7.5 Computation of Variable Rent from and including the Fifth Year of SHMK Master Lease

From and including the fifth year of the SHMK Master Lease, the variable rent payable is computed as follows:

$$\text{Variable rent payable under the SHMK Master Lease} = VR \times \frac{Y}{Z}$$

Where:

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27 The gross operating revenue growth of the MD Property is included in the computation of the variable rent of SHMK and vice versa to ensure that the variable rent of each of MD Property and SHMK remain stable should the rental any one of them experience low growth for any reason. Such method of computation for purposes of stabilisation of variable rent is similar to the computation of variable rent for the Existing Portfolio. The rationale for inclusion only in the fifth year is to allow for the stabilisation of SHMK's operations as SHMK only commenced operations on 9 September 2012.

28 "**SHMK Total Rent**" refers to the sum of the SHMK Base Rent and SHMK's variable rent.

29 As computation of the variable rent of SHMK will be based on the aggregate gross operating revenue growth of the Properties, the ratio of the SHMK Total Rent paid in the preceding year is employed in order to obtain a fair apportionment of variable rent that the Sponsor is required to pay for SHMK. Based on this method of computation, an aggregate amount of the variable rent in relation to the Properties will be arrived at. Accordingly, apportionment is necessary to determine the variable rent payable for SHMK.

VR is the variable rent payable for the Properties;

Y is SHMK Total Rent in the preceding year of the SHMK Master Lease; and

Z is the aggregate of the MD Property Total Rent in the preceding year of the MD Property Master Lease and the SHMK Total Rent in the preceding year of the SHMK Master Lease.

3.7.6 Illustration of Computation of Variable Rent

(i) **Assumptions**

The following is an illustration of the computation of the variable rent in relation to SHMK for the fourth and fifth year of lease based on the assumptions that:

in relation to the fourth year of lease

(a) the SHMK Master Lease commenced on 1 January 2012;

(b) the fourth year of lease will commence on 1 January 2015;

(c) SHMK 's gross operating revenue is Rp. 98,000,000,000 for FY2013;

(d) SHMK's gross operating revenue for FY2014 is Rp. 150,000,000,000; and

(e) further to paragraphs 3.7.6(i)(c) and (d) above, SHMK's gross operating revenue growth for FY2014 over that of FY2013 is 53.1% and the surplus of SHMK's gross operating revenue for FY2014 over that of FY2013 is Rp. 52,000,000,000;

in relation to the fifth year of lease

(f) the fifth year of lease will commence on 1 January 2016;

(g) the aggregate rental (including base and variable rent) paid in relation to the MD Property in the fourth year of lease is S$8,739,429[30];

(h) the aggregate rental (including base and variable rent) paid in relation to SHMK in the fourth year of lease is S$6,013,57[31];

(i) the MD Property's gross operating revenue for FY2014 and FY2015 are Rp. 200,000,000,000 and Rp. 250,000,000,000 respectively;

(j) SHMK's gross operating revenue for FY2014 and FY2015 are Rp. 150,000,000,000 and Rp. 190,000,000,000 respectively;

(k) further to paragraphs 3.7.6(i)(i) and (j) above, the aggregate gross operating revenue for the Properties for FY2014 and FY2015 are Rp. 350,000,000,000 and Rp. 440,000,000,000 respectively; and

(l) further to paragraph 3.7.6(i)(k) above, the Properties' gross operating revenue growth for FY2015 over that of FY2014 is approximately 25.7% and the surplus of the Properties gross operating revenue for FY2015 over that of FY2014 is Rp. 90,000,000,000.

(ii) **Variable rent for the fourth year**

Based on the assumptions set out in paragraph 3.7.6(i) above, the variable rent in respect of the SHMK for the fourth year of lease will be 2.00% x Rp. 52,000,000,000 (i.e. Rp. 1,040,000,000 or approximately S$148,571[32]). The rate of 2.00% is derived from the terms of the SHMK Master Lease Agreement for computation of SHMK's variable rent as set out in paragraph 3.7.4 above.

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30 Based on the fixed exchange rate of S$1.00: Rp. 7,000.

31 Based on the fixed exchange rate of S$1.00: Rp. 7,000.

32 Based on the fixed exchange rate of S$1.00: Rp. 7,000.

(iii) **Variable rent for the fifth year**

Step 1

Based on the assumptions set out in paragraph 3.7.6(i) above, the variable rent in respect of the Properties for the fifth year of lease will be 1.25% x Rp. 90,000,000,000[33] (i.e. Rp. 1,125,000,000 or approximately S$160,714[(1)]). The rate of 1.25% is part of the terms of the SHMK Master Lease Agreement for computation of SHMK's variable rent as set out in paragraph 3.7.5 above.

Step 2

The variable rent payable for SHMK for the fifth year of lease is computed as follows:

$$\text{S\$160,714}^{(1)} \times \frac{\text{S\$6,013,571}^{(2),(4)}}{(\text{S\$8,739,429} + \text{S\$6,013,571})^{(3),(4)}} = \text{S\$65,510}^{(4)}$$

Notes:

(1) The total variable rent payable in respect of the Properties in the fifth year of lease.

(2) The aggregate rental (including base and variable rent) paid in relation to SHMK in the fourth year of lease.

(3) The aggregate of the rental (including base and variable rent) paid in relation to MD Property and SHMK in the fourth year of lease.

(4) Based on the fixed exchange rate of S$1.00: Rp. 7,000.

3.7.7 Assignment/Subletting

The Sponsor, as master lessee, may sublet SHMK to sub-tenants, subject to such conditions as PT BS may reasonably impose.

PT BS's prior written consent is required for any assignment of the SHMK Master Lease by the Sponsor, except in the case of an assignment by the Sponsor to its subsidiary. In an assignment by the Sponsor to its subsidiary, PT BS's consent is not required but such assignment shall be subject to a condition that in the event of default by the assignee, the lease will revert to the Sponsor as the lessee.

3.7.8 Maintenance and other Operating Expenses of SHMK

The costs of maintenance and operating expenses in relation to SHMK will be borne by the Sponsor, as the master lessee, as is the case with the properties in First REIT's Existing Portfolio. Accordingly, First REIT will not be affected by any cost escalation in Indonesia of maintenance and operating expenses in relation to SHMK.

3.7.9 Conditions Precedent

Completion of the SHMK Master Lease Agreement is conditional upon the fulfilment or waiver (as the case may be) of, among others, the following:

(i) the approval by Unitholders given at the EGM for the SHMK Acquisition;

(ii) the approval by Unitholders given at the EGM for the MD Property Acquisition;

(iii) First REIT securing sufficient financing to undertake the SHMK Acquisition and the agreements for such financing not having been terminated and being unconditional in all respects; and

(iv) there being no adverse change to the financial condition of the Sponsor (as the SHMK master lessee) or its ability to make payment to First REIT under the SHMK Master Lease Agreement.

[33] Rp. 90,000,000,000 is the aggregate gross operating revenue surplus of the Properties for FY2015 over that of FY2014.

The conditions precedent set out at sub-paragraphs 3.7.9(i) and 3.7.9(ii) are subject to the approval of the independent Unitholders at the EGM. On the securing of financing, please see paragraph 3.10 below. The condition precedent set out at sub-paragraph 3.7.9(iv) is subject to there being no adverse change to the financial condition of the Sponsor (as the SHMK master lessee) or its ability to make payment to First REIT under the SHMK Master Lease Agreement – this is intended for the benefit and protection of First REIT and its independent Unitholders.

3.7.10 Audit Committee's opinion on the SHMK Base Rent for the first year of the SHMK Master Lease

The current yield of SHMK in comparison with the Indonesia portfolio is as follows:-

Property	Current Yield (%p.a.)
Siloam Hospitals Lippo Village	9.0%
Siloam Hospitals Kebon Jeruk	9.1%
Siloam Hospitals Surabaya	10.0%
Imperial Aryaduta Hotel & Country Club	10.7%
Mochtar Riady Comprehensive Cancer Centre	8.7%
Siloam Hospitals Lippo Cikarang	9.5%
SHMK	9.7%

The Audit Committee is of the opinion that it is reasonable to benchmark the rental rates of SHMK to those of Siloam Hospitals Kebon Jeruk for the following reasons:

(i) both SHMK and Siloam Hospitals Kebon Jeruk are primary, secondary and tertiary-care hospitals which are providing advanced and high-quality medical care and facilities; and

(ii) each of SHMK and Siloam Hospitals Kebon Jeruk serve the middle to upper middle-income patient brackets within the catchment areas of Makassar City and West Jakarta respectively.

In view of the above reasons and Siloam Hospitals Kebon Jeruk's current rental of S$3.30 per sq ft per month, the Audit Committee is also of the opinion that SHMK's rental rate of S$3.11 per sq ft per month for the first year of the SHMK Master Lease under the SHMK Master Lease Agreement is reasonable.

3.7.11 Indonesian Currency Law

The implementing regulation for Law No. 7/2011 is to be issued within 1 (one) year from its effective date of 28 June 2011 but as of the Latest Practicable Date has yet to be issued, other than the enactment of Bank of Indonesia Regulation No. 14/7/PBI/2012 concerning the management of Rupiah currency by Bank of Indonesia. Since Law No. 7/2011 is new and untested, there is uncertainty as to how this law will be interpreted or applied in relation to the SHMK Master Lease Agreement.

(Paragraph 2.7.11 above provides further details relating to the Indonesian currency law.)

In any case, it is provided in the SHMK Master Lease Agreement that if as a result of any enactment of a new law, the SHMK Total Rent is required to be paid in Indonesian Rupiah, the SHMK master lessee shall:

(i) with effect from the date that such requirement comes into effect, pay the SHMK Total Rent in Indonesian Rupiah in such amount equivalent to the SHMK Total Rent in Singapore Dollars at the prevailing conversion rate of the Bank of Indonesia; and

(ii) bear any hedging and other costs of the SHMK master lessor in order to ensure that the SHMK Total Rent is not less than the amount that the SHMK master lessor would have received had the SHMK Total Rent been paid by the SHMK master lessee in Singapore Dollars.

3.8 Completion

Completion of the sale and purchase of SHMK under the SHMK SPA is expected to take place as soon as practicable after raising adequate proceeds for the Acquisitions and after the conditions precedent set out in the SHMK SPA have been fulfilled.

3.9 Costs of the SHMK Acquisition

The SHMK Acquisition Cost is currently estimated to be approximately S$60.9 million, comprising the following:

3.9.1 the SHMK Purchase Consideration of S$59.3 million;

3.9.2 the SHMK Acquisition Fee[34] of approximately S$593,000 payable to the Manager pursuant to Clause 14.2.1 of the Trust Deed which shall be payable in the form of the SHMK Acquisition Fee Units[35]; and

3.9.3 the estimated professional and other fees and expenses of approximately S$1.0 million[36] incurred by First REIT in connection with the SHMK Acquisition.

3.10 Method of Financing the SHMK Acquisition

The SHMK Acquisition Cost is expected to be financed fully by a drawdown from First REIT's committed debt facility.

3.11 HGB Title

First REIT will, upon acquiring SHMK, indirectly hold SHMK through PT BS under a HGB title which will expire on 22 December 2031[37].

(Paragraph 2.11 above provides further details relating to HGB titles.)

4. REQUIREMENT FOR UNITHOLDERS' APPROVAL

4.1 Interested Person Transaction and Interested Party Transaction

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

Based on the FY2011 Audited Consolidated Financial Statements, the NTA of First REIT was S$505.3 million as at 31 December 2011. Accordingly, if the value of a transaction which is proposed to be entered into in the current financial year by First REIT with an Interested Person is, either in itself or in aggregate with all other earlier transactions (each of a value equal to or

[34] Being 1.0% of the SHMK Purchase Consideration.

[35] As the SHMK Acquisition will constitute an Interested Party Transaction under the Property Funds Appendix, the SHMK Acquisition Fee payable to the Manager will be in the form of the SHMK Acquisition Fee Units, which shall not be sold within one year from the date of issuance, in accordance with Paragraph 5.6 of the Property Funds Appendix.

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

[37] The HGB titles in respect of the MD Property and SHMK were granted by the National Land Office at different times. In addition, the National Land Office has the discretion to determine the tenure of the HGB titles to be granted subject to the relevant maximum limit. For the above reasons, the tenure of the HGB titles for the MD Property and SHMK are not the same. A HGB title is granted for a maximum initial term of 30 years. By application to the relevant local land office upon the expiration of this initial term, a HGB title may be extended for an additional term not exceeding 20 years. The Manager understands from its experience that this is the standard industry practice for properties in Indonesia like the MD Property and SHMK.

greater than S$100,000) entered into with the same Interested Person during the current financial year, equal to or in excess of S$25.3 million, such a transaction would be subject to Unitholders' approval.

Paragraph 5 of the Property Funds Appendix also imposes a requirement for Unitholders' approval for an Interested Party Transaction by First REIT which value exceeds 5.0% of First REIT's latest audited NAV. Based on the FY2011 Audited Consolidated Financial Statements, the NAV of First REIT was S$505.3 million as at 31 December 2011. Accordingly, if the value of a transaction which is proposed to be entered into by First REIT with an Interested Party is equal to or greater than S$25.3 million, such a transaction would be subject to Unitholders' approval.

4.1.1 The MD Property Acquisition

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) 29.7% in First REIT and (ii) 80.0% in the Manager, and is therefore regarded as a "Controlling Unitholder" of First REIT and a "Controlling Shareholder" of the Manager respectively under both the Listing Manual and the Property Funds Appendix.

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

Given the MD Property Purchase Consideration of S$83.6 million (which is 16.5% of the NTA and NAV respectively of First REIT as at 31 December 2011), the value of the MD Property Acquisition will in aggregate exceed (i) 5.0% of First REIT's latest audited NTA and (ii) 5.0% of First REIT's latest audited NAV. As such, the MD Property Acquisition will constitute an Interested Person Transaction under Chapter 9 of the Listing Manual and an Interested Party Transaction under paragraph 5 of the Property Funds Appendix.

In compliance with the requirements of the Listing Manual and the Property Funds Appendix, the Manager is therefore seeking Unitholders' approval for the MD Property Acquisition.

The value of the MD Property Master Lease is approximately S$8.4 million for the first year of the MD Property Master Lease, which represents approximately 1.7% of First REIT's latest audited NTA. As the MD Property Master Lease will constitute an Interested Person Transaction under Chapter 9 of the Listing Manual for which Unitholders' approval is required, the approval of Unitholders is sought for the MD Property Master Lease.

UNITHOLDERS SHOULD NOTE THAT BY APPROVING THE MD PROPERTY ACQUISITION, THEY ARE ALSO DEEMED TO HAVE APPROVED THE MD PROPERTY MASTER LEASE.

4.1.2 The SHMK Acquisition

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) 29.7% in First REIT and (ii) 80.0% in the Manager, and is therefore regarded as a "Controlling Unitholder" of First REIT and a "Controlling Shareholder" of the Manager respectively under both the Listing Manual and the Property Funds Appendix.

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

Given the SHMK Purchase Consideration of S$59.3 million (which is 11.7% of the NTA and NAV respectively of First REIT as at 31 December 2011), the value of the SHMK Acquisition will in aggregate exceed (i) 5.0% of First REIT's latest audited NTA and (ii)

5.0% of First REIT's latest audited NAV. As such, the SHMK Acquisition will constitute an Interested Person Transaction under Chapter 9 of the Listing Manual and an Interested Party Transaction under paragraph 5 of the Property Funds Appendix.

In compliance with the requirements of the Listing Manual and the Property Funds Appendix, the Manager is therefore seeking Unitholders' approval for the SHMK Acquisition.

The value of the SHMK Master Lease is approximately S$5.75 million for the first year of the SHMK Master Lease, which represents approximately 1.1% of First REIT's latest audited NTA. As the SHMK Master Lease will constitute an Interested Person Transaction under Chapter 9 of the Listing Manual for which Unitholders' approval is required, the approval of Unitholders is sought for the SHMK Master Lease.

UNITHOLDERS SHOULD NOTE THAT BY APPROVING THE SHMK ACQUISITION, THEY ARE ALSO DEEMED TO HAVE APPROVED THE SHMK MASTER LEASE.

4.2 Existing Interested Person Transactions

First REIT has not entered into any Interested Person Transaction, including leases, with the Sponsor and/or any associate of the Sponsor in the current financial year. The management fees paid during the current financial year are set out in the Trust Deed, which has been approved as an "exempted agreement" pursuant to the initial public offering of units in First REIT.

4.3 Fees Payable to the Manager

As the Acquisitions will constitute Interested Party Transactions under the Property Funds Appendix, the MD Property Acquisition Fee and the SHMK Acquisition Fee shall be payable to the Manager in the form of the MD Property Acquisition Fee Units and the SHMK Acquisition Fee Units respectively. The MD Property Acquisition Fee Units and the SHMK Acquisition Fee Units shall not be sold within one year from their date of issuance, in accordance with paragraph 5.6 of the Property Funds Appendix which applies to Interested Party Transactions. 802,457[38] MD Property Acquisition Fee Units and 569,207[39] SHMK Acquisition Fee Units are expected to be issued to the Manager for the Acquisitions.

After completion of the MD Property Acquisition and the SHMK Acquisition, the Manager will also be entitled under the Trust Deed to receive from First REIT, management fees attributable to the Properties comprising a base fee of 0.4% per annum of the value of the Properties and a performance fee of 5.0% per annum of the Net Property Income[40] of the Properties. The Manager will be entitled to the management fees attributable to the Properties in the future for so long as the Properties continue to form part of the investment portfolio of First REIT.

4.4 Approval by Unitholders

In approving the Acquisitions, Unitholders are deemed to have approved all documents which are required to be executed by the parties in order to give effect to the Acquisitions, including the MD Property Master Lease and the SHMK Master Lease. These agreements are therefore not subject to Rules 905 and 906 of the Listing Manual (which require First REIT to make an announcement or obtain the approval of Unitholders depending on the materiality of the Interested Person Transactions) insofar as there are no subsequent changes to the rental, rates and/or basis of the fees charged thereunder which will adversely affect First REIT. Future renewal or extension of the agreements will be subject to Rules 905 and 906 of the Listing Manual.

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[38] Assuming issue price of S$1.0418 per Unit being the weighted average traded price for the 10 Business Days before the Latest Practicable Date.

[39] Assuming issue price of S$1.0418 per Unit being the weighted average traded price for the 10 Business Days before the Latest Practicable Date.

[40] "**Net Property Income**" consists of contracted rent under the master lease agreements in relation to the Enlarged Portfolio which comprises base rent and variable rent (where applicable) less property expenses.

4.5 Interests of Directors and Substantial Unitholders[41]

Interests of the Directors of the Manager

As at the Latest Practicable Date, the details of the unitholdings of the Directors are as follows:

Name of Directors	Direct Interest		Deemed Interest		Total no. of Units held	%(1)
	No. of Units	%(1)	No. of Units	%(1)		
Mr Albert Saychuan Cheok	530,000	0.0839	-	-	530,000	0.0839
Mr Goh Tiam Lock	-	-	-	-	-	-
Mr Wong Gang	-	-	-	-	-	-
Mr Ketut Budi Wijaya	-	-	-	-	-	-
Dr Ronnie Tan Keh Poo(2)	15,000	0.0024	2,985,800	0.4728	3,000,800	0.4752

Notes:

(1) Percentage interest is based on 631,528,484 Units in issue as at the Latest Practicable Date.

(2) Dr Ronnie Tan Keh Poo is deemed to be interested in (i) 2,315,050 Units held by his nominee, OCBC Nominees Singapore Pte. Ltd., (ii) 425,000 Units held by his nominee, CIMB Securities (Singapore) Pte. Ltd. and (iii) 50,000 Units held by UOB Kay Hian Private Limited and 195,750 Units held by DBS Nominees Pte. Ltd., both as the nominees of his spouse Mdm Law Deborah.

Save as disclosed above and based on information available to the Manager, none of the directors has an interest, direct or indirect, in the MD Property Acquisition or the SHMK Acquisition.

Interests of the Substantial Unitholders

As at the Latest Practicable Date, the details of the unitholdings of the Substantial Unitholders are as follows:

Name of Substantial Unitholders	Direct Interest		Deemed Interest		Total no. of Units held	%(1)
	No. of Units	%(1)	No. of Units	%(1)		
Bridgewater International Ltd	123,750,000	19.6	-	-	123,750,000	19.6
PT Menara Tirta Indah	43,000,000	6.8	-	-	43,000,000	6.8
PT Primakreasi Propertindo(2)	-	-	43,000,000	6.8	43,000,000	6.8
Lippo Karawaci Corporation Pte. Ltd.(3)	-	-	144,628,484	22.9	144,628,484	22.9
The Sponsor(4)	-	-	187,628,484	29.7	187,628,484	29.7

Notes:

(1) Percentage interest is based on 631,528,484 Units in issue as at the Latest Practicable Date.

(2) PT Primakreasi Propertindo is deemed to be interested in 43,000,000 Units held by its wholly-owned subsidiary, PT Menara Tirta Indah.

(3) Lippo Karawaci Corporation Pte. Ltd. is deemed to be interested in (i) 123,750,000 Units held by its wholly-owned subsidiary, Bridgewater International Ltd; and (ii) 20,878,484 Units held by Bowsprit Capital Corporation Limited.

(4) The Sponsor is deemed to be interested in (i) 123,750,000 Units held by its indirect wholly-owned subsidiary, Bridgewater International Ltd; (ii) 43,000,000 Units held by its indirect wholly-owned subsidiary, PT Menara Tirta Indah; and (iii) 20,878,484 Units held by Bowsprit Capital Corporation Limited.

As at the Latest Practicable Date, the Sponsor, through its indirect wholly-owned subsidiaries Bridgewater International Ltd and PT Menara Tirta Indah and through its 80.0% interest in the Manager, holds an aggregate indirect interest of 29.7% in First REIT and is deemed to be a Controlling Unitholder of First REIT.

41 "**Substantial Unitholders**" refers to Unitholders with an interest in more than 5.0% of all Units in issue.

4.6 Directors' Service Contracts

No person is proposed to be appointed as a Director in relation to the MD Property Acquisition and the SHMK Acquisition or any other transactions contemplated in relation to the MD Property Acquisition and the SHMK Acquisition.

4.7 Major Transactions – Chapter 10 of the Listing Manual

4.7.1 Chapter 10 of the Listing Manual governs the acquisition or disposal of assets, including options to acquire or dispose of assets, by First REIT. Such transactions are classified into the following categories:

(i) non-discloseable transactions;

(ii) discloseable transactions;

(iii) major transactions; and

(iv) very substantial acquisitions or reverse takeovers.

4.7.2 A proposed acquisition by First REIT may fall into any of the categories set out in sub-paragraph 4.7.1 above depending on the size of the relative figures computed on the following bases of comparison:

(i) the net profits attributable to the assets acquired, compared with First REIT's net profits; and

(ii) the aggregate value of the consideration given, compared with First REIT's market capitalisation.

Where any of the relative figures computed on the bases set out above is 20.0% or more, the transaction is classified as a "major transaction" under Rule 1014 of the Listing Manual which would be subject to the approval of Unitholders, unless such transaction is in the ordinary course of First REIT's business.

While the relative figures in relation to both the MD Property Acquisition and the SHMK Acquisition computed on the bases set out in paragraph 4.7.2 above exceed 20.0%, both the MD Property Acquisition and the SHMK Acquisition are not major transactions under Chapter 10 of the Listing Manual as they are within First REIT's ordinary course of business.

4.7.3 However, for purposes of illustration to Unitholders, the relative figures for the Acquisitions using the applicable bases of comparison described in sub-paragraphs 4.7.2(i) and 4.7.2(ii) are set out in the table below.

Comparison of:	The Properties	First REIT	Relative Figure
Net property income(1)	MD Property: S$8.4 million SHMK: S$5.7 million Total net property income of the Properties: S$14.1 million(2)	S$53.4 million(3)	15.7% 10.7% 26.4%
Purchase consideration against First REIT's market capitalisation	MD Property: S$83.6 million SHMK: S$59.3 million Total purchase consideration of the Properties: S$142.9 million(4)	First REIT's market capitalisation: S$669.4 million(5)(6)	12.5% 8.8% 21.3%

Notes:

(1) In the case of a real estate investment trust, the Net Property Income is a close proxy to the net profit attributable to its assets.

(2) Based on an assumed net rental of approximately S$14.1 million under the master leases of the Properties, less property expenses.

(3) Based on the FY2011 Audited Consolidated Financial Statements.

(4) Does not include transaction costs.

(5) Based on the Closing Price (as defined herein).

(6) Based on Units in issue as at the Latest Practicable Date.

5. RATIONALE FOR THE ACQUISITIONS

The Manager believes that the Acquisitions will bring, among others, the following key benefits to Unitholders:

5.1 Acquisition of attractive and high quality properties in Manado City and Makassar City, Indonesia, at prices below valuation

The Acquisitions represent an opportunity for First REIT to acquire two hospitals and a hotel, which are attractive, high quality and of international standards, in prime locations in Indonesia.

Both Siloam Hospitals Manado and Hotel Aryaduta Manado are well-positioned for the middle to upper middle-income segment of the healthcare and hospitality market. SHMK is also well-positioned in a growing residential and commercial area in Makassar City.

Additionally, the Properties will be acquired at prices below their independent valuations. The MD Property will be acquired at a discount of 10.8% to the average of the independent valuations by W&R and Rengganis and SHMK will be acquired at a discount of 9.8% to the average of the independent valuations by W&R and Rengganis.

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

The MD Property Master Lease and the SHMK Master Lease will be beneficial to First REIT as the Properties are expected to provide stability to First REIT's Gross Rental Income[42] over the next 15 to 30 years. The step-up feature of the base and variable rental components under the MD Property Master Lease Agreement and the SHMK Master Lease Agreement would also provide locked-in organic growth in First REIT's cash flow. To ensure stability in First REIT's Gross Rental Income from the Properties, security deposits equivalent to six months of (i) the MD Property's annual rental payable (amounting to S$4,200,000) and (ii) SHMK's annual rental payable (amounting to S$2,875,000) will be made to First REIT in the form of bankers' guarantees. Such security deposit amounts will be adjusted at relevant rent review dates.

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

Currently, the master leases of the properties in the Existing Portfolio are between 10 to 15 years. With the Acquisitions, First REIT will benefit from the increase in the Enlarged Portfolio's weighted average lease to expiry based on secured Gross Rental Income with the MD Property and SHMK contributing 20.1% of First REIT's total Gross Rental Income under the MD Property Master Lease Agreement and the SHMK Master Lease Agreement. The weighted average lease to expiry of the Enlarged Portfolio will increase from approximately 10.8 years from that of the Existing Portfolio as at 30 June 2012 to approximately 11.7 years after the completion of the Acquisitions.

[42] "**Gross Rental Income**" means contracted rent under the master lease agreements in relation to the Enlarged Portfolio which comprises base rent and variable rent (where applicable).

5.3 Increased absolute size of First REIT's asset base which may raise the profile of First REIT among global investors and an increased portfolio size which is expected to enhance First REIT's competitive positioning and ability to pursue future acquisitions

First REIT's asset size will grow from S$618.9 million (as at 30 June 2012) to S$782.2 million after the completion of the Acquisitions. The value of First REIT's Deposited Property[43] is expected to increase by 25.6% from S$649.6 million as at 30 June 2012 to S$815.7 million after the completion of the Acquisitions and there will also be a 36.9% increase in the total GFA to 186,790 square metres ("**sq m**") after the completion of the Acquisitions from 136,432 sq m before the Acquisitions. The maximum number of hospital beds for the Indonesia properties will increase by 57.8% from 1,108 to 1,748, and the total number of hotel guest rooms for the Indonesia properties will increase by 101.5% from 197 to 397.

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

The MD Property Acquisition and the SHMK Acquisition are expected to benefit Unitholders by improving diversification of Gross Rental Income due to diversification in geographical location and asset class. With an enlarged asset base, the operator of the Properties will also enjoy greater operating synergies in the long term which would indirectly benefit First REIT through higher variable rent and potential capital appreciation.

(**APPENDIX A** provides further details in relation to the Properties as well as First REIT's Existing Portfolio.)

5.4 The Acquisitions would enable First REIT to grow through the acquisition of two hospitals, which enhances the diversification of First REIT's portfolio across locations and medical specialisations, and a hotel that *inter alia* provides for complementary services for Siloam Hospitals Manado

The Properties are located in Indonesia in which First REIT already operates and are an extension of First REIT's Existing Portfolio.

Both Siloam Hospitals Manado and Siloam Hospitals Makassar are equipped with comprehensive state-of-the-art equipment and the latest generation of smart IT-systems in Indonesia, and provide a broad range of quality general and specialist services, including therapeutic services and an extensive range of diagnostic and preventive healthcare services. Siloam Hospitals Manado is a Centre of Excellence in trauma, and Siloam Hospitals Makassar is a Centre of Excellence in cardiology and trauma. As Hotel Aryaduta Manado is located in the same building as Siloam Hospitals Manado, it will provide a full range of food and beverages catering to patients and accommodation for family members as well as to tourists visiting Manado.

As the MD Property is located on the east side of Jalan Piere Tendean and the west side of Jalan Sam Ratulangi, both of which are primary roads in Manado City, the MD property is highly accessible via public and private transportation. Additionally, Hotel Aryaduta Manado is attractive to travellers as it is surrounded by notable developments such as IT Center and Mega Mall Manado.

SHMK, located in Tanjung Bunga, an integrated township development consisting of residential and commercial developments, caters to the growing residential and commercial area in Makassar City.

The above qualities of the MD Property and SHMK are expected to enhance the diversification of First REIT's portfolio across locations and medical specialisations.

5.5 Increase in attractiveness of the Enlarged Portfolio given the reduction in the weighted average age of the properties in the Enlarged Portfolio comprising the MD Property and SHMK that are newly refurbished and built

As at 30 June 2012, the weighted average age of properties of the Enlarged Portfolio will decrease from 13.2 years to 9.9 years (or about 24.6%) from that of the Existing Portfolio.

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[43] "**Deposited Property**" refers to the gross assets of First REIT, including its properties and its Authorised Investments (as defined herein) for the time being held or deemed to be held upon the trusts under the Trust Deed.

6. PRO FORMA FINANCIAL INFORMATION

6.1 Pro Forma Financial Effects of the Acquisitions

The pro forma financial effects of the Acquisitions presented below are strictly for illustrative purposes only and were prepared based on:

(i) the FY2011 Audited Consolidated Financial Statements;

(ii) the 6M2012 Unaudited Financial Statements, and

assuming:

(a) the Properties will be acquired for an aggregate purchase consideration of S$146.7 million, including acquisition fees, professional and other fees and expenses;

(b) First REIT will, upon completion of the Acquisitions, revalue the Properties to the fair value of S$163.3 million, based on the valuation of the Properties by the Independent Valuers appointed by the Trustee[44] and the Manager[45];

(c) S$118.0 million from a new S$168.0 million 4-year multi-currency transferable term loan facility[46] to part finance the Acquisitions and will be repaid on maturity of the loan;

(d) borrowing upfront costs of S$1.5 million are amortised over term of loan;

(e) a private placement to raise approximately S$30.0 million at an issue price[47] of S$1.00 per new Unit under the private placement; and

(f) an issue price of S$1.0418 in relation to acquisition fees.

6.2 Financial Year ended 31 December 2011

Pro Forma DPU

The pro forma financial effects of the Acquisitions on the DPU for FY2011, as if First REIT had purchased the Properties on 1 January 2011, and held the Properties through to 31 December 2011, are as follows:

	FY2011	
	Before the Acquisitions(1)	**After the Acquisitions**
Distributable Income (S$'000)	43,934	49,071
Units in issue and to be issued	627,680,294	659,091,994
DPU (cents)	7.01	7.45
DPU (cents) (excludes other gain)(2)	6.33	6.77

Notes:

(1) Based on the FY2011 Audited Consolidated Financial Statements.

(2) Other gain is one-off gain on divestment of Adam Road property.

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44 The value of the MD Property based on the valuation report by Rengganis.

45 The value of SHMK based on the valuation report by W&R.

46 The S$168.0 million 4-year multi-currency transferable term loan facility was secured on 14 May 2012 from the Financial Adviser. Approximately S$50.0 million will be used to refinance First REIT's outstanding loan with the Financial Adviser, with the remaining S$118.0 million to be used to finance any future acquisitions.

47 The issue price is for illustrative purposes only. The actual issue price under any potential private placement will be dependent on market conditions.

Pro Forma NAV per Unit

The pro forma financial effects of the Acquisitions on the NAV per Unit as at 31 December 2011, as if First REIT had purchased the Properties on 31 December 2011, are as follows:

	As at 31 December 2011	
	Before the Acquisitions[1]	**After the Acquisitions**
NAV (S$'000)	505,299	553,734
Units in issue and to be issued	627,680,294	659,091,994
NAV per Unit (S$)	0.81	0.84

Note:

(1) Based on the FY2011 Audited Consolidated Financial Statements.

Pro Forma capitalisation

The following table sets forth the pro forma capitalisation of First REIT as at 31 December 2011, as if First REIT had purchased the Properties on 31 December 2011.

	As at 31 December 2011	
	Actual	**As adjusted for the Acquisitions**
	(S$'000)	(S$'000)
Short-term debt:		
Unsecured	-	-
Secured	48,430	48,430
Total short-term debt	48,430	48,430
Long-term debt:		
Unsecured	-	-
Secured	49,361	165,886
Total long-term debt	49,361	165,886
Total Debt	97,791	214,316
Unitholders funds	505,299	553,734
Total Capitalisation	**603,090**	**768,050**

6.3 Six Months ended 30 June 2012

Pro Forma DPU

The pro forma financial effects of the Acquisitions on the DPU for the six months ended 30 June 2012, as if First REIT had purchased the Properties on 1 January 2012, and held the Properties through to 30 June 2012, are as follows:

	For the six months ended 30 June 2012	
	Before the Acquisitions[1]	**After the Acquisitions**
Distributable Income (S$'000)	24,310	26,864
Units in issue and to be issued	630,266,798	661,638,498
DPU (cents)	3.86	4.06
DPU (cents) (excludes other gain)[2]	3.19	3.38

Notes:

(1) Based on the 6M2012 Unaudited Financial Statements.

(2) Other gain is one-off gain on divestment of Adam Road property.

Pro Forma NAV per Unit

The pro forma financial effects of the Acquisitions on the NAV per Unit as at 30 June 2012, as if First REIT had purchased the Properties on 30 June 2012, are as follows:

	As at 30 June 2012	
	Before the Acquisitions[1]	**After the Acquisitions**
NAV (S$'000)	501,115	546,968
Units in issue and to be issued	630,266,798	661,638,498
NAV per Unit (S$)	0.80	0.83

Note:

(1) Based on the 6M2012 Unaudited Financial Statements.

Pro Forma capitalisation

The following table sets forth the pro forma capitalisation of First REIT as at 30 June 2012, as if First REIT had purchased the Properties on 30 June 2012.

	As at 30 June 2012	
	Actual	**As adjusted for the Acquisitions**
	(S$'000)	(S$'000)
Short-term debt:		
Unsecured	-	-
Secured	48,329	48,329
Total short-term debt	48,329	48,329
Long-term debt:		
Unsecured	-	-
Secured	49,459	165,984
Total long-term debt	49,459	165,984
Total Debt	97,788	214,313
Unitholders funds	501,115	546,968
Total Capitalisation	**598,903**	**761,281**

6.4 Advice of the Independent Financial Adviser

6.4.1 The MD Property Acquisition

The Manager has appointed Stirling Coleman Capital Limited as the Independent Financial Adviser (the "**IFA**") to advise the independent Directors of the Manager (being Mr Albert Saychuan Cheok, Mr Goh Tiam Lock and Mr Wong Gang) (collectively, the "**Independent Directors**") and the Trustee as to whether the MD Property Acquisition and the MD Property Master Lease are (a) on normal commercial terms and (b) prejudicial to the interests of First REIT and the Unitholders.

Having considered the factors and made the assumptions set out in the letter from the IFA to the Independent Directors and the Trustee (the "**IFA Letter**"), and subject to the qualifications set out therein, the IFA is of the opinion that the MD Property Acquisition (including the MD Property Master Lease) is based on normal commercial terms and not prejudicial to the interests of First REIT and the Unitholders. Accordingly, the IFA is of the view that the Independent Directors should recommend that independent Unitholders vote in favour of the MD Property Acquisition (including the MD Property Master Lease).

A copy of the IFA Letter, containing its advice in full, is set out in **APPENDIX D** of this Circular.

6.4.2 The SHMK Acquisition

The Manager has appointed the IFA to advise the Independent Directors and the Trustee as to whether the SHMK Acquisition and the SHMK Master Lease are (a) on normal commercial terms and (b) prejudicial to the interests of First REIT and the Unitholders.

Having considered the factors and made the assumptions set out in the IFA Letter, and subject to the qualifications set out therein, the IFA is of the opinion that the SHMK Acquisition (including the SHMK Master Lease) is based on normal commercial terms and

not prejudicial to the interests of First REIT and the Unitholders. Accordingly, the IFA is of the view that the Independent Directors should recommend that independent Unitholders vote in favour of the SHMK Acquisition (including the SHMK Master Lease).

A copy of the IFA Letter, containing its advice in full, is set out in **APPENDIX D** of this Circular.

7. RECOMMENDATIONS

7.1 On the MD Property Acquisition

The Independent Directors and the Audit Committee have considered the relevant factors, including:

(i) the opinion of the IFA that the MD Property Acquisition (including the MD property Master Lease) is based on normal commercial terms and not prejudicial to the interests of First REIT and the Unitholders and that it is accordingly of the view that the Independent Directors should recommend that independent Unitholders vote in favour of the MD Property Acquisition (the IFA's opinion on the MD Property Acquisition and the MD Property Master Lease is set out in the IFA Letter in **Appendix D** of this Circular); and

(ii) the rationale for the MD Property Acquisition as set out in paragraph 5 above,

and believe that the MD Property Acquisition and the MD Property Master Lease (including the terms of the MD Property Master Lease as a whole, such as the base rent and variable rent) are based on normal commercial terms and would not be prejudicial to the interests of First REIT or its minority Unitholders.

Accordingly, the Independent Directors recommend that Unitholders vote at the EGM in favour of Resolution 1 (in relation to the MD Property Acquisition).

7.2 On the SHMK Acquisition

The Independent Directors and the Audit Committee have considered the relevant factors, including:

(i) the opinion of the IFA that the SHMK Acquisition (including the SHMK Master Lease) is based on normal commercial terms and not prejudicial to the interests of First REIT and the Unitholders and that it is accordingly of the view that the Independent Directors should recommend that independent Unitholders vote in favour of the SHMK Acquisition (the IFA's opinion on the SHMK Acquisition and the SHMK Master Lease is set out in the IFA Letter in **Appendix D** of this Circular); and

(ii) the rationale for the SHMK Acquisition as set out in paragraph 5 above,

and believe that the SHMK Acquisition and the SHMK Master Lease (including the terms of the MD Property Master Lease as a whole, such as the base rent and variable rent) are based on normal commercial terms and would not be prejudicial to the interests of First REIT or its minority Unitholders.

Accordingly, the Independent Directors recommend that Unitholders vote at the EGM in favour of Resolution 2 (in relation to the SHMK Acquisition).

8. EXTRAORDINARY GENERAL MEETING

The EGM will be held on **Friday, 9 November 2012** at **12.00 p.m.** at **Ocean Ballroom 3, Level 2, Pan Pacific Singapore, 7 Raffles Boulevard, Marina Square, Singapore 039595**, for the purpose of considering and, if thought fit, passing with or without modification, the resolutions set out in the Notice of Extraordinary General Meeting, which is set out on pages G-1 and G-2 of this Circular. The purpose of this Circular is to provide Unitholders with relevant information about the resolutions. Approval by way of an Ordinary Resolution is required in respect of the MD Property Acquisition and the SHMK Acquisition.

A Depositor shall not be regarded as a Unitholder entitled to attend the EGM and to speak and vote thereat unless he is shown to have Units entered against his name in the Depository Register, as certified by The Central Depository (Pte) Limited ("**CDP**") as at 48 hours before the time fixed for the EGM.

Unitholders should note that Resolution 1 (the MD Property Acquisition) and Resolution 2 (the SHMK Acquisition) are subject to and contingent upon each other. In the event that First REIT fails to obtain Unitholders' approval for either resolution, First REIT will not proceed with the remaining resolution.

9. ABSTENTIONS FROM VOTING

9.1 Relationship between the Sponsor, the Manager and First REIT

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) 29.7% in First REIT and (ii) 80.0% in the Manager, and is therefore regarded as a "Controlling Unitholder" of First REIT as well as a "Controlling Shareholder" the Manager respectively.

9.2 Abstention from Voting

Rule 919 of the Listing Manual prohibits interested persons and their associates (as defined in the Listing Manual) from voting on a resolution in relation to a matter in respect of which such persons are interested. The relevant associates of the Sponsor (other than the Manager) are Bridgewater International Ltd and PT Menara Tirta Indah.

(i) Resolution 1: The MD Property Acquisition

Given that the MD Property will be acquired from Evodia, which is an indirect wholly-owned subsidiary of the Sponsor and that the MD Property Master Lease Agreement will be entered into with the Sponsor, which is a Controlling Shareholder of the Manager, (i) the Sponsor and the Manager will abstain, and will procure that their associates will abstain, from voting at the EGM on Resolution 1 (the MD Property Acquisition); and (ii) will not, and will procure that their associates will not, accept appointments as proxies in relation to the resolution on the MD Property Acquisition unless specific instructions as to voting are given.

(ii) Resolution 2: The SHMK Acquisition

Given that SHMK will be acquired from PT SKS, which is an indirect wholly-owned subsidiary of the Sponsor and that the SHMK Master Lease Agreement will be entered into with the Sponsor, which is a Controlling Shareholder of the Manager, (i) the Sponsor and the Manager will abstain and will procure that their associates will abstain, from voting at the EGM on Resolution 2 (the SHMK Acquisition); and (ii) will procure that their associates will not, accept appointments as proxies in relation to the resolution on the SHMK Acquisition unless specific instructions as to voting are given.

10. ACTION TO BE TAKEN BY UNITHOLDERS

Unitholders will find enclosed in this Circular the Notice of Extraordinary General Meeting and a Proxy Form.

If a Unitholder is unable to attend the EGM and wishes to appoint a proxy to attend and vote on his behalf, he should complete, sign and return the enclosed Proxy Form in accordance with the instructions printed thereon as soon as possible and, in any event, so as to reach the Unit Registrar and Unit Transfer Office at Boardroom Corporate & Advisory Services Pte. Ltd., 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623 not later than **Wednesday, 7 November 2012** at **12.00 p.m.**, being 48 hours before the time fixed for the EGM. The completion and return of the Proxy Form by a Unitholder will not prevent him from attending and voting in person at the EGM if he so wishes.

Persons who have an interest in the approval of the resolution must decline to accept appointments as proxies unless the Unitholder concerned has specific instructions in his Proxy Form as to the manner in which his votes are to be cast in respect of such resolution.

11. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this Circular and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this Circular constitutes full and true disclosure of all material facts about the Acquisitions, First REIT and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this Circular misleading.

Where information in this Circular has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in the Circular in its proper form and context.

12. FINANCIAL ADVISER'S RESPONSIBILITY STATEMENT

The Financial Adviser confirms that, having made all reasonable enquiries and to the best of its knowledge and belief, this circular constitutes full and true disclosure of all material facts about the Acquisitions by First REIT and its subsidiaries, and it is not aware of any facts or omissions of which would make any statement in the document misleading as at the date of this Circular.

13. CONSENTS

Each of the IFA, the Independent Valuers, the Independent Healthcare/Hospitality Research Consultant and the Independent Indonesia Tax Adviser has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name and respectively the IFA Letter, the Valuation Summary Reports, the Full Valuation Reports, the Indonesian Healthcare/Hospitality Market Review Report and the Independent Indonesian Taxation Report, and all references thereto, in the form and context in which they are included in this Circular.

14. DOCUMENTS ON DISPLAY

Copies of the following documents are available for inspection during normal business hours at the registered office of the Manager at 50 Collyer Quay, #06-01 OUE Bayfront Singapore 049321 from the date of this Circular up to and including the date falling three months after the date of this Circular:

(i) the MD Property SPA;

(ii) the SHMK SPA;

(iii) the MD Property Master Lease Agreement;

(iv) the SHMK Master Lease Agreement;

(v) the full valuation report on MD Property dated 17 September 2012 issued by W&R;

(vi) the full valuation report on MD Property dated 11 September 2012 issued by Rengganis;

(vii) the full valuation report on SHMK dated 17 September 2012 issued by W&R;

(viii) the full valuation report on SHMK dated 11 September 2012 issued by Rengganis;

(ix) the Indonesia Healthcare/Hospitality Market Review Report by the Independent Healthcare/Hospitality Research Consultant;

(x) the FY2011 Audited Consolidated Financial Statements;

(xi) the 6M2012 Unaudited Financial Statements;

(xii) the Independent Indonesian Taxation Report by the Independent Indonesian Tax Adviser; and

(xiii) the IFA Letter from the IFA.

The Trust Deed will also be available for inspection at the registered office of the Manager for so long as First REIT continues to be in existence.

Yours faithfully
BOWSPRIT CAPITAL CORPORATION LIMITED
(as manager of First Real Estate Investment Trust)
(Company registration number: 200607070D)

Dr Ronnie Tan Keh Poo
Chief Executive Officer and Director

IMPORTANT NOTICE

The value of Units and the income derived from them may fall as well as rise. Units are not obligations of, deposits in, or guaranteed by, the Manager or any of its affiliates. An investment in Units is subject to investment risks, including the possible loss of the principal amount invested.

Investors have no right to request the Manager to redeem their Units while the Units are listed. It is intended that Unitholders may only deal in their Units through trading on the SGX-ST. Listing of the Units on the SGX-ST does not guarantee a liquid market for the Units.

The past performance of First REIT is not necessarily indicative of the future performance of First REIT.

This Circular may contain forward-looking statements that involve risks and uncertainties. Actual future performance, outcomes and results may differ materially from those expressed in forward-looking statements as a result of a number of risks, uncertainties and assumptions. Representative examples of these factors include (without limitation) general industry and economic conditions, interest rate trends, cost of capital and capital availability, competition from similar developments, shifts in expected levels of property rental income, changes in operating expenses (including employee wages, benefits and training costs), property expenses and governmental and public policy changes. You are cautioned not to place undue reliance on these forward-looking statements, which are based on the Manager's current view of future events.

If you have sold or transferred all your Units, you should immediately forward this Circular, together with the Notice of Extraordinary General Meeting and the accompanying Proxy Form, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.

This Circular is not for distribution, directly or indirectly, in or into the United States. It is not an offer of securities for sale into the United States. The Units may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons (as such term is defined in Regulation S under the United States Securities Act of 1933, as amended) unless they are registered or exempt from registration. There will be no public offer of securities in the United States.

GLOSSARY

In this Circular, the following definitions apply throughout unless otherwise stated:

6M2012 Unaudited Financial Statements	:	The unaudited financial statements of First REIT and its subsidiaries for the six months ended 30 June 2012
A&E	:	Accident and emergency
Acquisition Fee Units	:	The acquisition fee which is required to be paid to the Manager in Units
Acquisitions	:	The proposed acquisition of the MD Property from an Interested Person and the proposed acquisition of SHMK from an Interested Person collectively, and each proposed acquisition being, an "**Acquisition**"
Audit Committee	:	The audit committee of the Manager comprising Mr Albert Saychuan Cheok, Mr Goh Tiam Lock and Mr Wong Gang
Authorised Investments	:	Refers to, in general:

(i) real estate, whether freehold or leasehold, in or outside Indonesia, held singly or jointly, and/or by way of direct ownership or by a shareholding in a special purpose vehicle;

(ii) any improvement or extension of or addition to, or reconstruction, refurbishment, retrofitting, renovation or other development of any real estate or any building thereon;

(iii) real estate related assets, wherever the issuers, assets or securities are incorporated, located, issued or traded;

(iv) listed or unlisted debt securities and listed shares or stock and (if permitted by the MAS) unlisted shares or stock of or issued by local or foreign non-property companies or corporations;

(v) government securities (issued on behalf of the Singapore Government or governments of other countries) and securities issued by a supra-national agency or a Singapore statutory board;

(vi) cash and cash equivalent items;

(vii) financial derivatives only for the purposes of (a) hedging existing positions in First REIT's portfolio where there is a strong correlation to the underlying investments or (b) efficient portfolio management, provided that such derivatives are not used to gear the overall portfolio of First REIT or intended to be borrowings of the First REIT; and

(viii) any other investment not covered by paragraphs (i) to (vii) of this definition but specified as a permissible investment in the Property Funds Appendix and selected by the Manager for investment by First REIT and approved by the Trustee in writing

Business Day	:	means any day (other than a Saturday, Sunday or gazetted public holiday) on which commercial banks are generally open for business in Singapore and the SGX-ST (and, if the units are listed on any other recognised stock exchange, that recognised stock exchange) is open for trading;
Caernarfon	:	Caernarfon Investment Pte. Ltd., a company incorporated in Singapore on 8 December 2011
Carmathen	:	Carmathen Investment Pte. Ltd., a company incorporated in Singapore on 8 December 2011
CDP	:	The Central Depository (Pte) Limited
Centre of Excellence	:	A term used to describe a particular area of medical specialisation, proficiency and excellence, with the relevant specialist doctors, nursing staff and state-of the-art medical equipment and facilities, at a hospital.
Circular	:	This circular to Unitholders dated 23 October 2012
Closing Price	:	The closing price of S$1.060 per Unit on the SGX-ST on the Latest Practicable Date
Controlling Shareholder	:	Means a person who: (a) holds directly or indirectly 15% or more of the total number of issued shares excluding treasury shares in the company; or (b) in fact exercises control over a company
Controlling Unitholder	:	Means a person who: (a) holds directly or indirectly 15% or more of the nominal amount of all voting units in the property fund. The MAS may determine that such a person is not a controlling unitholder; or (b) in fact exercises control over the property fund
Decree	:	The decree of the Ministry of Finance, Indonesia (No. 125/ PMK.01/2008) on public appraisal services
Deposited Property	:	The gross assets of First REIT, including the properties and the Authorised Investments for the time being held or deemed to be held upon the trusts under the Trust Deed
Directors	:	Directors of the Manager
DPU	:	Distribution per Unit
EGM	:	The extraordinary general meeting of Unitholders to be held on Friday, 9 November 2012 at 12.00 p.m. at Ocean Ballroom 3, Level 2, Pan Pacific Singapore, 7 Raffles Boulevard, Marina Square, Singapore 039595, to approve the matters set out in the Notice of Extraordinary General Meeting on pages G-1 and G-2 of this Circular

Enlarged Portfolio	:	Comprises the MD Property, SHMK and the Existing Portfolio
Evodia	:	Evodia Strategic Investment Limited, a company incorporated in Labuan, Malaysia on 30 August 2007
Existing Portfolio	:	The portfolio of properties currently held by First REIT, consisting of: its properties in Indonesia; Mochtar Riady Comprehensive Cancer Centre, Siloam Hospitals Lippo Cikarang, Siloam Hospitals Lippo Village, Siloam Hospitals Kebon Jeruk, Siloam Hospitals Surabaya, Imperial Aryaduta Hotel & Country Club; its properties in Singapore, Pacific Healthcare Nursing Home @ Bukit Merah, Pacific Healthcare Nursing Home II @ Bukit Panjang, The Lentor Residence; and its property in the Republic of South Korea, Sarang Hospital
First REIT	:	First Real Estate Investment Trust, a unit trust constituted in the Republic of Singapore pursuant to the Trust Deed
Financial Adviser	:	Oversea-Chinese Banking Corporation Limited
FY2011	:	First REIT's financial year ending 31 December 2011
FY2011 Audited Consolidated Financial Statements	:	The audited financial statements of First REIT and its subsidiaries for FY2011
GFA	:	Gross floor area
Gross Rental Income	:	Contracted rent under the master lease agreements in relation to the Enlarged Portfolio which comprises base rent and variable rent (where applicable)
Gross Revenue	:	Consists of Gross Rental Income and (where applicable) other income earned from First REIT's properties
HGB	:	*Hak Guna Bangunan* (Right to Build)
IFA	:	The Independent Financial Adviser to the Independent Directors and the Trustee, being Stirling Coleman Capital Limited
IFA Letter	:	The letter from the IFA to the Independent Directors of the Manager and the Trustee containing its advice as set out in Appendix D of this Circular
Independent Directors	:	The independent directors of the Manager, being Mr Albert Saychuan Cheok, Mr Goh Tiam Lock and Mr Wong Gang
Independent Healthcare/ Hospitality Research Consultant	:	Frost & Sullivan (S) Pte Ltd
Independent Indonesian Tax Adviser	:	PB Taxand
Independent Unitholders	:	Unitholders other than the Sponsor, parties acting in concert with the Sponsor and parties which are not independent of the Sponsor

Independent Valuers	:	Refers to, collectively, W&R and Rengganis, which were commissioned by the Manager and the Trustee respectively to value the MD Property and SHMK
Indonesia CPI	:	Indonesia Consumer Price Index
Interested Party	:	Means: (a) a director, chief executive officer or controlling shareholder of the manager, or the manager, the trustee or controlling unitholder of the property fund; or (b) an associate of any director, chief executive officer or controlling shareholder of the manager, or an associate of the manager, the trustee or any controlling unitholder of the property fund
Interested Party Transaction	:	Has the meaning ascribed to it in paragraph 5 of the Property Funds Appendix
Interested Person	:	(a) In the case of a company, "interested person" means: (i) a director, chief executive officer, or controlling shareholder of the issuer; or (ii) an associate of any such director, chief executive officer, or controlling shareholder; and (b) in the case of a REIT, shall have the meaning defined in the Code on Collective Investment Schemes issued by the MAS
Interested Person Transaction	:	Means a transaction between an entity at risk and an Interested Person
KJPP	:	Kantor Jasa Penilai Publik (Accredited Public Appraiser Firms)
Latest Practicable Date	:	16 October 2012, being the latest practicable date prior to the printing of this Circular
Law No. 7/2011	:	Law No. 7 of 2011 on Currency (*Mata Uang*), issued by the Government of the Republic of Indonesia
Listing Manual	:	The Listing Manual of the SGX-ST
Management Fee Units	:	The management fee which is paid to the Manager in Units
Manager	:	Bowsprit Capital Corporation Limited, in its capacity as manager of First REIT
MAS	:	Monetary Authority of Singapore
MD Property	:	The property, located at Jalan Sam Ratulangi No. 22, Komplek Boulevard Center and at Jalan Piere Tendean No. 1, Wenang Utara Sub District, Wenang District, Manado – North Sulawesi 95111, Republic of Indonesia, comprising Siloam Hospitals Manado and Hotel Aryaduta Manado

MD Property Acquisition	:	The proposed acquisition of the MD Property from an Interested Person by acquiring 100.0% of the issued share capital in Rhuddlan
MD Property Acquisition Cost	:	The total cost of the MD Property Acquisition, inclusive of the MD Property Purchase Consideration, the MD Property Acquisition Fee, as well as the estimated professional and other fees and expenses incurred or to be incurred in connection with the MD Property Acquisition, which is approximately S$85.8 million
MD Property Acquisition Fee	:	The acquisition fee to which the Manager will be entitled under Clause 14.2.1 of the Trust Deed to receive from First REIT upon completion of the MD Property Acquisition
MD Property Acquisition Fee Units	:	The Units which will be issued to the Manager as a form of payment for the MD Property Acquisition Fee
MD Property Base Rent	:	The annual base rent of S$8,400,000 at which the MD Property Master Lease is granted
MD Property Master Lease	:	The master lease granted to the Sponsor in relation to MD Property
MD Property Master Lease Agreement	:	The conditional master lease agreement dated 21 September 2012 entered into between PT MAM (as the MD Property master lessor) and the Sponsor (as the MD Property master lessee) pursuant to which the MD Property Master Lease was granted to the Sponsor
MD Property Purchase Consideration	:	S$83.6 million, being the purchase consideration for the MD Property in relation to the MD Property Acquisition
MD Property SPA	:	The conditional sale and purchase agreement dated 21 September 2012 that was entered into by the Trustee with Evodia pursuant to which the Trustee proposes to acquire the entire share capital of Rhuddlan
MD Property Total Rent	:	The sum of the MD Property Base Rent and variable rent in relation to MD Property
MOF Indonesia	:	Ministry of Finance of the Republic of Indonesia
National Land Office	:	The Badan Pertanahan Nasional (national land office of Indonesia)
NAV	:	Net asset value
Net Property Income or NPI	:	Consists of contracted rent under the master lease agreements in relation to the Enlarged Portfolio which comprises Gross Rental Income (where applicable) less property expenses (where applicable)
NTA	:	Net tangible assets

Ordinary Resolution	:	A resolution proposed and passed as such by a majority being more than 50.0% of the total number of votes cast for and against such resolution at a meeting of Unitholders convened in accordance with the provisions of the Trust Deed
Per cent. or %	:	Per centum or percentage
Properties	:	The MD Property and SHMK
Property Funds Appendix	:	Appendix 6 of the Code on Collective Investment Schemes issued by the MAS in relation to property funds
PT BS	:	PT Bayutama Sukses, a limited liability company incorporated in Indonesia on 5 August 2011
PT MAM	:	PT Menara Abadi Megah, a limited liability company incorporated in Indonesia on 23 January 2008
PT SKS	:	PT Siloam Karya Sejahtera, a limited liability company incorporated in Indonesia on 20 March 2006 and an indirect wholly-owned subsidiary of the Sponsor
Raglan	:	Raglan Investment Pte. Ltd., a company incorporated in Singapore on 1 December 2011
Rengganis	:	KJPP Rengganis, Hamid & Rekan in strategic alliance with CB Richard Ellis (Pte) Ltd
Rhuddlan	:	Rhuddlan Investment Pte. Ltd., a company incorporated in Singapore on 1 December 2011
Rp	:	Indonesian Rupiah
S$ and cents	:	Singapore dollars and cents
Securities Account	:	Unitholders' securities accounts with CDP
Securities Act	:	U.S. Securities Act 1933, as amended
SHMK	:	The property known as Siloam Hospitals Makassar, which is located at Jalan Metro Tanjung Bunga Kav 3 – 5, Panambungan Sub District, Mariso District, Makassar City, South Sulawesi Province, Republic of Indonesia
SHMK Acquisition	:	The proposed asset acquisition of SHMK by PT BS
SHMK Acquisition Cost	:	The total cost of the SHMK Acquisition, inclusive of the SHMK Purchase Consideration, the SHMK Acquisition Fee, as well as the estimated professional and other fees and expenses incurred or to be incurred in connection with the SHMK Acquisition, which is estimated to be approximately S$60.9 million
SHMK Acquisition Fee	:	The acquisition fee which the Manager will be entitled under Clause 14.2.1 of the Trust Deed to receive from First REIT upon completion of the SHMK Acquisition

SHMK Acquisition Fee Units	:	The Units which will be issued to the Manager as a form of payment for the SHMK Acquisition Fee
SHMK Base Rent	:	The annual base rent of S$5,750,000 at which the SHMK Master Lease is granted
SHMK Master Lease	:	The master lease granted to the Sponsor in relation to SHMK
SHMK Master Lease Agreement	:	The conditional master lease agreement dated 21 September 2012 entered into between PT BS (as the SHMK master lessor) and the Sponsor (as the SHMK master lessee) pursuant to which the SHMK Master Lease was granted to the Sponsor
SHMK Purchase Consideration	:	S$59.3 million, being the purchase consideration for SHMK in relation to the SHMK Acquisition
SHMK SPA	:	The conditional land sale and purchase agreement dated 21 September 2012 that was entered into by PT BS and PT SKS pursuant to which PT BS proposes to acquire SHMK at the SHMK Purchase Consideration
SHMK Total Rent	:	The sum of the SHMK Base Rent and variable rent in relation to SHMK
Singapore CPI	:	Singapore Consumer Price Index
Sponsor	:	PT Lippo Karawaci Tbk
Sq ft	:	Square foot
Sq m	:	Square metre
Substantial Unitholders	:	Persons with an interest in Units constituting not less than 5.0% of the total number of Units in issue, and "**Substantial Unitholder"** means any one of them
Trust Deed	:	The trust deed dated 19 October 2006 constituting First REIT, entered into between the Trustee and the Manager, as amended, varied, or supplemented from time to time
Trustee	:	HSBC Institutional Trust Services (Singapore) Limited, in its capacity as trustee of First REIT
Unit	:	A unit representing an undivided interest in First REIT
Unitholder	:	The registered holder for the time being of a Unit, including person(s) so registered as joint holders, except where the registered holder is CDP, the term "**Unitholder**" shall, in relation to Units registered in the name of CDP, mean, where the context requires, the Depositor whose Securities Account with CDP is credited with Units
United States or U.S.	:	United States of America
W&R	:	KJPP Willson & Rekan in association with Knight Frank

The terms “Depositor” and “Depository Register” shall have the meanings ascribed to them respectively in Section 130A of the Companies Act, Chapter 50 of Singapore.

Words importing the singular shall, where applicable, include the plural and *vice versa* and words importing the masculine gender shall, where applicable, include the feminine and neuter genders. References to persons shall include corporations.

Any reference in this Circular to any enactment is a reference to that enactment for the time being amended or re-enacted.

Any reference to a time of day in this Circular shall be a reference to Singapore time unless otherwise stated.

The exchange rates used in this Circular are for reference only. No representation is made that any Indonesian rupiah amounts could have been or could be converted into Singapore dollar amounts at any of the exchange rates used in this Circular, at any other rate or at all.

Any discrepancies in the tables, graphs and charts between the listed amounts and totals thereof are due to rounding. Where applicable, figures and percentages are rounded to one decimal place.

DETAILS OF THE MD PROPERTY, SHMK, THE EXISTING PORTFOLIO AND THE ENLARGED PORTFOLIO

1. THE MD PROPERTY

1.1 Description of the MD Property

The MD Property, located at Jalan Sam Ratulangi No. 22, Komplek Boulevard Center and at Jalan Piere Tendean No. 1, Wenang Utara Sub District, Wenang District, Manado – North Sulawesi 95111, Republic of Indonesia, is an 11-storey mixed use development with a basement level, comprising Siloam Hospitals Manado and Hotel Aryaduta Manado which sit on common land titles and share a common lobby (with separate entrances). Siloam Hospitals Manado is a four-level hospital which commenced operations on 1 June 2012 with 100 beds and will target to reach maximum operational capacity of 224 beds in about three to four years' time. Hotel Aryaduta Manado is a nine-level five-star hotel with 200 guest rooms, which commenced operations on 1 January 2011.

The MD Property is situated on the east side of Jalan Piere Tendean and on the west side of Jalan Sam Ratulangi, both of which are primary roads in the city centre that are lined with office buildings, shopping centres, shop houses and hotels. Notable developments in the close vicinity of the MD Property include IT Center, Mega Mall Manado and Komandan Korem (Danrem) 131/ Santiago (a military office). It covers a total GFA of 36,051 sq m, of which 11,476 sq m is occupied by Siloam Hospitals Manado and 23,430 sq m is occupied by Hotel Aryaduta Manado and 1,145 sq m of shared machinery and equipment space.

Siloam Hospitals Manado is fully equipped with the latest medical equipment and facilities, including CT, MRI, Ultrasound, cardiac catheterisation lab, 50 specialist clinic suites and three operating theatres.

Siloam Hospitals Manado will be a tourist – friendly hospital that caters to multiple classes of patients, comprising local residents from all socio-economic classes, corporate patients, and tourists. In order to enhance Siloam Hospitals Manado's image as a modern international hospital, Hotel Aryaduta Manado provides a full range of food and beverages catering to the patients and accommodation for family members as well as to tourists visiting Manado.

Other than Siloam Hospitals Manado's Centre of Excellence in trauma, the hospital will also serve to provide a comprehensive range of inpatient and outpatient services. Apart from therapeutic services, the hospital will also include an extensive range of diagnostic and preventive healthcare services.

Emergency and medical evacuation to and from the hospitals are available via designated ambulances. The state-of-the-art A&E department hosts a two-bedded resuscitation unit and three procedural units for patients requiring minor surgical or anaesthetic procedures. Through the telemedicine system and helicopter ambulance services, Siloam Hospitals Manado is also planning to provide remote patient care or consultation for the workers at several mining sites in North Sulawesi.

Through the implementation of clinical capabilities that are currently scarcely available in the region, such as 24-hour GP clinics, ambulance call centre, clinical pathways for acute coronary syndrome and stroke patient management, fully rapid response land and air ambulances, Siloam Hospitals Manado is likely to be the regional Centre of Excellence in trauma and many clinical services.

Hotel Aryaduta Manado which commenced operations on 1 January 2011 is a five-star hotel with 200 guest rooms. The Indonesian Association of Hotel and Restaurant (*Perhimpunan Hotel dan Restoran Indonesia*) has declared Hotel Aryaduta Manado as a five-star rated hotel and such decree shall be valid until June 2015.

Hotel Aryaduta Manado is integrated with Siloam Hospitals Manado and is well positioned to benefit from shared services and healthcare tourism, given its location. It provides convenient accommodation for out-of-town inpatients, outpatients and day-surgery patients, as well as their families. The acquisition will allow First REIT to benefit not only from the healthcare sector, but also the growing medical tourism sector.

The table below sets out a summary of selected information on the MD Property as at 30 June 2012 (unless otherwise indicated).

Address/Location	Jalan Sam Ratulangi No. 22, Komplek Boulevard Center and at Jalan Piere Tendean No. 1, Wenang Utara Sub District, Wenang District, Manado – North Sulawesi 95111, Republic of Indonesia
Master title details	Six HGB certificates: (1) HGB NO. 55 / Wenang Utara; covering an area of 964 sq m; (2) HGB NO. 56 / Wenang Utara; covering an area of 1,272 sq m; (3) HGB NO. 57 / Wenang Utara; covering an area of 795 sq m; (4) HGB NO. 58 / Wenang Utara; covering an area of 1,049 sq m; (5) HGB NO. 74 / Wenang Utara; covering an area of 793 sq m; and (6) HGB NO. 75 / Wenang Utara; covering an area of 645 sq m; all of which are located at North Wenang sub-district, Wenang district, Manado City, North Sulawesi Province and will expire on 18 May 2032
Description / Existing Use	11-storey mixed use development with a basement level. It comprises a four-level hospital which commenced operations on 1 June 2012 and is integrated with a nine-level five-star hotel which commenced operations on 1 January 2011
Hospital beds	224
Hotel guest rooms	200
Parking Bays	177
Lease Term	15 years, with an option to renew for a further term of 15 years.
Age of building	The building was built in 1995 but has since undergone major renovation with Siloam Hospitals Manado having commenced operations on 1 June 2012 and Hotel Aryaduta Manado having commenced operations on 1 January 2011
Commencement base rent	S$8,400,000
GFA	36,051 sq m of which 11,476 sq m is occupied by Siloam Hospitals Manado and 23,430 sq m is occupied by Hotel Aryaduta Manado and 1,145 sq m of shared machinery and equipment spaces
Valuation by W&R as at 5 September 2012	S$90.9 million
Valuation by Rengganis as at 5 September 2012	S$96.5 million

2. SHMK

2.1 Description of SHMK

SHMK is located at Jalan Metro Tanjung Bunga Kav 3 – 5, Panambungan Sub District, Mariso District, Makassar City, South Sulawesi Province, Republic of Indonesia. SHMK, a new seven-storey hospital, commenced operations on 9 September 2012 with 100 beds and will target to reach maximum operational capacity of 416 beds in about four to six years' time. SHMK is located on the west side of Jalan Metro Tanjung Bunga in Tanjung Bunga, an integrated township development consisting of residential and commercial development. Notable developments in the close vicinity of SHMK include Hotel Aryaduta Makassar, Tanjung Bunga Marketing Office, Celebes Convention Center, Trans Makassar Mall and Losari Beach.

SHMK will have state-of-the-art equipment, including CT, MRI, Ultrasound, Mammography and cardiac catheterization system, 58 specialist outpatient clinic suites and three operating theatres.

With Centres of Excellence in trauma and cardiology, emergency and medical evacuation to and from the hospital is available via designated ambulances. The A&E department hosts a three-bedded resuscitation unit and an observation ward equipped with 10 beds to serve any trauma and emergency patients in Makassar.

This A&E department is likely to provide additional support to the acute care needs of the local population residing in the urban or rural areas through its emergency care facilities backed by helicopter evacuation, well equipped Emergency Trauma Department with resuscitation units, and fully equipped ambulances. These capabilities are the first-of-its-kind in South Sulawesi.

The table below sets out a summary of selected information on SHMK as at 30 June 2012 (unless otherwise indicated).

Address/Location	Jalan Metro Tanjung Bunga Kav 3 – 5, Panambungan Sub District, Mariso District, Makassar City, South Sulawesi Province, Republic of Indonesia
Master title details	HGB certificate No. 20007 covering an area of 3,963 sq m located at Jalan Metro Tanjung Bunga, Panambungan Sub District, Mariso District, Makassar City, which will expire on 22 December 2031
Description / Existing Use	Seven-storey hospital
Hospital beds	416
Parking Bays	50
Lease Term	15 years, with an option to renew for a further term of 15 years.
Age of building	Completed 3 September 2012
Commencement base rent	S$5,750,000
GFA	14,307 sq m
Valuation by W&R as at 5 September 2012	S$66.8 million
Valuation by Rengganis as at 5 September 2012	S$64.7 million

3. THE EXISTING PORTFOLIO

The Existing Portfolio of First REIT as at 30 June 2012 comprises: Mochtar Riady Comprehensive Cancer Centre; Siloam Hospitals Lippo Cikarang; Siloam Hospitals Lippo Village; Siloam Hospitals Kebon Jeruk; Siloam Hospitals Surabaya; Imperial Aryaduta Hotel & Country Club, located in Indonesia; Pacific Healthcare Nursing Home @ Bukit Merah; Pacific Healthcare Nursing Home II @ Bukit Panjang; The Lentor Residence, which are located in Singapore; and Sarang Hospital, which is located in the Republic of South Korea.

3.1 Summary

The table below sets out selected information about the Existing Portfolio (as at 30 June 2012).

Description of Property	GFA (sq m)	Lease Terms	No. of Beds / Saleable Rooms (as at 28 December 2011)	Appraised Value as at 28 December 2011[1]	Gross Revenue (from 1 January 2012 to 30 June 2012) (S$'000)
Indonesia					
Mochtar Riady Comprehensive Cancer Centre	37,933	15 years with option to renew for 15 years with effect from 30 December 2010	165	S$217.5 million	9,452
Siloam Hospitals Lippo Cikarang	11,125	15 years with option to renew for 15 years with effect from 31 December 2010	112	S$41.3 million	1,954
Siloam Hospitals Lippo Village	27,284	15 years with option to renew for 15 years with effect from 11 December 2006	223[2]	S$153.8 million	6,844
Siloam Hospitals Kebon Jeruk	18,316	15 years with option to renew for 15 years with effect from 11 December 2006	197	S$85.9 million	3,880
Siloam Hospitals Surabaya	9,227	15 years with option to renew for 15 years with effect from 11 December 2006	160	S$30.9 million	1,534
Imperial Aryaduta Hotel & Country Club	17,427	15 years with option to renew for 15 years with effect from 11 December 2006	197	S$35.5 million	1,882
Singapore					
Pacific Healthcare Nursing Home @ Bukit Merah	3,593	10 years with option to renew for 10 years with effect from 11 April 2007	259	S$11.0 million	498
Pacific Healthcare Nursing Home II @ Bukit Panjang	3,563	10 years with option to renew for 10 years with effect from 11 April 2007	265	S$11.0 million	486
The Lentor Residence	2,983	10 years with option to renew for 10 years with effect from 8 June 2007	148	S$14.0 million	538
Republic of South Korea					
Sarang Hospital	4,982	10 years with option to renew for 10 years with effect from 05 August 2011	217	US$13.2 million	974

Notes:

(1) For the properties located in Indonesia, Mochtar Riady Comprehensive Cancer Centre was appraised by KJPP Rengganis, Hamid & Rekan in strategic alliance with CB Richard Ellis (Pte) Ltd, while the other five Indonesia properties were each appraised by KJPP Willson & Rekan in Association with Knight Frank. The properties located in Singapore were appraised by Colliers International Consultancy & Valuation (Singapore) Pte Ltd, and the property located in the Republic of South Korea was appraised by Cushman & Wakefield (Korea) Ltd.

(2) The full capacity of Siloam Hospitals Lippo Village is 250 beds.

3.2 Description of the Properties in the Existing Portfolio

3.2.1 Mochtar Riady Comprehensive Cancer Centre

Mochtar Riady Comprehensive Cancer Centre is Indonesia's first private comprehensive cancer treatment centre with state-of-the-art equipment.

Located near Plaza Semanggi, The Aryaduta Apartments and other, international five-star hotels in Central Jakarta, the 29-storey, 165 (expandable to 375) beds Mochtar Riady Comprehensive Cancer Centre will serve the needs of International and Indonesian patients.

Mochtar Riady Comprehensive Cancer Centre will not only adopt a preventative focus through health screening, but will also be the first facility in Indonesia to offer break-through technologies that are at the forefront of cancer treatment and cancer diagnostics globally. Amongst the other firsts for Mochtar Riady Comprehensive Cancer Centre are a palliative care & oncology wellness centre, high dose brachytherapy, radio-immunotherapy (RIT), radiopeptide therapy, molecular imaging with PET/Computed Tomography (PET/CT), and Single Photon Emission Computed Tomography/CT (SPECT/CT) scanning.

It will also provide chemotherapy, complementary therapy, Linear Accelerator treatment, Multi Slice CT, High field strength MRI, angiography, inhouse clinical trials and integrated IT and PACS/RIS. Mochtar Riady Comprehensive Cancer Centre also hopes to develop training in medical oncology, radiation therapy, cancer imaging and surgical oncology.

3.2.2 Siloam Hospitals Lippo Cikarang

Siloam Hospitals Lippo Cikarang was opened in 2002 and has quickly built its reputation for providing international standards in medical care in the growing residential area east of Jakarta. Siloam Hospitals Lippo Cikarang has 112 (expandable to 126) beds and is supported by 81 specialist doctors and 101 qualified nurses offering a broad range of general and specialist services, including an Accident and Emergency Department. Siloam Hospitals Lippo Cikarang has Centres of Excellence in Urology, Internal Medicine and Trauma.

In late 2007, an ESWL unit was commissioned to treat patients with kidney stones. It also is well respected for its Pediatric Neonatal Intensive Care Unit, which treats premature babies and sick babies. The Jakarta-Cikampek toll road and Cikarang industrial areas have made Siloam Hospitals Lippo Cikarang an ideal hospital in providing Trauma services. Siloam Hospitals Lippo Cikarang is supported by a 24-hour Accident and Emergency department and Ambulance Services with medical evacuation facilities, which includes daytime helicopter evacuation. Siloam Hospitals Lippo Cikarang also provides general surgery, orthopedic surgery, neurology surgery, plastic surgery, urology surgery, thorax and cardiovascular surgery.

Specialist doctors were appointed in 2005 to perform digestive surgery using Laparoscopy, a technique that minimises surgical trauma and accelerates recovery. Siloam Hospitals Lippo Cikarang caters to both inpatient and outpatient needs, and its Charter of Patients' Rights is actively promoted by its experienced team of medical professionals, whose training and expertise bring international standards in patient care.

3.2.3 Siloam Hospitals Lippo Village

With Centres of Excellence for neuroscience and cardiology, Siloam Hospitals Lippo Village offers a comprehensive range of cardiology services from preventive measures to complicated open-heart surgery. Conveniently located in the first private sector township

of Lippo Karawaci, Siloam Hospitals Lippo Village is situated 25 kilometres from Jakarta's Soekarno-Hatta International Airport. The hospital is close to the west of the Karawaci Toll Gate on the Jakarta-Merak toll road, which connects Jakarta, the capital and business centre of Indonesia, to the industrial city of Merak.

With a population of over 3.7 million in Tangerang Regency (Lippo Karawaci township included), Siloam Hospitals Lippo Village has a sizeable potential patient base. In November 2007, Siloam Hospitals Lippo Village became the first Indonesia hospital to attain the United States-based Joint Commission International accreditation – the world's leading internationally recognized hospital accreditation award – putting it in the same league as other leading hospitals in the region. The hospital occupies a land area of 17,442 sq m and has a GFA of 27,284 sq m.

3.2.4 Siloam Hospitals Kebon Jeruk

With Centres of Excellence for urology and orthopaedics, Siloam Hospitals Kebon Jeruk is known for its authority in the diagnosis and treatment of disorders of the urinary tract or urogenital system. The hospital also offers prevention, medical treatment and rehabilitation services for musculoskeletal system diseases including bone, hinge, muscle, nerve/tendon and ligament.

With its location about 6.0 km west of Jakarta Central, Siloam Hospitals Kebon Jeruk serves a large catchment of middle to upper income residents in the West Jakarta area. The hospital received Indonesian Hospital Accreditation from the Ministry of Health in 2002. The hospital occupies a land area of 11,420 sq m and has a GFA of 18,316 sq m.

3.2.5 Siloam Hospitals Surabaya

Siloam Hospitals Surabaya is a Centre of Excellence for fertility services, and the hospital successfully performed 831 ovum pick up and has a 45.5% pregnancy rate from 789 embryo transfers in year 2011.

Located in the central area of Indonesia's second largest city – Surabaya, Siloam Hospitals Surabaya enjoys a large catchment area of potential patients, given the relatively lower number of higher quality hospitals in the region.

Surabaya is expected to witness increasing demand for healthcare related services as a result of strong per capita income growth. The hospital occupies a land area of 6,862 sq m and has a GFA of 9,227 sq m.

3.2.6 Imperial Aryaduta Hotel & Country Club

One of the very few hotels with linked country clubs in Jakarta, the 197-room five-star Imperial Aryaduta Hotel & Country Club comes complete with a wide range of sports, recreational, convention, and food and beverage services.

Located next to Siloam Hospitals Lippo Village, Imperial Aryaduta Hotel & Country Club provides accommodation for out-of-town inpatients, outpatients and day-surgery patients as well as their families. The hotel also attracts business travellers as it is located near the business and industrial areas of Cilegon. The property occupies a land area of 54,410 sq m and has a GFA of 17,427 sq m.

3.2.7 Pacific Healthcare Nursing Home @ Bukit Merah

Pacific Healthcare Nursing Home @ Bukit Merah, located close to Bukit Merah New Town and the Redhill MRT Station, as well as the City Centre, is a four-storey custom-built nursing home with 259 beds, a basement car park and a roof terrace.

Managed by Pacific Healthcare Nursing Home Pte. Ltd., the Home has a land area of 1,984 sq m and has a GFA of 3,593 sq m. Lease tenure for the land is for a period of 30 years with effect from 22 April 2002.

3.2.8 Pacific Healthcare Nursing Home II @ Bukit Panjang

Pacific Healthcare Nursing Home II @ Bukit Panjang is a five-storey custom-built nursing home with 265 beds and 33 car park lots. It is situated close to Bukit Panjang Town Centre and the Senja LRT Station, and is 18.0 km away from the City Centre.

Managed by Pacific Eldercare and Nursing Pte. Ltd., it has a land area of 2,000 sq m and a GFA of 3,563 sq m. Lease tenure for the land is for a period of 30 years with effect from 14 May 2003.

3.2.9 The Lentor Residence

The Lentor Residence is a four-storey custom-built nursing home situated at Lentor Avenue, and is managed by First Lentor Residence Pte. Ltd. Included as part of the health and medical care of the Master Plan Zoning (2008 Edition), the 148-bed nursing home occupies a land area of 2,486 sq m and has a GFA of 2,983 sq m. First REIT has entered into an agreement with the tenant to develop an extension to the existing building to enhance the Lentor Residence on 26 July 2010.

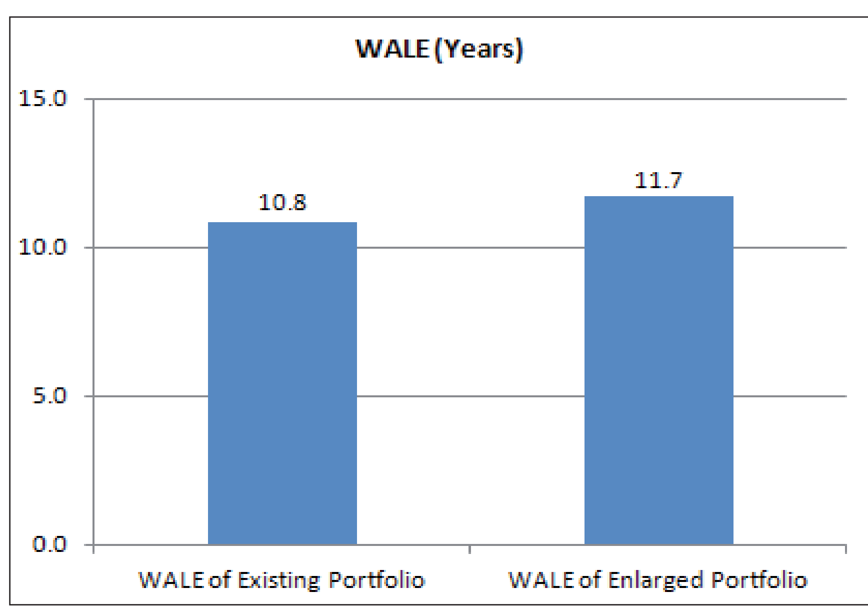
The extension comprises a five-storey building to and adjoining the existing building. Lease tenure for the land is for a period of 99 years with effect from 20 August 1938.

3.2.10 Sarang Hospital

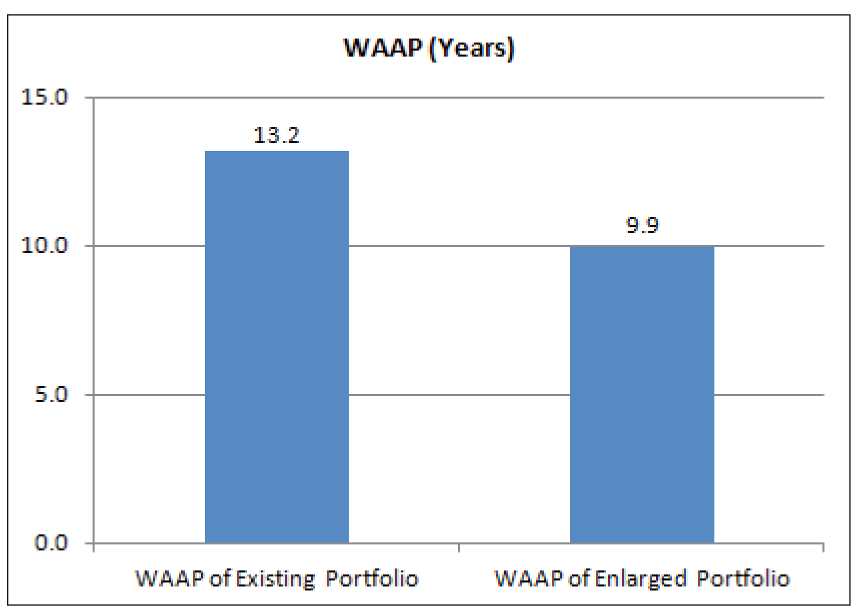
Sarang Hospital comprises a six-storey hospital with one basement. It has a total GFA of 4,982 sq m and is located in Yeosu City, South Korea. It is equipped with rehabilitation facilities and currently operates 34 wards and has 217 beds.

3.3 Lease Expiry and Average Property Age Profile of the Existing and Enlarged Portfolio

The following chart illustrates the weighted average lease to expiry ("**WALE**") profile of the Existing Portfolio and the Enlarged Portfolio as at 30 June 2012. The WALE has improved from approximately 10.8 years for the Existing Portfolio to approximately 11.7 years for the Enlarged Portfolio.

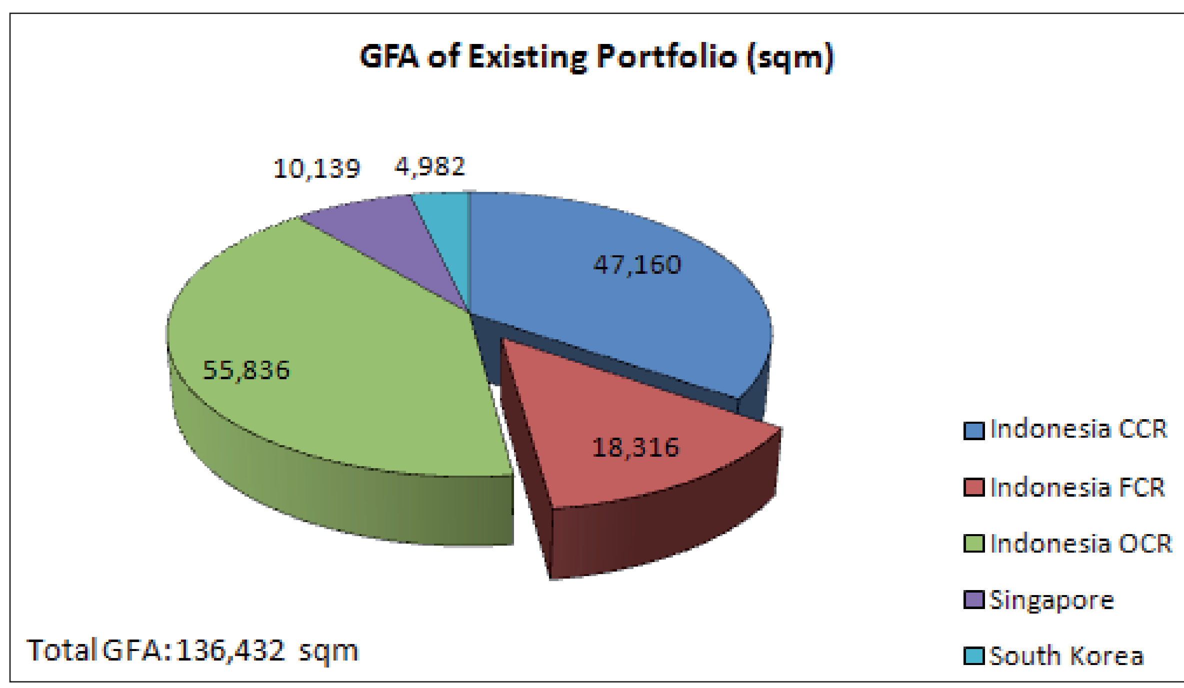


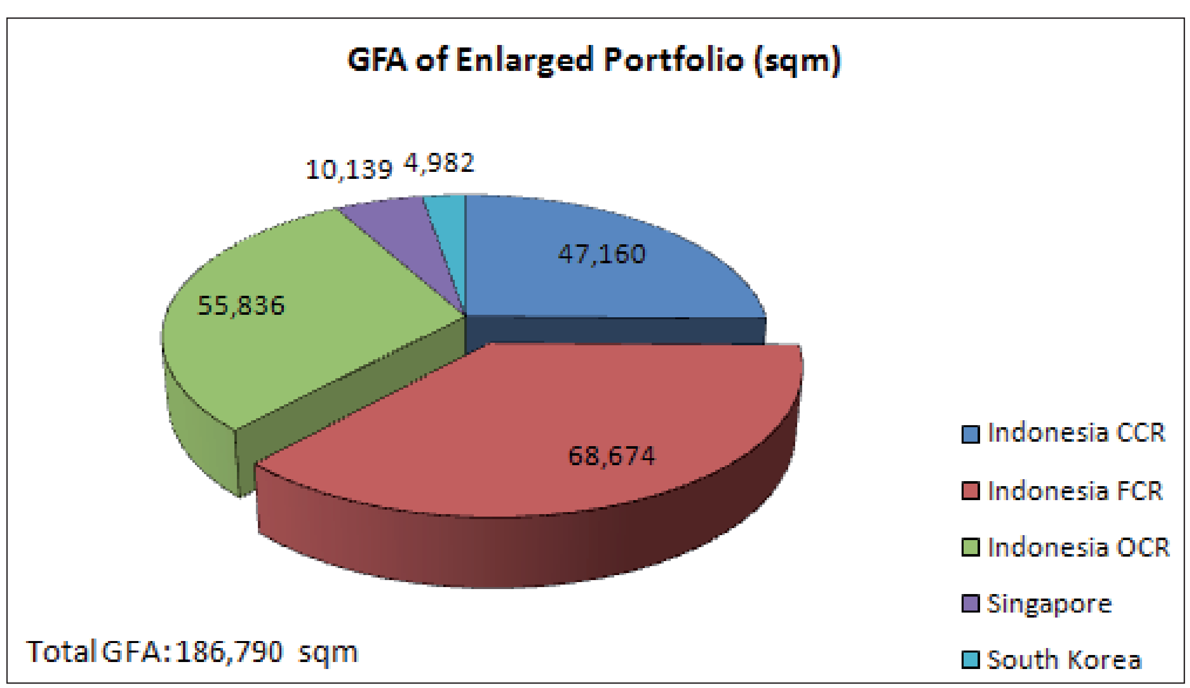
The following chart illustrates the weighted average age of properties ("**WAAP**") profile of the Existing Portfolio and the Enlarged Portfolio as at 30 June 2012. The WAAP has decreased from 13.2 years for the Existing Portfolio to 9.9 years for the Enlarged Portfolio. This represents a 24.6% reduction in the average age of the properties in First REIT's Enlarged Portfolio.



3.4 Geographical Sector Analysis of the Existing and Enlarged Portfolio

The following charts provide a breakdown by GFA of the different geographical sectors of the Existing Portfolio and Enlarged Portfolio as at 30 June 2012. They are classified as Indonesia Core Central Region ("**CCR**"), Indonesia Fringe Central Region ("**FCR**"), Indonesia Outside Central Region ("**OCR**"), Singapore and South Korea.

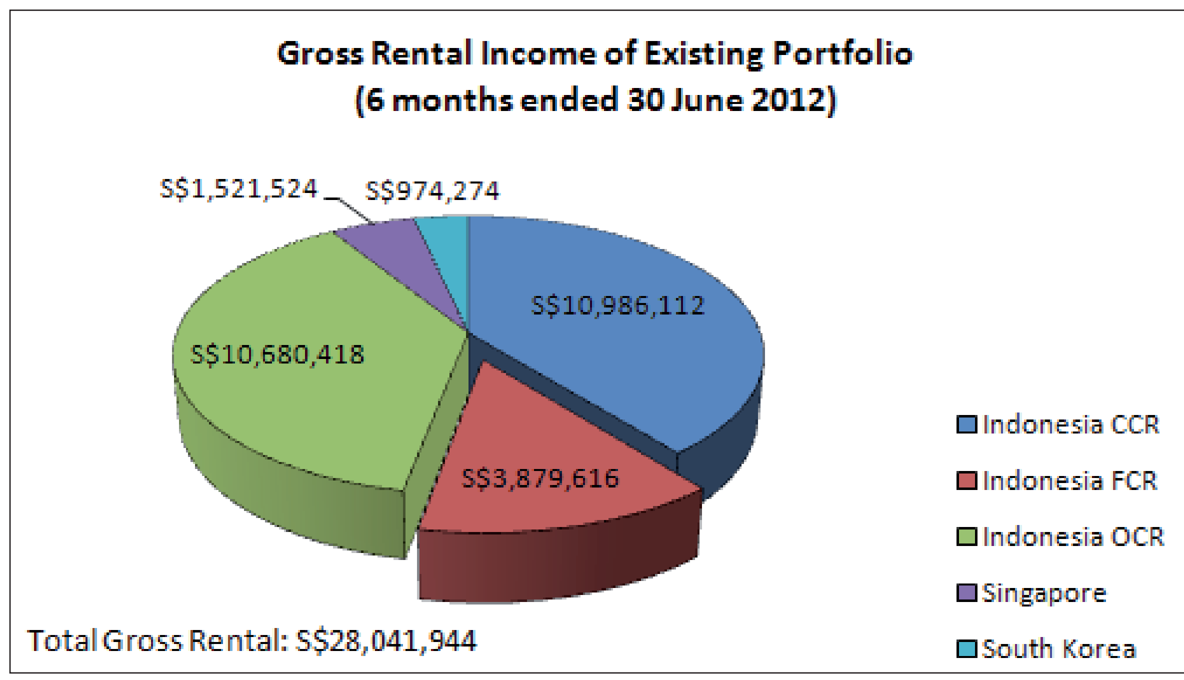


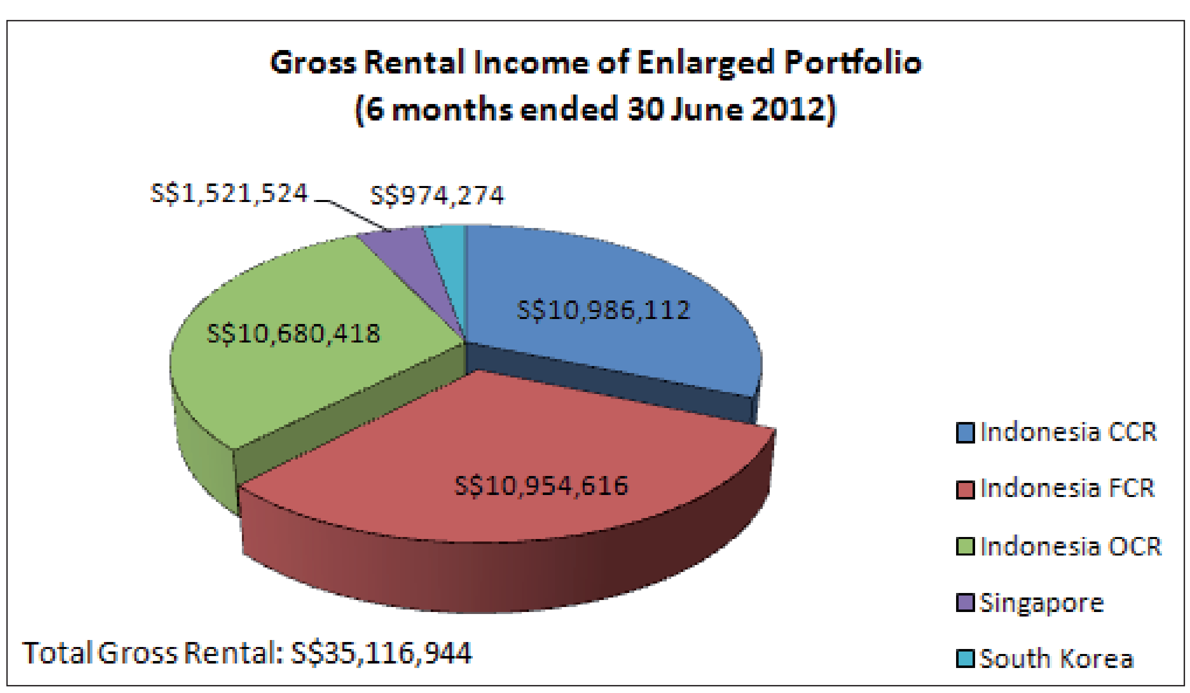


The GFA of the Enlarged Portfolio increased by 36.9% from 136,432 sq m to 186,790 sq m after the Acquisitions.

The following charts provide a breakdown by Gross Rental Income for the Existing Portfolio and the Enlarged Portfolio by geographical location for the six months ended 30 June 2012.

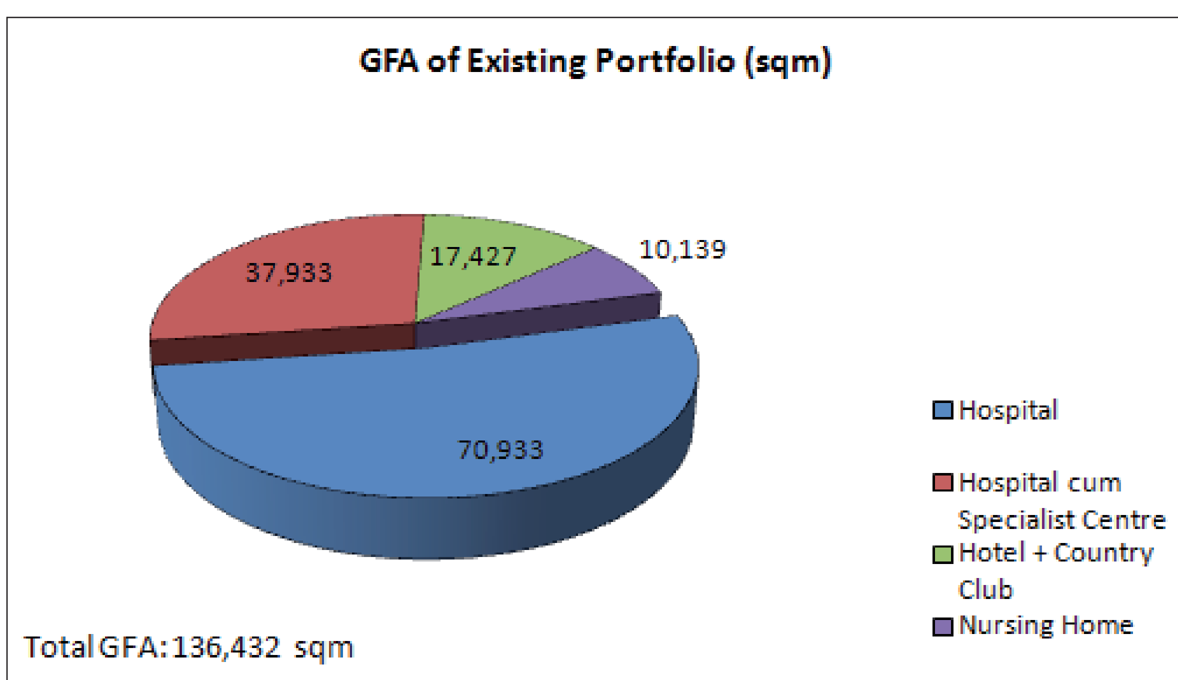
The Enlarged Portfolio's gross rental income from the Indonesia FCR will be S$10,954,616 compared to S$3,879,616 for the Existing Portfolio. This is an increase of 182.4%.

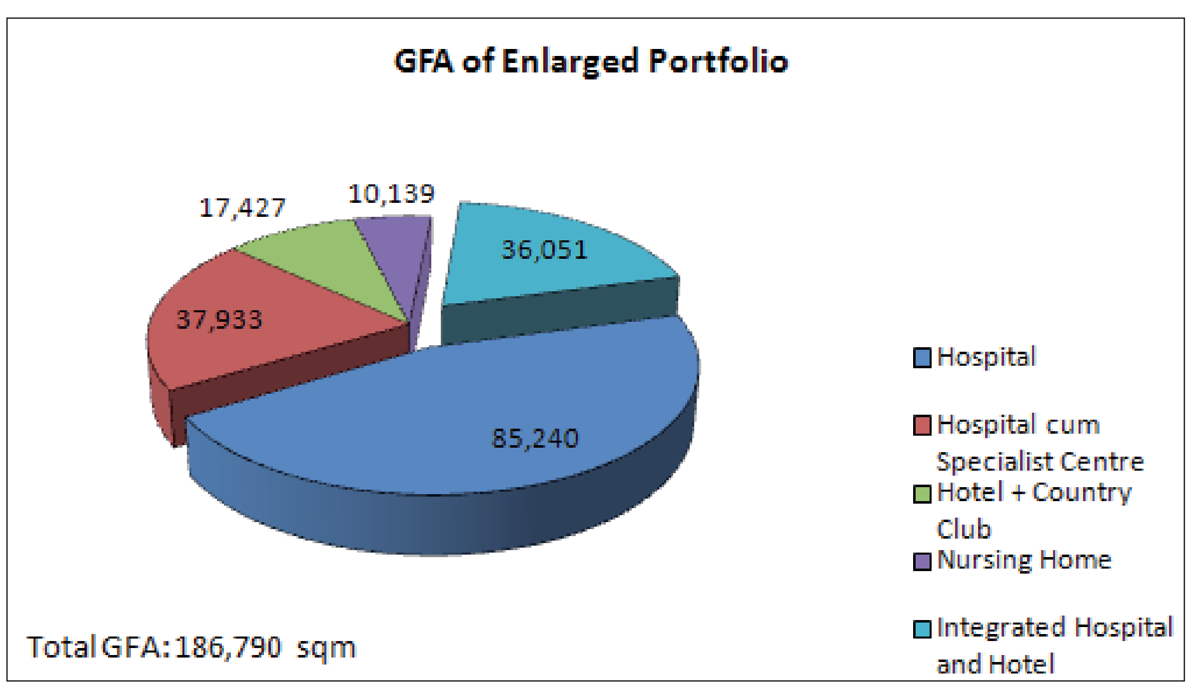




3.5 Asset Classification Analysis of the Existing and Enlarged Portfolio

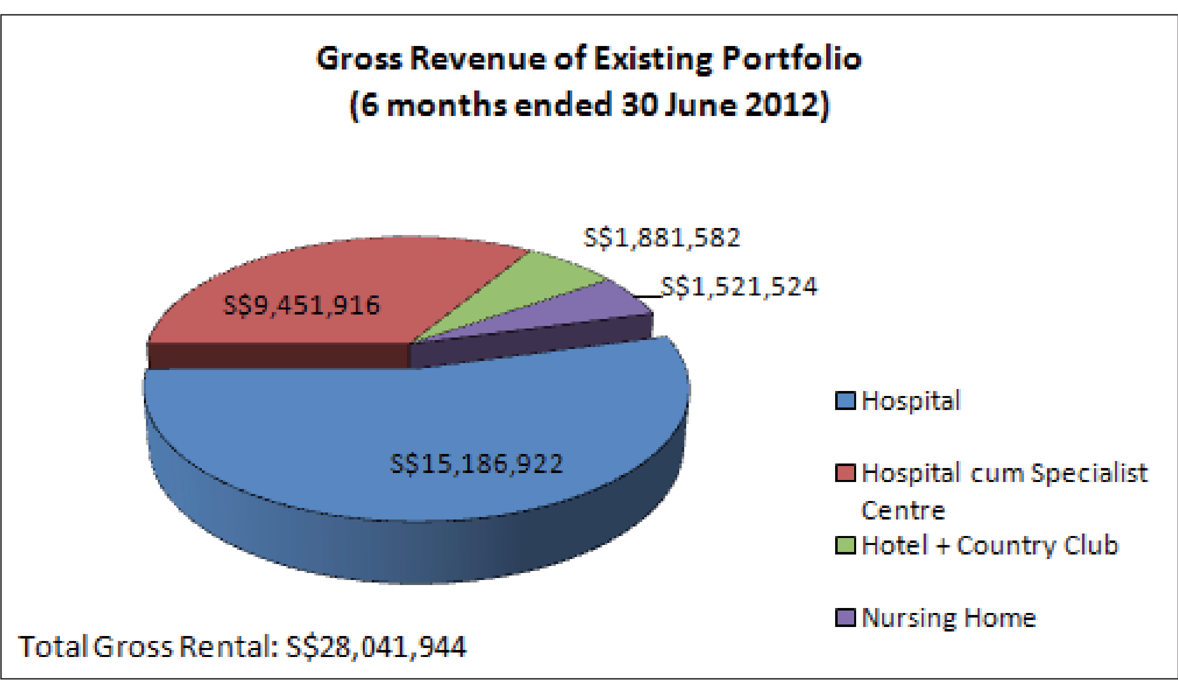
The following charts provide a breakdown by GFA of the different asset classification of the Existing Portfolio and Enlarged Portfolio as at 30 June 2012.

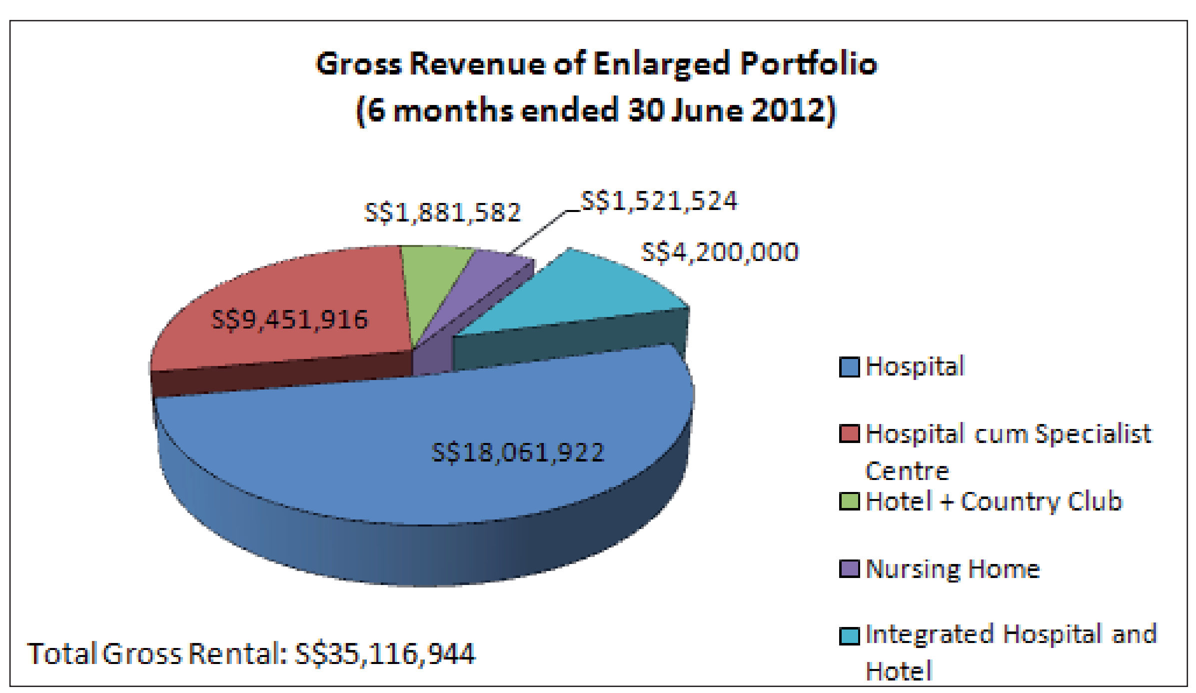




The GFA of hospitals in the Enlarged Portfolio increased by 20.2% from 70,933 sq m to 85,240 sq m after the Acquisitions. The Enlarged Portfolio will also have a new asset classification, integrated hospital and hotel, which integrates hospital and hotel usage into a single development. This development will be the first-of-its-kind in Indonesia.

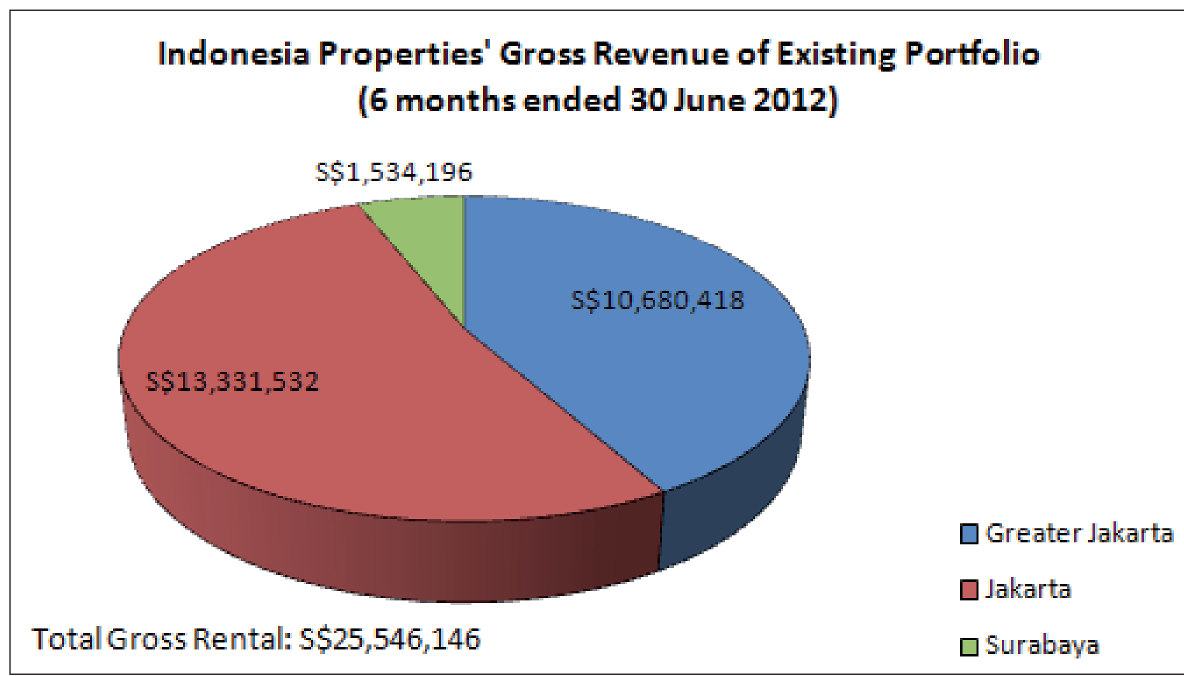
The following charts provide a breakdown by Gross Rental Income for the Existing Portfolio and the Enlarged Portfolio by asset classification for the six months ended 30 June 2012.

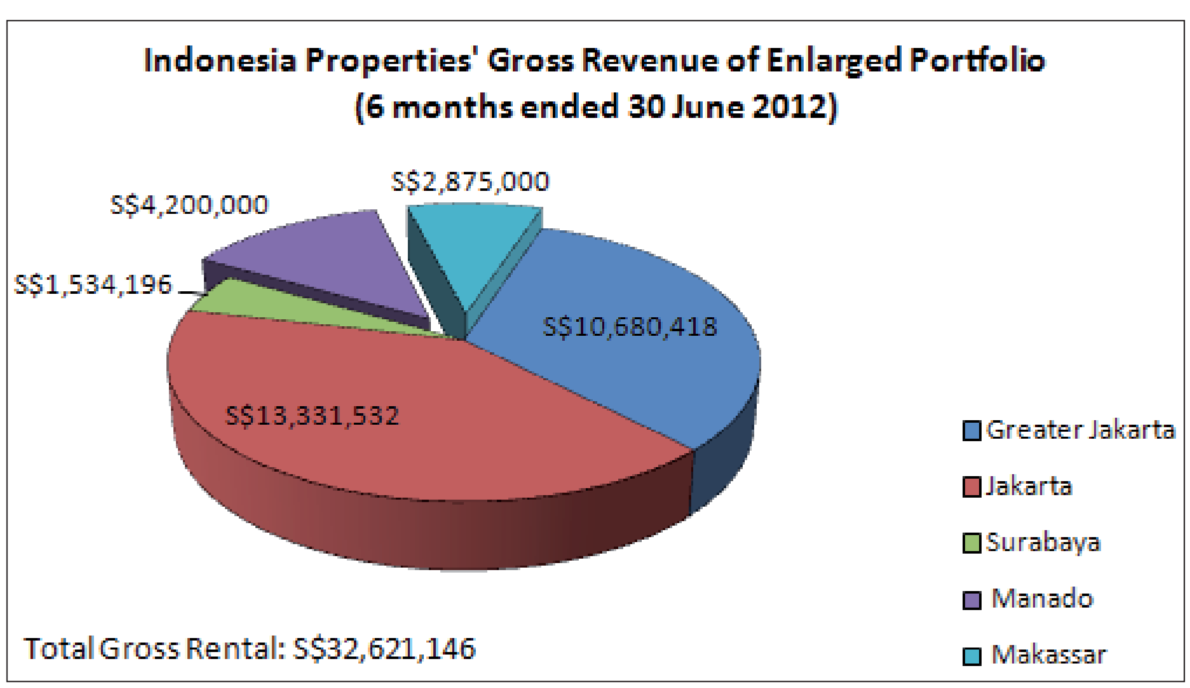




The new asset class, integrated hospital and hotel, will contribute S$4,200,000, or about 11.9% of the Gross Rental Income of the Enlarged Portfolio, for the six months ended 30 June 2012.

The following charts provide a breakdown by Gross Rental Income for the Existing Portfolio and the Enlarged Portfolio by geographical location in Indonesia for the six months ended 30 June 2012.





In the Enlarged Portfolio in Indonesia, First REIT will invest in two more cities in Indonesia, namely Manado and Makassar. Manado will contribute S$4,200,000 or about 12.9% of the Gross Rental Income from Indonesia for the six months ended 30 June 2012, and Makassar will contribute S$2,875,000 or about 8.8% of the Gross Rental Income from Indonesia for the six months ended 30 June 2012.

VALUATION SUMMARY REPORTS

Letter No.: 229/W&R-Letter/IV/2012

11 September 2012

To:
HSBC Institutional Trust Services (Singapore) Limited
(as Trustee of First Real Estate Investment Trust)
21 Collyer Quay
#14-01 HSBC Building
Singapore 049320

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

Attention: Mr. Victor Tan, Chief Financial Officer.

RE: VALUATION OF SILOAM HOSPITALS MANADO AND HOTEL ARYADUTA MANADO, MANADO – INDONESIA.

I refer to the instructions from Bowsprit Capital Corporation Limited (Singapore) Ltd (the "Clients") based on the valuation proposal Ref.017B/W&R-Proposal/I/2012 dated 2 February 2012 for KJPP Willson dan Rekan in association with Knight Frank (the "Valuer") to conduct an independent valuation of Siloam Hospitals Manado and Hotel Aryaduta Manado based on a proposed lease arrangement of the hospital's and hotel's land and building with the tenant that is stipulated in the proposed term sheet dated 26 March 2012 and addendum of the proposed term sheet dated 15 August 2012.

This valuation is required in connection with the proposed acquisition of the Subject Property by First REIT and thereafter the proposed inclusion of the Subject Property into the existing property portfolio of First REIT.

A full inspection of the Subject Property has been undertaken by our Valuer, who has the relevant experience and knowledge of valuing this type of property in this particular location. We are pleased to confirm that we have completed our site inspection and due diligence of the Subject Property.

Siloam Hospitals Manado and Hotal Aryaduta Manado comprises a 11-storey mixed use development comprising four levels of hospital accommodating 224 beds and integrated with nine levels of 4 star hotel with 200 guest rooms, with a total gross built-up floor area of about 36,051 square meters, which stands on a 5,518-square meter land plot. The Subject Property is located in Jalan Sam Ratulangi No. 22, Komplek Boulevard Center, sub district of Wenang Utara, district of Wenang, regency of Manado, North Sulawesi.

Our valuation makes references to the Indonesian Valuation Standards (Standar Penilaian Indonesia) 2007, and our valuers abide to the Indonesian Valuers Code of Ethics (Kode Etik Penilai Indonesia/KEPI).

Continue to page 2.

Our valuation has adopted the basis of Market Value upon satisfactory completion today. Market Value is defined as "the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

In arriving at our opinion of Market Value upon satisfactory completion today, the Valuer has adopted the income approach using discounted cash flow method.

Our opinion of Market Value of Siloam Hospitals Manado and Hotel Aryaduta Manado upon satisfactory completion today as at 5 September 2012; based on the terms and conditions as stipulated in the term sheet dated 26 March 2012 and addendum to the term sheet dated 15 August 2012, and subject to the factual data, our assumptions, comments, qualifications, and limiting conditions is:

Sin$90,900,000.

(Singapore Dollars Ninety Million Nine Hundred Thousand Only)

or reflecting Indonesian Rupiahs 698.441.058.000 at the exchange rate of Sin$1 = Rp.7.684,62.

This letter has been prepared to give indication of our valuation result for the Client's information only. Our formal opinion of valuation will be presented in our full report.

For and on behalf of

KJPP Willson dan Rekan
in association with Knight Frank

KJPP Willson & Rekan

Willson Kalip
B.Sc. (Est. Mgt.) (Hons), MAPPI (Cert.), MSISV
Managing Partner

Licensed Public Valuer No.: P-1.08.00016 (Ministry of Finance of the Republic of Indonesia)
Registered Valuer No.03/PM/STTD-P/A/2006 (Bapepam-LK / Indonesia Capital Market Supervisory Agency)
Member of Indonesian Society of Appraiser (MAPPI) No: 94-S-00387
Appraiser's License No. (land and building) : AD 041-2004997D (Inland Revenue Authority of Singapore)
Member of Singapore Institute of Surveyors and Valuers (MSISV) No : VGP/2009/1457

in association with
Knight Frank

Kantor Jasa Penilai Publik
Willson dan Rekan (License No. : 2.09.0049)
Wisma Nugra Santana # 17-08, Jl. Jend. Sudirman Kav. 7-8, Jakarta 10220, Indonesia
T +62 (21) 570 7170 F +62 (21) 570 7177
www.knightfrank.co.id

To : HSBC Institutional Trust Services (Singapore) Limited
(as Trustee of First Real Estate Investment Trust)
21 Collyer Quay
#14 – 01 HSBC Building
Singapore 049320

Our Ref. : RHP-Ct/1-P/II/2012-009A
Date : 11 September 2012
No. Report : 035A-VAL-XI/2012

VALUATION OF
SILOAM HOSPITALS MANADO AND ARYADUTA HOTEL
JALAN SAM RATULANGI NO. 22,
BOULEVARD CENTER COMPLEX,
MANADO CITY, NORTH SULAWESI PROVINCE, INDONESIA

Dear Sir/Madam,

Following instruction of HSBC Institutional Trust Services (Singapore) Limited ("**HSBC**") as Trustee of First Real Estate Investment Trust ("**First REIT**") under contract No. RHP-Ct/1-P/II/2012-009A dated 3 February 2012 to advise on the Market Value of Siloam Hospitals Manado ("SHMD") and Aryaduta Hotel ("AHMD") ("**subject property**") which will be bounded under a master lease agreement, located at Jalan Sam Ratulangi No. 22, Boulevard Center Complex, Manado City, North Sulawesi Province, Indonesia, we hereby declare that we have completed our inspection and analysis, and submit the formal valuation report for your consideration.

This assignment has been carried out by KJPP Rengganis, Hamid & Partner-KJPP RHP (previously PT Heburinas Nusantara) an independent valuation firm registered in Indonesian Society of Appraisers (*Masyarakat Profesi Penilai Indonesia*). Effective on 1 March 2011, KJPP-RHP has established a strategic alliance with CB Richard Ellis, a global property services company. KJPP-RHP is provided with a business permit from the Ministry of Finance and registered in Bapepam (Securities Exchange Commission "SEC"). Partners of KJPP-RHP have been registered in the Ministry of Finance and SEC.

We understand that the purpose of this valuation is to give an independent opinion on Market Value of the subject property for potential REITS acquisition.

<u>Basis of Valuation</u>

The Indonesian Valuation Standard *(Standar Penilaian Indonesia)* 2007 defined Market Value as follows :

"The estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion ". (SPI.1.3.1)

Market Value refers and reflects the actual value regardless of any tax liability or costs associated with these sales transactions. The property is valued based on the assumption that it is free and clear of all mortgages, encumbrances and other outstanding premiums and charges.

We have valued the property in Singapore Dollar currency since the fixed rent revenue is in Singapore Dollar. However, the operating asset generates income in Rupiah as the basis for variable rent calculation converted into Singapore Dollar by using fixed exchange rate of SGD1/-= Rp7,000/- as stated in the proposed master lease term dated 26 March 2012 and addendum to term sheet dated 15 August 2012. For your information, the exchange rate at the date of valuation, 5 September 2012, is SGD1/-= Rp7,684/- (middle rate).

<u>Assumption of Valuation</u>

1. The value opinion stated in this report is restricted to the purpose of this valuation and cannot be used for other valuation purposes which can be misquoted.
2. The title of the subject property is assumed to be good marketable title, free, and clear from all liens and encumbrances, easements, restriction, or limitation. We did not make any land measurement and we assumed that the land drawing contained in the land certificates and/or provided by SHMD and AHMD is true and accurate.
3. In this valuation we have assumed that the master lease agreement is transferable/marketable, free and clear from restriction and limitation.
4. For the purposes of this valuation, we rely on the data provided by SHMD and AHMD and verbal data gathered during site inspection and assume that those are true and accurate.
5. This valuation certificate depends on the terms, conditions, comments and details as stated in the full report.

<u>Approach of Valuation</u>

Generally, there are three basic approaches to value that should be considered;

1. Income approach
2. Cost approach
3. Sales comparison approach

In appraisal practice, an approach to value is included or omitted based on its applicability to the property type being valued and the quality and quantity of information available. The final step in the appraisal process is reconciliation – a process by which we analyze alternative conclusions and selects a final value estimate from among the indications of value.

In this valuation, we have considered that the **Income Approach utilizing the Discounted Cash Flow Method (DCF Method)** analysis is most applicable in valuing the subject property with the improvements erected thereon.

DCF method is most suitable for valuing income-producing properties. In this method, the anticipated series of annual net operating income of the property is processed to produce an indication of value. Net operating income is the income generated before payment on any debt service and tax. The series of net operating income is discounted into present value by using a discount rate that reflecting the level risk and return of similar properties.

Source of Information

We have been provided by SHMD and AHMD with copy of land title certificates, copy of building permit letter, copy of operational permit, copy of proposed master lease term summary, copy of property tax, business plan and others related documents. We have assumed these are true and correct.

Confidentially and Disclaimers

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

We hereby enclose our valuation certificate.

Yours faithfully
For and on behalf of
KJPP Rengganis, Hamid & Partners

KJPP Rengganis, Hamid & Rekan

Ir. Rengganis Kartomo, MSc. MAPPI (Cert)
Managing Partner
Licensed Valuer No. PB-1.08.0006
MAPPI No. 95-S-0632

VALUATION CERTIFICATE

Property	Description	Indicative Market Value as at 5 September 2012
Property Brief The subject property is Siloam Hospitals Manado (SHMD) and Aryaduta Hotel Manado (AHMD) (both are called as MD Property) which will be bounded under a master lease agreement. **Location** MD Property is located at Jalan Sam Ratulangi No. 22, Boulevard Center Complex, Manado City, North Sulawesi Province, Indonesia. It is located on the west side of Jalan Sam Ratulangi and on the east side of Jalan Piere Tendean and or within radius of: ■ about 130 meters to the north of the intersection between Jalan SAM Ratulangi and Jalan Sarapung; ■ about 400 meters to the south of the intersection between Jalan SAM Ratulangi and Jalan Sudirman; ■ about 1 kilometers to the south of Manado Port; ■ About 12 kilometers to the southwest of Sam Ratulangi Airport;	**Site Detail and Tenure** The site is rectangular in shape with land area of about 5,518 square meters. It is generally flat and is higher than the fronting road. Based on the photocopy of the land title document provided by SHMD and AHMD, we understand that the MD Property is covered under 6 (six) Leasehold Certificate (Hak Guna Bangunan Certificate – "SHGB") registered under the name of Menara Abadi Megah it will expire on 18 May 2032. **Building Description** MD Property is an 11-storey mixed use development with 177 carpark spaces comprising 4 levels of hospital accommodating 224 beds which commenced operations on 1 June 2012 and integrated with 11 levels of 4 stars hotel with 200 guest rooms, which commenced operations on 1 January 2011. The total gross floor area is 36,051 sqm comprising 11,476 sqm of hospital usage, 23,430 sqm of hotel usage and 1,145 sqm of shared M&E space.	SGD 96,500,000/- (NINETY SIX MILLION FIVE HUNDRED THOUSAND SINGAPORE DOLLARS)

Letter No.: 230/W&R-Letter/IV/2012

11 September 2012

To:

HSBC Institutional Trust Services (Singapore) Limited
(as Trustee of First Real Estate Investment Trust)
21 Collyer Quay
#14-01 HSBC Building
Singapore 049320

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

Attention: Mr. Victor Tan, Chief Financial Officer.

RE: VALUATION OF SILOAM HOSPITALS MAKASSAR, MAKASSAR – INDONESIA.

I refer to the instructions from Bowsprit Capital Corporation Limited (the"Clients") based on the valuation proposal Ref.017A/W&R-Proposal/I/2012 dated 2 February 2012 for KJPP Willson dan Rekan in association with Knight Frank (the "Valuer") to conduct an independent valuation of Siloam Hospitals Makassar based on a proposed lease arrangement of the hospital's land and building with the tenant that is stipulated in the term sheet dated 26 March 2012 and addendum to the proposed term sheet dated 15 August 2012.

This valuation is required in connection with the proposed acquisition of the Subject Property by First REIT and thereafter the proposed inclusion of the Subject Property into the existing property portfolio of First REIT.

A full inspection of the Subject Property has been undertaken by our Valuer, who has the relevant experience and knowledge of valuing this type of property in this particular location. We are pleased to confirm that we have completed our site inspection and due diligence of the subject property.

Siloam Hospitals Makassar comprises a 7-storey hospital accommodating 416 beds with a total gross built-up floor area of about 14,307 square meters, which stands on a 3,963-square meter land plot located at Jalan Metro Tanjung Bunga Kav 3-5, Sub-District of Tanjung Merdeka, District of Tamalate, City of Makassar, Province of South Sulawesi, Indonesia.

Our valuation makes references to the Indonesian Valuation Standards (Standar Penilaian Indonesia) 2007, and our valuers abide to the Indonesian Valuers Code of Ethics (Kode Etik Penilai Indonesia/KEPI).

Continue to page 2.

in association with
Knight Frank

Kantor Jasa Penilai Publik
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Our valuation has adopted the basis of Market Value upon satisfactory completion today. Market Value is defined as "the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

In arriving at our opinion of Market Value upon satisfactory completion today, the Valuer has adopted the income approach using discounted cash flow method.

Our opinion of Market Value of Siloam Hospitals Makassar upon satisfactory completion today as at 5 September 2012; based on the terms and conditions as stipulated in the term sheet dated 26 March 2012 and addendum to the term sheet dated 15 August 2012 and subject to the factual data, our assumptions, comments, qualifications, and limiting conditions is:

Sin$66,800,000.

(Singapore Dollars Sixty Six Million Eight Hundred Thousand Only)

or reflecting Indonesian Rupiahs 513.265.816.000 at the exchange rate of Sin$1 = Rp.7.684,62.

This letter has been prepared to give indication of our valuation result for the Client's information only. Our formal opinion of valuation will be presented in our full report.

For and on behalf of

KJPP Willson dan Rekan
in association with Knight Frank

Willson Kalip
B.Sc. (Est. Mgt.) (Hons), MAPPI (Cert.), MSISV
Managing Partner

Licensed Public Valuer No.: P-1.08.00016 (Ministry of Finance of the Republic of Indonesia)
Registered Valuer No.03/PM/STTD-P/A/2006 (Bapepam-LK / Indonesia Capital Market Supervisory Agency)
Member of Indonesian Society of Appraiser (MAPPI) No: 94-S-00387
Appraiser's License No. (land and building) : AD 041-2004997D (Inland Revenue Authority of Singapore)
Member of Singapore Institute of Surveyors and Valuers (MSISV) No : VGP/2009/1457

To : HSBC Institutional Trust Services (Singapore) Limited	Our Ref.	: RHP-Ct/1-P/II/2012-009B
(as Trustee of First Real Estate Investment Trust)	Date	: 11 September 2012
21 Collyer Quay	No. Report	: 035B-VAL-XI/2012
#14 – 01 HSBC Building		
Singapore 049320		

VALUATION OF
SILOAM HOSPITALS MAKASSAR
JALAN METRO TANJUNG BUNGA, TANJUNG BUNGA ESTATE
MAKASSAR CITY, SOUTH SULAWESI PROVINCE, INDONESIA

Dear Sir/Madam,

Following instruction of HSBC Institutional Trust Services (Singapore) Limited ("**HSBC**") as Trustee of First Real Estate Investment Trust ("**First REIT**") under contract No. RHP-Ct/1-P/II/2012-009B dated 3 February 2012 to advise on the Market Value of Siloam Hospitals Makassar ("**SHMS or subject property**") which will be bounded under a master lease term, located on Jalan Metro Tanjung Bunga, Tanjung Bunga Township, Makassar City, South Sulawesi, Indonesia, we hereby declare that we have completed our inspection and analysis, and submit the formal valuation report for your consideration.

This assignment has been carried out by KJPP Rengganis, Hamid & Partner-KJPP RHP (previously PT Heburinas Nusantara) an independent valuation firm registered in Indonesian Society of Appraisers (*Masyarakat Profesi Penilai Indonesia*). Effective on 1 March 2011, KJPP-RHP has established a strategic alliance with CB Richard Ellis, a global property services company. KJPP-RHP is provided with a business permit from the Ministry of Finance and registered in Bapepam (Securities Exchange Commission "SEC"). Partners of KJPP-RHP have been registered in the Ministry of Finance and SEC.

We understand that the purpose of this valuation is to give an independent opinion on Market Value of the subject property for potential REITS acquisition.

Basis of Valuation

The Indonesian Valuation Standard *(Standar Penilaian Indonesia)* 2007 defined Market Value as follows :

"The estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion ". (SPI.1.3.1)

Market Value refers and reflects the actual value regardless of any tax liability or costs associated with these sales transactions. The property is valued based on the assumption that it is free and clear of all mortgages, encumbrances and other outstanding premiums and charges.

We have valued the property in Singapore Dollar currency since the fixed rent revenue is in Singapore Dollar. However, the operating asset generates income in Rupiah as the basis for variable rent calculation converted into Singapore Dollar by using fixed exchange rate of SGD1/-= Rp7,000/- as stated in the proposed master lease term dated 26 March 2012 and addendum to term sheet dated 15 August 2012. For your information, the exchange rate at the date of valuation, 5 September 2012, is SGD1= Rp7,684/- (middle rate).

Assumption of Valuation

1. The value opinion stated in this report is restricted to the purpose of this valuation and cannot be used for other valuation purposes which can be misquoted.
2. The title of the subject property is assumed to be good marketable title, free, and clear from all liens and encumbrances, easements, restriction, or limitation. We did not make any land measurement and we assumed that the land drawing contained in the land certificates and/or provided by SHMS is true and accurate.
3. In this valuation we have assumed that the master lease term is transferable/marketable, free and clear from restriction and limitation.
4. For the purposes of this valuation, we rely on the data provided by SHMS and verbal data gathered during site inspection and assume that those are true and accurate.
5. This valuation depends on the terms, conditions, comments and details as stated in the full report.

Approach of Valuation

Generally, there are three basic approaches to value that should be considered;

1. Income approach
2. Cost approach
3. Sales comparison approach

In appraisal practice, an approach to value is included or omitted based on its applicability to the property type being valued and the quality and quantity of information available. The final step in the appraisal process is reconciliation – a process by which we analyze alternative conclusions and selects a final value estimate from among the indications of value.

In this valuation, we have considered that the **Income Approach utilizing the Discounted Cash Flow Method (DCF Method)** analysis is most applicable in valuing the subject property with the improvements erected thereon.

DCF method is most suitable for valuing income-producing properties. In this method, the anticipated series of annual net operating income of the property is processed to produce an indication of value. Net operating income is the income generated before payment on any debt service and tax. The series of net operating income is discounted into present value by using a discount rate that reflecting the level risk and return of similar properties.

Source of Information

We have been provided with copy of land title certificates, copy of building permit letter, copy of temporary operational permit, copy of master lease term summary, copy of property tax, business plan and others related documents. We have assumed these are true and correct.

Confidentially and Disclaimers

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

We hereby enclose our valuation certificate.

Yours faithfully
For and on behalf of
KJPP Rengganis, Hamid & Partners

KJPP Rengganis, Hamid & Rekan

Ir. Rengganis Kartomo, MSc. MAPPI (Cert)
Managing Partner
Licensed Valuer No. PB-1.08.0006
MAPPI No. 95-S-0632

VALUATION CERTIFICATE

Property	Description	Indicative Market Value as at 5 September 2012
Property Brief The subject property is Siloam Hospitals Makassar (SHMS) which will be bounded under a master lease term. **Location** SHMS is located on Jalan Metro Tanjung Bunga, Makassar City, South Sulawesi Province, Indonesia. It is located on the west side of Jalan Metro Tanjung Bunga or within radius of: • about 350 meters to the south west of Tanjung Bunga Main Gate or intersection between Jalan Metro Tanjung Bunga and Jalan Rajawali. • about 5 kilometers to the south west of Reformasi Toll Gate; • about 11 kilometers to the south west of Sultan Hassanudin Air Port.	**Site Detail and Tenure** The site is rectangular in shape with land area of about 3,963 square meters. It is generally flat and is at the same height as than the fronting road. Based on the photocopy of the land title document provided by SHMS, we understand that the subject property is covered under Leasehold Certificate (Hak Guna Bangunan Certificate – "SHGB") registered under the name of PT Siloam Karya Sejahtera. It will expiry on 22 December 2031. **Building Description** SHMS is a 7-storey hospital with 50 car parking lots accommodating 416 beds and commenced operation on 9 September 2012. The total gross floor area is 14,307 square meters.	SGD 64,700,000/- (SIXTY FOUR MILLION SEVEN HUNDRED THOUSAND SINGAPORE DOLLARS)

Overview and Assessment of Makassar & Manado Healthcare & Hospitality Services Market in Indonesia

Final Report

- Developed for -

First-REIT

September, 2012

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Glossary

Terms	Meaning
AFP	Acute Flaccid Paralysis
ALOS	Average Length of Stay: average number of days in the hospital for each person admitted
APEC	Asia-Pacific Economic Co-operation
Artery Road	Urban roads usually catered for high capacity traffic flow
Askeskin	Asuransi Kesehatan Masyarakat Miskin (English equivalent to Health Insurance for the Poor)
ASEAN	The Association of South East Asian Nations
ATF	ASEAN Travel Forum
BD	Bidan Delima (English Equivalent to midwife)
BIMP-EAGA	Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area
BOR	Bed Occupancy Rate, typically used as a hospital capacity management method to measure the utilisation rate of a hospital's inpatient facilities. BOR is usually calculated by dividing the total inpatient days of care (totalling the number of days in which each patient occupied a bed) over the maximum number of available bed-days (total number of beds multiplied by the total number of operating days)
BPS	Badan Pusat Statistik (English equivalent to Central Bureau of Statistics)
Cardiac Catheterisation	An interventional cardiology procedure that involves insertion of a catheter into a chamber or vessel of the heart
CAGR	Compound Annual Growth Rate

Collector Road	Roads that usually serve low to moderate-capacity traffic flows, such as local streets or residential roads
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.
Dinkes	Provincial Health Office
EDEN	Early Dengue Infection and Outcome
ERP	Electronic Resource Planning
F&B	Food & Beverages
HIS	Health Information System
IBI	Indonesian Midwives Association
IDI	Indonesian Doctors Association
IMA	Indonesian Medical Association
IMR	Infant Mortality Rate
Jamkesmas	Jaminan Kesehatan Masyarakat (English equivalent to Community Health Security)
JCI	Joint Commission International
KARS	Komisi Akreditasi Rumah Sakit (English equivalent to Hospital Accreditation Commission)
LBW	Low Birth Weight
MCH	Maternal Child Health
MICE	Meetings, Incentives, Conventions, Exhibitions

MKPD	Manado Kota Pariwisata Dunia (English equivalent to Manado, World Tourism City)
MOH	Ministry of Health
MOU	Memorandum of Understanding
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 or the most advanced 3.0-Telsa.
NHCR	Novartis Hassanuddin Clinical Research
MMR	Maternity Mortality Rate
OOP	Out-of-Pocket
PPSDM	Badan Pengembangan dan Pemberdayaan SDN Kesehatan (English equivalent to Development of Human Resources Strategic Program)
PUSKESMAS	Pusat Kesehatan Masyarakat (English equivalent to Centre of Public Health)
RS	Rumah Sakit (English equivalent to Hospital)
SDPDP	Siloam Doctor Partnership Development Program
SHI	Social Health Insurance
SHMD	Siloam Hospitals Manado
SHMK	Siloam Hospitals Makassar
Specialist	A physician who completed multiple years of residency to further their medical education in specific specialty after completing medical school
TB	Tuberculosis
Trauma	Critical injury to body tissue by physical or chemical means

Hospital Types:

Type A	Hospitals with large sub-specialty and specialty services. Indonesia these hospitals are regarded as the national referral centre, often with more than 400 beds
Type B	Hospitals with limited sub-specialty services but with wide range of specialty offerings. These hospitals are often referred as regional referral hospitals
Type C	Hospitals with no sub-specialty services and has the basic 4 specialty services like surgery, obstetrics and gynaecology, paediatric and internal medicine. These hospitals are equivalent to general hospitals
Type D	Specialty hospitals with one type of specialty offering only, examples include mental and eye hospitals
USAID	United States Agency for International Development
WOC	World Ocean Conference
WHO	World Health Organisation

1 General Review of the Indonesian Healthcare Industry and Healthcare Services

1.1 INDUSTRY OVERVIEW

1.1.1 Indonesia Health Status

With a population of 238 million in 2010, Indonesia ranks fourth in population size after China, India, and the United States The country with 6,000 inhabited islands covering an area of 5,120 kilometres from east to west and 1,760 kilometres from north to south is rich in culture and diversity.

In the past decade, the significant growth of the public health sector underpinned majority of the healthcare sector development. In response to the financial and economic crisis, new emphasis was placed on pro-poor financing, whereby the public sector was bestowed as the primary sector for delivering accessible and affordable healthcare services to the poor. Universal social health coverage (delivered through the Askeskin / Jamkesmas programs) established in 2004 was the lynchpin funding platform by enabling substantial geographical and operational growth for the mobile public health centres (Puskesmas) and hospitalization reimbursements in government owned hospitals.

Overall, Indonesia has made steady progress in health outcomes since early 1970s. For instance, infant mortality dropped from 118 deaths per thousand births in 1970 to about 28.8 in 2010. However, new challenges have emerged in recent years as a result of social economic changes. The fast rising proportion of more complex non communicable diseases, insufficient financing on healthcare and poor accessibility of healthcare are likely to remain as the pertinent issues to be addressed by the policy makers in the next decade. Moreover, Indonesia still falls short in comparison to its regional neighbours in terms of health outcomes, facilities and resource adequacies.

In 2010, the President of Indonesia, Susilo Bambang Yudhoyono, recognized the need for the country to keep pace with the changing healthcare environment and highlighted the need for a reform of community services from medication to prevention. The government had also begun to increase their budget allocation on health programs for disease preventions

Table 1.1 lists the key indicators of Indonesia's health status in 2011.

Table 1-1: Major Healthcare Indicators in Indonesia, 2007-2011

Healthcare Indicators	2007	2008	2009	2010	2011
Population (mn)	226	229	232	238	245
Population Growth Rate (%)	1.3	1.3	1.3	1.07	1.04
Birth Rate (per 1,000)	19.65	19.24	18.84	18.10	17.76
Mortality Rate (per 1,000)	6.90	6.85	6.80	6.28	6.26
Life Expectancy (Female)	72.7	73.1	73.4	73.99	74.29
Life Expectancy (Male)	67.6	68.0	68.3	68.8	69.07

Source: IMF, CIA World Fact Book, Indonesian Department of Health, Frost& Sullivan

The constant decline in the various categories of deaths has signalled that the overall healthcare outcomes in Indonesia have improved over time. In 2011, the total number of death in Indonesia was estimated at 6.28 deaths for every 1,000 population.

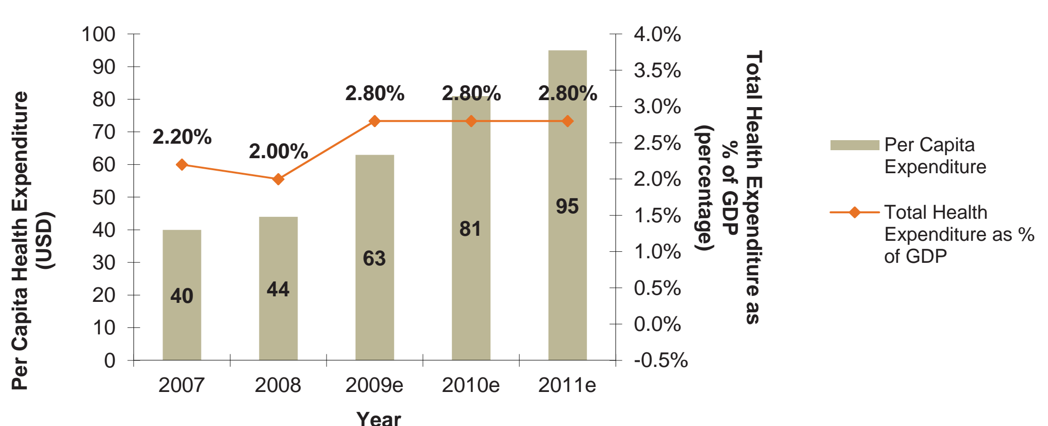
1.2 SNAPSHOTS OF THE HEALTHCARE SYSTEM

1.2.1 Health Expenditures

Despite the compelling need for greater attention to these health issues, commitment has been low, both in the public and private sectors with the percentage of healthcare expenditure to GDP hovering in the region of 2.00 percent from 2004 to 2008. From 2009 onwards, the embarkation of the Healthcare sector reform and the increase governmental encouragement for private healthcare investment is likely to increase the contribution of healthcare spending to 2.8 percent of the GDP.

Chart 1.1 shows the trend in total health expenditure as a percentage of GDP and total per capita expenditure on health in Indonesia. Chart 1.2 illustrates the change in contribution of the private and government sectors in total health expenditure from the years 2007 to 2011.

Chart 1.1: Per Capita Expenditure on Health in Indonesia, 2006-2011



Source: EIU, Frost & Sullivan

Chart 1.2: Health Expenditure by Private and Government Sectors in Indonesia, 2007-2011

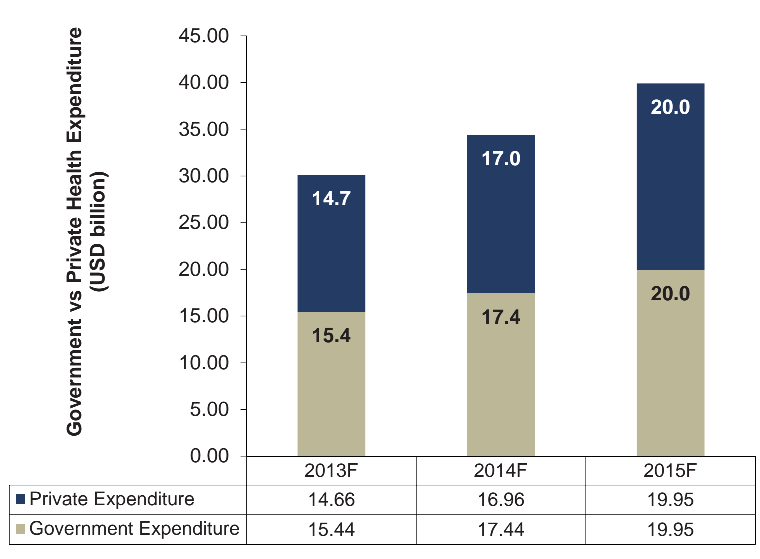
Private vs Government Health Expenditure (USD bn)

	2007	2008	2009	2010e	2011e	2012e
Private	4.3	4.7	7.3	9.5	11.3	12.8
Government	5.1	5.7	7.8	10.3	12.1	13.6

Source: EIU, World Bank, Frost & Sullivan

In spite of the credit crunch economic crisis in 2008, the Indonesian healthcare expenditure has continued to grow. The outlook of the healthcare expenditure in the country is likely to continue its positive growth trend, particularly with the growing penetration of the universal public health insurance.

Chart 1.3: Healthcare Expenditure Growth in Indonesia, 2013-2015



	2013F	2014F	2015F
Private Expenditure	14.66	16.96	19.95
Government Expenditure	15.44	17.44	19.95

Source: EIU, Frost & Sullivan

Healthcare expenditure as a percentage of GDP is likely to remain at 2.8 percent for the next five years. This trend is expected to continue as the nation begins to realize the industrial improvements stemmed from the full implementation of Healthy Indonesia 2010 and the subsequent enactment of the New Hospital Law and the reinforcement of the Social Security Providers Bill, aiming to accelerate the attainment of universal health coverage by January 2014. Furthermore, as prescribed in the New Healthcare Strategic Plan 2005-2009, Indonesian's plans to increase healthcare spending in the private sectors and gradual increase of public financing to 15 percent from national and regional state budgets are likely to be extended towards 2012.

Traditionally, healthcare financing for the public sector in Indonesia comes from the Ministry of Health, the provincial healthcare budget, the district health budget, military health services, other sector spending on health, social health insurance corporations, and foreign aid and loans.

Since 2001, the embarking of the decentralization process in the public healthcare sector and dramatic increase in government investment has resulted in more than three-fold increase of the public healthcare expenditure, from USD 1.7 billion in 2001 to USD 12.1 billion in 2011. The gradual improvement in economic conditions, declining debt repayments and recently reduced fuel subsidies present greater potential for Indonesia to free up more of its resources for healthcare spending.

Private sector healthcare financing in Indonesia comprises out-of-pocket payments by individuals and households, employers, and private insurance companies. Until 2000, private healthcare expenditure accounted for around 75 percent of the total expenditure on health. Although this has grown consistently in the past 5 years, due to the decentralization of the health system, growth in government expenditure has resulted in almost equal share of healthcare expenditure among the two sectors in 2009.

According to WHO, it is estimated that over 66.3 percent of the private expenditure on health is sourced from households' out-of-pocket payments, with a small portion of prepaid health insurance plans (9.7 percent), and the remaining were accounted by NGOs and private firms.

1.2.1 Healthcare Infrastructures

Since 2004, the number of hospitals from the public sector had exceeded the number of the private hospitals, due to the highly accelerated growth of government hospitals stemming from Indonesian government's intention to increase healthcare accessibility and affordability. From 2007 to 2010, the number of public hospitals grew by 22 percent, while the number of private sector hospitals grew by 26 percent.

The assessment on the number of hospital beds, however, reflects a less favourable result. During the period of 2004 to 2010, hospitals in Indonesia merely provided about 6.7 beds to every 10,000 population, which is significantly more underdeveloped as compared to its regional neighbours, such as Malaysia, Philippines and Thailand with double digit ratios achieved.

However, despite facing the highest level of restrain in hospital bed capacity, Indonesia offers the most affordable hospitalization cost among the neighbouring countries. According to the WHO-Choice program, which consolidates the healthcare costs for its member states, the average patient cost per tertiary hospital bed in Indonesian was estimated at USD 54. Comparatively, similar services in Singapore, Malaysia and Thailand would cost the patient USD 280, USD 122, and USD 107 respectively.

Currently, the Indonesian Government is in the process of reclassifying its hospitals. Because of which the number of public and private hospitals have changed. By July 2012, it has reclassified 1304 hospitals out of the total 1974 hospitals (670 are awaiting classification). So far, it has classified 1012 public hospitals and 292 private hospitals, 469 public and 201 private are yet to be classified. So the number of private hospitals has reduced as compared to 2010. We have retained the previous classification for the figures till 2010 as these are easier to compare. The completed classification should be available by the end of the year 2012.

Table 1.2 gives an overview of the healthcare infrastructure in Indonesia.

Table 1-2: Healthcare Infrastructure in Indonesia, 2007-2010

Infrastructure	2007	2008	2009	2010	CAGR % (2007-2010)
Total Number of Hospitals	1,319	1,372	1,523	1,632	7.4%
Private Hospitals	667	673	768	838	7.9%
Public Hospitals	652	699	755	794	6.8%
Total Number of Beds	142,707	149,538	163,680	166,288	5.2%
Total Specialized Beds	20,412	20,788	22,077	22,860	3.8%
Total General Beds	122,295	128,750	141,603	143,428	5.5%
Private General Beds	45,074	47,266	52,064	52,468	5.2%
Public General Beds	77,221	81,484	89539	90,960	5.6%
General Doctors	44,378	44,759	47,930	48,699	3.1%
Specialized Practitioners	14,599	15,722	16,764	17,023	5.3%
Nurses & Midwives	256,290	291,992	327,413	465,662	22.0%

Source: Indonesian Department of Health, Frost & Sullivan

The shift of governmental focus towards a community-centric healthcare system since 2004 had drastically changed the way healthcare facilities are utilized in the both public and private sectors. Private health service had historically been the more popular option by accounting for more than 50 percent of the health services. As most of the private services were not reimbursable during the early implementation years of Jamkesmas, patients outflow towards the highly accessible and subsidized public health centre and hospitals had increased. Hence public health services had swiftly grown to provide the majority 65 percent of the country's health services by 2007.

Nonetheless, drastic increase in patient numbers has inevitably strained the human resource and facilities at the public health institutions, causing an increased participation from the private sector in delivering community based healthcare. As of 2010, there are 346 private hospitals in contract with Jamkesmas, which helped to serve the low income subscribers under the scheme. This growing trend is likely to create a more balanced and efficient sharing of facilities and resources among both sectors in the future.

The number of hospitals in each province, as listed in Table 1.3, clearly shows that the gap in healthcare infrastructure between the developed and under-developed areas has yet to be effectively addressed.

Table 1-3: Hospitals and Beds by Province in Indonesia, 2010

Region	Hospitals	General Beds per 10,000 population (2009)	Region	Hospitals	General Beds per 10,000 population (2009)
Jawa Timur	184	5.94	Lampung	33	4.07
Jawa Tengah	209	7.28	Sulawesi Utara	31	14.20
Jawa Barat	191	4.50	Sulawesi Tengah	23	6.49
Sumatera Utara	148	10.43	Maluku	23	10.79
DKI Jakarta	130	17.73	Jambi	22	5.38
Sulawesi Selatan	62	9.27	Papua	24	5.80
Sumatera Barat	43	0.58	Kalimantan Tengah	15	4.79
Aceh	43	7.47	Sulawesi Tengarra	21	5.43
Bali	41	8.92	Nusa Tenggara Barat	17	3.56
Sumatera Selatan	38	6.35	Kepulauan Riau	21	0.54
D.I. Yogyakarta	49	11.99	Bengkulu	15	5.76
Kalimantan Timur	35	10.07	Papua Barat	10	9.02
Riau	40	5.38	Maluku Utara	13	6.72
Kalimantan Barat	31	7.41	Bangka Belitung	10	7.04
Banten	37	3.12	Gorontalo	8	4.91
Nusa TengarraTimur	30	5.23	Sulawesi Barat	5	2.41
Kalimantan Selatan	29	6.73			

Source: Indonesian Department of Health, Frost & Sullivan

Table 1.4 indicates the total number of government hospitals in Indonesia, by different categories of bed size, in 2008.

As the capital city of South Sulawesi, Makassar has an average of 24.5 hospital beds for every 10,000 of the population as of 2007. The hospital utilization rate in Makassar is also comparably higher than the national standard; the average length of stay (ALOS) in hospitals is 6 days as compared to the national ALOS of 5 days.

Table 1-4: Number of Public Hospitals by bed Size, 2008, 2010, 2012

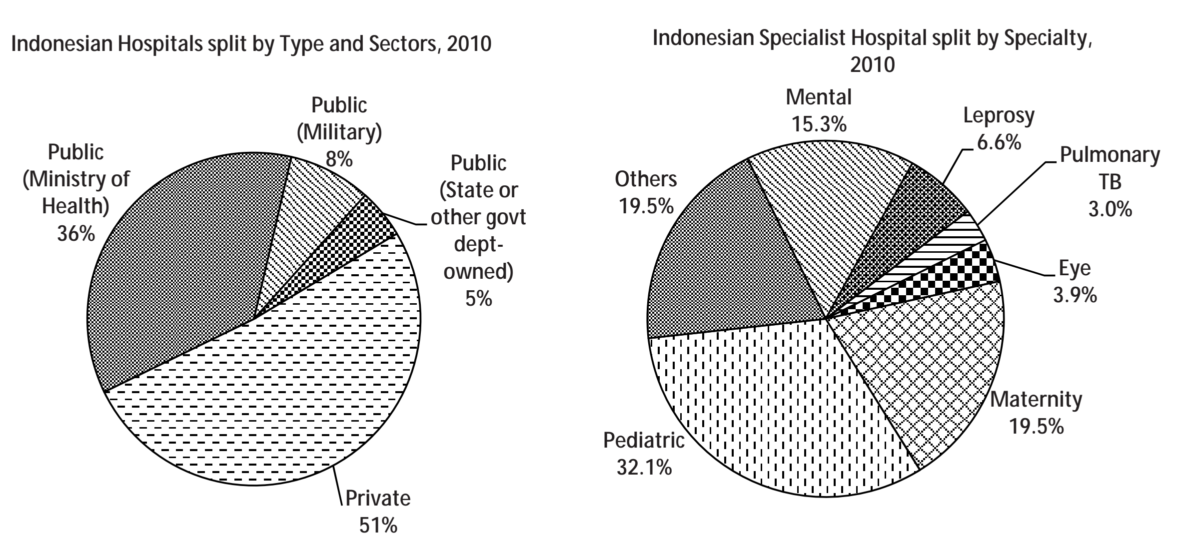
	Class D <50	Class C 50 – 100	Class B 100-400	Class A >400
2008	88	256	79	8
2010	126	250	120	10
2012*	133	267	158	45

**July 2012 data*

Source: Indonesian Department of Health

The largest number of government hospitals is attributed to the Class C, which generally serve secondary and tertiary care for larger districts. The 10 Class A hospitals currently providing top class national referral care are situated in major cities of Jakarta, Denpasar, Medan, Yogyakarta, Palembang, Surabaya, Semarang, Bandung and Makassar. General hospitals account for close to 80 percent of the total hospitals in the country. Within the public sector, majority of the general hospitals falls within the Class C classification. Despite the rapid increase in non-communicable diseases, specialist hospitals that cater to diseases such as cardiac care and cancer are still considerably low at less than one percent. Specialist hospitals specialising in paediatric care, maternity care and mental treatment are the most common.

Chart 1.4: Indonesia Hospital Split by Classifications, 2010



Source: Indonesian Department of Health, Frost & Sullivan

As of 2010, a total of 333 specialist hospitals were established in the country with an increase of 53 hospitals since 2006.

The health system in Indonesia relies heavily on the private sector and this should be given due importance by the government failing which health outcomes will not be improved. More people seek care in the private sector for such critical services as birth delivery, child diarrhoea, and acute respiratory infection than in the public sector, and this proportion is rising, even among the poor.

With the intention to boost its healthcare manpower, Indonesia Ministry of Health has prescribed a series of manpower target ratios in the MOH Strategic Plan 2005-2009 for the major categories of healthcare professionals by 2010. Based on the total production of healthcare professionals in 2008, nursing and midwifery are considered as the key categories with significant manpower shortages.

Consequent to the relaxed regulation, the government allows health professionals to simultaneously take up jobs in both the public and private sectors. While from the positive side, this human resource distribution trend may be viewed as a form of resource sharing, negative impact such as diminishing service quality and less accountability for the poorly incentivized public health service may arise. According to USAID, about 60 to 70 percent of healthcare workers in Indonesia currently hold dual employment in both the public and private sectors.

Table 1.5 indicates the targeted manpower ratios by the MOH, by different categories of healthcare professionals and the production numbers achieved as of 2010.

Table 1-5: Healthcare manpower targeted and achieved ratios, 2010

Healthcare Profession	Ratio per 100,000 population (2010)	Target Numbers (thousands)	Achieved Numbers (thousands)	Surplus / Shortage (thousands)
Specialists	7.2	21.2	17.0	(4.2)
General Doctor	20.5	70.8	48.7	(22.1)
Dentist	7.0	26.0	16.6	(9.4)
Nurse	124.9	372.8	296.7	(76.1)
Midwife	71.1	177.0	169.0	(8.0)

Source: Indonesian Department of Health, Frost & Sullivan

1.3 MARKET DYNAMICS, TRENDS AND IMPACTS

1.3.1 Drivers of the Healthcare Services Market and Their Impacts

Table 1-6: Drivers of Healthcare Services Market in Indonesia, 2011

	Driver
1	Longer Life Expectancies and Ageing Population
2	Prevailing Non-communicable and Lifestyle Related Diseases Incidence
3	High Occurrence of Infectious or Communicable Diseases
4	Growing Middle-Class Population
5	Increase Demand for Quality Healthcare
6	National Health Policies and Strategies

Source: Frost & Sullivan

Longer Life Expectancies and Ageing Population

Since 1997, the proportion of the older age group to the total population has been increasing. People above the age of 65 years accounted for 6.1 percent of the total population in 2011[1] compared to 5 percent of the total population in 2009.

In 2011, 66.5 percent of the total population is between the age of 15 and 65 years. This group would contribute to the increasing number of aged population in the next 2 decades as the life expectancies among Indonesian continue to improve.

The needs of an increasing older population will add to the existing burden of disease, with prevailing communicable diseases and non-communicable diseases in the country

[1] Indonesian Demographic Profile 2012 http://www.indexmundi.com/indonesia/demographics_profile.html

To provide care to such population, greater commitment and more personalized services towards the elderly are needed from both the government and the private healthcare providers and the NGOs. The 2 main consequences of this trend are increased demand for healthcare, as well as a shift towards infrastructures catering to geriatric care.

Prevailing Non-communicable Diseases and Lifestyle Related Diseases

Health problems related to changes in lifestyle have been associated with changing food habits, especially to those living in the cities. Lifestyle choices like smoking, alcohol consumption, rich diets and sedentary lifestyles have been associated with various non-communicable or lifestyle–related diseases like cancer, cardiac and cerebrovascular diseases, hypertension and diabetes.

Smoking is among the most notable habit among the local Indonesians. In fact, 11.4 percent or 51.4 million of the people who smoke worldwide live in Indonesia[1]. At present, the age at which the population typically starts to smoke has been getting younger, and young women are almost as likely to smoke as young men. The number of people inhaling second-hand smoke is also high in the country, as 85.4 percent of the smokers smoke regularly at home in the presence of their family members.

A huge 85 percent of Indonesian population aged 15 and above lead sedentary lifestyles compared to only 6 percent of the population who are committed to exercise regularly. Urbanites make up the most of this group compared to those who are living out of the cities. Similarly, a higher prevalence rate of obesity is found in urban areas compared to rural locations.

According to the 2007 Indonesian National Heath Survey, a total of 29.6 percent of Indonesians above the age of 18 has hypertension. The highest prevalence of hypertension is found to be among the non-working group. Other non-communicable disease, such as cancer, killed approximately 206,000 people in Indonesia, of which 135,000 are below the age of 70.

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[1] Indonesia Demographic and Health Survey 2007

http://www.motorcycleoutreach.org/FR218_April_09_2009.pdf

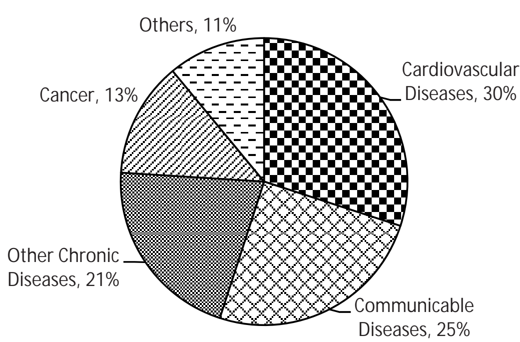
Growing incidences of non-communicable and lifestyle-related diseases have caused a shift of focus among healthcare providers to provide curative medicine.

Table 1-7: List of 10 most common causes of disease for patients admitted to hospitals in 2010

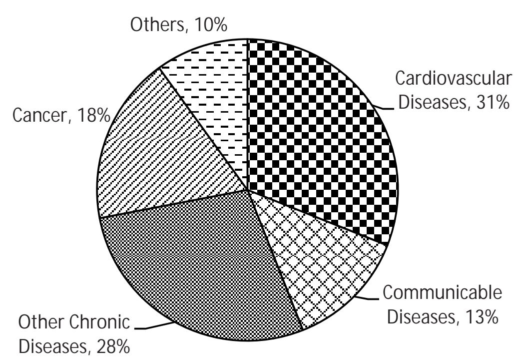
List of diseases	Number of patients admitted	Fatality	Case Fatality Rate(CFR)
Diarrhoea and gastroenteritis	71,889	1,289	1.79
Dengue haemorrhagic fever	59,115	325	0.55
Typhoid fever and paratyphoid	41,081	274	0.67
Complications of pregnancy and childbirth	40,636	276	0.68
Dyspepsia	24,716	166	0.67
Injuries	21,733	605	2.78
Essential hypertension	19,874	955	4.81
Intracranial injuries	19,381	1025	5.29
Upper respiratory infections	17,918	589	3.29
Pneumonia	17,311	1315	7.60

Source: Indonesian Department of Health 2010, Frost & Sullivan

Chart 1.5: WHO Data on the Historical and Forecasted Major Causes of Death in Indonesia (2005, 2030)



Projected Major Cause of Death in Indonesia (2030)



Source: World Health Organization, 2009

High Occurrences of Communicable or Infectious Diseases

Although trends showed steady progress in the control of some communicable diseases like tetanus, polio and TB over the past 5 years, other communicable diseases like AIDS and Dengue are still part of the major causes of morbidity and mortality in Indonesia.

The WHO World TB report suggested that the implementation of Pulmonary TB control program by the Indonesian Government had lowered TB prevalence in the country. A total of 104 new cases per 100,000 populations were recorded in 2006 compared to 130 per 100,000 populations in 1995. However, Indonesia is still ranked third in the world prevalence of the disease. A total of 250 Indonesians died of TB daily in 2006. In 2010, there are 450,000 new cases of TB.

Similarly, two-thirds of the 576 districts in Indonesia are still classified as malaria endemic areas. In North Sulawesi, the malaria rate per 1,000 population stands at 1.63 per 1,000 people, much higher than that of South Sulawesi, which stands at 0.45.

In Makassar alone, 1,518 new cases of tuberculosis were recorded in 2007, with 1,345 cases reported by healthcare centres and 173 cases by hospitals. Simultaneously, the number of cases of typhoid has been continually rising, more than doubling from 935 in 2004 to 2,305 in 2007.

Among the main factor contributing to high prevalence of other communicable diseases are high population mobility, especially from disaster struck areas like Aceh in Sumatera to its neighbouring cities and provinces, and unsanitary living conditions.

The Indonesian National Aids Commission estimated around 310,000 Indonesians are living with HIV/AIDS in 2009. It is estimated that there is a cumulative rise of 24,131 new cases of AIDS from 2001 to 2010. Majority of the infections are believed to occur through the sharing of contaminated drug injecting equipment, unprotected paid sex and sex between men. The same survey showed a worrying trend where the disease has reached both remote highlands and less accessible low lands.

The current trend created an urgent need for communicable and infectious disease management. At present, the services are mainly provided by Ministry of Health and NGOs.

Growing Middle-Class Population

In 2011, the income per capita in Indonesia was estimated at approximately USD 3,000 per annum. In the same year, an estimated 3.46 million households belonged to the middle to high income category, earning above USD 10,000 per year. Another 16.9 million households earned between USD 5,000 to 10,000, making them part of the middle class population in the country.

In 2011, the Indonesian Economic Ministry announced its Master Plan Vision for 2025, which included economic development strategies to increase the country's per capita income per annum to USD 5,000 by 2014 and USD 14,900 by 2025.

This new middle class population in general would have the tendency to switch to more expensive and better quality essentials and services. The same demographic group will also spend more of their income on non-essential categories like fitness, wellness and beauty.

Chart 1.6: Distribution of Indonesian households by annual income groups

	2006 (a)	2007 (a)	2008 (a)	2009 (a)	2010 (e)	2011 (f)	2012(f)	2013 (f)	2014 (f)
US$ 5K to US$ 10K	5,391	7,068	8,108	7,279	13,040	16,884	19,160	21,610	24,433
US$ 10K - US$ 50K	1,044	1,374	1,581	1,415	2,602	3,466	4,009	4,625	5,382
Above US$ 50K	-	-	-	-	14	37	50	65	84

Source: World Health Organization, 2009

Increase Demand for Quality Healthcare

Among the most frequently cited reason for Indonesian traveling abroad for healthcare is the lack of quality in the country. In 2011, healthcare providers in Singapore and Malaysia are estimated to collective served more than 580,000 Indonesian medical tourists. Among the indicators of quality as understood by these medical tourists are international accreditation, utilization of latest techniques and equipment, employment of world-renowned specialists, prompt care and excellent patient experience.

However, the services provided by hospital operators abroad are not without any limitation. Treatments done in these countries are often costly, in some cases double or triple the cost of treatments in Indonesia. Aside from the accompanying family members, patients undergoing treatments will also be away from their other friends and relatives during their most critical times.

In recent years, the Indonesian Government has paid significant attention in escalating the quality standards of the domestic healthcare sector to retain more Indonesians to seek treatment within the country. In 2012, the Health Ministries announced that seven public hospitals, including those from Jakarta, Denpasar, Yogyakarta, Medan, and Makassar, are likely to receive JCI accreditation by 2013. Such development trend is consistent with the Government's vision of hosting "world class" hospitals in at least five major cities by 2014.

National Health Policies and Strategies

In mid-September 1998, a new health paradigm was introduced as there were still discrepancies in health development results among the regions and communities. The "Healthy Indonesia 2010" is a decade long program which has 4 main points on their agenda:

- Social mobilization and Society Empowerment for healthy living
- Improvement of the quality of health services
- Improvement of health monitoring, surveillance and information systems
- Increasing healthcare financing

As a result, there have been marked improvements in several healthcare infrastructures for example 317 percent increase in the number of general physicians and specialists since the launch of "Healthy Indonesia 2010" program in 1998. Other improvements could be found in table below.

Table 1-8: Comparisons of the Status of Selected Health Infrastructures in Indonesia, 1997, 2007 and 2010

Indicator	1997	2007	2010
Number of Hospitals	893	1,318	1,632
Number of Physicians	13,633	56,930	65,722
Number of Nurses	150,149	308,310	465,662

Source: National Health Survey, 1997 and 2007, WHO World Health Report 2011

Indonesia has also long been supporting the growth of the private healthcare sector. In 2006, the Ministry of Health began targeting public resources to support priority preventive health services for vulnerable populations, leaving the private sector to focus on curative care. Previously in 1990, the zero growth policy for public health institutions allows the private healthcare sector to expand.

Consistent reviews and programs to support health services in Indonesia would help improve the quality of services within the country's healthcare industry.

1.3.2 Restraints of the Healthcare Services Market and Their Impacts

Table 1-9: Restraints of Healthcare Services Market in Indonesia, 2011

	Restraints
1	Restrictive Regulations Governing Healthcare Services
2	Limited Number of Healthcare Professionals
3	Small Number of Private Health Insurance Policy Holders
4	Poor Public Infrastructures in Provinces Outside Jakarta

Source: Frost & Sullivan

Restrictive Regulations Governing Healthcare Services

At present, there are several healthcare regulations that are restricting the operation of healthcare providers in the country.

Foreign ownerships of small health clinics are largely closed to foreign investments, with the exception of up to 65 percent foreign ownership of hospitals located in Medan and Surabaya. In 2010, announcement on the possible enactment of the New Hospital Law may relax the barrier for foreign investments.

Foreign doctors are not allowed to practice in Indonesia despite the country's poor doctor to patient ratio. These foreign doctors, however, are allowed to supervise and perform procedures in the course of educating Indonesian doctors. Indonesia-born doctors practicing abroad may practice in Indonesia after going through a 6 months adjustment program. The regulation causes many doctors to be stretched out of their capacity to cater to the overwhelming demand from the local patients. Despite the commencement of ASEAN-China Free Trade Area (CAFTA), which may provide further liberalisation to allow foreign doctor entry into the country, the Indonesian Government is planning to impose precautionary measures, such as Indonesian language proficiency requirements and prohibition for private practice for foreign doctors.

Current regulation requires all healthcare providers to allocate 20 percent of their total number of beds for third class patients. All hospital providers are also obliged to treat all poor patients for emergency and trauma cases. Hospitals may be heavily fined for cases of death or permanent disability due to their refusal to admit such patients. These regulations require hospital providers to tread carefully in making their operational decisions.

Limited Number of Healthcare Professionals

According to the Ministry of Health, the shortage in the number of healthcare professionals within Indonesia is critical. In 2010, doctor to patient ratio stands at 3.0 per 10,000. The country needs another 4,177 specialist doctors, 22,101 general physicians, 9,411 dentists, 76,102 nurses and 8,036 midwives to provide ideal health services for every single person in the country. The existing number of healthcare professionals is concentrated in the primary and secondary cities, where most of the populations are found. Professionals are often stretched beyond their individual capacity to cope with the domestic demand.

The monetary incentives for healthcare professionals are low compared to the amount paid in neighbouring countries. The average pay for medical specialists in public services is at USD 824 per month, followed by USD 549 for doctors and dentists. Nurses earn approximately USD 275 monthly. The low incentives paid to these workers worsen the shortage of professionals in the country when many of these health professionals, especially nurses choose to go abroad to places like Singapore, Malaysia and the Middle East for better benefits.

To ease the shortage, the vast majority of publicly employed healthcare professionals have second jobs in their own private practices or other private hospitals. Those with second jobs earn nearly 50 percent of their income from private sources. Intense competition exists among private healthcare providers especially for top specialists and sub-specialist doctors and nurses.

Many more non-monetary incentives are offered to help retain the existing doctors in the ecosystem. For example, the Indonesian government provides housing and transportation benefits for doctors and nurses while several local governments are willing to pay a contracted amount for medical education at University of Indonesia (UI) or even with private medical universities in order to ensure the respective local areas will have doctors in the future.

Small Number of Private Health Insurance Policy Holders

Most Indonesians are not ‘insurance-minded’ or health risk-averse, thus contributing to the low penetration rate of private health insurance in the country. Nonetheless, in conjunction with the improving awareness and acceptance, adoption of private health insurance in the country is observed to grow. In 2005, private health insurance was estimated to cover 3.0 percent of the total population and this has grown to about 4.9 percent.

As of Jan 2010, a hefty 53.8 percent of the population still remains uninsured by any form of health insurance coverage and will need to depend on their discretionary incomes where health care needs arise.

Relying on out-of-pockets payment term significantly affect the affordability of healthcare for the population, and help to shape the health utilization among the people. In the past 5 years, the growth of outpatient admission is slowing down as more and more people are opting for cheaper options like self-medication.

The number of policy holders will remain low for the next 5 years, making hospital providers shift their focus to target the population insured through Jamsostek as well.

Poor Public and Healthcare Infrastructure in Provinces outside Jakarta

Public infrastructures in provinces other than Jakarta remain poor. Inadequate telecommunication infrastructures and destitute condition for roads and road transport facilities hinder healthcare providers in meeting the needs of its surrounding or vice versa.

The lack of other infrastructures prevents populations from obtaining quick medical care. Population may either have to travel far to seek medical care or public transportation is either not enough or doesn't exists at all. In the villages or in very remote areas, people may live without electricity and telephone lines or depend on the few available in some households.

Decentralization makes large infrastructure projects too expensive for the local government to fund. Frequent occurrences of natural disasters further affect the condition of public infrastructures in these provinces.

From the healthcare aspect, facilities and manpower is also heavily skewed towards the urban areas and the western provinces, particularly Java. Jakarta alone employs about 24 percent of the medical specialists in the country, serving only 4 percent of the total population, while its general beds to 10,000 population ratio in 2010 was estimated at 17.7, compared to other less developed provinces, such as Sumatera Barat and Riau, which barely attain a ratio of 1.0.

At present, although there is a huge opportunity for hospital providers to set up operations in these provinces, the lack of effective public infrastructures may affect the services within the hospital, and the demand for its care.

1.3.3 Challenges of the Healthcare Services Market and Their Impacts

Table 1-10: Challenges of Healthcare Services Market in Indonesia, 2011

	Challenges
1	Negative Perceptions on Domestic Healthcare Quality
2	Large Number of Private Healthcare Providers
3	Geographical Distribution of Indonesian Population

Source: Frost & Sullivan

Negative Perceptions on Domestic Healthcare Quality

Medical malpractices and adverse events are common in Indonesia, undermining the effort of several healthcare providers to push for quality of care. Previous study done by University of Wollonggong found that among the most cited reasons for the negative perceptions on domestic healthcare quality are:

- Low medical reliability ; Doctors' do not provide enough time to deal with patients, Doctors' mistakes during medical treatments, Lack of medical skills among doctors
- Lack of medical facilities and resources
- Poor information ; Difficulties of getting information regarding medical treatments
- Medical treatment errors ; wrong diagnoses, mistakes during medical treatments
- Complaint handling failures

Although there are several specialist institutions in the country, the current services at these centres do not meet international standards.

The lack of quality affects patients' trust in the establishments. The proportion of Indonesians seeking superior health services abroad for their medical needs will continue, if the quality issue is not addressed. Various efforts by both public and private healthcare sector are needed to improve the level of health services in the country and correct these perceptions among the local population.

Large Number of Private Healthcare Providers

There are 838 private hospitals as of 2010 in Indonesia and nearly all are targeting middle to the upper class patients. The hospitals are generally located in major cities across the country, and offer general healthcare services. Several are only offering obstetrics and paediatric care catering to the same population.

Competition for patients is intense and hospitals are fighting to recruit the best doctors, and to collect as many referral doctors and insurance companies to ensure at least consistent number of admissions at their institutions.

Several hospitals are already furnishing their facilities with the most advanced equipment, while others are focusing on offering the most sophisticated techniques. The term "international" is often abused by these hospitals in order to instil trust and to increase the number of patients.

Hospitals may have to look beyond providing healthcare services to the crème de la crème, but also to extend their services to the masses who could afford their care. Focusing on quality of care and building on specialties will help these hospital businesses differentiate themselves from the other players in the market

Geographical Distribution of Indonesian Population

The distribution of Indonesian population is uneven, with 60 percent of the population living in only 7 percent of the nation's land. This population group resides mainly in major cities like Jakarta, Bandung, Surabaya, Medan, and Palembang.

Java is the most densely populated island in Indonesia, with more than 110 million people, despite having only 7 percent of the land area making it one of the highest densities in the world today. In contrast, Papua, which has roughly 22 percent of the land area, has only 1 percent of the population.

The transmigration from rural to urban areas further increases the total headcount in these areas.

As with other countries, the population density in Indonesia is directly related to the concentration of health services. Most hospitals and health institutions are found in major cities across the country. More are expected to be built consistent with the future growth of the population in the locality.

The rate of population growth in Makassar is low, which results from an increasing migration to other towns as well as from national birth-control projects.

1.3.4 Current Trends of the Healthcare Services Market

Indonesians are taking more active role in the decision making affecting their health. More people are aware of the health risks associated with different lifestyles, and continuously put an effort to stay healthy. Patients are more educated and well informed with knowledge on diseases, treatments and availability of options through various channels like the internet, print media, television and radio.

On the other hand, healthcare providers are continuously pursuing quality of care, claims of international standards and equipping their facilities with the latest and most sophisticated equipment. Several hospital providers are also banking on the wellness services and alternative therapies services demanded by the health conscious consumers. Equipment and technology vendors are making in-roads towards the healthcare services market in the country. With the emerging few players stressing on 'providing only the best' to its patients, more and more partnerships are formed between these vendors and the health providers.

Greater coverage of social and private health insurances will help to extend the health services to more people in the country. In June 2010, PT Jamsostek (social security through contributions from both the employers and the employees) announced that it has allocated USD 110 million from 2009's profit to employees post-employment benefits. The President earlier announced the increased return rate, death and accident benefits to Jamsostek members. The increase will benefit its members in obtaining better quality of care at both public and private health facilities. The program collects premiums from members and covers payments for accidents, dismissals, layoffs and health treatments as well as pensions

1.4 REGULATORY FRAMEWORK AND GOVERNMENT POLICY REVIEW

1.4.1 Indonesia Sehat 2010 (“Healthy Indonesia 2010”)

The Ministry of Health has set the vision “Healthy Indonesia 2010” by prioritizing four main elements of health sector development; national development with health focus, professionalism, decentralization and development of managed health insurance. The ‘Indonesia Sehat 2010’ vision was designed by the government to facilitate the future Indonesia society with improved healthcare standard.

Through several initiatives, Healthy Indonesia 2010 was set to cover 75 percent of the Indonesia population by 2009.

Yet in reality, by Jan 2010, Health Indonesia 2010 has covered only 45 percent of the population, among which 78.7 million are covered under public scheme, 7 million under private scheme, 15.2 million under civil servant scheme, 2-3 million covered under various small schemes, while a total number of 130 million are still not covered under any scheme.

There are several reasons for the shortfall of the population actually covered from the target of the program. One of the possible reasons is due to the low percentage of population in the formal economy. In Indonesia, an estimated 70 percent of the population above 15 years old are in the labour force. Of the total population employed, only 37 percent are employed in the formal economy, while 67percent are involved in various forms of rural and urban informal employment. Since only health insurance by Askes and Jamsostek includes coverage of family members, the penetration rate to informal sectors is low.

Another possible reason of low penetration of health insurance scheme is due to the lack of inspectors to enforce compliance. It is reported that the implementation of Jamsostek can only rely on the activities of Labour inspectors deployed into regional government.

Finally, there is an opting out option for employment injury and health insurance of Jamsostek, which results in evasion of large enterprises and thus limits the reach-out effect.

In 2011, the Indonesian Government passed the Social Security Providers Bill, aiming to accelerate the attainment of universal health coverage.

Figure 1.1: Budgetary Overview of "Healthy Indonesia 2010"

"Healthy Indonesia 2010"

5-10%
18%
43%
75%
1948
2004
2006
2009
completion by 2015-2030
Total Population 222 million

Programme	
ASKES : health insurance for civil servants covering about 15 million (5-10% of the population)	civil servant pensioners and military pensioners 2% of their monthly salaries; central government: 0.5%
Covered by other schemes: Jamsostek, JPKM (Community Managed Care Programme), ad hoc company schemes, private health insurance.	
ASKESKIN: launched in 2005, health insurance for the poor: budgeted to cover about **60 million**	The increase of government budget for ASKESKIN in 2006 was about **R.p. 3.6 trillion**
Plan to cover 75% of total population to 2009	More government investment needed

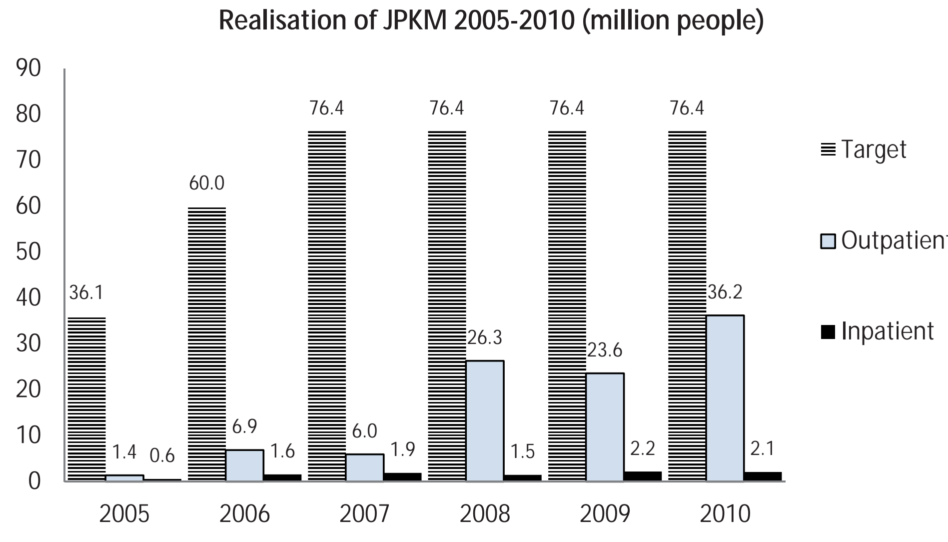
Source: Indonesian Health Department "The arrival of 2010 marks the near completion of the "Healthy Indonesia 2010" prog ram implementation. Indonesia has achieved relatively favourable outcome by approaching close to its initial targets".

Guaranteed Health Maintenance Program (JPKM)

Fundamentally, JPKM is a community based managed healthcare program with the intention to ensure public access to good quality and cost-contained healthcare services, and places greater emphasis towards the poor. The scheme is currently managed under Bapels (Non-profit administrative bodies or HMO-like organizations) established at district level, which are responsible for channelling the government disbursements to the public district health centres. Participation of JPKM schemes is voluntary and majority of the population currently serves under the scheme comprises citizens from the informal sector, civil servants, and military for their uncovered dependents. The JPKM structure works towards promoting more preventive and sustainable services over curative and rehabilitative service so as to improve the health of the society as well as the quality of healthcare services it receives. Health centres and third class rooms in public hospitals are the key facilities assigned to deliver healthcare services under this program.

While the trend of JPKM utilization is observed to increase, utilization status of 36.2 million outpatients and 2.1 million inpatients are still falling short of the 76.4 million population target set by the Government.

Chart 1.7: Utilization of JPKM (2005 – 2010)



Source: Indonesian Health Department: Indonesia Health Profile 2010

Decentralization

Indonesia is a vast country with large geographical and economic disparities between regions. To ensure health development, arrangement of various health efforts should start from specific problems and potentials of each region. Based on 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 Central, Provincial Government, and Municipal Government, planning, budget allocating and drugs provisioning for public sector healthcare had become the responsibility of the Municipal Government. Decentralization is the delegation of more autonomy to the regional governments in regulating their own governance system and local affairs. This is deemed suitable for the management and implementation of future national development programs.

Decentralization requires the necessary resources; human, financial and operational. Determination of roles and activities of the central and regional governments in health sector, analysis of regional capabilities, upgrading of regional human resources, training, repositioning of manpower and other activities have to be carried out before the process of decentralization can be implemented. To date, the development of this initiative has proven to be challenging as each local government has its own authority and every regional government would have a different regulation on implementing its healthcare program.

Hospital Accreditation Framework

The Indonesian Government formed a Commission for Hospital Accreditation in 2012 for quality assurance of hospitals in the country. The accreditation system, which is modelled closer to international standards, appraise every hospital once every 3 years before issuing an accreditation. As part of the Healthcare Reform 2010 to 2014 target to have at least 6 JCI accredited public hospital in 5 major cities, the Government has earmarked seven flagship public hospitals to be JCI accredited before 2014.

Regulations Specific to the Private Healthcare Sector

During the past decades, several healthcare regulations have been implemented by the Indonesia government. Table 1.11 lists the various healthcare regulations that are either targeted to the healthcare delivery sector as a whole or specifically towards the private healthcare sector.

Table 1-11: Healthcare Regulation milestones in Indonesia

Name	Year	Main Function
Ministry of Health Regulation No. 920, subsequently updated in 1990	1986	Quality assurance governance on medical services provided at private hospitals
Health Act 23	1992	Regulates health personnel training and education conducted by government and private sector institutions
Ministry of Health Decree No. 282	1993	Stipulates the tariffs imposed on private hospital services
Ministry of Health Regulation No. 378	1993	Defines and regulates the social function of private hospitals
Ministry of Health Regulation No. 916	1997	Regulates the licensing of medical practitioners
Decision of Director General of Medical Services HK.00.06.3.5.5797, subsequently updated in 1999	1998	Guidelines on private medical specialist services
Ministry of Health Decree No. 1239	2000	Registration requirement for nurses and practice regulations
Ministry of Health Circular No. 725	2004	Updates on regulation of medical services provided by private hospitals
Social Security Law	2004	Mandates the nature of social security contribution and services
Hospital Law	2010	Regulatory framework for hospital operations, including investments, licenses, human resources, and safety procedures, and stipulated requirements for foreign hospital investments

Source: Ministry of Health, Indonesia, USAID, AsiaLaw

A draft of a new regulation was tabled in May 2009 on the issue of patient handling at Accident & Emergency departments. At present, accident and emergency admissions is still based on patient's ability to pay. Private hospitals sometimes do redirect poor patients to another hospital with suitable facilities, together with doctor's medical advice. Once passed, the regulation will impose heavy fines up to USD 110,500 to hospital refusing poor patients. Hospitals also risk similar fine for cases where death and patient permanent disability becomes the consequences of treatment refusals. To date, the draft remains as is and has yet to pass as a regulation.

In order to embark on proactive actions to further enhance the standard of hospital care for the nation, the Indonesian Government enacted the Hospital Law in 2010. The proposed new ruling is likely to further liberalized public-private partnerships or domestic or foreign private investments into the hospital sector, including the increase of maximum foreign hospital ownership from 65 to 67 percent and allowing foreign hospital investments throughout the country, where previously, it was only restricted to Surabaya and Medan. In a nutshell, the new Hospital Law is intended to escalate the healthcare delivery standards across the country, thus serving as a "pulling factor" to retain the outbound Indonesian medical tourist in the long term.

2 Overview of Healthcare Services Industry in Sulawesi

2.1 Healthcare Industry Dynamics in South Sulawesi (Makassar) and North Sulawesi (Manado)

2.1.1 Growth Drivers and its impact

Table 2-1: Drivers of Healthcare Services Market in South Sulawesi and North Sulawesi, 2011

Rank	Drivers
1	Longer Life Expectancies and Greater Productive Age Group
2	High Infant and Maternal Mortality Rate
3	Escalating Non-Communicable and Communicable Diseases Shifts Healthcare Demand and Cost
4	Modest Growth of Middle-Class Population
5	Private Providers Play Crucial Role in the Provision of Health Services to All Population
6	Low Income Earners Prefer Modern Medical Methods Provided by Private Sector
7	Policy Environment Acknowledges the Private Sector's Contribution

Source: Frost & Sullivan

Longer Life Expectancies and Greater Productive Age Group

Figure 2.1 indicates that life expectancy is generally higher in North Sulawesi across the years. The life expectancy in 2009 was 70.4 and 74.6 in South and North Sulawesi, respectively and has shown slight improvement for the past 6 years (higher life expectancy denotes improved provision of health services). The population of the elder (age 65 and above) will more than double in the long run although this group will still represent a small portion of the total population in another few decades.

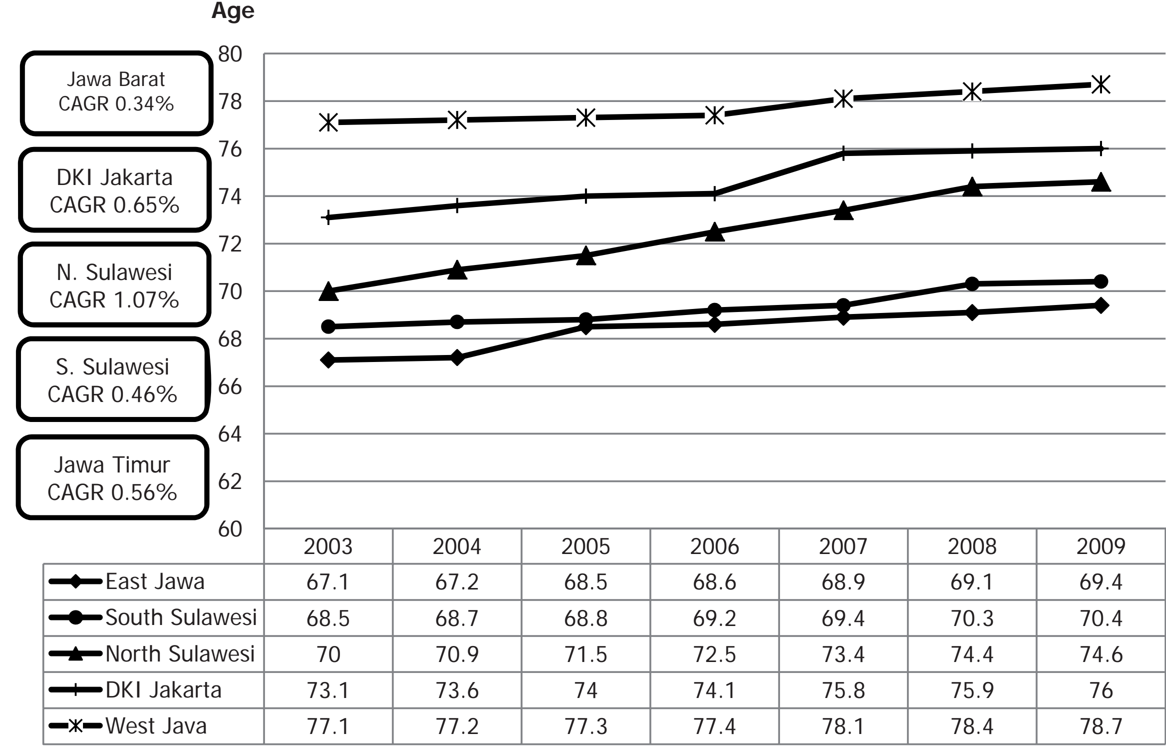
The increased life expectancy will eventually contribute to the rise in prevalence of many chronic conditions or degenerative diseases and per capita health expenditures. The effect on hospital utilisation will be driven by the rate at which the age distribution of the population is shifting toward older ages, and the rate at which utilisation escalates with age.

As the population ages more demand for sophisticated healthcare will come from the elderly (such as community nutrition improvement program, geriatric care, and prevention and eradication program illness). As seen in other countries where this transition have already taken place, it is forecasted that the healthcare costs and demand for more specialists and more allied health professionals (nurses, midwives, medical technicians) will require a doubling in the size of the workforce.

Despite having a smaller portion of elderly population, South and North Sulawesi's productive-aged population continues to escalate across all economic sectors. South Sulawesi's younger workforce increased from approximately 2,600,000 people in 2006 to 3,200,000 people in 2010, an increase at a CAGR of 5.3 percent.

On the other hand, North Sulawesi's younger workforce increased from 855,000 people in 2006 to 962,000 in 2010, has grown at a CAGR of 3.0 percent. This increase is supported by both South and North Sulawesi's pyramid-shaped age structure, whereby the larger age group range is dominated by 5 to 29 in 2010. The large and growing share of younger generations can support the economic and social development of the region – ultimately driving the further increase in standards of health services. Moreover, with new investment in workforce education and health training programs are crucial parameters to meet the demand for higher skilled positions such as physicians, nurses, and health allied professionals in South and North Sulawesi.

Chart 2.1: Average life expectancy in South and North Sulawesi, 2003 to 2009



	2003	2004	2005	2006	2007	2008	2009
East Jawa	67.1	67.2	68.5	68.6	68.9	69.1	69.4
South Sulawesi	68.5	68.7	68.8	69.2	69.4	70.3	70.4
North Sulawesi	70	70.9	71.5	72.5	73.4	74.4	74.6
DKI Jakarta	73.1	73.6	74	74.1	75.8	75.9	76
West Java	77.1	77.2	77.3	77.4	78.1	78.4	78.7

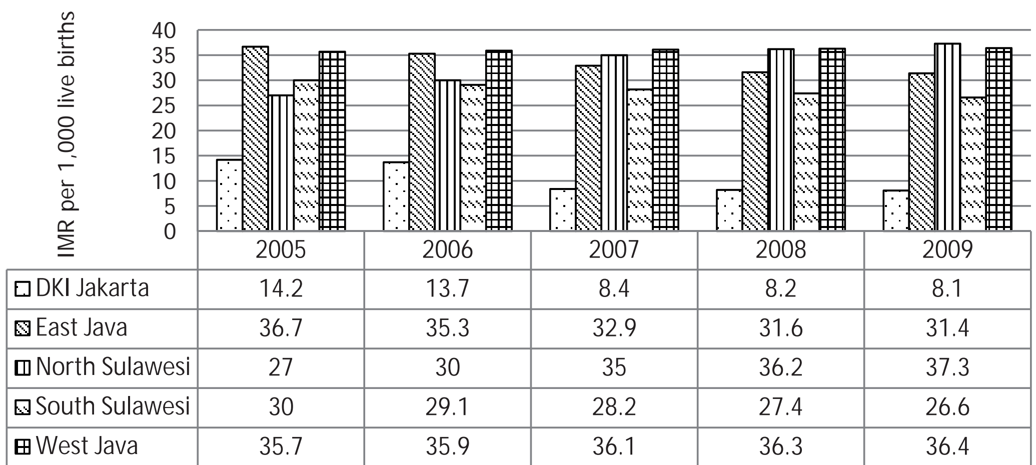
Source: Central Bureau of Statistics (BPS), MOH, Frost & Sullivan

High Infant and Maternal Mortality Rate

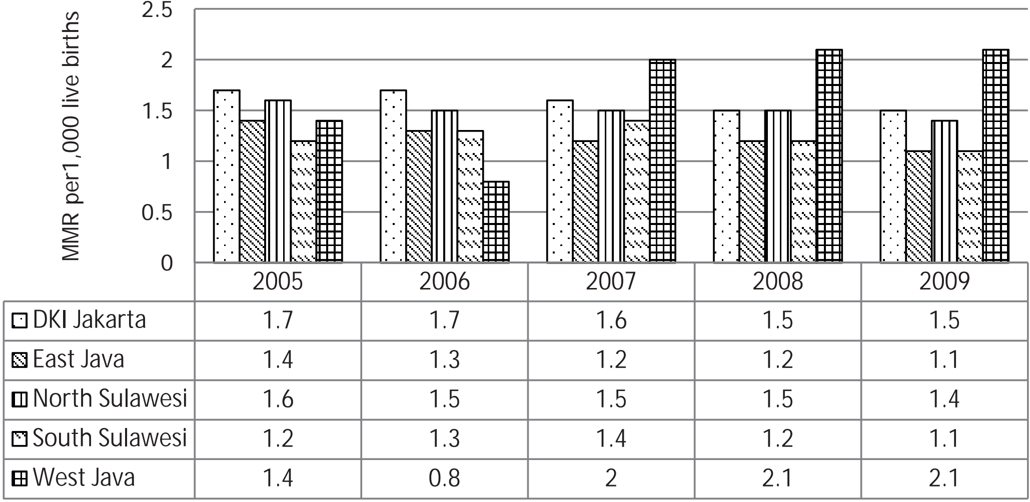
Infant Mortality Rate (IMR) in South Sulawesi showed a descending trend across the years (Chart 2.2). In 2005, the IMR recorded 30 per 1,000 live births and declined to 26.6 per 1,000 per live births in 2009. In contrast, North Sulawesi portrayed an increasing trend of IMR, from 27 per 1,000 live births in 2005 to 37.3 per 1,000 live births in 2009. This may be due to inefficient access to health facilities. Nonetheless, the achievement of the IMR is still far from the target, which is to achieve 19 per 1,000 live births in 2015. The top causes of IMR in South and North Sulawesi are low birth weight (LBW), asphyxia (failure to spontaneous and regular breathing at birth or shortly after birth), foetal malnutrition, and slow foetal growth.

Maternal Mortality Rate (MMR) in South and North Sulawesi portrayed a descending trend from 2005 to 2009. The number of maternal deaths reported in South and North Sulawesi in 2005 was as many as 129 per 100,000 live births and 162 per 100,000 live births, and then decreased to 118 per 100,000 live births and 145 per 100,000 live births in 2009, respectively. Based on the development improvement in maternal mortality is moving favourably towards its targeted goal of 110 per 100,000 live births in 2015. The top causes of MMR in South and North Sulawesi are heavy bleeding, hypertension, and infection.

Chart 2.2: Infant Mortality Rate (IMR) per 1,000 live births and Maternal Mortality Rate (MMR) per 100,000 live births in South and North Sulawesi, 2005 to 2009



	2005	2006	2007	2008	2009
DKI Jakarta	14.2	13.7	8.4	8.2	8.1
East Java	36.7	35.3	32.9	31.6	31.4
North Sulawesi	27	30	35	36.2	37.3
South Sulawesi	30	29.1	28.2	27.4	26.6
West Java	35.7	35.9	36.1	36.3	36.4



	2005	2006	2007	2008	2009
DKI Jakarta	1.7	1.7	1.6	1.5	1.5
East Java	1.4	1.3	1.2	1.2	1.1
North Sulawesi	1.6	1.5	1.5	1.5	1.4
South Sulawesi	1.2	1.3	1.4	1.2	1.1
West Java	1.4	0.8	2	2.1	2.1

Source: Central Bureau of Statistics (BPS), MOH, Frost & Sullivan

Note: (1) IMR is defined as the probability of dying aged <1 year per 1,000 live births

(2) MMR is defined as the number of maternal deaths per 100,000 births of reproductive age (generally defined as 15 to 44 years of age). Maternal deaths can occur at the pregnancy, childbirth or 2 months after her birth or pregnancy termination

A huge number of maternity deliveries are still carried out at home assisted by village midwives or traditional birth attendants. Nutritional status of pregnant women is inadequate; facilities and infrastructure are still limited and huge disparities of health services all contributes to the high IMR and MMR.

It is unlikely that both IMR and MMR objective can be met without fully engaging the private sector. There is a crucial need to significantly improve the quality of Maternal Child Health (MCH) in order to reduce infant and maternal mortality. This comes with a multi-component approach including the creation of financial incentives via Jamkesmas to follow treatment protocols, strengthening districts to engage with private midwives and hospitals to improve MCH, supporting independent oversight boards, and working with the Indonesian Midwives Association (IBI) to ensure the quality of Bidan Delima. This is a midwife accreditation program launched by IBI in 2003, to educate and incentivise Indonesian private midwives to meet and maintain the standard of care. Parallel to the mission of IBI, Bidan Delima aims to improve the quality of midwifery services in Indonesia.

Escalating Non-Communicable and Communicable Diseases Shifts Healthcare Demand and Cost

Accompanying the demographic transition is an epidemiological transition with rising burden of non-communicable diseases. The increasing globalization across all industries has altered the lifestyle habits of the South and North Sulawesi population, including consumption patterns. This has caused the occurrence of epidemiological transition with escalating cases of non-communicable diseases such as heart diseases, cancer, diabetes, hypertension, and kidney failure.

The few main causes of death in South and North Sulawesi are cardiovascular diseases and malignant neoplasm. The major communicable diseases in South and North Sulawesi are diarrhoea, malaria, tuberculosis (TB), and pneumonia. In the long run, there will be a shift of focus from communicable to non-communicable diseases as a result of ageing and increased prevalence of degenerative diseases. Consequently, changes in healthcare demand can be expected. The demand for curative care and inpatient care will escalate, generating important requirements for new health workers and number of hospital beds. It is clear that in responding to the curative demands of escalating rates of non-communicable diseases, will further strain resources in the public sector.

To date, the utilization of social health insurance (SHI) such as Askes and Jamsostek is applied in treatment protocols (including drugs to treat non-communicable diseases) and it is one means of managing healthcare expenditure. However, as the volume of patients with chronic non-communicable diseases escalates, this approach becomes costly and complicated to monitor, and complementary approaches are needed (such as primary care provider payment and contracting, prescriber monitoring and feedback, and use of pharmaceutical benefits management services).

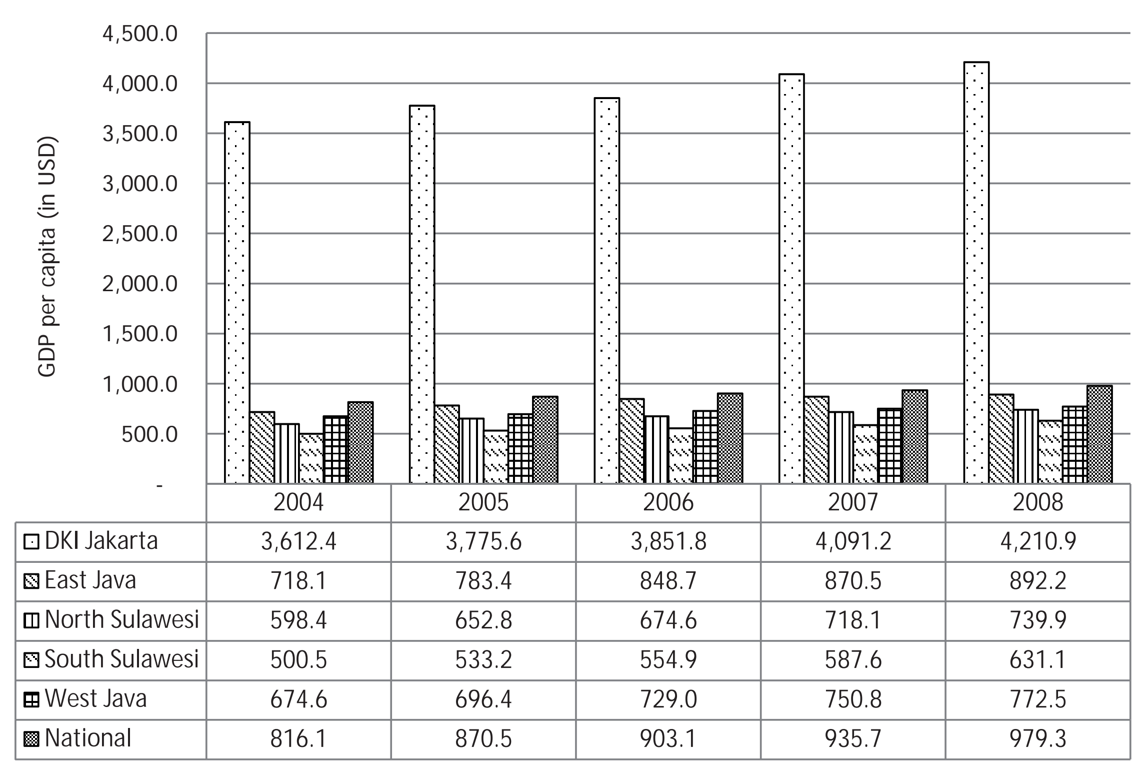
The private sector growth is crucial as the opportunities offered to health workers and the growing demand for sophisticated treatment needed for prevention and cure of diseases will further increase the involvement of healthcare delivery by the private sector.

Modest Growth of Middle-Class Population

Comparatively, North Sulawesi holds the strongest economy in the entire Sulawesi Island. North Sulawesi's GDP per capita is higher than South Sulawesi. Nevertheless, South and North Sulawesi's GDP per capita is lower than the national figure across the years, indicating that both provinces' economic performance remains below the national average. In 2008, South and North Sulawesi's GDP per capita was USD 631.1 and USD 739.9, compared to the national GDP per capita of USD 979.3 (Chart 2.3).

To date, both South and North Sulawesi falls under the lower middle income group. GDP per capita is expected to modestly increase and this increasing average income nation tend to prefer the services of private medical hospital because of better provision of health facilities such as air conditioned room, fully equip medical facilities and better medical services.

Chart 2.3: GDP per capita in South and North Sulawesi (in USD), 2004 to 2008



	2004	2005	2006	2007	2008
DKI Jakarta	3,612.4	3,775.6	3,851.8	4,091.2	4,210.9
East Java	718.1	783.4	848.7	870.5	892.2
North Sulawesi	598.4	652.8	674.6	718.1	739.9
South Sulawesi	500.5	533.2	554.9	587.6	631.1
West Java	674.6	696.4	729.0	750.8	772.5
National	816.1	870.5	903.1	935.7	979.3

Source: Central Bureau of Statistics (BPS), Frost & Sullivan

Private Providers Play Crucial Role in the Provision of Health Services to All Population

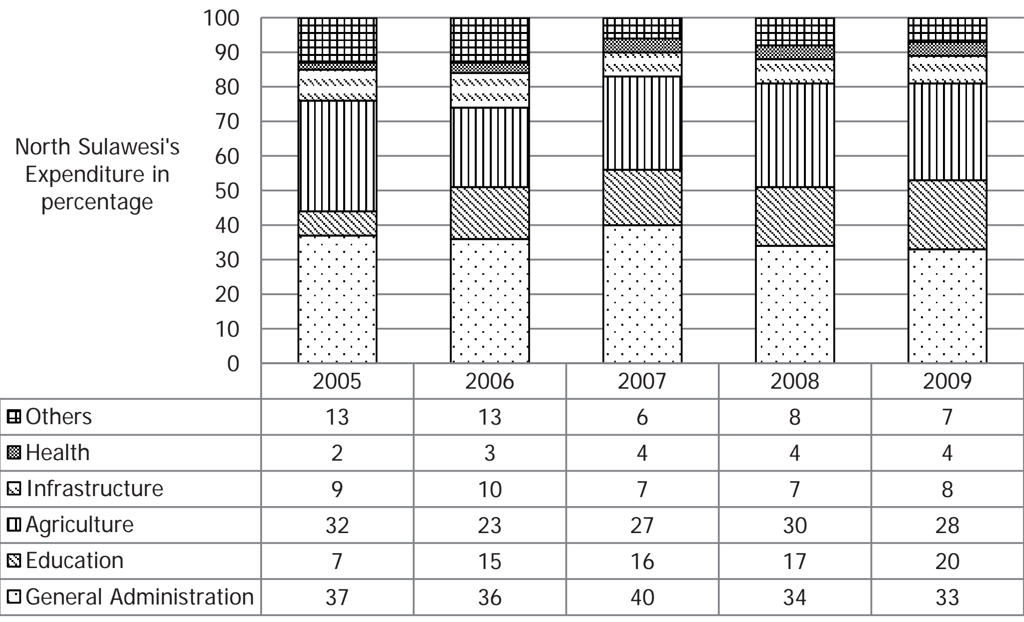
Chart 2.4 denotes the total government health expenditure in 2009 were 10 and 4 percent of GDP in South and North Sulawesi, respectively. Health expenditure per capita pumped in by the government is seen as relatively low across all provinces. Generally, government health expenditure comprises 50 percent of the total health expenditure and the remaining by private spending. There has been a drastic increase in North Sulawesi's government investment in health since 2005, from 2 percent to about 4 percent in 2009, a twofold escalation during the four-year period. Notwithstanding the increased public expenditure on health, the private health sector plays a crucial role in supplying health services to all populations in all provinces, including the poor. To date, half (or majority) of the total health expenditure in all five provinces come from private sources, primarily out-of-pocket (OOP) payments, with a small proportion from private health care plans, and the rest being covered by the national insurance scheme.

Lack of overall investment in health limits the expansion or development of the health sector. Many people without insurance coverage prefer to utilise the private health services or highly subsidised public services. The private sector is more attractive to many patients in relation with the public health providers, even when they have no other choice but to fork out fees from their pockets, which imply the huge distinction perceived in quality, cost, and availability between public and private providers.

Chart 2.4: South and North Sulawesi's Sub-national Government Expenditure by Sector, 2005-2009

South Sulawesi's Expenditure in percentage

	2005	2006	2007	2008	2009
Others	19	18	16	17	16
Health	8	8	9	9	10
Infrastructure	13	17	18	18	18
Agriculture	5	5	6	6	5
Education	21	20	25	24	28
General Administration	34	32	26	26	23



	2005	2006	2007	2008	2009
Others	13	13	6	8	7
Health	2	3	4	4	4
Infrastructure	9	10	7	7	8
Agriculture	32	23	27	30	28
Education	7	15	16	17	20
General Administration	37	36	40	34	33

Source: Dinas Kesehatan Propinsi, World Bank, Frost & Sullivan

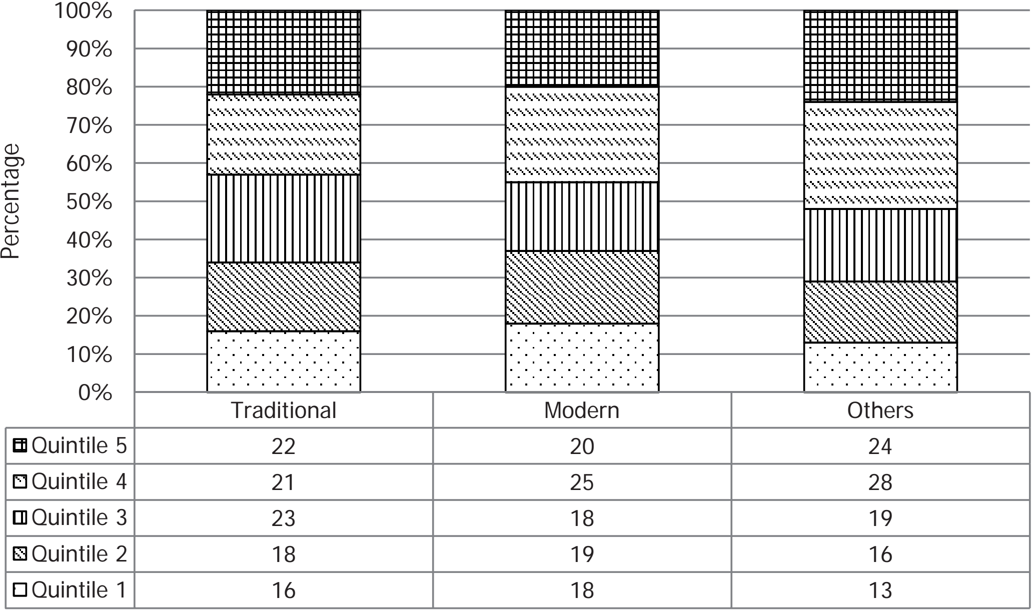
Note: (1) No data for DKI Jakarta, East Jawa, and West Jawa.

Low Income Earners Prefer Modern Medical Methods Provided by Private Sector

There is a wide acceptance among consumers across five provinces to utilise private sector providers for a range of health services and products, even among the poorest socio-economic groups. Chart 2.5 denotes that low-income earners in North Sulawesi preferred modern medical treatment methods to other methods.

Among low-income earners (Quintile 1 and 2), 37 percent chose modern medical treatments, 34 percent preferred traditional medication, and 29 percent chose other methods. In the long run, demand will increase for private sector services and facilities, as no major indications have been reported to further improve the health facilities in the public sector (despite government's push for Jamkesmas). Moreover, there is an increasing trend from seeking care in outpatient facilities toward self-medication via private drug sellers. Women are increasingly giving birth in private facilities across income groups. Often consumer perceived quality is gauged by convenience, comfort, waiting time, and condition of the facilities. Furthermore, patients usually do not have the choice to compare or negotiate price, partly because majority require immediate treatment and the health care pricing further complicates payment structure, which is based on various parameters, such as facility costs, and treatment prescribed.

Chart 2.5: Preferred Choice of Treatment by Income Group in North Sulawesi (in Percentage), 2009



	Traditional	Modern	Others
Quintile 5	22	20	24
Quintile 4	21	25	28
Quintile 3	23	18	19
Quintile 2	18	19	16
Quintile 1	16	18	13

Source: World Bank, Frost & Sullivan

Note: (1) No data for DKI Jakarta, East Jawa, South Sulawesi, and West Jawa.

Policy Environment Acknowledges the Private Sector's Contribution

South and North Sulawesi's private health sector is large, diverse, and growing. This is due to the long supported development of the private health sector, beginning with encouraging private sector participation in the delivery of family planning services. Nonetheless, the difference between public and private provision of health care services and products is not well defined. The vast majority of publicly employed health professionals have second jobs in their own private practices or other private facilities. Moreover, some public facilities deliver private services and some stated-owned enterprises are incorporated as private firms even though the sole (or majority) shareholder is the government, such as Dr. Wahidin Sudirohusodo Hospital in Makassar.

The lack of clarity may make the scope of the private sector more challenging, however it also points to a policy environment that acknowledged the private sector's contribution to health in South and North Sulawesi, thus anticipating more private provider participation in health care delivery.

2.1.2 Restrains and its impact

Table 2-2: Restrains of Healthcare Services Market in South Sulawesi and North Sulawesi, 2011

Rank	Restrains
1	Weak Policy Implementation Leading to Lower-than-Expected Health Payoffs
2	Low Universal Coverage Hinders Demand for Hospital Care in Private Sector
3	Lack Equal Distribution and Quality of Healthcare Services
4	Limited Infrastructure Hampers Demand for Hospital Services and Patient Market Share
5	Provision of Sub-standard Quality Services in Most Health Providers
6	Limited Resources make it Difficult for District Authorities to Maintain Oversight Over Private Providers

Source: Frost & Sullivan

Weak Policy Implementation Leading to Lower-than-Expected Health Payoffs

After 13 years of implementing of Indonesia's decentralization, the government reveals that many of the centrally administrated schemes have struggled to move to the next level. District health authorities in South and North Sulawesi operating at local level (below the line of provincial and central authorities) are still cultivating the skills required to administer health budgets (although showed slight improvement) and to employ and enforce health policies within the region.

Many Puskesmas in South and North Sulawesi lack basic infrastructure such as electricity (especially in rural communities) and operate without a doctor. Instead, most Puskesmas rely on nurses to take charge of diagnostic and treatment services for which they have not been adequately trained. Table 2.3 the current healthcare workforce in both provinces. South Sulawesi indicated a manpower-to-Puskesmas ratio of 1.1 general physicians, 7.6 nurses and 4.7 midwives, whilst North Sulawesi 2.0 general physicians, 2.1 nurses and 6.5 midwives. Due to the weak policy system, nurses and midwives would not have the choice but to provide curative care, which can potentially escalate serious quality concerns and risks for patients.

Table 2-3: Total Number and Ratio of Healthcare Workforce to Puskesmas, 2010

Provinces	Total Puskesmas	Total Workforce			Ratios to Puskesmas		
		General Physician	Nurses	Midwifes	General Physician	Nurses	Midwifes
South Sulawesi	401	444	3,060	1,442	1.1	7.6	4.7
North Sulawesi	167	339	2,023	1,080	2.0	12.1	6.5
Total National	9,005	14,934	78,215	83,222	1.66	8.7	9.2

Source: Development of Human Resources Strategic Program (PPSDM), Frost & Sullivan

The lower-than-expected health payoffs after implementing the decentralizing structure are due to the lack of detailed design, uncertainties in goals, and mismatches with other policies. Firstly, Indonesia decentralized health services in less-than–favourable environments, such as the inequitable economic growth, population pressures that brought epidemiological changes, and political ambiguity have limited the improvements in health status in well-off provinces.

In this case, North Sulawesi showed a better overall health environment compared to South Sulawesi. Secondly, policy weaknesses also derive from abrupt introduction that lacked detailed functional and operationally health roles between provinces and the local government. This resulted in the lack of provincial financial support for the local government (districts and municipals), thus jeopardizing the health planning, budgeting, and monitoring processes that will have direct consequences on how the public health facilities (including Puskesmas) are managed at the local level.

On the positive side, The Health Ministry (MOH) is embarking on approaches to attract more physicians, especially specialists to remote and rural areas. It is also a mandatory requirement by the MOH that physicians will have to work in rural and remote Puskesmas as part of their graduation and as a precondition for their Master's program to become a medical specialist.

Low Universal Coverage Hinders Demand for Hospital Care in Private Sector

In general, Chart 2.6 indicates that health insurance coverage remains low in both South and North Sulawesi, however is more severe in North Sulawesi with current schemes covering less than half (43.4 percent) the population. Both South and North Sulawesi have almost equal proportion of Jamkesmas (English equivalent to Community Health Security) catering to the near poor and poor citizens.

Private health insurance make up approximately 36 percent of the total source of payment in Makassar, while in North Sulawesi, private health insurance contribution is significantly lower at 6.2 percent. Out-of-pocket (OOP) remains as the most common source of payment, particularly for the populations of North Sulawesi. Based on income distribution, it is clear that the near poor and extreme poor citizens are the main beneficiaries of Jamkesmas, while the working populations and civil servant are mostly covered by Askes and Jamsostek.

Chart 2.6: Breakdown of Healthcare Financing by Provinces (in percentage), 2009

	DKI Jakarta	East Jawa	North Sulawesi	South Sulawesi	West Jawa
OOP	89.56	7.3	56.6	30	78.8
Private	0.34	7.8	6.2	36	0.1
Jamkesmas	1.2	67.7	22.5	26	14.9
Jamsostek	1.5	1.7	2.7	0.9	0.4
Askes	7.4	15.5	12	7.1	5.8

Source: Central Bureau of Statistics, Provincial MOH, Frost & Sullivan

Note: (1) Askes caters the Civil Servants, (2) Jamsostek is mandatory for employees at firms with > 10 staffs;

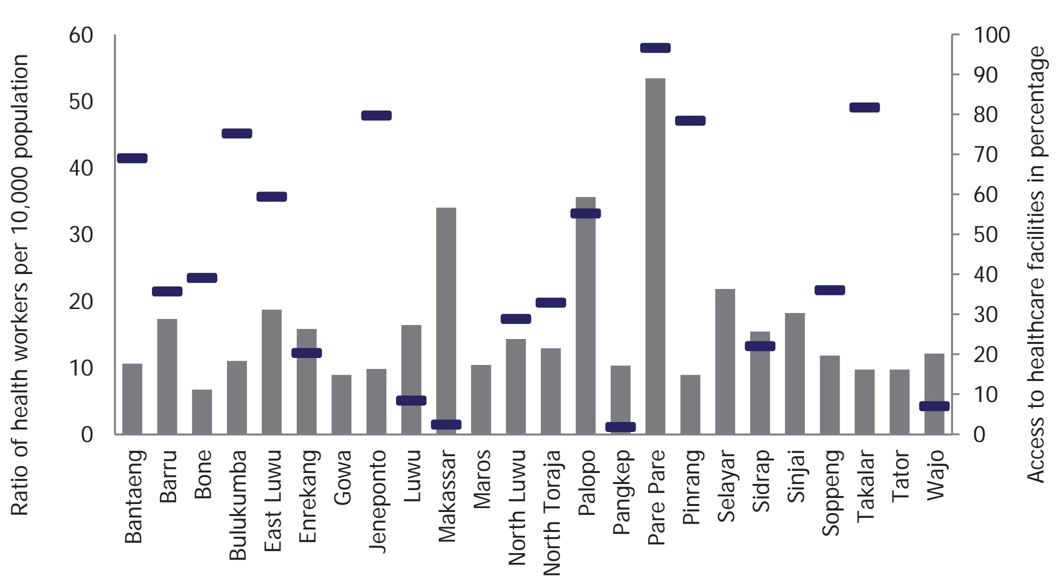
(3) Jamkesmas caters the near poor and poor citizens (English equivalent to Community Health Security)

Unequal Distribution and Lack of Quality Healthcare Services

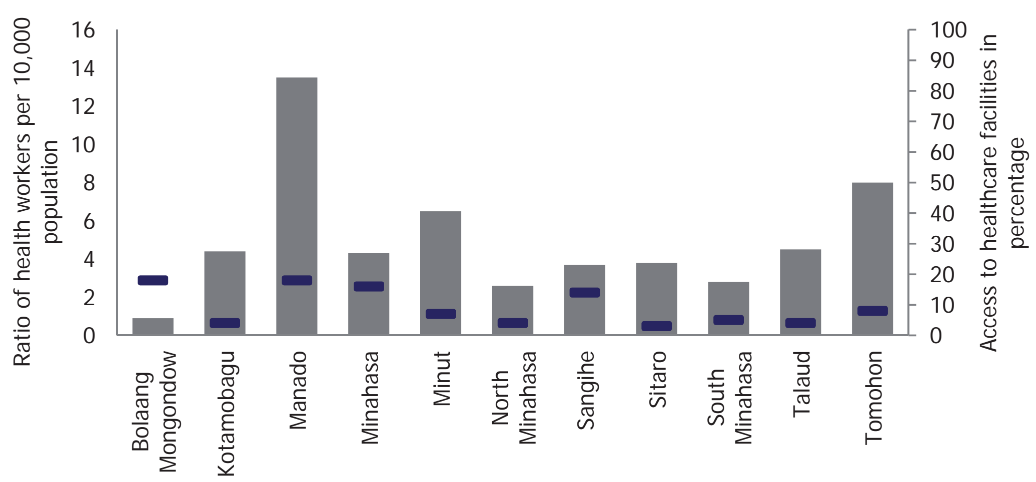
Overall, access to health facilities in South and North Sulawesi requires improvement, particularly for Makassar in South Sulawesi and Tomohon in North Sulawesi. Chart 2.7 signifies that the availability of health workers do not correlate directly with access to affordable healthcare. Selayar and Bolaang Mongondow had the highest access to affordable healthcare (11 percent and 18 percent, respectively), although these districts had the lowest ratio of health workers. Health workers are more concentrated in main cities such as Makassar, Pare Pare, Palopo, Manado, and Tomohon. This needs special attention from the government as it will lead to many health facilities not being optimized at its full capacity.

The large proportion of spending allocated to health workers in specific districts beckons the need for a phase out solution. Steps to meet this rationalization include recruiting fresh personnel than retiring ones. This is to avoid natural attrition. Secondly, recruiting qualified personnel and providing fast-track career development and training at rural or understaffed health facilities. Thirdly, paying higher salaries and offering more time-offs for health workers who volunteer to work away from the big cities and finally, more effective distribution of healthcare workers towards constrained hospitals.

Chart 2.7: Patterns of access to free healthcare facilities and ratio of health workers, 2009



North Sulawesi



Ratio of health workers per 10,000 populations — Access to free healthcare facilities in percentage

Source: Central Bureau of Statistics, MOH, World Bank, Frost & Sullivan

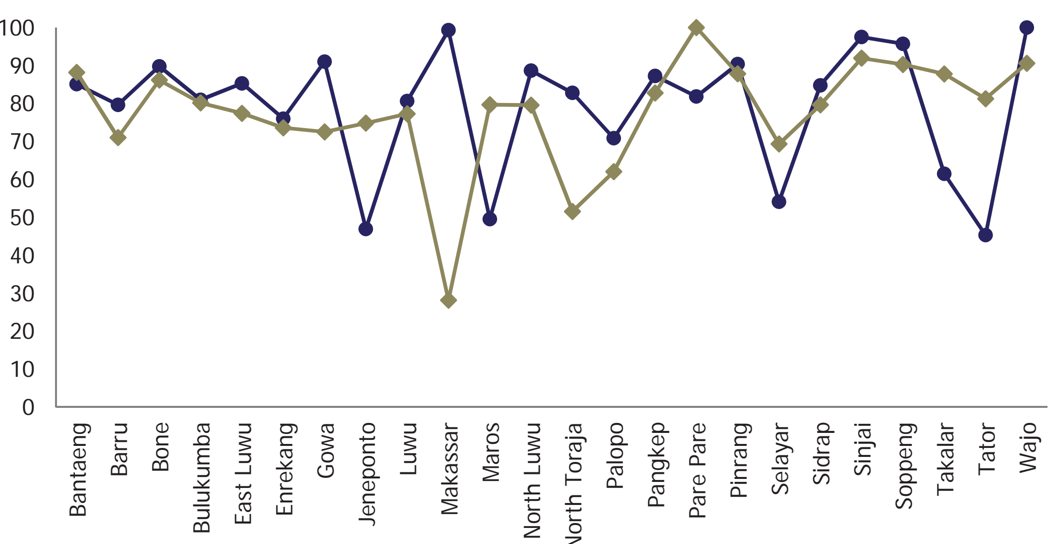
Note: (1) No data available for Tator, Maros, Sinjai and Gowa in South Sulawesi; (2) Access to free healthcare is based on availability of facilities, such as Puskesmas (Community Health Center), and Posyndu (Integrated Health Service Outlet)

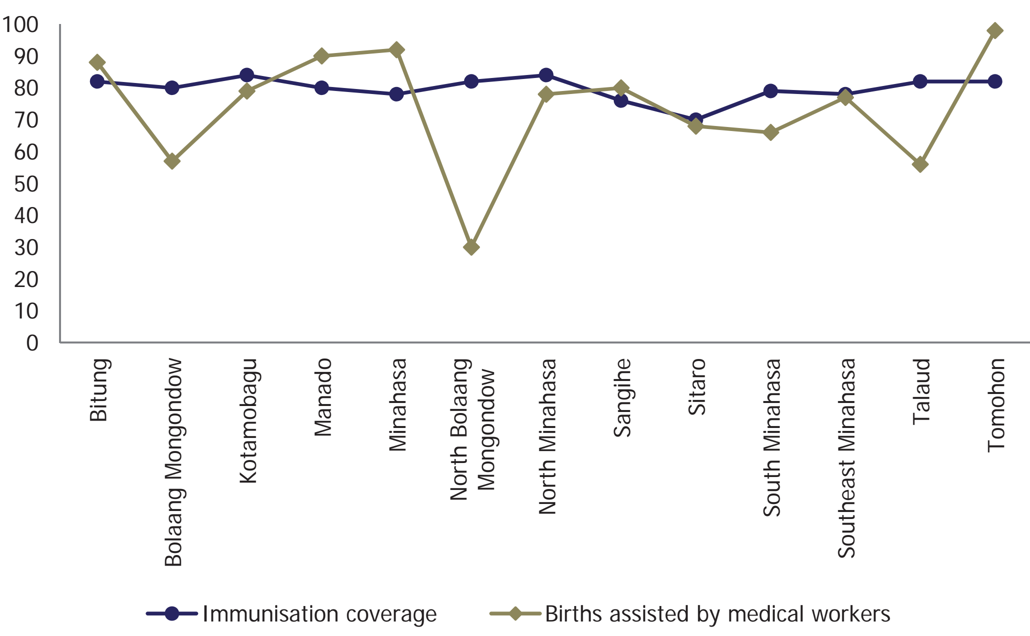
Limited Infrastructure to offer Effective Healthcare Services

The local health authorities acknowledges infrastructure as a crucial requirement for social development in South and North Sulawesi. Better access to transportation facilities for the low-income earners should be established as key infrastructure expenditure priorities. The challenge for the healthcare sector is to address distinct service distribution between districts as outputs (ratio of health workers per 10,000 populations) tend to be relatively concentrated in urban areas. Transportation and geographical issues are often barriers to health workers in rural districts.

Chart 2.8 indicates that the relationship between outputs (ratio of health workers per 10,000 populations) and outcomes (immunization coverage and births assisted by health workers) do not tally. Makassar district, for example had a high ratio of health workers, resulting in higher immunization coverage but a very low ratio of births assisted by medical workers (due to lower access to free healthcare facilities). Manado's output is relatively in line with the outcome. However, an overall snapshot in both South and North Sulawesi portrayed a certain degree of disparities across all districts. These variations occur because limited transportation and geographical location hamper equal distribution of and access to health workers or facilities, thus would possibly affect the demand for hospital services and its patient market share.

Chart 2.8: Coverage of births in South Sulawesi and North Sulawesi (in percentage), 2009





Source: Central Bureau of Statistics, World Bank, Frost & Sullivan

Provision of Sub-standard Quality Services in Most Health Providers

Distribution of health service providers in South and North Sulawesi is currently inadequate and favours the urban areas. On the other hand, number of private providers and hospital beds are on the rise. The private providers in South and North Sulawesi tend to focus on the provision of narrow specialty services and maternity care, with wide range of preventive and curative services.

Supply of private sector medical and nursing education has exploded in recent years with little regulation, raising concerns about the quality of pre-service education. For example, Hasanuddin University and University of Sam Ratulangi are the only one in the region considered to produce high quality medical professionals and nurse graduates in Makassar and Manado, respectively. It is generally acknowledged that the current education system for health and allied health professionals in South and North Sulawesi does not support the production of good quality graduates, resulting in the provision of sub-standard quality services in most public and private providers. To date, there is no institutional and systematic commitment to quality assurance and monitoring, and enforcement on providers who are found to be providing lower quality of care.

Limited Resources make it Difficult for District Authorities to Maintain Oversight over Private Providers

The Provincial Health Office (Dinkes) plays crucial role in licensing and supervising both public and private health providers. In practice, however, limited resources make it difficult for authorities to maintain oversight over private providers. The process for licensing new hospitals is first to receive a temporary operating license. Once the hospital is operational, they would request Hospital Accreditation Commission (KARS) accreditation, and upon successful accreditation, a standard operating license would be issued. KARS is an independent institution that accredits hospitals on 16 service standards, such as operating theatre, pharmacy, emergency unit, etc. However, KARS reported that majority of the hospitals in South and North Sulawesi has not been accredited. Clearly, the accreditation requirement is not enforced, and there seems to be minimal oversight of private medicines.

Once private hospitals are licensed, there is generally little further interaction as they do not provide regular reports to the district health officials. The only reports from private hospitals are the free medication supplies for vertical programs, such as TB medicines, malaria medication, and vaccines. There are various reasons to the weak licensing and supervising status in South and North Sulawesi. There is some degree of mistrust from both parties, with public officials wary of unethical providers driven by profit and private providers cautious of corrupt public officials. District officials ultimately want to maintain authority and have some sense of control, but do not have the adequate resources to carry out their roles. The private providers, on the other hand, want to regulate their profession in order to reduce potential competition – several private providers in Makassar complained that district officials allowed new large hospitals to be set up in close proximity, negatively impacting revenues of smaller private hospitals.

2.1.3 Challenges and its impact

Table 2-4: Challenges of Healthcare Services Market in South Sulawesi and North Sulawesi, 2011

Rank	Challenges
1	Poverty Hinders the Extension of Healthcare to Rural Areas
2	Huge Disparity of Population Density
3	Lack Collaboration and Joint Services among Stakeholders

Source: Frost & Sullivan

Poverty Hinders the Extension of Healthcare to Rural Areas

Figure 2.7 indicates that the number and percentage of poverty in South and North Sulawesi declined at a very slow rate over the period 2006 to 2010. The percentage of poverty in South and North Sulawesi has always been below the national average during the period 2006 (15.4 percent) to 2010 (13.3 percent). However, the decline of poverty in the National level is faster than South and North Sulawesi. Indonesia declined at a CAGR of 3.2 percent, whilst South Sulawesi and North Sulawesi modestly declined at a CAGR of 3.0 percent and 1.9 percent over the period of 2006 to 2010, respectively. One regional basis, of the six provinces on the island of Sulawesi, South Sulawesi ranked second lowest after North Sulawesi in 2010. Close to 11 percent of total population in both South and North Sulawesi live below or shortly above the poverty line of USD 2 daily income.

The relative poverty of rural population in South and North Sulawesi increases their vulnerability to detrimental healthcare costs when disease or disaster strikes. Poverty is the main reason to the escalating issues in health inequalities across South and North Sulawesi. Rural inhabitants will have less money to pay for healthcare, leading to lower health standards, thus attracting lesser health providers to rural areas. Moreover, physician salaries (USD 824 per month) in the public sector are already relatively lower compared to the private sector.

This scenario has enabled the state government to allow physicians to engage in more than one clinical practice. This means that physicians work in public facilities for a certain time frame and concurrently topping up their salaries via private practice. The "dual practice" is a common engagement seen in South and North Sulawesi and also a crucial portion of their income; nevertheless opportunities are drastically reduced in low wealth communities and so physicians are typically not inclined to work there.

Table 2-5: Rural-Urban Poverty at a Glance (in thousands; percentage of poverty), 2006 and 2010

Provinces	2006	2010
DKI Jakarta	4.6%	3.5%
East Jawa	21%	12%
North Sulawesi	10.1%	9.1%
South Sulawesi	13.3%	11.6%
West Jawa	15%	11.2%
National	15.4%	13.3%

Source: BPS, Frost & Sullivan

Note: (1) The definition of poverty: population falling below USD 2 per day (IDR18,300) poverty line

Huge Disparity of Population Density

Chart 2.9 portrays that the population is concentrated in Makassar (South Sulawesi) and Manado (North Sulawesi) with a population density of 8,026 and 2,966 per km square, respectively. 17 percent of South Sulawesi's population resides in Makassar, while 21 percent of North Sulawesi's population live in Manado; thus making it the highest population in the province. On the contrary, East Luwu and Bolaang Mongondow portrayed the lowest population at only 2.9 percent and 9.3 percent, respectively. With these figures, a huge disparity of population density is observed in both South and North Sulawesi.

The rural and urban separation is made worse by South and North Sulawesi's geographical distribution of population, thus making population to be highly dispersed and hard to reach. Physical infrastructure, such as roads and transportation is lacking, which makes it difficult to bridge the huge disparity of populations to central health facilities. This could eventually lead to the lack of connectivity within the healthcare supply chain, thus translating to further complication of medicine supplies and health equipment. The unequal geographical distribution of population affects the provision of clean water and proper sanitation, which adds to the current rural health issues.

Chart 2.9: Population Density (per km square) in South and North Sulawesi by Districts, 2009

Population Density in South Sulawesi by Districts, 2009

District	Density
Makassar	8,026
Pare Pare	1,257
Palopo	1,019
Takalar	504
Jeneponto	460
Bantaeng	457
Bulukumba	362
Gowa	340
Pangkep	316
Sinjai	288
North Toraja	190
Maros	187
Pinrang	177
Soppeng	169
Bone	167
Wajo	154
Sidrap	152
Barru	144
Selayar	144
Enrekang	121
Tator	114
Luwu	114
North Luwu	41
East Luwu	35

Population Density in North Sulawesi by Districts, 2009

District	Density
Manado	2,754
Bitung	594
Tomohon	571
Minahasa	293
Kotamobagu	276
Sangihe	208
North Minahasa	188
Southeast Minahasa	164
Sitaro	160
South Minahasa	122
North Bolaang Mongondow	47
Talaud	60
Bolaang Mongondow	31

Source: North Sulawesi Central Bureau of Statistics, World Bank, Frost & Sullivan

Lack Collaboration and Joint Services among Stakeholders

To date, the central Government has been exerting pressures towards its local district authorities in responding to infectious disease outbreaks, and programs to mitigate health issues. Consequently, the MOH have required the district authorities to oversee and fund their healthcare systems, whilst the central and provincial governments will provide technical support, and overall supervision. However, such approach has yet to attain effectiveness due to the lack of financial resources at the local district authorities.

Moreover, there is little interaction between district health officials and private providers. There is also a lack of coordination with private providers to involve them in critical public health programs, such as TB or malaria, or to include them as referral points. District officials do not have sound understanding of how to collaborate with private providers, and mostly focus on their role as licensing and monitoring agent. Improving capacity of district and provincial health officials to engage with private providers is critical to improving the general health services.

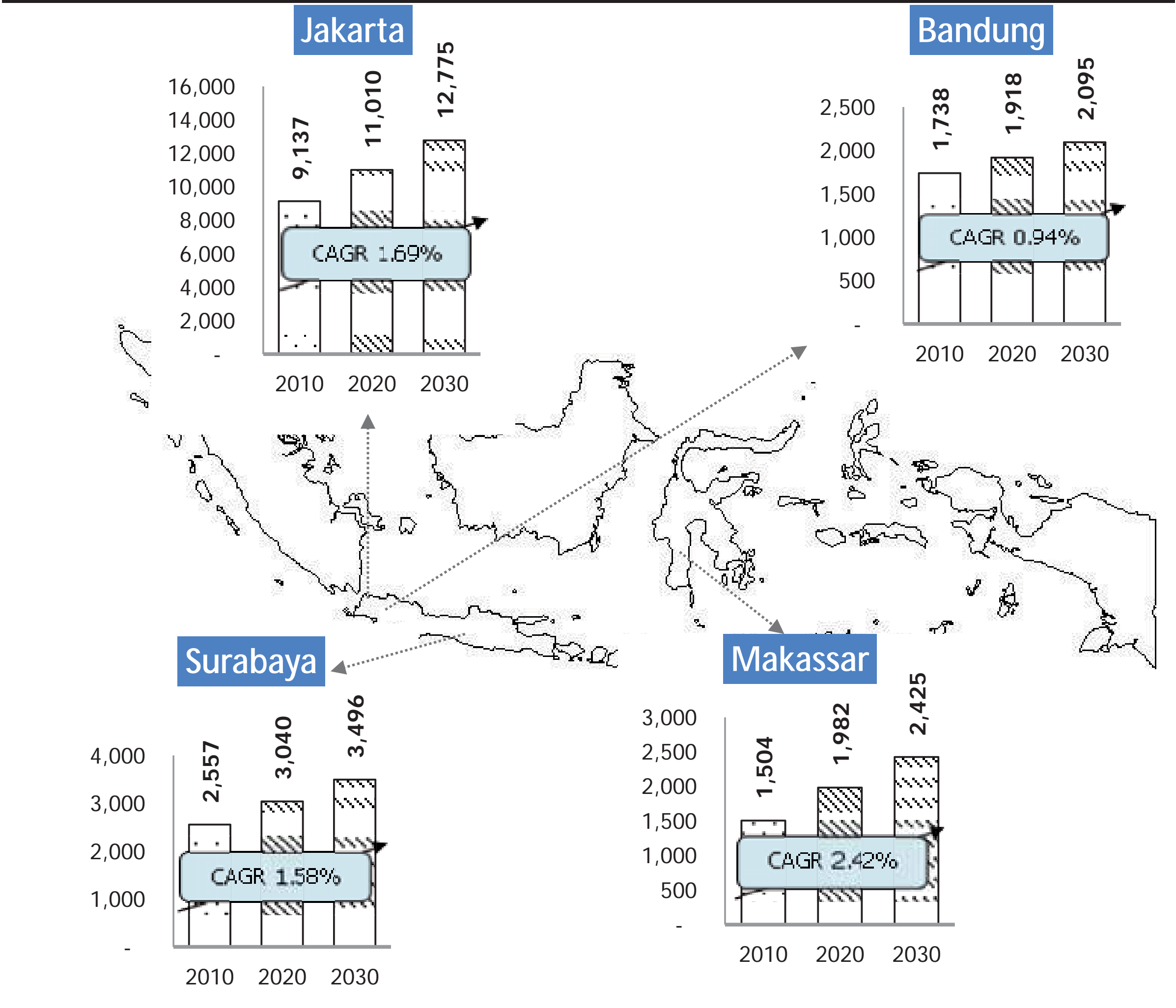
2.2 Trends in Healthcare Services in Makassar, South Sulawesi

2.2.1 Background

Demographics

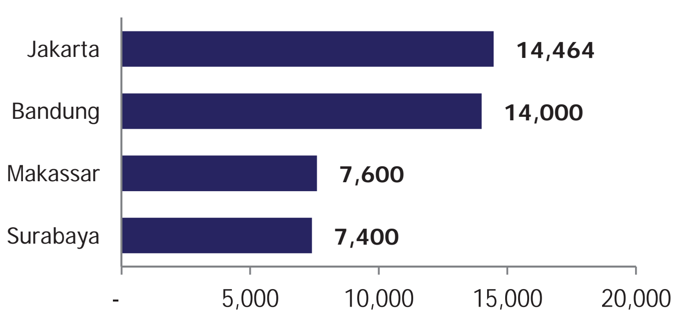
Makassar will be one of the fastest growing cities in 2010 to 2030. Despite Jakarta and Surabaya being the country's largest cities, the rapid urbanisation and industrial development and the Government's intention to create transform Makassar into the representative city in East Indonesia is likely to result in a rapid expansion of population in the city. Chart 2.10 indicates that the population growth comparisons between Jakarta, Bandung, Makassar and Surabaya.

Chart 2.10: Population by Cities (in thousands), 2010, 2020 and 2030



Source: Euromonitor, Frost & Sullivan

Chart 2.11: Population Density by Cities (per km square), 2010



Source: Indonesia Census, Frost & Sullivan

Socio-economic Profile

Jakarta has the strongest economy in the entire Indonesia. To date, Jakarta falls under the middle high income group (per capita income of USD 10,582)[1], whilst Makassar falls under the lower middle income group (per capita income of USD 2,580)[2]. With Makassar's rising middle class group, there will be demand for quality healthcare services in Makassar to further drive the hospital services growth.

Table 2.6 denotes that South Sulawesi growth contribution is dominated by the agricultural sector and has been known as the national food basket. The second largest contributor lies under the hotel and restaurant services sector, capturing 17 percent of the contribution to the economy, followed by processing industry (13 percent). Comparatively, the South Sulawesi province has a higher reliance on the agricultural and fisheries sector than the other key economic regions of Indonesia.

[1] Jakarta Urban Challenges in a Changing Climate 2010 The World Bank

[2] Ease of Doing Business in Makassar Indonesia 2012 http://www.doingbusiness.org/data/exploreeconomies/indonesia/sub/makassar/

Table 2-6: Contribution to GDP (in percentage) by Provinces, 2010

Sectors	DKI Jakarta	East Jawa	South Sulawesi	West Jawa
Agriculture				
Agriculture and Fisheries	N/A	16%	27%	10%
Industry				
Mining and Quarrying	N/A	2%	9%	3%
Processing/Manufacturing Industry	21%	28%	13%	45%
Electricity, Gas and Water	1%	2%	1%	3%
Construction	9%	3%	6%	3%
Services				
Hotel and Restaurant	16%	30%	17%	21%
Transportation and Communication	18%	6%	9%	6%
Finance, Leasing and Company Services	34%	5%	7%	2%
Other Services	1%	8%	11%	7%

Source: The World Bank, Frost & Sullivan

Chart 2.12: GDP per capita by Cities (in USD), 2007 to 2010

	2007	2008	2009	2010
Bandung	2,405	2,568	2,633	2,796
Jakarta	4,113	4,254	4,483	4,722
Makassar	1,077	1,186	1,262	1,317
Surabaya	3,058	3,177	3,319	3,504
National	936	979	1,029	1,092

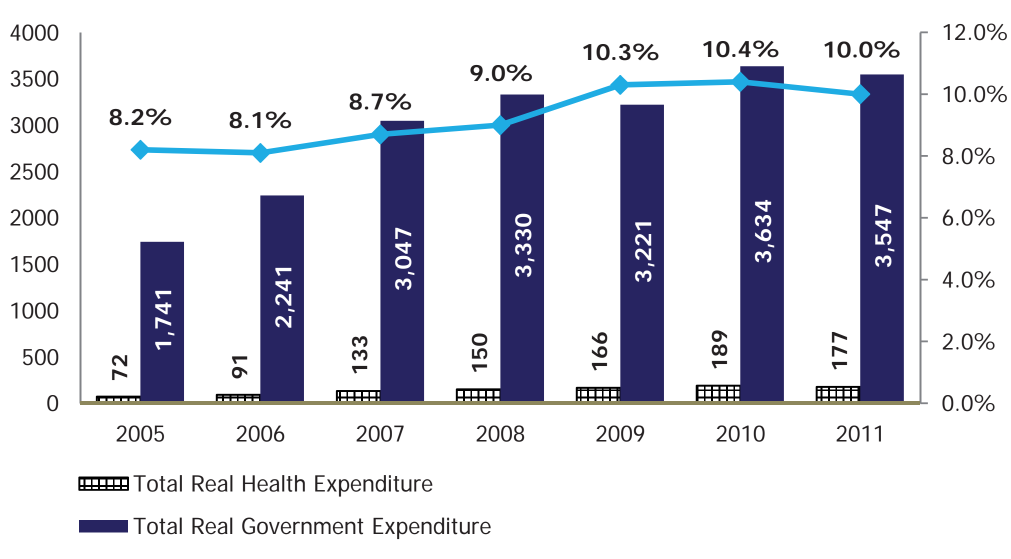
Source: Indonesia Census, Frost & Sullivan

Among the four cities, Jakarta is in fact the strongest economy in the entire Indonesia. To date, Jakarta falls under the middle high income group, whilst Makassar under the lower middle income group. With Makassar's rising middle class group, there will be demand for quality healthcare services in Makassar to further drive the hospital services growth.

Health Expenditure

The proportion of health sector expenditure to total expenditure in South Sulawesi region continues to escalate, although it tends to fluctuate. In 2005, the proportion of health expenditure to total expenditure is 8.2 percent and has escalated to 10.4 percent in 2010 (Chart 2.13). In 2011, the proportion of expenditure of total health expenditure is 10 percent, a slight drop from the year before. On an average bases, districts in South Sulawesi allocate about one tenth of expenditure for the health sector. In 2010, the highest health expenditure is in Enrekang, whilst Makassar district had the lowest per capita expenditure.

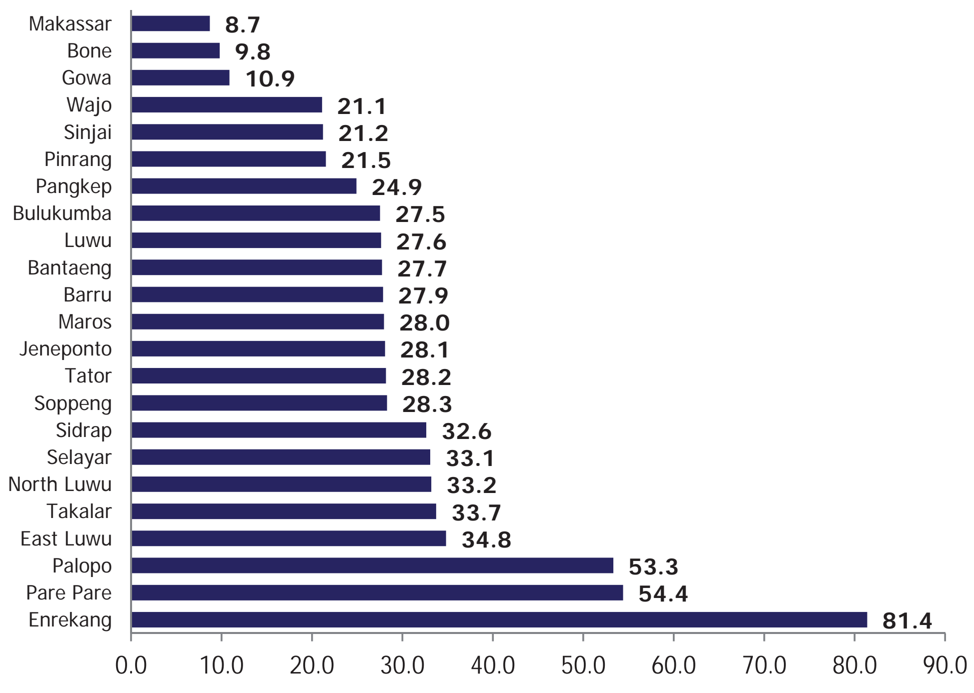
Chart 2.13: Total Real Health Expenditure (in USD Million) and Total Real Government Expenditure (in USD Million) in South Sulawesi, 2005 to 2011



Source: World Bank, Frost & Sullivan

Note: (1) No data for Jakarta, Surabaya, and Bandung

Chart 2.14: Health Expenditure per capita by districts in South Sulawesi (USD), 2011



Source: World Bank, Frost & Sullivan

Health Facilities

Table 2.7 indicates that South Sulawesi has the lowest number of hospitals in comparison to the rest of the key provinces. Makassar being the fastest growing city and rising middle class earners (in comparison to the other key provinces), more supply of private hospitals will be needed to fulfil the demand in the near term.

Table 2-7: Total Public and Private Hospitals in South Sulawesi and other key Provinces, 2010

Province	Public	Private	Total
DKI Jakarta	16	99	115
South Sulawesi	34	21	55
East Java	58	89	147
West Java	42	129	171

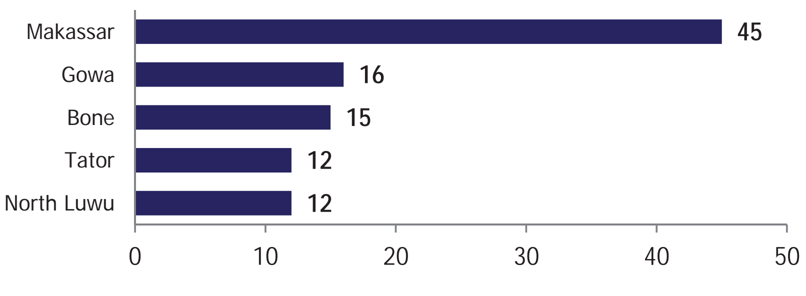
Source: World Bank, Frost & Sullivan

2.2.2 Trends in patient movements

Communicable Diseases

Chart 2.15 denotes the top 5 districts reported with diarrheal diseases. Diarrheal diseases remain one of major public health problem in Makassar. Based on health profile of the districts, Makassar has always been the top district with diarrheal cases being reported. Overall, diarrheal cases have always been the top of inpatient cases in South Sulawesi

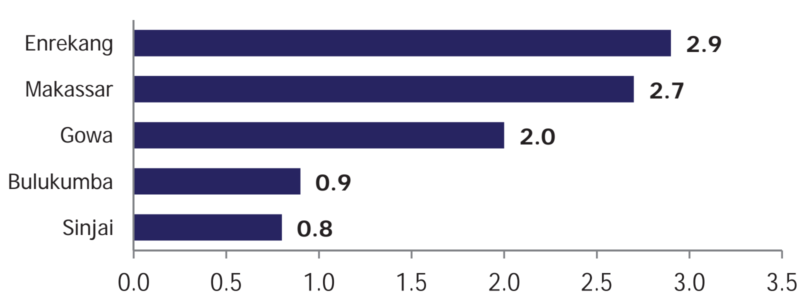
Chart 2.15: Cases of diarrheal disease (per 1,000 populations) by districts, 2009



Source: MOH, Frost & Sullivan

Chart 2.16 denotes the top 5 districts reported with typhoid fever cases. Typhoid fever remains one of major public health problem in Makassar and one of the most common causes of hospitalisation.

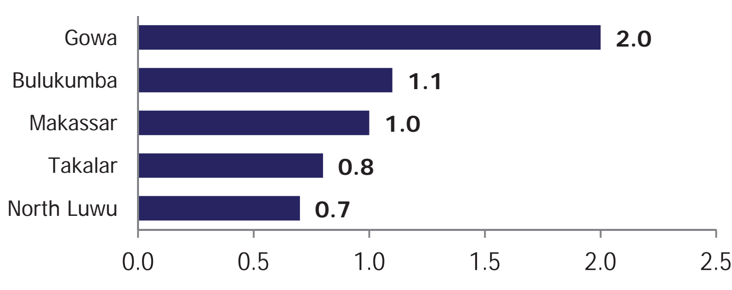
Chart 2.16: Cases of typhoid fever (per 1,000 populations) by districts, 2009



Source: MOH, Frost & Sullivan

Chart 2.17 denotes the top 5 districts reported with acute respiratory diseases including pneumonia. Acute respiratory diseases remain one of major public health problem in Makassar. Acute respiratory diseases including pneumonia have been one of the top causes of diseases for the outpatient visits at hospitals in South Sulawesi.

Chart 2.17: Cases of Acute Respiratory Diseases (per 1,000 populations) by districts, 2009



Source: MOH, Frost & Sullivan

Chart 2.18 denotes that district across South Sulawesi are affected by tuberculosis (TB) cases. Despite national control initiatives, TB remains one of major public health problem in Makassar.

Chart 2.18: Cases of Tuberculosis (TB) (per 1,000 populations) by districts, 2009

Bone
Pinrang
Tator
Barru
Sidrap
Wajo
Enrekang
Pare Pare
Palopo
Makassar
Sinjai
Selayar

100
100
96
96
92
91
91
90
90
88
88
86
81
80
80
78
70
66
55
50
49
44
12

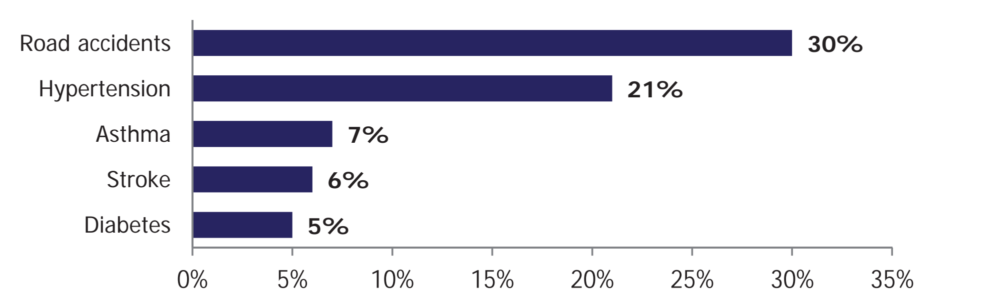
0 20 40 60 80 100 120

Source: MOH, Frost & Sullivan

Non-communicable Diseases

Based on the results reported by hospitals in South Sulawesi, the major non-communicable diseases shown in Chart 2.19 are road accidents (30 percent), followed by hypertension (21 percent), asthma (7 percent), stroke (6 percent), and diabetes (5 percent).

Chart 2.19: Cases of Non-communicable Diseases (in percentage) reported by hospitals in South Sulawesi, 2009



Source: MOH, Frost & Sullivan

2.2.3 Trends in technology movements

The Decentralised Health Information Systems in South Sulawesi has weakened the health information system and the coordination amongst various stakeholders (i.e. health government, hospitals and population), leading to ineffective control of communicable diseases within the province. Moreover, the sub-national governments (i.e. provincial and district governments) are unaware of their roles and lack the incentives and technical know-how to assume those responsibilities. What the subnational government require is the collection of health information in order to be able to provide further inputs to performing overall health planning to implementation phase.

Currently, the central health ministry relies on provincial and district governments to report information voluntarily. This no doubt has resulted in a delayed submission and poor quality data. Thus, the limited data flow via the system will not be reliable enough to be utilised for planning, policy analysis, or evaluation. The central health ministry, eventually lack information and is unable to monitor the quality of laboratory service hospitals, and other health-related parameters. To date, there are still discrepancies in data obtained from various health sources and organisations.

Quality assurance systems for South Sulawesi hospitals continue to rely heavily on inputs indicator, such as number of beds, floor area, number of medical equipment, and so on with very minimal verifications from the district government bodies. To date, most hospitals regardless public or private are utilising the typical LAN network to stay connected within departments. However, there is currently a lack of infrastructure to operate healthcare IT networks among the hospitals in the province.

2.2.4 Key Service Providers/Competitive Landscape

The demands driving the growth of the hospital services industry in Makassar stems from the growing middle income earners and the escalating population density. These parameters will no doubt translate to the increasing demand for private providers with sophisticated and better health facilities such as air conditioned room, fully equipped medical facilities and better medical services. Both SHMK and Awal Bros targets the middle high income group, whilst Stella Maris the low middle income earners. SHMK is able to differentiate itself from the rest due to its strong brand identification, with the establishment of nine different Siloam hospitals distributed across Indonesia. Awal Bros falls under the Bosowa Group, with only six different hospital establishments across Indonesia, whilst Stella Maris is owned by The Congregation of Jesus Mary Joseph Society.

Moreover, SHMK has its competitive advantage by being the sole specialty provider in Emergency and Trauma and Cardiology in Makassar. These 'Centre of Excellence' are in line with the current high prevalence of road accidents and heart-related diseases in Makassar. Awal Bros and Stella Maris, on the other hand, specialises in Cardiology and Internal Medicine, respectively. However, SHMK would have the competitive advantage over Awal Bros and Stella Maris due to its strong financial background, which includes the set up with advanced equipment and devices to prevent patients from switching to another healthcare provider (Table 2.8).

Moreover, the Siloam Group have a higher cumulative experience in hospital operational know how, thus translating to overall costs decline operational efficiency and its group level clinical monitoring system ensures synergised performance of clinical outcomes. If experience can be kept proprietary by the Siloam Group, then this effect leads to an entry barrier for existing hospital providers.

Despite the strengths portrayed by SHMK, growth potentials are high for Awal Bros and Stella Maris, as both hospitals have plans to extend additional services to capture more patients. Stella Maris has plans to grow and improve the services in its four satellite hospitals in Toranjang, Paloko, Kendari and one in South East Sulawesi. Moreover, the establishment of a nine-storey building comprising of sophisticated technologies and a new Obstetrics and Gynaecology department is currently in Stella Maris' pipeline. These hospitals are expected to continue with their aggressive marketing campaign to increase hospital visibility. For instance, Stella Maris is on the verge to setting up its own Marketing Department and a website and is currently improving its physical outlook and building environment to create a better ambience and comfort for its visiting patients.

Table 2-8: Brief Profiles of SHMK and Four Key Hospitals in Makassar

		Direct Competition		**Indirect Competition**	
	SHMK	**Stella Maris**	**Awal Bros**	**Grestelina**	**Wahidin**
Ownership	Siloam Hospitals Group	Congregation of Jesus Mary Joseph Society	Bosowa Group	N/A	Government
Awards and Accreditation	JCI Based Protocol	[1]MSEA 2011	N/A	Master Brand Awards 2011	JCI Accreditation by 2014
Distance from SHMK	N/A	1.0 km	6.0 km	13 km	17.1 km
Primary Catchment Area	Jalan Metro, Tanjung Bunga	Jalan Sombu Opu	Jalan Urip Sumoharjo	Jalan Hertasning Raya	Jalan Perintis Kemerdekaan
Number of Doctors	58 (as of September 2012)	110	87	70	111
Number of Nurses	N/A	256	N/A	89	576
Number of Beds	Opened 100 (as of September 2012; capacity 416)	225	200	150	673
Beds Occupancy Rate (%)	N/A	70%	N/A	60%	70%
Est. no. of inpatients	N/A	N/A	N/A	N/A	7,117
Types of Beds					
VVIP	√	√	√	√	√
VIP	√	√	√	√	√
Class 1	√	√	√	√	√
Class 2	√	√	√	√	√
Class 3	√	√	√	√	√
ICU	√	√	√	√	√
ICCU	√	√		√	√
NICU	√		√	√	√
PICU	√			√	√
Specialties					
Cardiology	√ *	√	√ *	√	√ *
Oncology	√		√		

		Direct Competition		Indirect Competition	
	SHMK	Stella Maris	Awal Bros	Grestelina	Wahidin
Neuroscience	√		√	√	√
Internal Medicine	√	√ *	√	√	√
General Surgery	√	√	√	√	√
Nephrology	√	√			
Pediatrics, O&G	√	√ *	√	√ *	√
Ophthalmology	√	√	√	√	√
ENT	√	√	√	√	√
Orthopedic Surgery	√		√		
Trauma	√ *				
Dentistry	√	√	√	√	√
Urology	√	√	√	√ *	√
Aesthetic Medicine	√	√	√	√	√
Intensive care	√	√	√		√
Rehab & Preventive Medicine	√		√		
Radiology	√	√	√	√	√
Laboratory & clinical pathology	√	√	√	√	√
Modalities					
X-ray	√	√	√	√	√
USG	√	√	√	√	√
EEG	√	√	√		√
ECG	√	√	√	√	√
Green Light Laser				√	
CT-Scanner	√	√	√	√	√
MRI	√			Planned	√
Endoscopy	√		√	√	√
Mammography	√				√

Sources: Hospital websites, publications and interviews, Frost & Sullivan

*Note: (1) MSEA, Medan Service Excellence Award, (2) *, Key Services/Specialty*

Figure 2.1: Key Private Hospitals in Makassar

Source: Frost & Sullivan

2.2.5 Key Alliances

Novartis Hasanuddin Clinical Research (NHCR)

A collaboration initiative between Novartis Institute, Hasanuddin University and Dr. Wahidin Sudirohusodo Hospital in Makassar aims to conduct research into dengue, tuberculosis, and malaria. These partnerships could potentially lead to better surveillance and contribute to controlling the disease in Indonesia. Novartis Hasanuddin Clinical Research (NHCR) tuberculosis (TB) diagnostic laboratory has been established in collaboration with the Dr. Wahidin Sudirohusodo Hospital at Hasanuddin University in Makassar in 2007. TB diagnostic tools are made available free of charge to patients in Makassar. The lab is part of the "Quality Assurance Laboratory Network", supervised by Indonesia's National TB Program. Since 2007, the laboratory has provided TB diagnostic service to more than 5,500 patients in Makassar.

Dengue Research

NHCR dengue laboratory has partnered with the Faculty of Medicine of the Hasanuddin University and Dr. Wahidin Sudirohusodo Hospital to conduct a 12 months survey of dengue patients with fevers. This study will be expanded later into a larger Early Dengue Infection and Outcome (EDEN) study. The NHCR dengue laboratory will conduct genomic analysis of virus isolates collected in Makassar.

2.2.6 Future Outlook

Access to healthcare in South Sulawesi and standards of service will definitely have more room for improvement. Currently, South Sulawesi suffers from high levels of Infant Mortality Rate (IMR), and Maternity Mortality Rate (MMR), and disparity in the population density. If the government is able to ensure seamless connectivity within the healthcare supply chain leading to adequate supply of medicines and health equipments, then it would be able to make a positive impact on the key health indicators (IMR, MMR).

Moreover, challenges of the provision of healthcare services will heighten as South Sulawesi's degenerative diseases are becoming more common. Despite the escalating middle income earners, there is still huge population under the poverty line, and if this is not fully addressed, the current stretched healthcare system will find itself being pulled into new directions, such as the increasing hospital utilisation rate, and more demand for sophisticated healthcare in-patient as well as out-patient. As seen in other countries where this transition

has already taken place, it is forecasted that the healthcare costs and demand for more specialists and more allied health professionals (nurses, midwives, and medical technicians) will require a doubling in the size of the workforce.

On the positive end, the Government has identified the crucial need to upgrade and increase overall health system, such as to further increase health expenditure. However, this requires detailed planning to design the right financing and service levels that could ultimately support South Sulawesi's health coverage on a long term basis. Once these parameters have been laid out, more private providers would be anticipated to contribute even further in South Sulawesi's healthcare delivery.

To date, South Sulawesi had shown a window of optimism in its healthcare landscape as the government clearly have visions to bring healthcare to the next level, thus South Sulawesi private sector must not miss this opportunity. In order to meet the healthcare goals, there is a need for Makassar to prioritise the areas of focus for improvement:

- Insurance providers are increasingly important health payers in Makassar. Insurance payers already contract with private providers, and have greater capacity to determine quality, and more leverage to enforce quality standards than individuals, thus the need to further strengthen insurance options.
- Despite a huge preference for private providers, studies show that quality is inconsistent among public and private providers, such as access to providers especially in remote areas. Even in urban areas, consumer access can be limited by referral practices and the higher cost of private providers, thus the need to improve the quality of and expanding access to private providers.
- There are many factors for ensuring on par standards, training providers, certifying providers, and monitoring compliance. It is crucial that there are incentives schemes that could motivate the provider to maintain quality standards. To ensure successful implementation, District Health Office would need to play its role in monitoring and supervision, as well as professional bodies to enforce norms of practice for their members.
- For primary care, Jamkesmas is generally accepted at public facilities. In areas with both public and private providers, patients covered by Jamkesmas are limited to public providers or must pay OOP when visiting private providers. Thus, there is a need to facilitate access to private providers for primary care for consumers with Jamkesmas, which can significantly improve access to health services across all areas.

2.3 Trends in Healthcare Services in Manado, North Sulawesi

2.3.1 Background

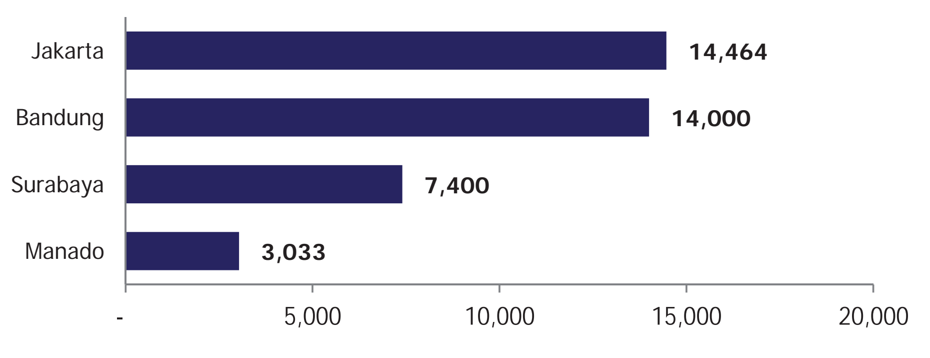
Demographics

Manado is the largest city in North Sulawesi with a population of 410,481 in 2010. With the growing local population and expatriate immigrants spurned by the expanding mining and industrial sector, the city of Manado is expected to experience rapid growth from 2010 to about 964,000 populations by 2030.

Chart 2.20: Population by Cities (in thousands), 2010, 2020 and 2030

Source: Euromonitor, Frost & Sullivan

Chart 2.21: Population Density by Cities (per km square), 2010



Source: Indonesia Census, Frost & Sullivan

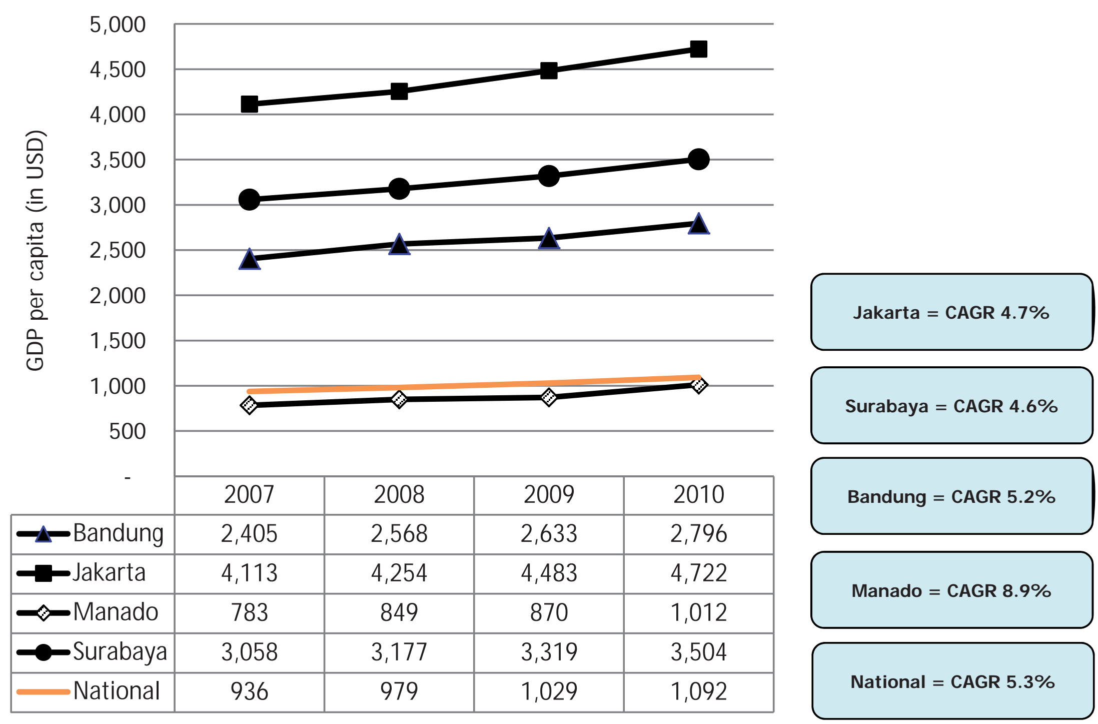
Socioeconomic Profile

Agriculture is the largest contributor to North Sulawesi's economy, but growth of the sector is low. To date, the provincial and district governments face the challenge of devising a strategy for the slow growing agriculture sector in order to further contribute to North Sulawesi's economy. Tourism, inter-island trade and exports are among the drivers of the escalated demand for agriculture sector products.

Comparatively, Jakarta's economy depends heavily on the financial sector and the manufacturing industry, which includes electronics, automotive, chemicals, mechanical engineering, and biomedical sciences manufacturing. East Jawa's economy has undergone a transition phase from being heavily reliant on agricultural to manufacturing for the past three decades. However, it seems to have reached a plateau since then. Currently, the hotel and restaurant service industry has been growing and became the biggest contributing sector to the economy (30 percent). West Jawa today has become an increasingly modern economy with vibrant manufacturing and hotel and restaurant services sector. Manufacturing accounts for most of the capital investment (45 percent) that has been made in West Jawa, where almost three quarters of the non-oil manufacturing industries are centred in West Jawa.

Jakarta has the strongest economy in the entire Indonesia. To date, Jakarta falls under the middle high income group, whilst Manado under the lower middle income group. Comparatively, despite having a significantly lower per capita income than the other major cities, Manado has experienced the most buoyant growth from 2007 to 2010.

Chart 2.22: GDP per capita by Cities (in USD), 2007 to 2010



	2007	2008	2009	2010
Bandung	2,405	2,568	2,633	2,796
Jakarta	4,113	4,254	4,483	4,722
Manado	783	849	870	1,012
Surabaya	3,058	3,177	3,319	3,504
National	936	979	1,029	1,092

Source: Indonesia Census, World Bank, Frost & Sullivan

Note: (1) 1 IDR = 0.000108808 USD

Table 2-9: Contribution to GDP (in percentage) by Provinces, 2010

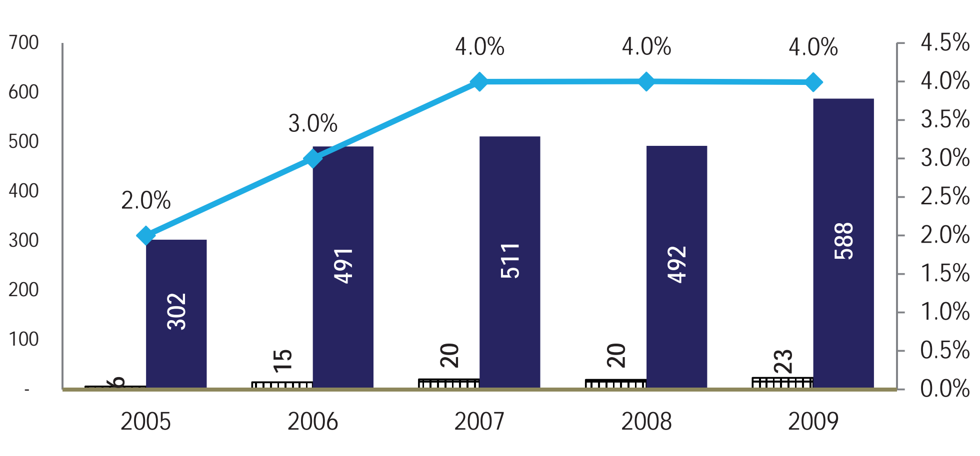
Sectors	DKI Jakarta	East Jawa	North Sulawesi	West Jawa
Agriculture				
Agriculture and Fisheries	-	16%	20%	10%
Industry				
Mining and Quarrying	-	2%	8%	3%
Processing/Manufacturing Industry	21%	28%	10%	45%
Electricity, Gas and Water	1%	2%	1%	3%
Construction	9%	3%	12%	3%
Services				
Hotel and Restaurant	16%	30%	11%	21%
Transportation and Communication	18%	6%	9%	6%
Finance, Leasing and Company Services	34%	5%	6%	2%
Other Services	1%	8%	23%	7%

Source: The World Bank, Frost & Sullivan

Health Expenditure

The government expenditure of health has escalated, but remains a low proportion of overall expenditure. Health expenditure escalated twofold from 2005 to 2009, but remained below 10 percent as a proportion of overall expenditure (Chart 2.23). Sitaro, Sangihe and Talaud have the highest per capita health expenditure, whilst Manado district has the lowest per capita health expenditure.

Chart 2.23: Total Real Health Expenditure (in USD Million) and Total Real Government Expenditure (in USD Million) in North Sulawesi, 2005 to 2009



Source: World Bank, Frost & Sullivan

Note: (1) No data for Jakarta, Surabaya, and Bandung

Chart 2.24 denotes that archipelagic districts dominate the list of largest health spenders in North Sulawesi. In 2009, Sitaro district had the highest per capita health spending of USD 43, followed by Sangihe district. Manado municipality, Bolaang Mongondow Selatan and Bolaang Mongondow Timur districts had the lowest per capita health spending in North Sulawesi.

Chart 2.24: Health Expenditure per capita by districts in North Sulawesi (USD), 2009

District	USD
Sitaro	42.7
Sangihe	39.8
Talaud	28.7
Southeast Minahasa	26.2
Bitung	21.5
Tomohon	21.1
North Minahasa	19.8
Bolaang Mongondow	19.8
North Bolaang Mongondow	19.6
Kotamobagu	18.7
South Minahasa	17.3
Minahasa	15.1
Manado	7.9

Source: World Bank, Frost & Sullivan

Note: (1) No data for Jakarta, Surabaya, and Bandung

Health Facilities

Table 2.10 indicates that North Sulawesi has the lowest amount of hospitals in comparison to the rest of the key provinces. Manado being one of the fastest growing city and rising middle class earners (in comparison to the other key provinces), more supplies of private hospitals will be needed to fulfil the demand in the near term.

Table 2-10: Total Public and Private Hospitals in North Sulawesi and other key Provinces, 2010

Province	Public	Private	Total
West Java	42	129	171
DKI Jakarta	16	99	115
North Sulawesi	13	15	28
East Java	58	89	147

Source: World Bank, Frost & Sullivan

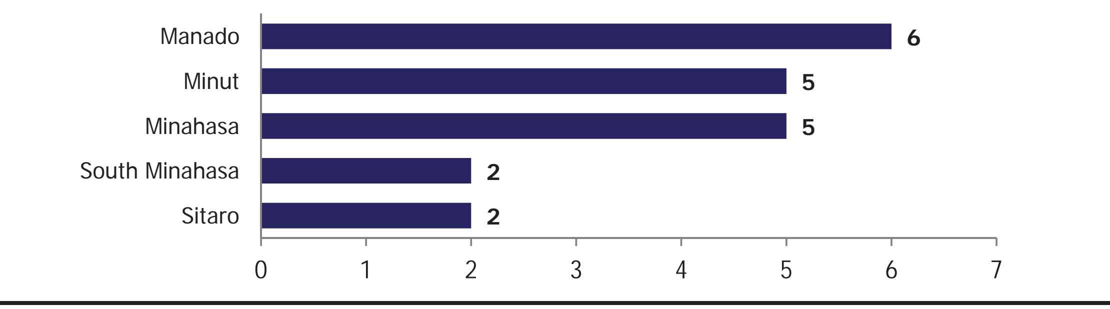
Note: (1) No specific data for Jakarta, Surabaya, Manado, and Bandung

2.3.2 Trends in patient movements

Communicable Diseases

Chart 2.25 denotes the top 5 districts reported with acute flaccid paralysis (AFP). AFP remains as one of major public health problem in Manado with a figure of 6 per 100,000 populations being infected.

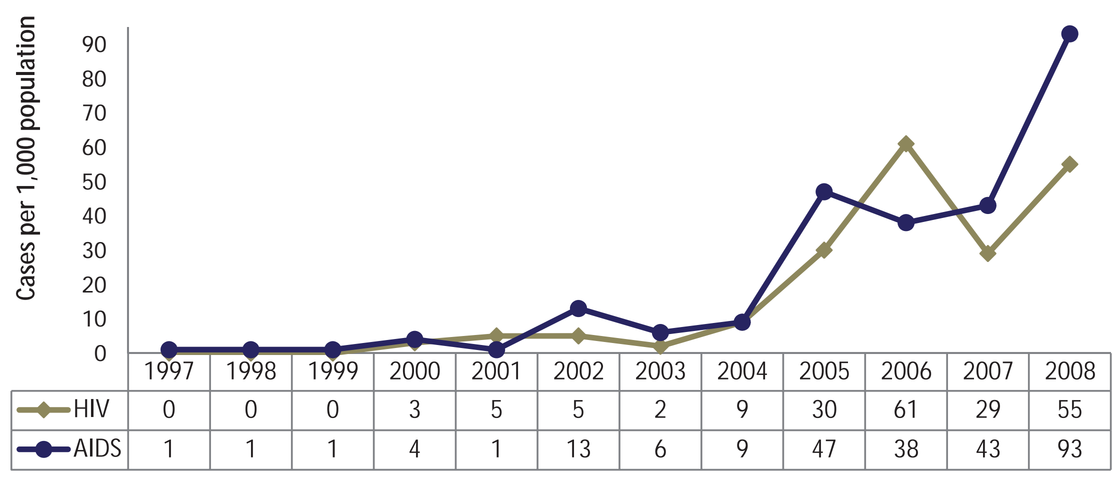
Chart 2.25: Cases of *acute flaccid paralysis (AFP)* (per 100,000 populations) by districts, 2008



Source: Department of Health, Indonesia, Frost & Sullivan

Chart 2.26 and Table 2.11 indicate sharp increase of HIV and AIDS cases in recent years and Manado city is the biggest contributor to HIV and AIDS cases reported in North Sulawesi.

Chart 2.26: Cases of *HIV and AIDS* (per 1,000 populations), 1997 to 2008



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
HIV	0	0	0	3	5	5	2	9	30	61	29	55
AIDS	1	1	1	4	1	13	6	9	47	38	43	93

Source: Department of Health Indonesia, Frost & Sullivan

Table 2-11: Distribution of HIV and AIDS cases (per 1,000 populations) by districts, 1997 to 2008

Districts	HIV	AIDS	Total
Manado	74	103	177
Bitung	70	45	115
Minahasa	11	34	45
Tomohon	7	29	36
North Minahasa	15	21	36
South Minahasa	7	10	17
Sangihe	2	4	6
Bolaang Mongondow	2	2	4
Talaud	1	0	1
Sitaro	0	1	1

Source: MOH, Frost & Sullivan

Chart 2.27 shows the distribution of dengue cases and deaths by districts and Manado portrayed the highest number of dengue cases in 2008. Dengue has been one of the top in the inpatient hospital list in Manado.

Chart 2.27: Dengue cases (per 100,000 populations) and deaths, 2008

Cases of Dengue (per 100,000 population)

700
600
500
400
300
200
100
0

Cases
Deaths

654
198
170
113
101
100
31
28
20

Manado
Bitung
Southeast Minahasa
Tomohon
Minahasa
South Minahasa
Kotamobagu
Bolaang Mongondow
Sangihe

Total Cases of death

9
8
7
6
5
4
3
2
1
0

Source: Department of Health, Indonesia, Frost & Sullivan

Chart 2.28 shows the distribution of TB cases by districts and Manado portrayed the highest number of reported in 2008. TB has been one of the top in the inpatient hospital list in Manado.

Chart 2.28: TB cases (per 1,000 populations) by districts, 2008

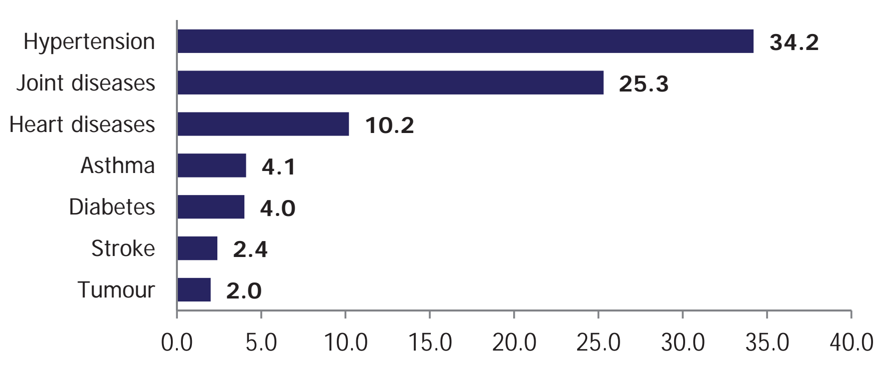
District	Cases of TB (per 100,000 population)
Manado	124
North Minahasa	108
Kotamobagy	96
Bitung	89
Minahasa	86
Tomohon	81
South Minahasa	76
Bolmong	72
Talaud	64
Mitra	61
Bolmut	54
Sangihe	47
Sitaro	24

Source: Department of Health, Indonesia, Frost & Sullivan

Non-communicable Diseases

Based on the results reported by hospitals in Manado, the chief non-communicable diseases shown in Chart 2.29 are hypertension (34.0 percent), followed by joint disease (25.3 percent), heart diseases (10.2 percent), asthma (4.1 percent), diabetes (4.0 percent), stroke (2.4 percent), and cancer (2.0 percent).

Chart 2.29: Cases of Non-communicable Diseases (in percentage) reported by hospitals in Manado, 2009



Source: MOH, Frost & Sullivan

2.3.3 Trends in technology movements

The Decentralised Health Information Systems in North Sulawesi has weakened the health information system and the coordination amongst various stakeholders (i.e. health government, hospitals and population), leading to ineffective control of communicable diseases within the province. Moreover, the sub-national governments (i.e. provincial and district governments) are unaware of their roles and lack the incentives and technical know-how to assume those responsibilities. What the sub-national government require is the collection of health information in order to be able to provide further inputs to performing overall health planning to implementation phase.

Currently, the central health ministry relies on provincial and district governments to report information voluntarily. This no doubt has resulted in a delayed submission and poor quality data. Thus, the limited data flow via the system will not be reliable enough to be utilised for planning, policy analysis, or evaluation. The central health ministry lacks information and is unable to monitor the quality of laboratory services hospitals, and other health-related parameters. To date, there are still discrepancies in data obtained from various health sources and organisations.

Quality assurance systems for North Sulawesi hospitals continue to rely heavily on inputs indicator, such as number of beds, floor area, number of medical equipment, and so on with very minimal verifications from the

district government bodies. To date, most hospitals regardless public or private are utilising the typical LAN network to stay connected within departments.

2.3.4 Key Service Providers/Competitive Landscape

The demands driving the growth of the hospital services industry in Manado are the higher life expectancy, growing middle class group with positive potential of becoming a medical tourism destination. These parameters will likely translate to the increasing demand for private providers with sophisticated and better health facilities such as air conditioned rooms, fully equipped medical facilities and better medical services. Both SHMD and Advent targets the middle high income group, whilst Prof. Kandou the low middle income earners. SHMD is able to differentiate itself from the rest, due to its strong brand identification with the establishment of nine different Siloam hospitals distributed across Indonesia. Advent is part of The Seventh Day Adventist Christian Church Organisation, with only four different hospital establishments across Indonesia, whilst Prof. Kandou is owned by the government.

Moreover, SHMD has its competitive advantage by being the sole specialty provider in Emergency and Trauma and Cardiology in Manado delivered through a unique hospital-hotel hybrid concept. These ‘Centre of Excellence’ are in line with the current high prevalence of road accidents and heart-related diseases in Manado. Advent and Prof. Kandou, on the other hand, specialises in Obstetrics and Gynaecology (O&G) and Cardiology, respectively. However, SHMD would have the advantage over Advent and Prof. Kandou because of its strong financial background and advanced equipments and devices to prevent patients from shifting to another healthcare provider (Table 2.12).

Moreover, the Siloam Group have a higher cumulative experience in hospital operational know-how, thus translating to cost savings and operational efficiency. Its group level clinical monitoring system ensures synergised performance of clinical outcomes. Siloam Group’s experience and operational efficiencies will act as an entry barrier for new hospitals trying to enter the market.

Despite the strengths portrayed by SHMD, growth potentials are high for Advent and Prof. Kandou, as both hospitals have plans to extend additional services to capture more patients. Advent and Prof. Kandou are currently setting up a three-storey building to incorporate new facilities and infrastructure to its current vicinity.

Table 2-12: Brief profiles of SHMD and 4 other hospital operators in Manado

		Direct Competitor		Indirect Competitor	
	SHMD	**Advent**	**Prof Kandou**	**Bethesda**	**Gunung Maria**
Ownership	Siloam Group	Seventh Day Adventist Christian Church Organisation	Government	Evangelical Christian Church of Minahasa	N/A
Awards and Accreditations	JCI Based Protocol	N/A	KARS 16 Services	N/A	N/A
Distance from SHMD	N/A	4km	6km	25km	26km
Primary Catchment Area	Jalan Piere Tendean, Manado	Winangun, Citraland, Bumi Beringin	Overall low to middle income population	Jalan Talete Kel., Tomohon	Jalan Sejahtera, Tomohon
Number of Doctors	57	N/A	144	18	35
Number of Nurses	123	N/A	711	156	138
Number of Beds	Opened 100 (as of September 2012; capacity 224)	N/A	735	224	275
Beds Occupancy Rate	N/A	N/A	85%	10%	54.1%
Est. no. of inpatients	N/A	N/A	22,468	11,551	10,434
Types of Beds					
Presidential	√			N/A	N/A
VVIP	√		√	N/A	N/A
VIP	√	√	√	N/A	N/A
Class 1	√	√	√	N/A	N/A
Class 2	√	√	√	N/A	N/A
Class 3	√	√	√	N/A	N/A
ICU	√	√	√	N/A	N/A
ICCU	√	√	√	N/A	N/A
NICU	√	√	√	N/A	N/A
PICU	√		√	N/A	N/A

Confidential in Commerce

		Direct Competitor		Indirect Competitor	
	SHMD	Advent	Prof Kandou	Bethesda	Gunung Maria
Key Specialties					
Cardiology	√*	√	√*	√	√
Oncology	√				
Neuroscience	√	√	√	√	√
Internal Medicine	√	√	√	√*	√
General Surgery	√	√*	√	√	√
Nephrology	√				
Pediatrics, O&G	√	√*	√	√*	√*
Ophthalmology	√	√	√	√	√
ENT	√	√	√	√	√
Orthopedic Surgery	√	√			
Trauma	√*				
Dentistry	√	√	√	√	
Urology	√	√			
Aesthetic Medicine	√	√	√	√	√
Intensive care	√				
Preventive & Rehab Medicine	√	√	√		
Radiology	√	√	√	√	
Laboratory & clinical pathology	√	√	√	√	√
Ocean Health	Planned		√		
Modalities					
X-ray	√	√	√	√	√
USG	√	√	√	√	√
EEG	√		√		
ECG	√		√		
CT-Scanner	√	√	√		
MRI	√				
Endoscopy	√		√		

Sources: Hospital websites, publications and interviews, Frost & Sullivan

*Note: (1) KARS, Hospital Accreditation Commission, (2) *, Key Specialty/Services*

Figure 2.2: Key Private Hospitals in Manado

Source: Frost & Sullivan

2.3.5 Key Alliances

U.S. Agency for International Development (USAID)

There is significant potential to improve the quality of Maternal Child Health (MCH) services in Manado, with the aim to reduce maternal mortality. The district and provincial health offices are interested in collaborating with the private sector to overcome the high maternal mortality rate (MMR) in Manado. They would welcome new ideas and support to implement changes in payment methods and benefits package to improve priority areas (MCH and also infectious diseases). However, they lack the technical and political support. U.S. Agency for International Development (USAID) could play a catalytic role by supporting provinces and districts health officials in utilising innovative approaches to paying the private sector to improve access and quality to maternal health services. The following are some interventions USAID is aiming to play roles in:

- Supporting the district health officials to lead development and distribution of treatment and referral practices for MCH services from Indonesian Medical Association (IMA) and Indonesian Midwives Association (IBI), supported by Jamkesmas reimbursements to enforce treatment structure
- Supporting the mapping of all facilities to form an appropriate referral network system between public and private providers

Indonesian Midwives Association (IBI) and Bidan Delima (BD)

IBI and BD are working closely to ensure the quality of BD coupled with higher reimbursement rates that would promote the value of BD certification for midwives and consumers. In wealthier districts with more fiscal flexibility, adding a supplementary maternity benefit to Jamkesmas can be considered. This level of funding would allow reimbursement for delivery at closer to the market rate, and higher reimbursement for complex deliveries and Caesarean section. These higher rates would attract hospitals to serve Jamkesmas patients, thus translating to an increase of access to emergencies ultimately improving quality maternal care.

Other than that, activities such as developing simple standard reporting formats, training health officials to analyse data reported, and developing systems for feedback to midwives have been initiated by IBI.

2.3.6 Future Outlook

Access to healthcare in North Sulawesi and standards of service will definitely have more room for improvement. Currently, North Sulawesi suffers from high levels of IMR, MMR, and disparity in the population density. If the government is able to ensure seamless connectivity within the healthcare supply chain leading to adequate supply of medicines and health equipments, then it would be able to make a positive impact on the key health indicators.

Moreover, challenges of the provision of healthcare services will heighten as North Sulawesi's life expectancy and degenerative diseases are becoming more common. Despite the escalating middle income earners, there is still huge population under the poverty line, and if this is not fully addressed, the current stretched healthcare system will find itself being pulled into new directions, such as the increasing hospital utilisation rate, and more demand for sophisticated healthcare in-patient as well as out-patient. As seen in other countries where this transition has already taken place, it is forecasted that the healthcare costs and demand for more specialists and more allied health professionals (nurses, midwives, and medical technicians) will require a doubling in the size of the workforce.

Even lower income consumers prefer utilizing the private sector providers for certain health services. In the long run, demand will increase for private sector services and facilities if the government were to pump in more spending on North Sulawesi's healthcare system. However, this requires detailed planning to design the right financing and service levels that could ultimately support North Sulawesi's health coverage on a long term basis. Once these parameters have been laid out, more private providers would be anticipated to contribute even further in North Sulawesi's healthcare delivery.

To date, North Sulawesi had shown a window of optimism in its healthcare landscape as the government clearly have visions to bring healthcare to the next level, thus North Sulawesi private sector must not miss this opportunity. In order to meet the healthcare goals, there is a need for Manado to prioritise the areas of focus for improvement:

- Disparity in health status between different societal groups
- Low number, quality, utilisation and affordability of health facilities, infrastructure and services
- Limited number of health work force
- More attention must be paid to engaging private sector providers in order to realise health objectives

3 Overview of Siloam Hospitals Makassar & Siloam Hospitals Manado

3.1 Siloam Hospitals Makassar (SHMK)

3.1.1 Background

With its new vision to transform the hospital group from a solely premium client focused provider to one that caters for clientele from all socio-economic classes, Siloam Hospitals Makassar (SHMK) is likely to become the first private hospital in the city to deliver such a concept.

SHMK is located at the Tanjung Bunga district (approximately 7 km away from the city centre of Makassar), a reclaimed settlement stretching over approximately 1,000 hectares that is likely to be transformed into one of the leading commercial and residential district installed with high end residences, up-market shopping malls and premium hotels in the next 20 years. Situated directly opposite of the planned regional presidential palace, the 7-storey SHMK general hospital building is a 14,307 square meters facility, comprehensively equipped with a maximum capacity of 416 beds, 58 specialist outpatient clinic suites, and 3 operating theatres and houses state-of-the-art equipment, including CT, MRI, Ultrasound, Mammography, and Cardiac Catheterization machine.

As of September 13, 2012, construction of SHMK has reached approximately 85 percent completion; most of the hospital is ready in terms of equipments; however, construction is in progress for the top three floors, which is earmarked for additional patient rooms/wards. The SHMK opened on 9th September 2012. Currently, 100 beds are operational and the hospital will progressively increase its operational bed capacity in line with future demand up to an optimum operational capacity of 416 beds.

Figure 3.1: Siloam Hospitals Makassar Location Map & Distance to Key Landmarks

Source: Frost & Sullivan

3.1.2 Key Focus Area of Diseases

SHMK would create Centres of Excellence for key chronic and metabolic diseases, including cardiology, neuroscience & surgery, trauma, and diabetes and stroke. Furthermore, SHMK will also emphasize on treatment of infectious diseases such as pneumonia and diarrhoea, both collectively causing about 34 percent of the infant mortality within South Sulawesi.

3.1.3 Service Profile

SHMK aims to address the epidemiological needs by providing a comprehensive range of inpatient and outpatient services. Apart from therapeutic services, the hospital includes an extensive series of diagnostic and preventive healthcare services.

Table 3-1: Key Services or Specialties at SHMK

Category	Services
Cardiology	Interventional cardiology (coronary angiogram, coronary angioplasty), cardiac catheterization, cardiothoracic surgery, paediatric cardiology
Oncology	Chemotherapy, palliative oncology & surgical oncology
Neuroscience	Stroke treatment, neurosurgery, nervous system management & rehabilitation, neuro-radiology
Internal Medicine	Endocrinology, infectious disease oral therapy, acupuncture, andrology, pulmonology, general medicine
General Surgery	Open surgery, minimally invasive & laparoscopic surgery, gastrointestinal surgeries, paediatric surgery
Nephrology	Hemodialysis & medical treatments
Pediatrics, Obstetrics &	Antenatal and Perinatal Consultation & Care, maternity services, onco-gynaecology, child development, immunization / vaccination
Ophthalmology	Cataract surgery, trauma eye procedures, diabetic eye disease management, geriatric eye disease management, glaucoma management
ENT	Endoscopic sinus surgery, tonsil & adenoid surgery, rhinoplasty, septoplasty, tympanoplasty
Orthopedic Surgery	All acute and elective orthopedic cases, including hip & knee replacement, spinal fusion, minor hand and feet surgeries, traumatic amputation, sports medicine & surgery, bone mass densitometry
Trauma	Infectious disease evacuation, ambulatory medicine, helicopter medical evacuation
Dentistry	Dental prosthetics, endodontics, orthodontics, paedodontics, periodontics, general dentistry, Oral surgery
Urology	Basic services medical and surgical procedures stone management, benign enlarged prostate, urinary incontinence
Aesthetic Medicine	Cosmetic Surgery, Dermato Venereology
Intensive care	ICU, Mobile ICU, PICU, NICU
Rehab Medicine	Physiotherapy, occupational therapy, speech therapy, dietary counseling, music therapy
Radiology	MRI scan, CT Scan, Mammography, Ultrasonography, Fluoroscopy, Angiography, ECG
Preventive	Basic & Executive health screening, women's health screening (e.g. pap smear, blood tests)
Laboratory & clinical pathology	Blood bank, clinical histopathology. Clinical microbiology, biochemistry, haemotology, immunology, urinalysis

Source: Frost & Sullivan

The chemotherapy and haemodialysis services will be provided through six chemotherapy beds and four haemodialysis stations in each respective suite; these services are planned to open by November 2012.

Emergency and Medical evacuation to and from the hospital is available via designated ambulances. The state-of-the-art A&E department hosts a two-bedded resuscitation unit and an observation ward equipped with 10 beds, intended to serve any trauma and emergency case in Makassar.

On-site retail will be available to provide comfort to the patients and visitors to SHMK. Tenants at the hospital will include Starbucks Coffee, a Pharmacy, Times Bookstore and restaurants. A dedicated parking space and multiple point of entry also create logistical convenience for incoming and outbound visitors.

3.1.4 SHMK Operations

3.1.4.1 Workforce

As of September 13, 2012, SHMK has 58 doctors, which include 9 full-time specialists, 28 part-time specialists, and 5 Dentist. Various specialties includes Adult and Paediatric cardiologists, Obstetrician & Gynaecologists, Neurosurgeons, Dentists, Radiologists, Anaesthesiologists, Orthopaedic surgeons, Urologists, Cosmetic Surgeons; SHMK plans to increase this head count progressively. In recognition of the medical workforce as one of its critical success factor, SHMK has collaborated with Hassanuddin Medical School, the only medical institution in South Sulawesi, for physician recruitment.

Furthermore, the hospital has also established attractive partnership and revenue sharing models for its physicians through its Siloam Doctor Partnership Development Program. SHMK recruits medical doctors under three different schemes of full-time, part-time and visiting basis.

As of September 13, 2012, SHMK has assigned at least one senior specialist per specialty for most specialities. To ensure effective monitoring and promote enhancement of medical capabilities, SHMK has assigned full time resident medical doctors, who are usually fresh medical graduates, to part-time specialists (senior consultants). The full-time doctors have undergone a clinical training program at the Siloam Hospitals Lippo Village headquarter to become familiarized with the standard hospital operation protocols within the hospital group.

Under the Department of Health ruling, the Government permits licensed physicians in Indonesia to practice at up to a maximum of three different hospitals, provided part-time employment status is attained at each hospital. SHMK follows strictly to the regulatory requirements to recruit experienced physicians solely through part-time engagements.

SHMK has staffed an experienced nursing team and a broad spectrum of allied health personnel including radiographers, speech therapists, physiotherapists, and biomedical engineers in the hospital. The hospital group has collaboration with Bathesea Nursing School in Yogyakarta by conducting regular career seminars at the college campus for on-site recruitment, which may enhance the employment of nursing staffs for SHMK.

3.1.4.2 Technology

SHMK is currently equipped with advanced diagnostic technologies including 1.5T MRI, 128-slice Dual Source CT Scanner, Mammography Scanner, and 4D Ultrasound machine. The hospital will also be equipped with endoscopic and laparoscopic equipment for its minimally invasive surgical procedures.

From the operational perspective, SHMK is also planning to install Hospital information system (HIS) and Electronic Resource Planning (ERP) systems for its patient record and clinical data maintenance. Furthermore, SHMK will be equipped with video conferencing capabilities and telemedicine hub supported with 10MB LAN/Wi-Fi, linking the hospital with other Siloam Hospitals.

3.1.4.3 Affiliations and Partnerships

In 2008, SHMK signed a memorandum of understanding (MOU) with the Faculty of Medicine of Hasanuddin University of Makassar, the largest medical college in East Indonesia. The collaboration will allow the two premier institutions to work together on joint training and physician resource support.

At the group level, the hospital has also established a partnership with a Consultant from John Hopkins Hospital. The purpose of this partnership is to obtain expertise, knowledge sharing, and training support in respect to Emergency and Trauma care. SHMK will be among one of the hospitals within the group to receive this program.

Under the current regulatory restrictions, new hospitals are restricted to be established within 10km radius of the existing hospital facilities with similar concept and proposition, with the exception of the new hospitals being established as a specialty hospital, or have obtained prior consensus of the existing hospitals within the catchment area. From the local perspective, SHMK has adopted the strategy to maintain co-operative relations with the local hospital communities, and is currently developing a revenue model with the key private hospitals. Through the approvals of the local hospital community, SHMK has been able to secure development license from the local regulatory authority.

3.1.4.4 Demand Side Analysis

Despite aiming to become a key private regional hospital in the South Sulawesi covering all income groups of patients, SHMK's key patient customers is mostly likely to be derived from several main catchment areas.

Catchment area 1: Areas within 15 kilometres radius of the hospital – Makassar City Area

SHMK's catchment area within 10 to 15 kilometers away is covering almost the entire Makassar city. As the largest city in South Sulawesi and East Indonesia, approximately 1.33 million populations was reported to be residing in Makassar city, which represents about 17 percent of the total population in the entire South Sulawesi province in 2010.

Within Makassar city, several key target catchment districts are likely to become important markets for SHMK. The following table profiles the key target customers and the likely preferred healthcare services for each catchment district.

Table 3-2: Patient Profile for key Catchment Areas within 15 kilometres radius

Population	Catchment Districts	Distance to SHMK	Target Patients	Key Services
2010: 1,334,090 *(1,724,044 including Wajo Municipality)* **2015 (est.]:** 1,486,443 *(1,906,535 including Wajo Municipality* **2010 – 2015 CAGR:** 1.92%	Wajo - Jalan Sumba (Chinatown)	3 – 4km	• Mainly affluent Indo-Chinese residents specializing in gold and jewelry businesses	• Elective & curative procedures for multiple specialties • Preventive, Rehab or cosmetic surgical services • Dental • O&G / Pediatric Services
	Tanjung Bunga	Within neighbourhood	• Middle to affluent income class local population • Expatriates, corporate workers and tourists in the long term when Tanjung Bunga Waterfront city is fully operational	• Elective & curative procedures for multiple specialties • Preventive, Rehab or cosmetic surgical services • Dental • O&G / Pediatric Services
	Makassar City Centre	4 – 5km	• Mainly government servants & middle income households	• Preventive & rehab (health screening, radiology diagnostics& lab test services) • Emergency & Trauma • Internal Medicine & General surgeries
	Panakkukang	11 – 12 km	• Mainly affluent native residents	• Elective & curative procedures for multiple specialties • Preventive, Rehab or cosmetic surgical services • Dental • O&G / Pediatric Services

Source: Indonesia Department of Statistics, Frost & Sullivan

Figure 3.2: Snapshots of Target Catchment Areas

Source: Indonesia Department of Statistics, Frost & Sullivan

There are currently about 20 private hospitals operating within the catchment area. However, majority of these hospitals are relatively small scale with average capacity of 50 to 70 beds. RS Stella Maris and RS Bros are likely to be the closest competitors in terms of scale and list of service offerings. RS Stella Maris currently operates at a capacity of 207 beds, while RS Awal Bros have a maximum bed capacity of 200. However, both hospitals are unable to offer comprehensive services and the latest diagnostic technologies to the local community. RS Stella, for instance, does not possess expertise in cardiovascular, urology, and oncology treatments, while RS Awal Bros does not possess state-of-art diagnostic equipment, such as MRI. In addition the government hospital, Wahidin has recently set up a private hospital in its campus. This private Wahidin hospital offers better quality rooms that the government hospital; while the diagnostic facilities are shared by the public and private hospitals.

The development of Makassar Waterfront city is likely to stimulate the growth of upper middle income and affluent population in the catchment area with better job opportunities and living standards. Simultaneously, the prolonged life expectancy of the South Sulawesi population (68.5 years in 2003 to 70.3 year in 2009) and growing urbanization will possibly trigger the shift of chronic diseases, such as cancer, cardiovascular diseases, stroke, and diabetes incidence. Due to the change in demographic, socioeconomic and epidemiological landscape, the current healthcare system will need to expand and upgrade their clinical capabilities and facilities, in order to meet the healthcare demand of the expanding middle income and affluent population.

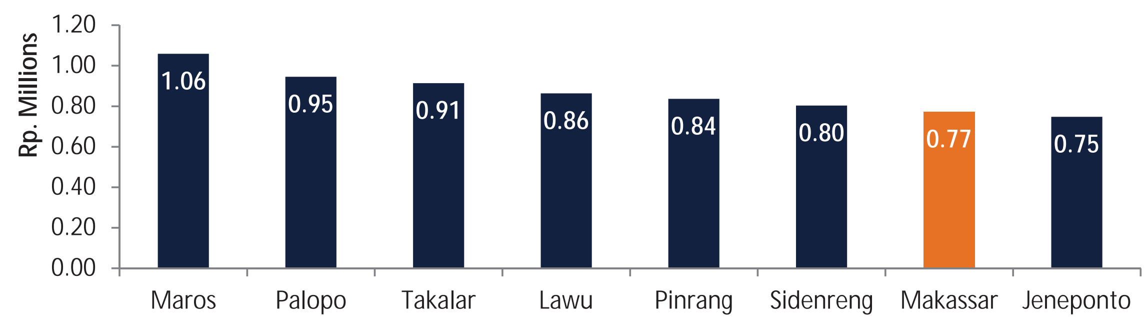
Catchment area 2: Areas beyond 15 kilometres away from the hospital – within or outside South Sulawesi province

According to SHMK, the hospital is planning to expand its target market area in the long term towards the parameters of the surrounding municipal regions. Other South Sulawesi municipals such as Maros, Palopo, Takalar, Lawu, Pinrang, Sidenrang, and Jeneponto are likely to provide favourable patient source for SHMK.

In 2009, the top two highest income quartile population in six out of the seven targeted municipals recorded higher average household expenditure on healthcare than the city of Makassar. Despite the strong healthcare spending power, healthcare delivery systems in these municipals are highly dependent on Class B or Class C public facilities with very limited private healthcare offerings. The positioning of SHMK as a state-of-art regional private hospital is likely to address the current needs for advanced and premium healthcare services in these municipals.

Table 3.3 summarises the demographic and healthcare profiles for the six target municipals.

Chart 3.1: Average household expenditure on health by top two highest income quartile groups in the county / city of South Sulawesi, 2009



Source: Analysis of South Sulawesi Finance: Improve the Quality of Public Services and Financial Management in Gate East Indonesia (2012), Frost & Sullivan

Table 3-3: Patient Profile for key Catchment Areas beyond15 kilometres radius

Catchment Region	Counties / Cities	Population (2009)	Distance to SHMK	Average Household Healthcare Expenditure for top 2 quartile income (Rp.) - 2011	General Hospital Facility (2009)	Total Patient Volume (2009)
Within South Sulawesi	Maros	303,083	31.5 km	1,058,972	• 1 public (107 beds, BOR = 66.3%) • No private	• Inpatient = 23,693 • Outpatient = 5,721
	Palopo	158,094	371 km	945,405	• 1 public (122 beds, BOR = 45.7%) • 1 private	• Inpatient = 12,017 • Outpatient = 44,787
	Takalar	285,601	35.5 km	913,730	• 1 public (175 beds, BOR = 68.9%) • No private	• Inpatient = 12,067 • Outpatient = 75,711
	Lawu	340,746	250 km	863,734	• 1 public (77 beds, BOR = 27.2%) • No private	• Inpatient = 6,363 • Outpatient = 4,482
	Pinrang	347,415	210 km	836,695	• 1 public (142 beds, BOR = 68.9%) • No private	• Inpatient = 9,380 • Outpatient = 34,004
	Sidenreng	287,074	200 km	803,654	• 2 public (60, 111 beds, BOR = 39.23%, 57.09%) • No Private	• Inpatient = 7,633 • Outpatient = 35,819
	Jeneponto	345,148	55 km	747,558	• 1 public (33 beds, BOR = 160.1%) • No private	• Inpatient = 3,085 • Outpatient = 254,457

Source: South Sulawesi Depart of Health Profile 2009, Google Map, Frost & Sullivan

Collectively, the surrounding municipalities or cities of Makassar amassed a total of 77,238 inpatients and 454,981 outpatients in 2009. Due to the lack of private and advanced healthcare facilities in these locations, Makassar is often the preferred location for the middle income to affluent patients in these regions due to its proximity and availability of more advanced private healthcare facilities and medical workforce. On average, the middle and upper income populations account for about 36 percent of the total population in Indonesia. Based on a conservative assumption of 30 percent middle to upper income population that will be able to afford more advanced healthcare services in the South Sulawesi capital, Makassar may potentially serve up to 23,171 inpatients and 136,493 outpatients from these catchment areas.

The establishment of SHMK as an international standard hospital is also well positioned to retain affluent medical patients to seek for treatment within the province. In the current market scenario, majority of the private hospitals are yet to meet local or international accreditation standards, and lack of advanced medical facilities and specialty services, such as oncology, cardiology and orthopaedic surgeries. These factors have

driven patients from the affluent income population to seek treatments in major cities, such as Jakarta and Surabaya, or at private hospitals overseas.

As of 2010, the population of South Sulawesi province is 8,034,776. Assuming that 1 percent of the population are under the affluent income group, and seek treatment at destinations outside the South Sulawesi province, there were about 80,348 outbound patients from the province. As the affluent population continues to expand, the number of potential outbound patients is likely to increase simultaneously. Hence, there is a need for more accessible and advanced healthcare facilities to be available within the province to meet the healthcare demand of this population group.

3.1.4.5 Current Branding Strategies

SHMK is anchored by a four-pillar foundation strategy synergized from the overall group strategy, comprising of (1) Excellence in Emergency & Trauma, (2) State-of-art equipment and technologies, (3) Utilisation of healthcare IT and telemedicine and (4) Robust physician partnership program. In order to expand its target markets, SHMK is also likely to position itself as a "value for money" state-of-art private general hospital that targets to serve patients from all classes of socio-economic status.

(1) Excellence in Emergency & Trauma

In Makassar, infectious or acute diseases, such as acute upper respiratory tract infection and diarrhoea or gastroenteritis, and accidental injuries cause approximately 60 percent of all hospital mortalities. The A&E department in SHMK is likely to provide additional support to the acute care needs of the local population residing in the urban or rural areas through its Emergency care facilities, such as helicopter evacuation, well equipped Emergency Trauma Department with resuscitation units, and ambulance with on-board treatment capabilities. These delivery capabilities are likely to be the first-of-its-kind in the South Sulawesi.

(2) State-of-art Equipment and Technologies

With the installation of 1.5 Tesla MRI and cardiac catheterization lab, SHMK is poised to become the most advanced private hospital in the South Sulawesi region, whereby these systems are scarcely available in the other key private hospitals. Furthermore, the hospital has other state-of-the-art facilities, including a 128-slice CT scanner, 4D Ultrasound system, chemotherapy, and haemodialysis facilities.

To ensure optimal service quality, SHMD will implement its clinical operation based on the JCI accreditation protocols currently used at the Siloam Hospitals Lippo Village Headquarters in Jakarta. Hospital manager at SHMK is also required to provide monthly medical performance updates to the Group Chief of Clinical Improvement 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 practising doctors, particularly where such offerings are currently lacking in the hospital market within the region.

Figure 3.3: Current completed sections and installed equipment at SHMK

Building Exterior

Completed exterior of SHMK, showing the trauma centre as well with ambulatory and Medivac facility

Lobby

Lobby of SHMK with seating area and registration shown and with a view of the Executive Medical Check up at the back

Ward

A first class ward with sofa bed for family with a view of Losari Beach; and a maternity ward with the view of Losari Beach

Facilities

State of the art facilities in the operating theatre and Cath Lab

Source: Field Visit at SHMK, Frost & Sullivan

Figure 3.4: Surrounding Vicinities of SHMK

Source: Field Visit at SHMK, Frost & Sullivan

(3) Utilisation of HCIT and Telemedicine

The availability of telemedicine infrastructure within the Siloam group hospitals will enable the hospital group to effectively utilise the clinical expertise from the Centre of Excellence at Siloam Hospitals Lippo Village headquarter. According to SHMK, Siloam 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 stabilisation remotely, without the need for patients to travel to the Siloam Hospitals Lippo Village headquarter in Jakarta. Through the telemedicine system, copies of all diagnostic scan reports are also simultaneously transferred to Siloam's radiologist expert partners in India to provide second opinion on the diagnostic results. As a result, physicians in SHMK will be able to make third party validated clinical decisions to ensure optimal patient safety and treatment outcomes.

(4) Robust Physician Partnership Program

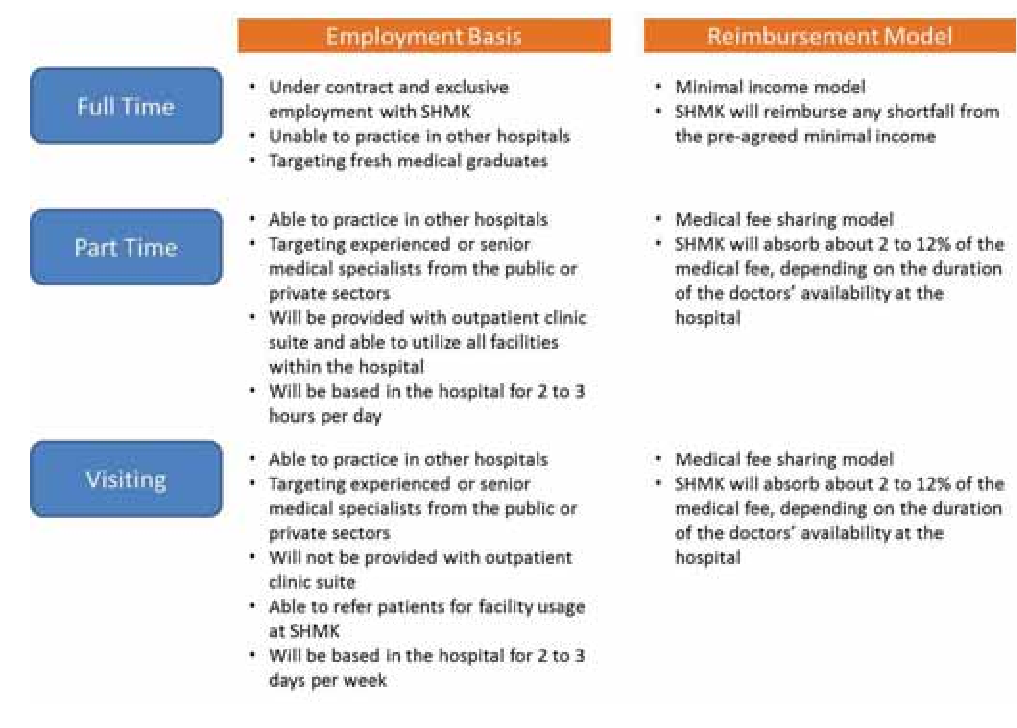
Siloam Hospitals Group regards the medical workforce as one of the fundamental factors for success. Hence, Siloam Doctor Partnership Development Program (SDPDP), which provides attractive remuneration packages, benefits, and career development opportunities, manages all physician engagements established at SHMK,

In order to qualify for the SDPDP, participating physicians are only required to practice for at least 30 hours at SHMK monthly. Depending on the employment nature of the physician (full time, part time, or visiting basis), remuneration packages may include guaranteed base income, or high profit sharing arrangements. Furthermore, SHMK provides comprehensive benefits, such as lifetime health insurance coverage for the practising physician and their immediate family members. Participating doctors receive sponsorship for local and overseas clinical training.

Concurrently, SHMK will regularly conduct clinical symposiums and hospital visit sessions to increase the awareness of SHMK's clinical facilities and capability, thus increasing the attractiveness of SHMK as a practising location for the local physician community.

Through more conducive practice location, advanced facilities, and more attractive remuneration schemes, SHMK anticipates that practising physicians will thereby have a higher tendency to refer more patients from hospitals they used to practise in, to undergo treatment at SHMK. This recruitment strategy will simultaneously serve as one of the key patient attraction models for the SHMK throughout its operations.

Figure 3.5: Physician Employments and Reimbursement Model in SHMK



Source: Frost & Sullivan

(5) Other Operational and Marketing Strategies

During the hospital site visit by Frost & Sullivan on 13th September 2012, overall construction of the hospital building had reached approximately 85 percent of full completion of facilities. Most major investigation and treatment modalities, such as CT Scan, MRI and cardiac catheterisation machines were operational; outpatient clinics, emergency facilities, and operating theatres, were functional.

After its opening on 9th September 2012, the SHMK has its first 4 storeys of the building with 100 beds operational. In the next stage, SHMK will make its top 3 floors and 316 beds operational. SHMK has already secured the development license from the local authorities and a temporary operating license that is valid till 8th May 2013. SHMK plans to apply for a permanent operating license by the end of 2012. According to SHMK, its bed expansion plan will be dependent on the bed occupancy rate (BOR), whereby it will be adding beds to the current facility when an average BOR reaches 65 to 70 percent. In order to cater adequate facilities for the low or poor income population, SHMK may allocate up to 40 percent of its bed facilities for the second and third class wards. Depending on the occupancy of the first class and VIP class wards, SHMK may convert these facilities to second class and third class wards to cater for any surge in demand.

SHMK uses competitive pricing strategy as part of its advertising initiatives. According to the hospital group, inpatient ward charges are at least 30 percent lower than the charges at Siloam Hospitals Lippo Village. As illustrated in Table 3.4, pricing for the low income to poor population second, and third class wards are likely to be competitive against the current private hospital competitors in Makassar, while its high-end wards, such as the presidential suite, VVIP, VIP and first class wards are premium priced relative to its competitors. In order to change the perceptions by the local community on SHMK as a premium hospital catered only for the rich population, SHMK is will be working on collaborations with the local Chief of Medical Council and local authorities to become the ambassadors of the hospital.

Notwithstanding the higher pricing for the premium grade (first class and above) medical wards than the other private hospitals, SHMK’s propositions of better standard of care, more advanced technology and more conducive medical care environment are likely to be the key differentiators that generate good value for its patients. Furthermore, as the target markets for premium graded wards are mainly the upper middle income to affluent population, price sensitivity is usually relatively low. Simultaneously, SHMK’s pricing on the second and third class wards for the low income patients are likely to be competitive to the existing private hospitals, but will be able to generate greater value for money with its better facilities and standard of care.

SHMK will also adopt aggressive mass marketing strategies, such as advertising discounted packages for health screening, pathology and preventive diagnostic services as a mode of relationship building with the local customers and subsequently develop its patient database for the longer term.

Table 3-4: Pricing comparison of inpatient ward Charges for SHMK (USD per overnight stay)

Ward Type	**SHMK**	**RS Awal Bros**	**RS Stella Maris**
Presidential Suite	USD 100	N/A	N/A
Super VIP / VVIP	USD 90	USD 98	USD 92
VIP	USD 75	USD 71	USD 44
1st Class	USD 37	USD 44	USD 44 – 65
2nd Class	USD 25	USD 22	USD 22
3rd Class	USD 12	USD 10	USD 8

Source: Siloam Lippo Village & SHMK interviews, Hospital Interviews, Frost & Sullivan

3.1.5 Competitive Profile for SHMK

Table 3-5: SWOT analysis of SHMK

Strengths	Weakness
▪ Strong financial and operational capabilities and Siloam's planned expansion of 25 hospitals across Indonesia is likely to create economies of scale for subsidiary hospitals ▪ Strong Siloam Hospitals Branding - Siloam flagship hospital, Siloam Hospitals Lippo Village is a JCI-accredited facilities and is likely to have a domino effect on the image of SHMK ▪ Ability to provide attractive remuneration packages to physicians ▪ Leverage on Group infrastructure – Telemedicine and Helicopter ambulatory service synergizes clinical operation between Siloam Hospitals Lippo Village and SHMK ▪ Conducive facilities – clinical facilities, wards and hospital building are in more favourable conditions to competitors. Also it is in a prime location to attract medical tourists, being just beside Losari beach.	▪ Current infrastructure surrounding Tanjung Bunga is still relatively underdevelopment and traffic congestion is relatively significant during peak hours ▪ Ability to employ good quality ancillary healthcare workforce, particularly nurses and allied health workers – RS Stella Maris currently develop and employs majority of the qualified nursing workforce in Makassar through its nursing college.
Opportunity ▪ Tanjung Bunga urban township development is likely to transform the settlement into the leading prime residential, recreational and commercial hub of South Sulawesi, allowing the growth of the middle income and affluent local residents and expatriates since major developers have also set their sights and future strategies there. ▪ Facilities at key competitors are less advanced – Both RS Stella Maris and RS Awal Bros do not	**Threat** ▪ Proximity to key private competitors – RS Stella Maris, one of the most reputed private hospital in South Sulawesi is situated less than 1km away from SHMK, while RS Awal Bros is situated at about 6km apart ▪ Strong competitor brand image – RS Stella Maris has almost 70 years of hospital operation experience and have formed strong perception for local patient

possess MRI and only house 64-slice CT compared to 128-slice CT at SHMK. ▪ Price competitiveness to competitors – SHMK's publicised pricing at 30 percent lower than Siloam Hospitals Lippo Village is likely to diminish public perception of over-charging practices by the hospital ▪ Receptiveness of local and middle-income affluent community new concept – according to SHMK, RS Awal Bros has reached 100 percent BOR within its first year of establishment.	community as the leading private hospital in the region ▪ Public perception of Siloam Hospitals to be over commercialised and is only catered for upper middle income and affluent patients ▪ Public hospital RS Wahidin's planned attainment of JCI accreditation before 2014 is likely to create additional competition

Source: Frost & Sullivan

SHMK's brand positioning as a state-of-the-art private hospital is likely to bode well into the South Sulawesi market landscape. The increasing affluence and urbanisation in Makassar and the surrounding municipals are likely to create an expanded group of middle to upper income healthcare customers, who are expecting improved quality of private healthcare services. Simultaneously, the affordable pricing model of SHMK also allows the hospital to put emphasis on serving lower income and poor population within the region.

Despite improving living standards and population affluence, the current healthcare system often lack the extensiveness of service offerings and cutting edge modalities that match international healthcare standards.

Furthermore, the funding, infrastructure and human resource support and hospital operational experience provided by the parent Siloam Hospitals group facilitates ease of operation at the early stages. Siloam hospitals group's strong commitment in patient safety and clinical efficiency through the adoption JCI protocol is likely to channel into the operational model of SHMK, a practice that is currently unfound in any other private hospital group in Indonesia.

SHMK has also adopted effective market entry strategy through collaborative approaches, towards its work force suppliers and competitors, such as patient referral programs and clinical symposiums. These strategic initiatives would not only allow SHMK to gain acceptance from the local competitors and access to healthcare manpower, but will also create a collaborative forum that promotes mutual support and interactions within the local healthcare community for the future growth of the industry.

3.2 Siloam Hospitals Manado (SHMD)

3.2.1 Background

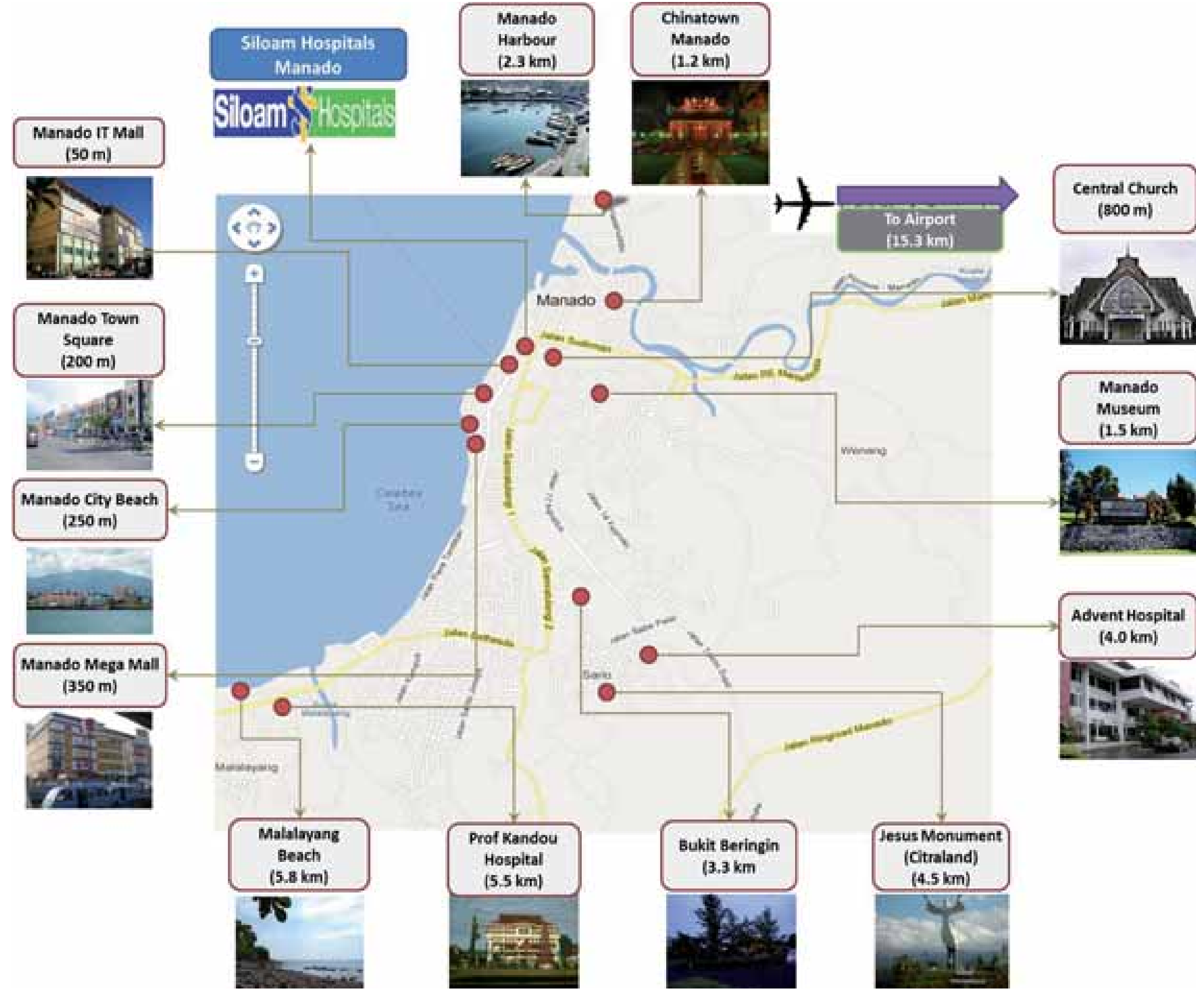
Situated in Manado, the heart of the North Sulawesi province, Siloam Hospitals Manado (SHMD) is located in the prime commercial district of the city. Surrounded by the Jalan Piere Tendean and Jalan Sam Rahulangi, two of the busiest central business district streets in Manado within walking distance to the major shopping complex and Manado Beach, SHMD adopts unique hybrid concept of a joint facility with Hotel Aryaduta Manado. The operational model of hotel-hospital concept is the first-of-its-kind in Indonesia.

Prior to the development, the SHMD building was previously the Matahari building, a local shopping mall attached to Hotel Aryaduta Manado (previously known as Ritzy Hotel Manado). With the group's long-term vision to expand its hospital operations to 25 facilities throughout Indonesia by 2014, Manado's growing tourism industry as a key diving and beach island destination and being one of the most politically and socio-economically stable cities put SHMD as one of the most significant hospital development projects within the Siloam group.

Its unique geographical and ethnical advantages have driven Siloam Group's intention to position SHMD as a tourist-friendly hospital that caters to multiple classes of customers, comprising of local residents from all socio-economic classes, corporate customers, and medical tourists. In order to enhance SHMD's image as a tourist-friendly hospital, Hotel Aryaduta Manado provides food and beverages caterings for the patients and accommodation for the accompanying family members or friends of the patients.

SHMD opened on the 1st of June, 2012. The 5-storey contemporary designed hospital (including the lower ground floor) is fully equipped with the latest modalities, including CT, MRI, Ultrasound, cardiac catheterisation lab, with a maximum capacity of 224 beds, 38 specialist clinic suites, and three operating theatres. Currently, 100 beds are operational and the hospital will progressively increase its operational bed capacity in line with future demand.

Figure 3.6: Siloam Hospitals Manado Location Map & Distance to Key Landmarks



Source: Frost & Sullivan

3.2.2 Key Focus Area of Diseases

SHMD would create Centres of Excellence for key chronic and metabolic diseases, including cardiology, neuroscience and surgery, trauma, diabetes, kidney failure and stroke. Based on the statistics from Manado General Hospital, stroke, congestive heart failure, and chronic renal failure are among the top ten diseases accounting for more than 16 percent of all mortality in 2010. Furthermore, SHMD will also emphasize on treatment of infectious diseases such as pneumonia, dengue haemorrhagic fever, malaria and diarrhoea.

Trauma and emergency medicine is also a core focus area of the hospital to provide timely care to the injury or accident cases.

3.2.3 Service Profile

SHMD aims to address the epidemiological needs by providing a comprehensive range of inpatient and outpatient services. Apart from therapeutic services, the hospital also includes an extensive series of diagnostic and preventive healthcare services.

Table 3-6: Services and Specialties at SHMD

Category	Services
Cardiology	Interventional cardiology (coronary angiogram, coronary angioplasty), cardiac catheterization, paediatric cardiology
Oncology	Chemotherapy, palliative oncology & surgical oncology
Neuroscience	Stroke treatment, neurosurgery, nervous system management & rehabilitation, neuro-radiology
Internal Medicine	Endocrinology, infectious disease oral therapy, acupuncture, andrology, pulmonology, general medicine
General Surgery	Open surgery, minimally invasive & laparoscopic surgery, gastrointestinal surgeries, paediatric surgeries
Nephrology	Hemodialysis & medical treatments
Pediatrics, Obstetrics & Gynecology	Antenatal and Perinatal Consultation & Care, maternity services, child development, immunization / vaccination
Ophthalmology	Cataract surgery, trauma eye procedures, diabetic eye disease management, geriatric eye disease management, glaucoma management
ENT	Endoscopic sinus surgery, tonsil & adenoid surgery, rhinoplasty, septoplasty, tympanoplasty
Orthopedic Surgery	Bone mass densitometry
Trauma	Infectious disease evacuation, ambulatory medicine, helicopter medical evacuation
Dentistry	Dental prosthetics, endodontics, orthodontics, paedodontics, periodontics, general dentistry, Oral surgery
Urology	Basic services medical and surgical procedures stone management, benign enlarged prostate, urinary incontinence
Aesthetic Medicine	Cosmetic Surgery, Dermato Venereology
Intensive care	ICU, Mobile ICU, PICU, NICU
Rehab Medicine	Physiotherapy, occupational therapy, speech therapy, dietary counseling, music therapy
Radiology	MRI scan, CT Scan, Mammography, Ultrasonography, Fluoroscopy, Angiography, ECG
Preventive medicine	Basic & Executive health screening, women's health screening (e.g. pap smear, blood tests)
Laboratory & clinical pathology	Blood bank, clinical histopathology. Clinical microbiology, biochemistry, haemotology, immunology, urinalysis
Ocean Health (planned in the long term)	Hyperbaric oxygen services

Source: Frost & Sullivan

The chemotherapy and haemodialysis services will be facilitated by five chemotherapy beds and six haemodialysis stations in each respective suite; these two facilities would be functional by November, 2012.

Emergency and Medical evacuation to and from the hospital is available via designated ambulances. The state-of-the-art A&E department hosts a two-bedded resuscitation unit and one procedural unit for patients requiring minor surgical or anaesthetic procedures.

SHMD is also planning to offer a series of health awareness educational programs relating to primary care, lifestyle diseases, antenatal and postnatal care. Through the telemedicine system and helicopter ambulance services, SHMD is also planning to provide remote patient care or consultation for the workers at several mining sites in North Sulawesi.

On-site retail is available to provide comfort to the patients and visitors to SHMD. Tenants at the hospital include Starbucks Coffee, a Pharmacy, and Times Bookstore. Siloam Café, managed by Hotel Aryaduta Manado, is currently operational in the main lobby area. SHMD shares the underground parking lot with the hotel, which offers ample parking space for its visitors. There two entry points; one from Jalan Sam Ratulangi and the other from the hotel main lobby, thus creating logistical convenience for incoming and outbound visitors.

3.2.4 SHMD Operations

3.2.4.1 Workforce

SHMD currently has 42 medical specialists, including General Surgeons, Internal Medicine practitioners, Adult and Paediatric cardiologists, Obstetrician & Gynaecologists, Neurosurgeons, Dentists, Radiologists, Anaesthesiologists, Orthopaedic surgeons, Urologists, Cosmetic Surgeons and 15 General Practitioners. SHMD is also currently in the progress of reaching a Memorandum of Understanding with the local medical school at Sam Ratulangi University to foster collaborative medical workforce training and development.

Furthermore, the hospital has also established attractive partnership and revenue sharing models for its physicians through its Siloam Doctor Partnership Development Program. Generally, SHMD recruits medical doctors under three different schemes of full-time, part-time and visiting basis.

Currently, SHMD has assigned at least one senior specialist per specialty. To ensure effective monitoring and promote enhancement of medical capabilities, SHMD has assigned full time doctors, who are usually fresh medical graduates to a part-time specialists (senior consultants). The full-time doctors have been provided with

a clinical training program at the Siloam Hospitals Lippo Village headquarter to be familiarized with the standard clinical operation protocols within the hospital group.

Under the Department of Health ruling, the Indonesian Government permits licensed physicians in Indonesia to practice in up to a maximum of three different hospitals, provided part-time employment status are attained at each hospital. SHMD follows the regulatory requirements to recruit experienced physicians solely through part-time engagements.

SHMD has staff strength of about 123 nurses and a broad spectrum of allied health personnel including radiographers, biomedical engineers, physiotherapists, nutritionists, speech therapists, laboratory technicians, and pharmacists in the hospital. At the initial stage of operation, SHMD will continue to leverage on the work force and training support from the Siloam Hospitals Lippo Village headquarters for its senior nursing and allied health workforce, while concurrently recruiting and training nurses and allied health personnel from the local community.

3.2.4.2 Technology

SHMD is currently equipped with the most advanced diagnostic technologies including 1.5T MRI, 128-slice Dual Source CT Scanner, Mammography Scanner, and 4D Ultrasound machine.

From the operational perspective, SHMD is also planning to install Hospital information system (HIS) and Electronic Resource Planning (ERP) systems for its patient record and clinical data maintenance. Furthermore, SHMD will be equipped with video conferencing capabilities and telemedicine hub supported with 10MB LAN/Wi-Fi. According to SHMD, the hospital's HIS system will be supported by the host server at Siloam Hospitals Surabaya.

3.2.4.3 Affiliations and Partnerships

SHMD is currently working on Memorandum of Understanding with the medical faculty of Sam Ratulangi University for future collaborations on joint physician development and training initiatives.

Current signs of collaborations have been progressing favourably for SHMD. Apart from the medical faculty of Sam Ratulangi University, SHMD is also collaborating with other key stakeholders in the local healthcare community, including the Indonesian Doctors Association (IDI), and Department of Health, Manado on a series of clinical symposiums. According to the Chief Medical Officer of North Sulawesi, these seminars will be

made compulsory for the doctors in North Sulawesi to ensure the medical workforce in the region are adequately equipped with knowledge on the latest clinical technologies.

At the group level, the hospital has also established a partnership with a Consultant from John Hopkins Hospital. The purpose of this partnership is to obtain expertise, knowledge sharing, and training support in respect to Emergency and Trauma care. SHMD will be among one of the hospitals within the group to receive this program.

SHMD continues to build relationship with the existing hospital players in the region through patient referral programs. Under the collaboration model, SHMD provides diagnostic and clinical supports for modalities or expertise that are not available at the other hospitals.

3.2.4.4 Demand Side Analysis

In recent years, the rapid urbanisation of North Sulawesi province backed by the developing city of Manado as a major tourism city and foreign investment in the suburban mining site has escalated the earning power and living standards of the population.

From 2006 to 2010, the working age population of North Sulawesi has increased by 12.5 percent from 855,300 in 2006 to 961,648. Furthermore, the observation of non-agricultural workforce that increased from 53 percent to 65 percent in the same period suggests that more working population are shifting towards the mining, construction and service industries. As a result, North Sulawesi enjoyed one of the lowest unemployment rates in the region at approximately 10 percent, compared to a national average of 14 percent in 2009.

Several catchment areas are likely to provide positive customer base for SHMD.

Catchment area 1: Areas within 15 kilometres radius of the hospital – Manado City

SHMD's catchment area within the 15-kilometers radius is covering the majority urban districts of the city. As the most populous municipal in North Sulawesi with approximately 450 thousand resident populations, Manado represents about 20 percent of the total population in the entire North Sulawesi province in 2010.

Within Manado, several key target catchment districts are likely to become important markets for SHMD. The following table profiles the key target customers and the likely preferred healthcare services for each catchment district.

Table 3-7: Patient Profile for key Catchment Areas within 15 kilometres radius

Population	Catchment Districts	Distance to SHMD	Target Patients	Key Services
2010: 410,481 **2015 (est.):** 448,788 **2010 – 2015 CAGR:** 1.8%	Manado City Centre - Jalan Panjaitan (Chinatown)	3 – 4 km	• Mainly affluent Indo-Chinese residents specializing in retail businesses	• Elective & curative procedures for mainly chronic diseases • Preventive, Rehab services • Dental • O&G / Pediatric Services
	Bumi Beringin	4 – 5 km	• Mainly government servants & middle income households	• Preventive & rehab (health screening, radiology diagnostics& lab test services) • Emergency & Trauma • Internal Medicine & General surgeries
	Malalayang	5 – 7 km	• Middle to affluent income class local population • Tourists for diving and recreational activities	• Elective & curative procedures for multiple specialties • Preventive, Rehab or cosmetic surgical services • Dental • O&G / Pediatric Services • Ocean Health
	Winangun	6.5 – 7.2 km	• Mainly expatriates and family from France, Australia and New Zealand for the mining industry • Local affluent population	• Preventive & rehab (health screening, radiology diagnostics& lab test services) • Elective & curative procedures for multiple specialties • Dental services
	Citraland	10 – 11 km	• Mainly affluent Indo-Chinese and native residents	• Elective & curative procedures for mainly chronic diseases • Preventive, Rehab or cosmetic surgical services • Dental • O&G / Pediatric Services

Source: Indonesia Department of Statistics, Google Map, Frost & Sullivan

Figure 3.7: Snapshots of Target Catchment Areas

Siloam Hospitals Manado

Siloam Hospitals

To Airport

Manado

Catchment Area 1; Manado City Centre

ChinaTown, Jalan Pandjaitan

Commercial Districts

Catchment Area 2: Bumi Beringin

Government Office

Premium Residence

Catchment Area 3: Malalayang

Beach View Residence

International School

Catchment Area 4: Winangun

Premium Residence

Klabat Hill View Residence

Catchment Area 5: Citraland

Premium Residence

Water Park

Source: Indonesia Department of Statistics, Frost & Sullivan

There are five public and four private hospitals operating within the catchment area. As 69.5 percent of the North Sulawesi population comprise Christians and Catholics, majority of the private hospital in Manado city are Christian or catholic missionary funded. Based on the current hospital landscape, RS Advent can be considered the closest competitor for SHMD with a bed capacity of approximately 180 to 200 beds. The positioning of RS Advent as a premium private hospital with expertise in 22 specialties has allowed the hospital to build a strong client base from the middle to affluent income Indo-Chinese population within the catchment area. Through it corporate market strategies, RS Advent is also serving as a panel institution for the mining and regulatory sector clients, such as Avoced Mining, Philippines Council in Manado, and the Japanese and Korean industrial players in Bitung.

Despite being the leading private hospital in the catchment area, RS Advent lacks modalities, such as CT, MRI and cardiac catheterisation lab to administer the hospital care that matches international standards to the community. Amenities and ward facilities within the hospital are also relatively dated. Furthermore, as its medical workforce is only available on site from during weekdays, it is unable to administer timely patient care for acute or emergency cases during the weekends.

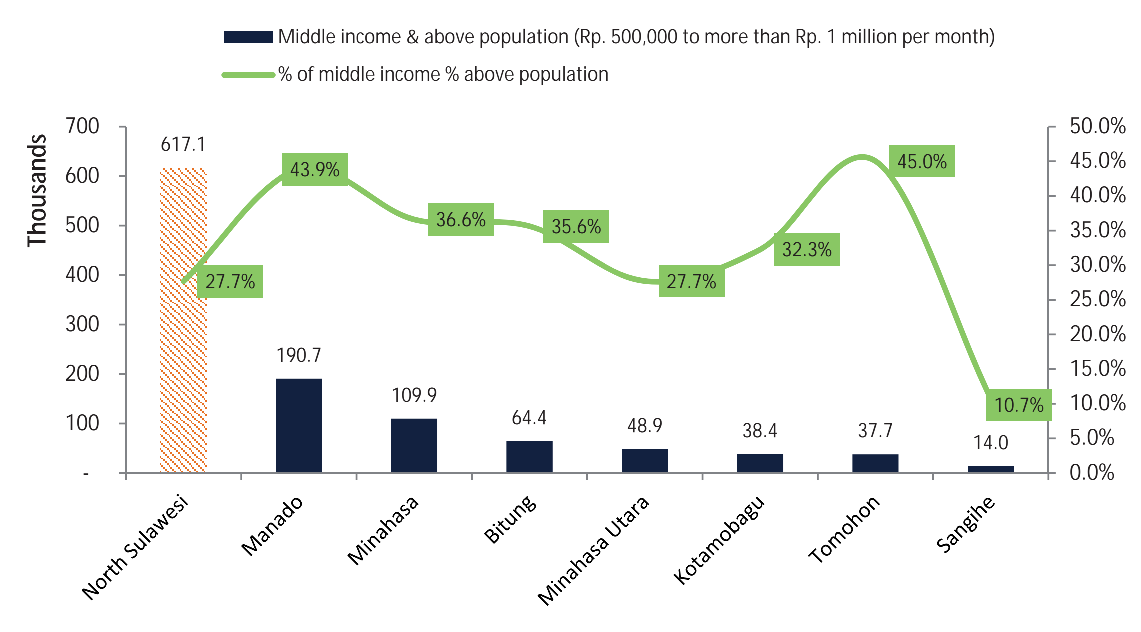
The demands in medical care standards and technologies shall therefore create favourable market opportunity for SHMD to address through its state-of-the-art modalities and advanced trauma centre to provide patient care around the clock daily.

Catchment area 2: Areas beyond 15 kilometres away from the hospital – within or outside North Sulawesi province

According to SHMD, the hospital is planning to expand its target market area in the long term towards the parameters of the surrounding provincial or municipal regions. Within North Sulawesi, municipals such as Minasaha, Minasaha Utara, Tomohon, and Bitung are likely to provide favourable patient source for SHMD.

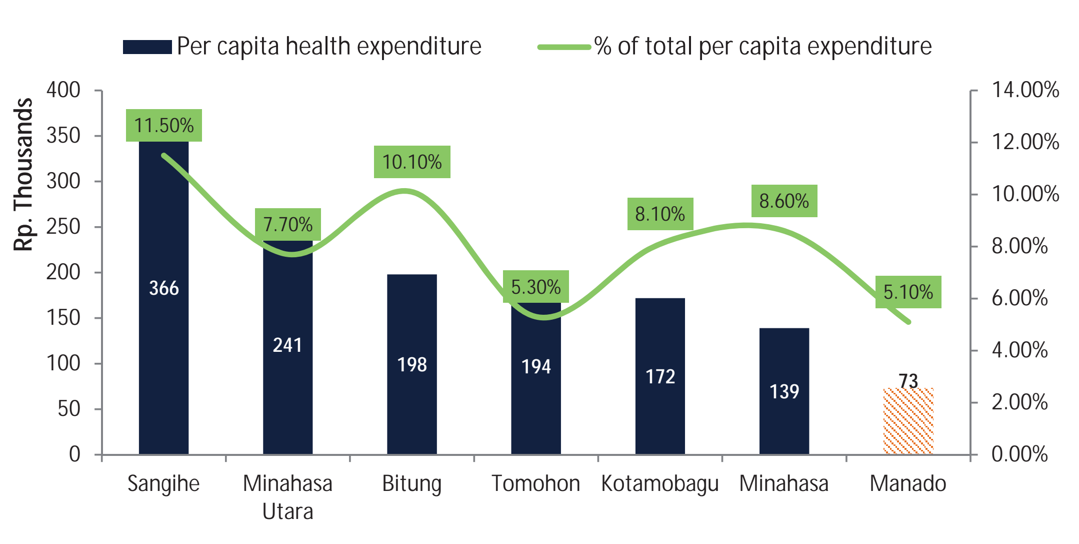
According to the North Sulawesi statistic department, Minahasa, Bitung and Tomohon hosted the highest proportion of middle income & above population at about 32.3 percent to 45 percent of the total population, compared to the provincial average of 27.7 percent in 2010 (Chart 3.2). Comparatively, the spending power on healthcare for the four municipals and cities are found to be higher than Manado. On average, individual population in Minahasa, Minahasa Utara, Tomohon and Bitung consume about 5.3 to 10.1 percent of their expenditure on health, compared to 5.1 percent for the population in Manado (Chart 3.3).

Chart 3.2: Middle Income & Above Population & Percentage to Total Population (2010)



Source: North Sulawesi Statistics Office: Sulawesi Utara in Figures (2011), Frost & Sullivan

Chart 3.3: Per capita healthcare expenditure and percentage to total expenditure by municipals or cities (2010)



Source: World Bank: 2011 North Sulawesi Public Expenditure Analysis), Frost & Sullivan

The population shift towards industrialisation and service industry in these municipals are likely to continue expanding the middle income and above population and increase expatriate households, who are able to afford premium healthcare services.

As of 2010, the total population of these 4 catchment municipalities was 778,493 and the middle and upper income population was estimated at 260,813 or 35.2 percent of the total population, compared to the provincial average of 27.7 percent in North Sulawesi. The higher concentration of wealthier population in these catchment areas signals a favourable potential for their ability to afford premium and better quality healthcare services. This is illustrated by the higher proportion of per capita health expenditure as percentage of total per capita expenditure. On average, populations in these 4 catchment municipalities allocates about 8 percent of their annual expenditure on health, compared to 5 percent in Manado city.

Within the catchment municipals or cities, there are altogether four public and eight private hospitals serving the populations. Despite the strong spending power on healthcare, the current healthcare delivery systems in these municipals are mostly Class B or Class C facilities with limited service offerings and modalities. Majority of the general hospitals are focusing on basic specialty services of internal medicine, ophthalmology, dentistry, general surgery, and O&G, with limited expertise for neuroscience, cardiology, oncology, aesthetics and preventive medicine. Furthermore, none of the hospitals are currently equipped with the MRI equipment. The positioning of SHMD as a state-of-art regional private hospital is, likely to address the current gaps on advanced premium healthcare services to the 260,813 middle and upper income populations in these municipals.

Mining has been one of the key economic sectors in some of these catchment municipalities like Minahasa and Bitung. With the intention to implement the on-site medical care at the remotely mining sites through its helicopter ambulance and telemedicine system, SHMD may also potentially serve the 17,224 mining workers in these locations.

Table 3.8 summarises the demographic and healthcare profiles for the four target municipals or cities outside Manado.

Table 3-8: Patient Profile for key Catchment Areas beyond 15 kilometres radius of SHMD.

Catchment Region	Counties / Cities	Population (2010) & CAGR% (2011 – 2015)	Distance to SHMK	Average Month Healthcare Expenditure per capita (Rp.) – 2010	General Hospital Facility (2010)	Key Target Customers
Within North Sulawesi	Minahasa	310,384; 1.70%	54.7 km	139,000	• 2 public • 3 private	• Middle income to affluent native population • White colared expatriates at various metal, niccel and gold mining sites
	Bitung	193,094; 2.90%	46.4 km	198,000	• 1 public (48 beds) • 1 private (111 beds)	• Middle income to affluent native population • Industrial clients (mainly Japanese & Korean corporations specialising in fishery products) • White collared expatriates at metal mining sites (key potential clients include PT Meares Soputan Mining with approximately 500 employees) • Medical tourists (mainly divers)
	Tomohon	91,553; 2.70%	25.5 km	194,000	• No public • 2 private (511 beds in total)	• Middle income to affluent native & Indo-Chinese population
	Minahasa Utara	188,904; 2.80%	22.9 km	241,000	• 1 public • 2 private	• Middle income to affluent native & Indo-Chinese population • White collared expatriates & workers at mining sites

Source: North Sulawesi Statistics Office: Sulawesi Utara in Figures (2011), Google Map, Frost & Sullivan

The establishment of SHMD as an international standard hospital is also well positioned to retain affluent medical patients to seek for treatment within the province In the current market scenario, majority of the private hospitals are yet to meet local or international accreditation standards, and lack of advanced medical facilities and specialty services, such as oncology, nephrology and orthopaedic surgeries. These factors have driven the patients from the affluent income population to seek treatments in major cities, such as Jakarta and Surabaya, or at the private hospitals in overseas. As of 2010, there are 2,270,596 populations in the North Sulawesi province. Assuming that 1 percent of the population were under the affluent income group and seeks treatment in destinations outside the North Sulawesi province, there were about 22,080 outbound patients from the province. As the affluent population continues to expand, the number of potential outbound patients is

likely to increase simultaneously. 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.

Beyond the North Sulawesi borders, the neighbouring East Indonesian provinces, such as Papua Barat, Papua, and Maluku Utara host populations with the highest per capita revenue, ranking first, second and fourth respectively among all provinces in 2009. With limited hospital facilities with international standards available in these provinces, SHMD is strategically poised to act as a regional premium healthcare provider to serve the middle income to affluent populations' healthcare needs, while being able to provide 5-star accommodation for the accompanying relatives and friends of the patients.

3.2.4.5 Current Branding Strategies

SHMD is anchored by a four-pillar foundation strategy synergized from the overall group strategy, comprising of (1) Excellence in Emergency & Trauma, (2) State-of-art equipment and technologies, (3) Utilisation of healthcare IT and telemedicine and (4) Robust physician partnership program. In order to expand its target markets, SHMD is also likely to position itself as a private general hospital with international standards that serves patients from all classes of socio-economic status.

(1) Excellence in Emergency & Trauma

Rapidly increasing population in urbanising municipals like Manado, Bitung and Minahasa is likely to increase the use of transportation and change of dietary habits. Consequently, the trauma incidence relating to accidents and acute chronic disease conditions, such as cardiovascular disease and diabetes is likely to increase. On the flipside, current healthcare facilities in North Sulawesi often lack facilities or expertise to address the local needs on emergency care.

Trauma and emergency medicine has been one of the key value propositions of Siloam hospitals. Likewise, for SHMD, the implementation of clinical capabilities that are currently scarcely available in the region, such as 24-hour GP clinics, ambulance call centre, clinical pathways for acute coronary syndrome and stroke patient management, fully rapid response ambulances, and helicopter ambulance, are likely to position the hospital as the regional Centre of Excellence.

Confidential in Commerce

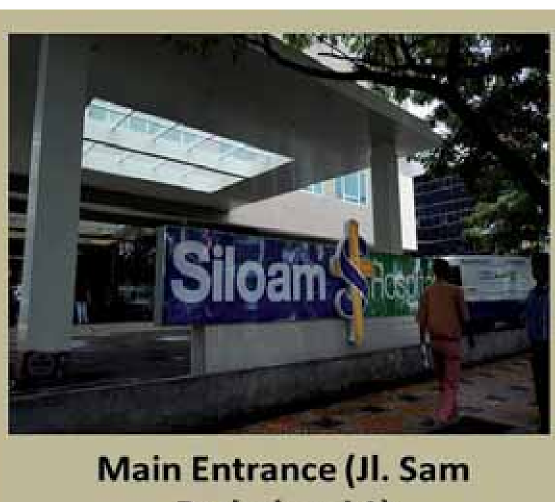
(2) State-of-art Equipment and Technologies

With the installation of 1.5 Tesla MRI and cardiac catheterization lab, SHMD is poised to become the most advanced private hospital in the region, whereby these systems are currently scarcely available in the other key private hospitals. Furthermore, the hospital has other state-of-the-art facilities, including a 128-slice CT scanner, 4D Ultrasound system, chemotherapy, and haemodialysis facilities.

To ensure optimal service quality, SHMD will implement its clinical operation based on the JCI accreditation protocols currently used at the Siloam Hospitals Lippo Village Headquarters in Jakarta. Hospital manager at SHMD is also required to provide monthly medical performance updates to the Group Chief of Clinical Improvement in the Jakarta headquarters and has established standard protocols to handle adverse medical events. An incident management system is in place to report significantly adverse clinical outcomes directly to the medical director within 24 hours to provide timely mitigating actions.

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 practising doctors, particularly where such offerings are currently lacking in the hospital market within the region.

Figure 3.8: Current completed sections and installed equipment at SHMD



Main Entrance (Jl. Sam Rathulangi 1)

Trauma Centre Entrance

Main Lobby (Hotel Entrance)

Main Lobby (Retail Area)

Trauma Centre Observation Unit

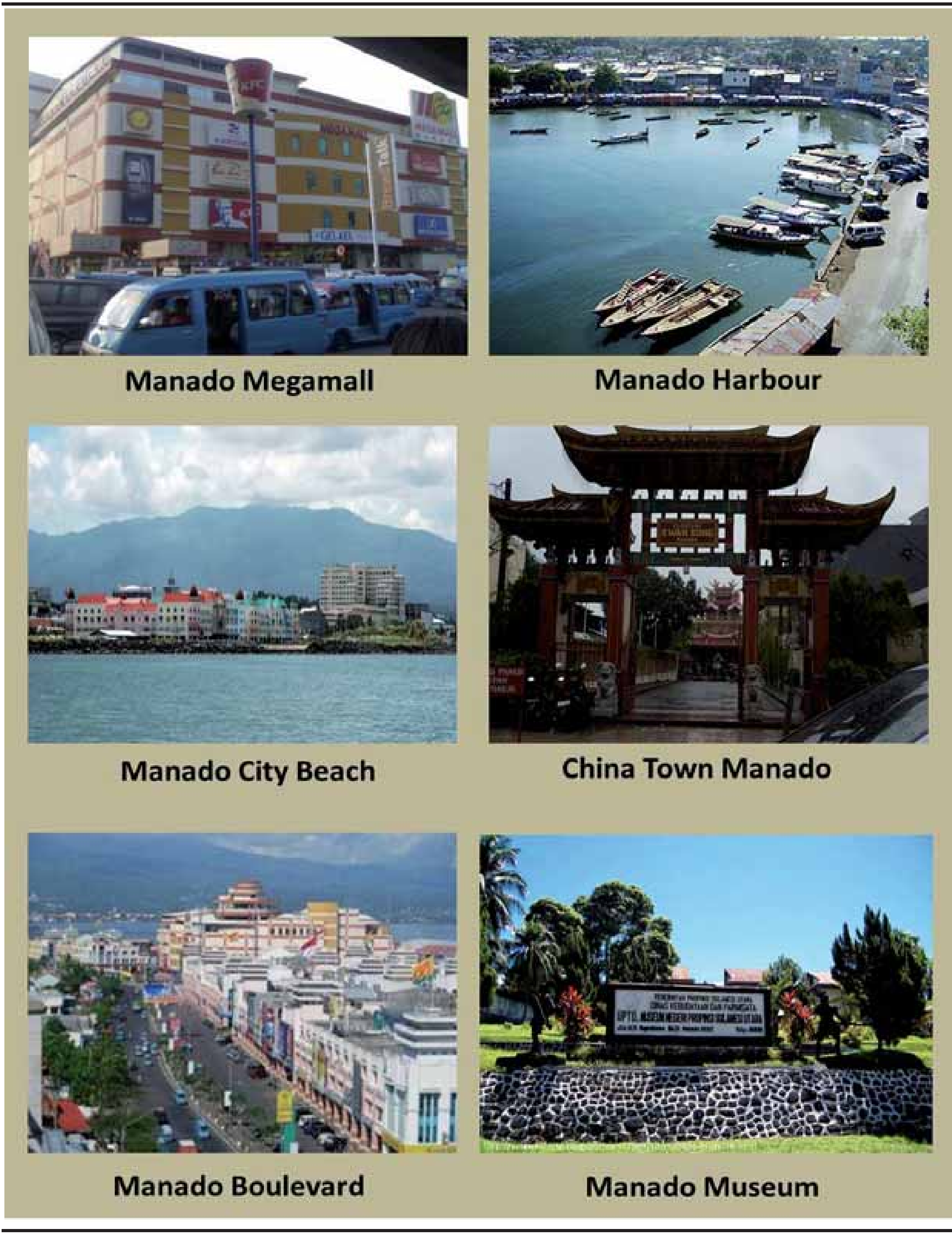
Trauma Centre Resuscitation Unit

Source: Field Visit at SHMD, Frost & Sullivan

Figure 3.9: Current completed sections and installed equipment at SHMD (cont)

Source: Field Visit at SHMD, Frost & Sullivan

Figure 3.10: Surrounding Vicinities of SHMD



Source: Field Visit at SHMD, Frost & Sullivan

(3) Utilisation of HCIT and Telemedicine

The availability of telemedicine infrastructure within the Siloam group hospital will enable the hospital group to effectively utilise the clinical expertise from the Centre of Excellence at Siloam Hospitals Lippo Village headquarter. According to SHMD, Siloam 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 stabilisation remotely, without the need for patients to travel to the Siloam Hospitals Lippo Village headquarter in Jakarta. Through the telemedicine system, copies of all diagnostic scan reports are also simultaneously transferred to Siloam's radiologist expert partners in India to provide second opinion on the diagnostic results. As a result, physicians in SHMD will be able to make third party validated clinical decisions to ensure optimal patient safety and treatment outcomes.

Through the telemedicine infrastructure, SHMD is targeting to provide mobile or on-site medical services for the mining sectors in the remote areas of Minahasa municipals. This service proposition is likely to expand SHMD's penetration into the corporate patient sector, which will also add as a feeder of patients to its hospital facility in Manado.

(4) Robust Physician Partnership Program

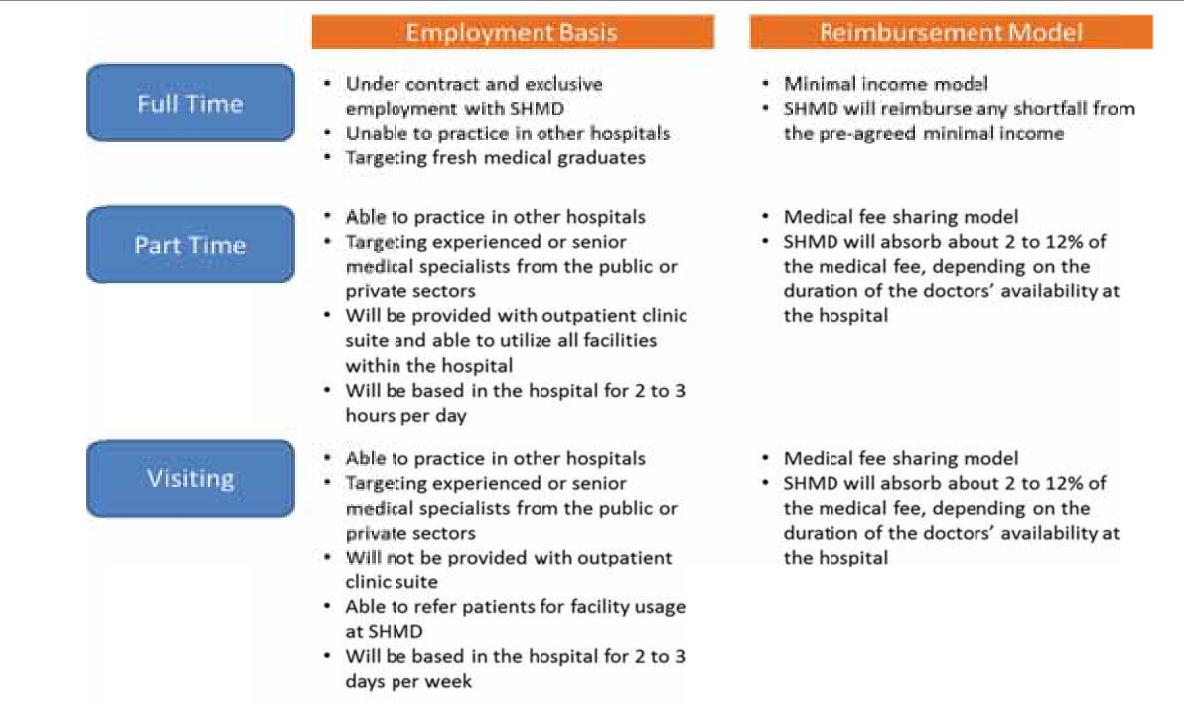
Siloam Hospitals Group regards the medical workforce as one of the fundamental factors for success. Hence, all physician engagements at SHMD are managed by Siloam Doctor Partnership Development Program (SDPDP), which provides attractive remuneration packages, benefits, and career development opportunities.

In order to qualify for the SDPDP, participating physicians are only required to practice for at least 30 hours at SHMD monthly. Depending on the employment nature of the physician (full time, part time, or visiting basis), remuneration packages may include guaranteed minimal income, or high profit sharing arrangements. Furthermore, SHMD provides comprehensive benefits, such as lifetime health insurance coverage for the practising physician and their immediate family members. Participating doctors also receive sponsorship for local and overseas clinical training.

SHMD plans to regularly conduct clinical symposiums and hospital visit sessions to increase the awareness of SHMD's clinical facilities and capability, thus increasing the attractiveness of SHMD as a practising location for the local physician community.

Through the more conducive practice location, advanced facilities, and more attractive remuneration schemes, SHMD anticipates that practising physicians will thereby have a higher tendency to refer more patients, from hospitals they previously practised in, to undergo treatment at SHMD. This recruitment strategy will simultaneously serve as one of the key patient attraction models for the SHMD throughout its operations.

Figure 3.11: Physician Employments and Reimbursement Model in SHMD



Source: Frost & Sullivan

(5) Other Operational and Marketing Strategies

During the hospital site visit by Frost & Sullivan on 13th September 2012, the SHMD was fully operational. Most major investigation and treatment modalities, such as CT Scan, MRI, fluoroscopy and cardiac catheterisation machines were operational; outpatient clinics, emergency facilities, and operating theatres, were functional. Chemotherapy and haemodialysis facilities were expected to be operational by November, 2012.

Currently, the SHMD has opened up ward floors on level 2 and 3, and partially on level 4 with a total of 100 beds in operation. SHMD has a capacity of 224 beds; it will open up the remaining ward space on Level 4 in a staggered manner.

SHMD has an approval from the Manado Department of Health for its temporary operational license. Simultaneously, the hospital already also obtained radiology license approval from the authorities for the operation of its CT scan, portable X-ray, mammography and fluoroscopy services.

SHMD has also illustrated its commitment towards serving the lower income or poor patient community in the region doubling its second and third class ward beds from the minimal Department of Health requirement of 20 percent to 40 percent. Upon full operation of 224 bed, SHMD will have approximately 100 beds available for these patient classes.

As a shared facility with Hotel Aryaduta Manado, SHMD has implemented stringent infection control protocols to ensure effective containment of diseases. All sewage, amenity systems and waste disposal systems used at the hospital are separately constructed and completely segregated from the systems currently being used by Hotel Aryaduta Manado.

According to SHMD, its bed expansion plan will be determined by the bed occupancy rate (BOR), whereby beds will be added to the current facility when an average BOR of 70 percent is reached. In order to ensure that adequate facilities are catered for the low or poor income population, SHMD may allocate up to 40 percent of its bed facilities for the second and third class wards. Depending on the occupancy of the first class and VIP class wards, SMHD may also convert these facilities to second class and third class wards to cater for any surge in demand. As of 13th September 2012, the bed occupancy rate was 50%, however the BOR for first class and VIP class wards was much higher.

SHMD uses competitive pricing strategy as part of its advertising initiatives. According to the hospital group, inpatient ward charges are at least 30 percent lower than the charges at Siloam Hospitals Lippo Village. As illustrated in Table 3.4, SHMD's pricing for the low income to poor population at the 2nd, and 3rd class wards are likely to be competitive against the current private hospital competitors in Manado, while its high end wards, such as the presidential suite, VVIP and VIP wards are premium priced relative to its competitors.

Notwithstanding the higher pricing for the premium grade (first class and above) medical wards than the other private hospitals, SHMD's propositions of better standard of care, more advanced technology and more conducive medical care environment are likely to be the key differentiators that generate good value for its patients. Furthermore, as the target markets for premium graded wards are mainly the upper middle income to affluent population, price sensitivity is usually relatively low. Simultaneously, SHMD's pricings on the second and third class wards for the low income patients are likely to be competitive to the existing private hospitals, but are able to generate greater value for money with its better facilities and standard of care.

SHMD has adopted mass marketing strategies, such as advertising discounted packages for health screening, pathology and preventive diagnostic services as a mode of relationship building with the local customers and

subsequently develop its patient database for the longer term. Simultaneously, it is also planning to collaborate with a tourist agent in the future to develop medical packages for the medical tourists.

Table 3-9: Pricing comparison of inpatient ward Charges for SHMD (USD per overnight stay)

Ward Type	SHMD	RS Advent	RS Gunung Maria	RS Bethesda Tomohon	RS Prof Kandou (public)
Presidential Suite	USD 100	N/A	N/A	N/A	N/A
Super VIP / VVIP	USD 90	USD 82	N/A	N/A	USD 73
VIP	USD 75	USD 68	USD 49	USD 46	USD 50
1st Class Single	USD 37	USD 59	USD 36	USD 33	USD 33
2nd Class	USD 25	USD 22	USD 18	USD 18	USD 22
3rd Class	USD 12	USD 11	USD 7	USD 6	USD 11

Source: Siloam Hospitals Lippo Village & SHMD interviews, Hospital Interviews, Frost & Sullivan

3.2.5 Competitive Profile for SHMD

Table 3-10: SWOT analysis of SHMD

Strengths	Weakness
▪ Strong financial and operational capabilities and Siloam's planned expansion of 25 hospitals across Indonesia is likely to create economies of scale for subsidiary hospitals ▪ Strong Siloam Hospitals Branding - Siloam flagship hospital, Siloam Hospitals Lippo Village is a JCI-accredited facilities and is likely to have a domino effect on the image of SHMD ▪ Ability to provide attractive remuneration packages to physicians ▪ Leverage on group infrastructure – Telemedicine and Helicopter ambulatory service synergizes clinical operation between Siloam Hospitals Lippo Village and SHMD ▪ Centralized location, Ease of accessibility – clinical facilities, wards and hospital building are in more favourable conditions to competitors and SHMD is the only private hospital in Manado with MRI facility	▪ Traffic congestion for the connecting roads to SHMD is frequent during both regular and peak hours ▪ Local medical resources for niche specialties, such as cardiologists, radiologists, pathologists, nurses, and allied health professionals are lacking. As SHMD's operation expands, constraints on these resources will be more significant.

Opportunity	Threat
▪ Corporate market – through its telemedicine and 911 emergency call centre, SHMD may be well positioned to serve the growing mining industry in the suburban or remote areas of North Sulawesi ▪ Growing tourism market – Manado's increasing popularity as a leisure diving destination may create medical tourism opportunities ▪ Apart from the public owned Prof. Kandou hospital, SHMD is able to offer more advanced modalities than the other private hospitals ▪ Price competitiveness to competitors – SHMD's publicised pricing at 30 percent lower than Siloam Hospitals Lippo Village is likely to diminish public perception of over-charging practices by the hospital ▪ Lack of services on ocean health – despite the growing reputable of Manado as a diving site, only 1 public hospital is able to offer related therapies (e.g. hyperbaric oxygen therapy)	▪ Competitor brand image – RS Advent is well established in the market with strong resident and corporate customer bases ▪ Public perception of Siloam Hospitals to be over commercialised and is only catered for upper middle income and affluent patients ▪ Although development progress is encouraging, MOU agreement with the medical faculty of Sam Ratulangi University is yet to be finalised.

Source: Frost & Sullivan

SHMD's hybrid concept as a hospital with hotel facilities creates favourable competitive edge in the Manado private healthcare market. As a city with diverse cultural, religious and ethnic background, the "one hospital fits all" approach adopted by the SHMD allows the hospital to position itself for a broad spectrum of target customer groups.

The recent urbanisation and industrialisation development in Manado and the surrounding municipals, and growing popularity of the tourist attractions have significantly increased the attractiveness of Manado as a key commercial and tourism destination. These factors have subsequently created new job opportunities and increased earning power for the local and foreign working class populations, who demand high quality of life. The increase of Manado's international profile has is also evident whereby the city recent hosted several international events, such as the World Ocean Conference 2011 and Asian Tourist Forum 2012.

As North Sulawesi advances towards an internationally acclaimed city, the quality standards of its healthcare system would be required to match international standards to meet the growing expectations of the middle income and above local and foreign populations. SHMD will be able to gain advantage by being the first hospital that operates on JCI protocol to penetrate into the niche premium private healthcare segment. Furthermore, the conducive and high-tech practising environment offered by the hospital is likely to have a pulling effect for the local medical specialists, and simultaneously their existing pool of patient. This will be a vital strategy for SHMD to build its medical work force and patient customer base at the early stage of operation.

Furthermore, the availability of an adjacent hotel enhances the hospital's capability to accommodate and provide hospitality services to local and foreign travelling patients, with their accompanying relatives and friends residing in the same vicinity. Being situated within the city centre, the accompanying relatives and friends of the patients will be able to easily access to the key tourism spots within the city for any leisure activities. As majority of the other private hospitals in North Sulawesi are located outside of the city centre and relatively distant from the major hotels, SHMD may position itself as the only tourist-friendly hospital in North Sulawesi to serve the 260,813 middle and upper income class population from other neighbour municipalities, such as Minahasa, Minahasa Utara, Tomohon, and Bitung, and more than 20,000 international tourists, should elective or preventive medical needs arise.

Apart from the commercial standpoint, SHMD is fulfilling its social contribution by allocating up to 40 percent of its bed capacity for the poor and low-income population classes, a move likely to be appreciated by the public community in the region.

In a nutshell, the comprehensive emphasis on patients with different socio-economic background, high-end facilities and high quality medical service are likely to be the key success factors for SHMD in the long term.

4 Overview of the Hotel & Tourism Industry in Manado & North Sulawesi

4.1 Industry Overview

4.1.1 Overview of Manado in Tourism

North Sulawesi has the potential of vast natural resources and various sectors such as agriculture, tourism, and mining. Agricultural products are cultivated by farming communities, whilst investors largely manage the mining and tourism industry. The province has targeted to receive 100,000 foreign tourists this year, up from 40,000 in 2011, where the maritime tourism would be targeted as the main attraction in North Sulawesi. In addition to the maritime tourism, nature forestry reserve, culture, food, and religious sites are among the key attractions. The province has also targeted to become one of the world's MICE (meeting, incentive, convention, and exhibition) hubs, where it has hosted various international events including the World Ocean Conference (WOC), Coral Reef Triangle Initiative (CTI) and Sail Bunaken in 2009, Christianity and the Global Christian Forum in 2011, and ASEAN Trade Forum (ATF) early this year. North Sulawesi has benefited from the ATF, by revealing the beauty of the global community, which can ultimately help the province reach their target.

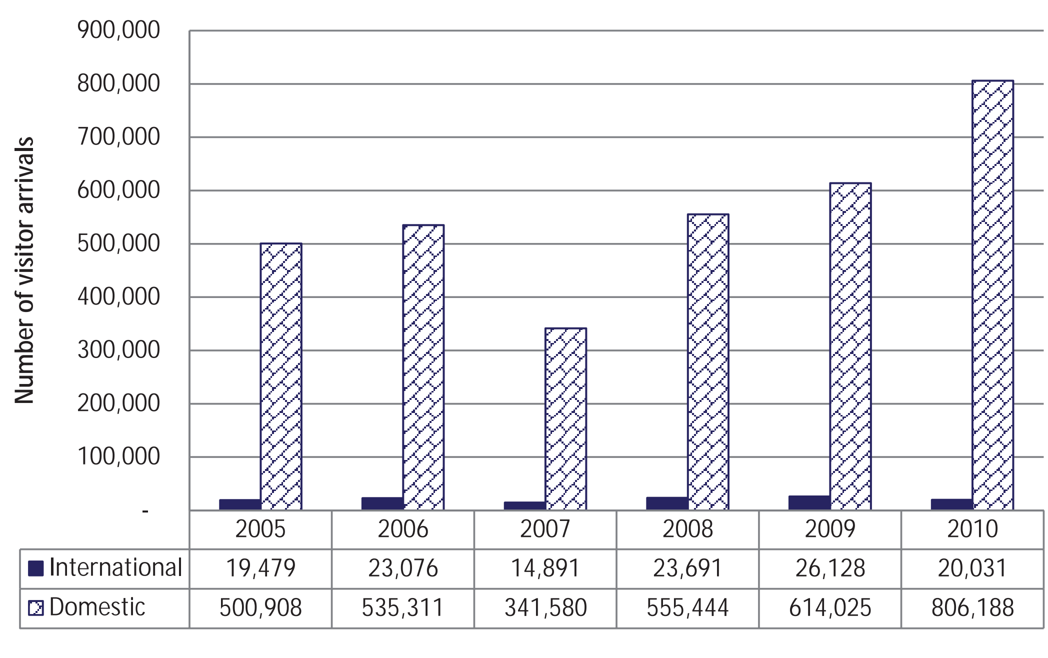
However, some major parameters are hindering the growth of the tourism industry in North Sulawesi. Key barriers are the lack of work force on the hospitality sector, insufficient conference facilities in Manado to cater to its aim of becoming a prime MICE destination, lack of public funding on tourism, and the poor traffic conditions.

4.1.2 Key Hospitality Trends and Habits in Manado

Tourist Arrivals

Chart 4.1 indicates that both domestic and international passenger arrivals in North Sulawesi have grown at 0.56 percent and 9.99 percent CAGR in 2005 and 2010, respectively. In 2010, domestic arrivals took up a large portion of 97.6 percent. Despite experiencing a rather modest growth for international passengers, there is still a need to sustain, improve, and expand the existing and potential tourism sites, such as the richness of flora and fauna, and the community-based eco-tourism. Given a sturdier domestic economy and growing middle class earners in North Sulawesi, domestic arrivals outpaced international arrivals throughout the years. Moreover, Bali and Jakarta underwent aggressive tourism marketing in relation to Manado, resulting in lower international arrivals at North Sulawesi.

Chart 4.1: Number of Arrivals through Sam Ratulangi International Airport, 2005 to 2010

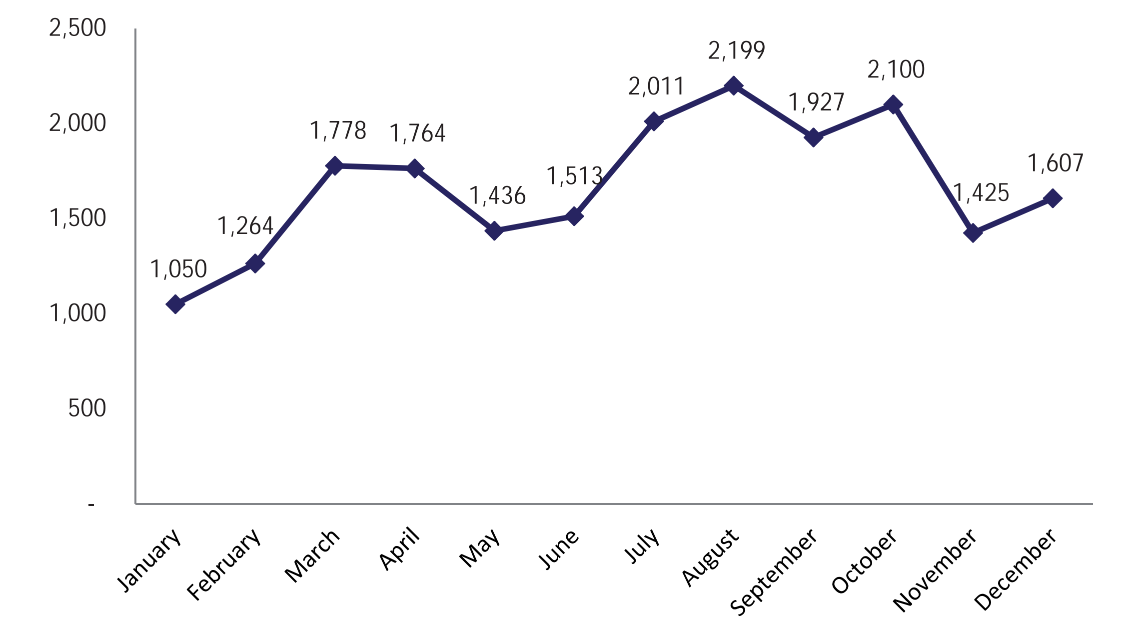


	2005	2006	2007	2008	2009	2010
International	19,479	23,076	14,891	23,691	26,128	20,031
Domestic	500,908	535,311	341,580	555,444	614,025	806,188

Source: Department of Statistics Indonesia: Sulawesi Utara in Figures (2011), Frost & Sullivan

Chart 4.2 denotes that peak season happens during July to October. Like other regions in Indonesia, North Sulawesi has a typical equatorial climate with two seasons - rainy and dry. Dry season happens in between May to October, thus the sea is seldom rough and visibility is better, whereby it is a great period for divers.

Chart 4.2: Number of Foreign Visitors to North Sulawesi by Month, 2011

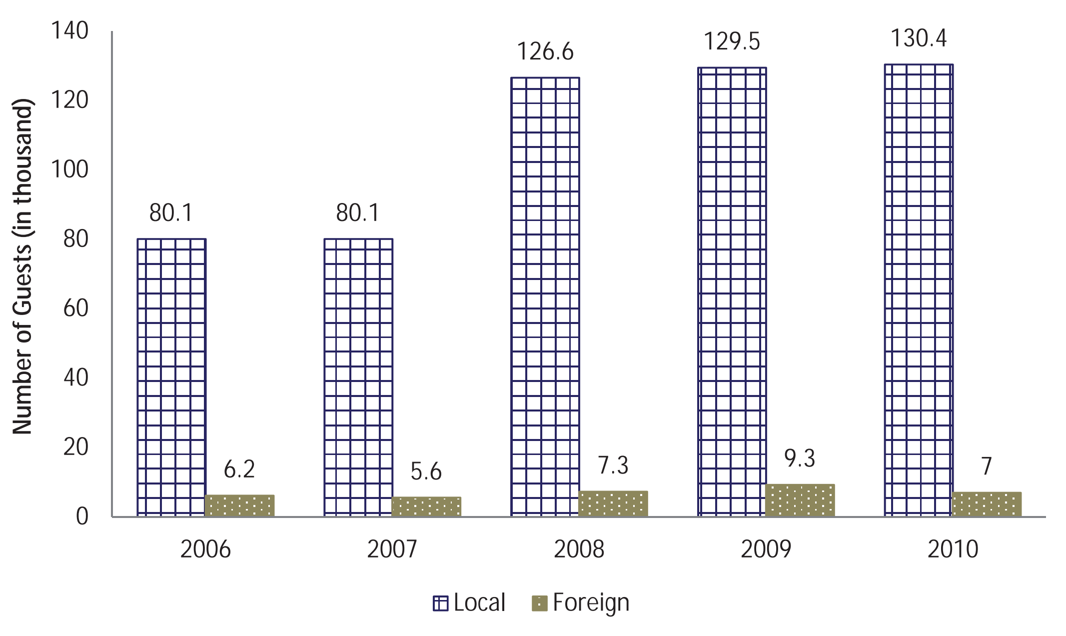


Source: Department of Statistics Indonesia: Sulawesi Utara in Figures (2011), Frost & Sullivan

Tourist Nationality Profile

In 2008, foreign guests in classified hotels accounted for 21 percent of total hotel guests. Due to the World Ocean Conference (WOC), Sail Bunaken, and Coral Reef Triangle Initiative (CTI), the foreign guests escalated to 26 percent in 2009 and this figure dropped to 20 percent in 2010. On the other hand, the percentage of domestic guests had remained almost constant from 2008 to 2009, i.e. 23 percent in 2008, 24 percent for both 2009 and 2010.

Chart 4.3: Number of Domestic and Foreign Guests in Classified Hotels in North Sulawesi, 2006 to 2010

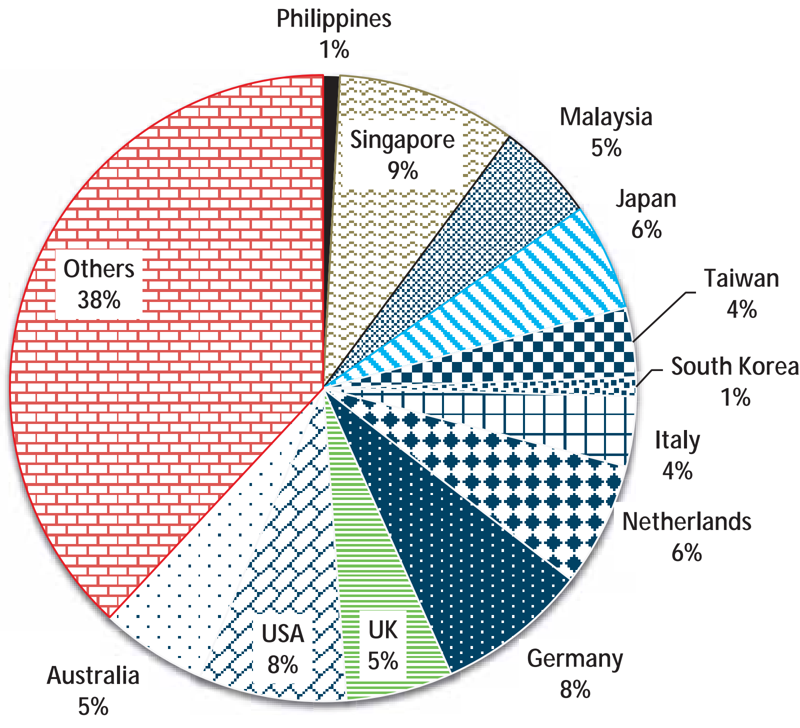


Source: Department of Statistics Indonesia: Sulawesi Utara in Figures (2011), Frost & Sullivan

Note: (1) Classified Hotel is an establishment using a building or a part of building especially provided/ reserved, that any person can stay, obtain food, service and use other facilities against payment that has fulfilled the requirements as classified hotel which are determined by the Department of Culture and Tourism and are classified into one to five stars. Those requirements are (a) Physical requirements, such as location and condition of hotel, (b) Service provided, (c) Manpower qualifications, such as education and employee's welfare, (d) Sport facilities and other available recreations, such as tennis courts, swimming pools and discotheques, and (e) The number of room available.

In terms of country of origin, regional tourists from Europe and the Americas have primarily supported North Sulawesi tourism market, particularly Germany, Netherlands, UK, and the US, whilst the top Asia-Pacific countries are Singapore, Japan, Australia, and Malaysia. As shown in Chart 4.4, the market saw the majority of foreign arrivals to North Sulawesi in 2010 coming from Singapore (9 percent), Germany and USA (8 percent), Netherlands and Japan (6 percent), UK, Australia and Malaysia (5 percent), Italy and Taiwan (4 percent) followed by South Korea and Philippines (1 percent).

Chart 4.4: Direct Foreign Tourist Arrivals to North Sulawesi by Nationality, 2010



Source: Department of Statistics Indonesia: Sulawesi Utara in Figures (2011), Frost & Sullivan

As seen in Chart 4.5, there is an overall decrease in foreign arrivals from 2009 to 2010. This may be due to the World Ocean Conference, Sail Bunaken, and Coral Reef Triangle Initiative held in 2009 and Malaysia took up the larger portion of attendees in the mentioned conferences.

Chart 4.5: Direct Foreign Tourist Arrivals to North Sulawesi by Nationality, 2009 to 2010

	Philippines	South Korea	Taiwan	Italy	Malaysia	Australia	UK	Japan	Netherlands	USA	Germany	Singapore	Others
2010	173	197	715	722	1,035	1,103	1,104	1,112	1,292	1,527	1,566	1,860	7,625
2009	497	284	1,557	1,276	4,544	1,223	1,481	1,537	1,600	1,574	1,971	1,997	6,587

Source: Department of Statistics Indonesia: Sulawesi Utara in Figures (2011), Frost & Sullivan

Hotel Supply

In 2011, there were 26 classified hotels in North Sulawesi. The largest supply for hotel rooms was located in Manado city, whereby most of the hotels are at least 3-star and above. Hotels are mostly concentrated in Manado, as it is a city driven by domestic economy and numerous major international conferences held for the past few years resulting in greater tourist visits for both business and leisure.

Table 4-1: Brief Profiles of Classified Hotels in North Sulawesi, 2011

Major Cities	Total Classified Hotels	Average Daily Rate (USD/room/night)	Hotels by Star Rating	Number of Rooms
Bitung	**5**			
Kungkungan Bay Resort		142	4	17
Lembeh Hills Resort		196	3	N/A
Black Sand Dive Retreat		99	3	6*
Bastinos Lembeh Diving Resort		45	3	10* + 4
Daniel's Resort		28	2	6*
Kotamobagu	**7**			
Hotel Senator		N/A	1	22
Plaza Hotel		N/A	1	20
Hotel Ramayana		N/A	1	19
Hotel Wijaya		N/A	1	15
Hotel Kotamobago		N/A	1	10
Hotel Endang		N/A	1	21
Hotel Totahan		N/A	1	16
Hotel Mini		N/A	1	10
Manado	**10**			
Hotel Aryaduta Manado		47	4**	200
Sintesa Peninsula Hotel		44	5	150
Hotel Novotel Manado Golf Resort		44	5	176
Swiss-Belhotel Maleosan Manado		40	4	169
Hotel Gran Puri Manado		35	4	152
Quality Hotel Manado		34	4	143
Aston Manado City Hotel		31	4	107
Sutanraja Hotel		71	3	115
Hotel Grand Central		65	3	N/A
Hotel Sahid Manado		49	3	40
Tomohon	**4**			
Gardenia Country Inn		96	4	N/A
Highland Resort and Spa		59	4	N/A
Lokon Boutique Resort		42	3	N/A
Hotel Tambul Mas Tinoor		N/A	2	N/A

Source: Google Map, Website, Frost & Sullivan

*Note: (1) Data were captured based on Google map and available sources in the website (2) * denotes number of bungalows or cottages, (3) ** Hotel Aryaduta Manado is in the process of 5-star hotel certification by the Indonesia Hotel and Restaurant Association Manado Branch*

Table 4-2: Snapshot of Hotel Indicators in North Sulawesi, 2009 to 2011

	2009	**2010**	**2011**
Total Hotels	27	28	26
Total Rooms	1,984	1,920	1,907
Total Beds	3,144	2,218	2,218
Total Workforce	2,130	2,218	2,218

Source: Department of Statistics Indonesia: Sulawesi Utara in Figures (2011), Frost & Sullivan

In 2010, average length of stay (ALOS) in North Sulawesi was 5.9 days for foreign guests and 3.0 days for domestic guests. This has been the trend for the past four years. Despite the much lower number of international visitors to North Sulawesi, they tend to stay on longer than the local visitors do.

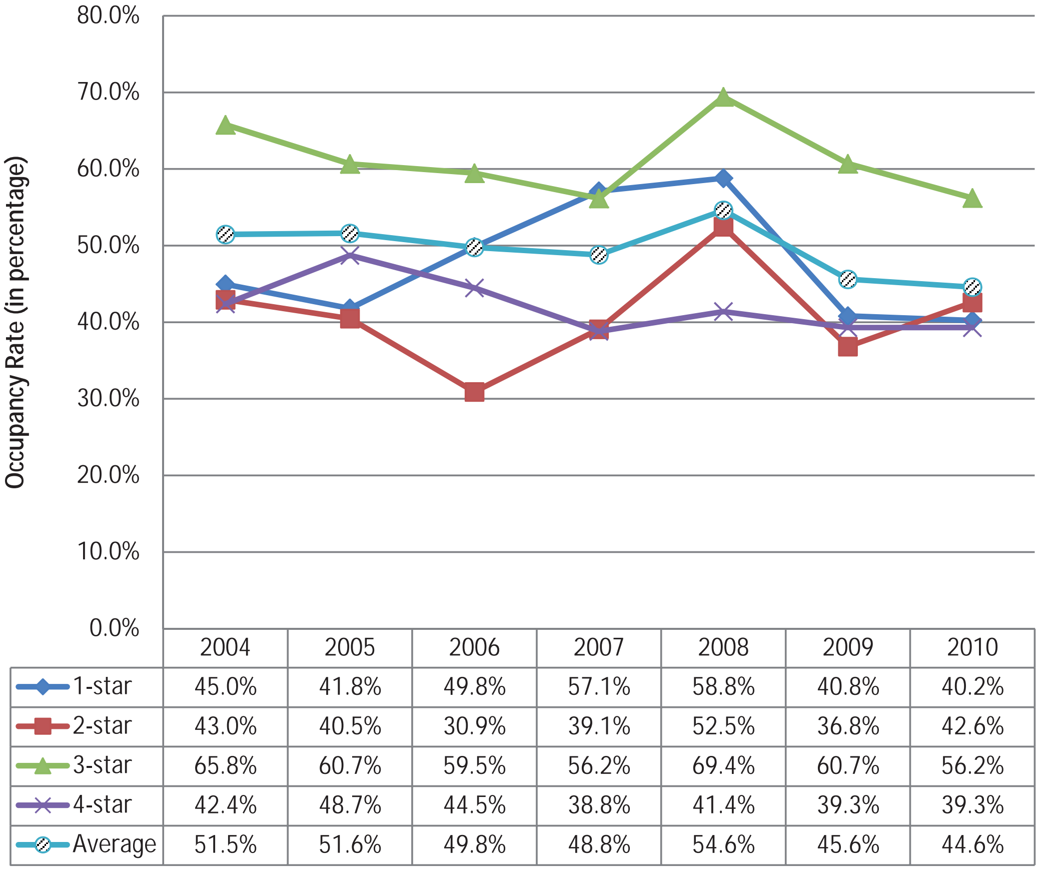
Chart 4.6: Average Length of Stay of Classified Hotel Guests in North Sulawesi, 2006 to 2010

ALOS (days)	2006	2007	2008	2009	2010
Domestic	3.1	3.6	3.1	3.1	3.0
Foreign	4.4	4.7	5.2	5.7	5.9

Source: Department of Statistics Indonesia: Sulawesi Utara in Figures (2011), Frost & Sullivan

In North Sulawesi, the average hotel occupancy rate has generally decreased from 52 percent in 2004 to 44 percent in 2010. With the escalating international exposure, growing popularity in eco-tourism, and a shift from sea to air transportation, a shift in traveller's preference for better services and facilities, hotels will be expected to flourish in the near term.

Chart 4.7: Hotel Occupancy Rate in North Sulawesi by Star Rating, 2004 to 2010



	2004	2005	2006	2007	2008	2009	2010
1-star	45.0%	41.8%	49.8%	57.1%	58.8%	40.8%	40.2%
2-star	43.0%	40.5%	30.9%	39.1%	52.5%	36.8%	42.6%
3-star	65.8%	60.7%	59.5%	56.2%	69.4%	60.7%	56.2%
4-star	42.4%	48.7%	44.5%	38.8%	41.4%	39.3%	39.3%
Average	51.5%	51.6%	49.8%	48.8%	54.6%	45.6%	44.6%

Source: Department of Statistics Indonesia: Sulawesi Utara in Figures (2011), World Bank, Frost & Sullivan

Note: (1) No data available for 5-star hotels from 2004 to 2009

Confidential in Commerce

4.2 Industry Dynamics

4.2.1 Growth Drivers & its impacts

Table 4-3: Drivers of Tourism Market in Manado, 2011

	Restraints
1	Increasing international exposure as a MICE destination
2	Growing Popularity on Eco-tourism
3	Shift in passenger traffic from sea to air transportation
4	Political and Religious Stability

Source: Frost & Sullivan

Increasing International Exposure as a MICE destination

Manado's growing popularity as a hospitality location is evident from the various major international MICEs (Meetings, Incentives, Conventions, Exhibitions) being held in the city. The hosting of the World Ocean Conference (WOC) and Coral Triangle Initiative Submit in 2009, attended by than 6,000 participants from 76 countries, 12 international agencies, and 6 head of state, had not only helped enhance Manado's overall economic and infrastructure development, but had also increased its international profile as a new destination in Indonesia for major MICE and eco-tourism.

Infrastructure upgrades, such as a new terminal and runaway extension for Sam Ratulangi Airport, widening of the road linking Manado municipality to the airport, improvement on the crossing facilities and infrastructure to Bunaken Island, construction of an outer ring road around the city have established essential foundations for Manado's tourism industry. To date, the updated Sam Ratulangi Airport is able to serve up to 2 million passengers annually.

Building on to the success of its previous events, Manado has subsequently hosted the ASEAN 2011 forum and the Disaster Management Exercise Program through the collaboration between the Indonesian and Japanese Government in 2011. Currently in the pipeline, the provincial Government is preparing Manado for the ASEAN Travel Forum (ATF) in 2012 and the Asia-Pacific Economic Co-operation (APEC) Forum in 2013.

Table 4-4: Timeline of the Major Events held in Manado

Timeline	Events	Venue
11th to 15th May 2009	1. World Ocean Conference (WOC) 2. Coral Reef Triangle Initiative (CTI)	1. Grand Kawanua Convention Center, Novotel Hotel 2. Tomohon Room, Bank of Indonesia
18th August 2009	Sail Bunaken	Aryaduta Hotel
12th February 2011	Figura Festival	Boulevard Area in Manado
13th to 19th March 2011	ASEAN Regional Forum Disaster Relief Exercise (ARF DiREx)	1. Bunaken 2. Siladen Mantehage 3. Sam Ratulangi Airport 4. Bitung Seaport 5. Maasing Village
17th to 21st May 2011	Meeting Incentive Conference Exhibition (MICE)	Grand Kawanua Convention Center, Novotel Hotel
23th to 25th September 2011	Celebrate The Sea Festival	Sintesa Peninsula Hotel
November 2011	Tondano Lake Festival	Tondano Lake
8th to 15th January 2012	31st ASEAN Tourism Forum (ATF)	Grand Kawanua Convention Center, Novotel Hotel
29th to 31st March 2012	40th Anniversary of Real Estate Indonesia	Sintesa Peninsula Hotel

Source: Frost & Sullivan

Growing Popularity on Eco-tourism

The geographical location of North Sulawesi is well located within the eco-marine frontier. In 1994, with the acknowledgement on the growth potential of marine biodiversity sites and natural heritage tourism in the region, Indonesia, represented by key provinces with rich eco-biological resources, such as Sulawesi, Maluku, Papua, and Kalimantan, has joined the BIMP-EAGA with Malaysia, Philippines and Brunei to develop the eco-tourism market in the region.

Apart from establishing key agreements on joint infrastructural development, resource sharing and relaxed custom clearance, BIMP-EAGA explore development opportunities in the sectors of agro-industry, fisheries, transport and shipping logistics, and energy.

Domestically, the Indonesian Government has identified Manado as the key gateway to the country from the East Indonesian and Pacific region. Subsequently, the Government announced the Manado, World Tourism City (MKPD) 2010 vision to transform the city into a world-renowned tourism destination. Manado is also likely to benefit from the USD 53.4 million nation-wide "Wonderful Indonesia" campaign budgeted by the Tourism and Culture Ministry in 2011 to promote tourism themes such as Eco and Cultural tourism, and MICE for Indonesia.

Shift in Passenger Traffic from Sea to Land Transportation

Increasing tourism and MICE activities have resulted in the growing popularity of flight transportation for inbound and outbound commuters in North Sulawesi or Manado. This growing trend is evident to have a subsequent domino effect on the infrastructural developments and increasing flight schedules to the Sam Ratulangi International airport.

Despite a higher CAGR of arrivals at sea transportation (15.3%) compared to air transportation (5.2%) from 2004 to 2008, air passengers dominates the entire mode of transportation to North Sulawesi (i.e. seven times more than the sea transportation). The air transportation has escalated for passengers. Chart 4.8 denotes that there is an increase for passengers passing through Sam Ratulangi Airport, by which the number of passengers has increased 22 percent in five years. Increasing tourism and MICE activities have resulted in the growing popularity of flight transportation for inbound and outbound commuters in North Sulawesi or Manado. This growing trend translates into a "domino effect" scenario, in which there will be more infrastructural developments and increasing flight schedules to the Sam Ratulangi International airport.

Under the "Wonderful Indonesia" campaign, the Indonesian Tourism and Culture Ministry has also established co-operation with private airlines and the Governments of Malaysia and Singapore to open new routes commuting among these countries and Manado. These initiatives are likely to increase traveller traffics from these countries to Manado.

Chart 4.8: Number of Passengers Passing Through Sam Ratulangi Airport and Manado Port, 2004 to 2008

Number of Passengers (thousands)

Year	Number of Passengers Passing through Sam Ratulangi Airport	Number of Passengers Passing through Manado Port
2004	1,042.0	104.7
2005	802.4	217.6
2006	1,139.3	110.6
2007	1,132.7	189.3
2008	1,275.4	185.0

Source: World Bank, Frost & Sullivan

Political & Religious Stability

North Sulawesi is one of the more politically stable provinces in Indonesia, which is widely renowned for its harmonious religious communities. It has a strong history of religious and ethnic tolerance, with a tinge of Christianity and Catholic influence. The favourable political climate and security conditions, as well as the friendliness of the people of the province towards foreigners and investors, drive the investment prospects in North Sulawesi.

North Sulawesi is a province with a Christian majority that has not been affected by violent religious conflict, as the province is not easily provoked by the issues of ethnicity, race, and religion. Whenever there is an indication of religious conflict, key religious players immediately hold meeting to help mitigate the provocation from escalating.

Another major achievement that leads to its political stability is the high human development index (HDI), which ranked second in Indonesia after Jakarta in 2009. The HDI considers various standard of living factors, such as life expectancy, literacy, education, and monthly per capita expenditures. As North Sulawesi has maintained a high level of security, the province continues to expand its development programs.

4.2.2 Restraints & its impacts

Table 4-5: Restraints of Tourism Market in Manado, 2011

	Restraints
1	Slow Human Capital Growth in the Hotel & Hospitality Sector
2	Insufficient Hotel Room Inventory in Manado
3	Tourism is currently confined to certain tourism sights
4	Manado Restricted to Religious and Marine-related Conferences
5	Lack of Public Funding on Tourism
6	Underdeveloped infrastructure & Poor Traffic Conditions

Source: Frost & Sullivan

Slow Human Capital Growth in the Hotel & Hospitality Sector

Despite the development of the tourism sector, human resource development for the hospitality industry has been relatively slower than the other fast growing economic sectors, such as mining, construction and finance. Despite a decrease over the past four years, the agriculture sector absorbs a majority of the work force. The decrease in the proportion of work force employed in the agriculture sector has spurred an increase in other sectors, especially the mining industry. In order to meet the Government's objective to transform Manado into a major tourism hub, human capital development in the support hospitality sector will be vital in the future.

Table 4-6: Manpower by Main Employment Sectors, 2006 to 2010

Economic Sector	2006	2007	2008	2009	2010	CAGR
Agriculture and Fisheries	403,179	378,631	363,771	386,873	332,981	-4.7%
Mining and Quarrying	4,756	18,229	14,806	19,048	31,052	59.8%
Processing Industry	49,813	65,290	61,270	57,094	57,452	3.6%
Electricity and Gas	3,123	2,872	3,223	4,312	4,747	11.0%
Construction	40,168	54,819	56,406	53,091	57,296	9.3%
Hotel and Restaurant	***154,952***	***174,127***	***144,155***	***175,012***	***178,341***	***3.6%***
Transportation, Warehousing and Communication	73,350	89,220	136,047	102,115	97,458	7.4%
Financial, Real Estate and Leasing	12,254	12,900	10,127	14,496	19,300	12.0%
Community Services, Social and Individual	113,705	148,547	127,558	150,586	183,021	12.6%
Total	855,300	944,635	917,363	962,627	961,648	3.0%

Source: World Bank, Frost & Sullivan

Insufficient Hotel Room Inventory in Manado

With the increasing international events and attraction of foreign tourists, there has been a rising trend of demand for classified (star rated) hotels from 2006 to 2010, increasing from 86,300 to 137,400. However, despite the increase in demand, room inventory in the classified hotels in Manado is observed to be on the declining trend from 2,103 rooms in 2006 to 1,920 rooms in 2010.

As a result, the current inventory of hotel rooms in the city may be stretched by the upcoming major region MICEs, such as the Asia-Pacific Economic Co-operation Forum, which are likely to attract an influx of international delegates from multiple countries.

Chart 4.9: Growth Trend for Classified Hotel Rooms versus visitors at classified hotels in North Sulawesi, 2006 to 2010

	2006	2007	2008	2009	2010
Total Visitors in Classified Hotels (thousands)	86.3	85.7	133.9	138.8	137.4
Total Classified Hotel Rooms	2,103	2,063	2,023	1,984	1,920

Source: Central Bureau of Statistics, Frost & Sullivan

Tourism Confined to Certain Tourism Sights

Tourism in North Sulawesi could have been the primary sector, however is restricted to certain tourist sites. For the past three decades, the tourism industry had focused solely on the undersea uniqueness and the abundance of Bunaken national park, resulting in over-crowding at present. On the other hand, other potential tourism spots, such as fishing, hiking and trekking, water sports, and community-based eco-tourism have not been emphasised.

Manado Restricted to Religious and Marine-tourism Conferences

Attracting investments and conferences to major industrial projects in North Sulawesi is a challenge because of the province's distant location from the country's major market, mainland Java. Thus, North Sulawesi prefers to emphasize on their existing core strengths, such as maritime tourism, and religious conferences, which is the major religion in North Sulawesi. A few major conferences held were the World Ocean Conference (WOC) in 2009, Coral Reef Triangle Initiative (CTI) in 2009, Christianity and the Global Christian Forum in 2011, and ASEAN Trade Forum (ATF) in 2012.

On the other hand, the 8th South East Asia US Agricultural Co-operators Conference was held in Bali last year, whist Jakarta headquartered most of the conferences. The Jakarta Tourism Agency has promised to further support the annual art and music festivals to lure more domestic and international tourists to the city as part of the Visit Indonesia program. The city administration has been promoting the "Enjoy Jakarta" program, which promotes the city as destination for meetings, conferences, and exhibitions. Since Jakarta is positioned as the main hub for conferences, it will severely limit other provinces as choice for global conferences or major events. However, the government is shifting their focus to promoting Manado as an alternative to Jakarta and Bali.

Lack of Public Funding on Tourism

Despite recognizing tourism industry as a key growth sector for the regions' income, sub-national expenditure on the sector is relatively insufficient. In 2009, only 0.5 percent of the public expenditure was allocated for the tourism industry, compared to 34.2 percent on general administration, 27.8 percent on education and 19.3 percent on the infrastructure sectors.

Chart 4.10: Comparison of public (provincial, district / municipality) expenditure among major sectors in North Sulawesi (2009)

Sector	Public Expenditure 2009 (USD Mil)	% of total public expenditure
General Admin	233.5	34.2%
Education	189.7	27.8%
Infrastructure	132.0	19.3%
Health	52.0	7.6%
Agriculture	23.4	3.4%
Marine & Fishery	9.4	1.4%
Social and Gender Empowerment	4.2	0.6%
Tourism	3.5	0.5%
Labour	3.0	0.4%

Source: World Bank: 2011 North Sulawesi Public Expenditure Analysis, Frost & Sullivan

Compared to the other key economic sectors, the 17.1 percent CAGR of tourism from 2005 to 2009 public expenditure is relatively moderate compared to the other faster growing sectors like infrastructure (60.2 percent), agriculture (40.0 percent) and marine & fishery (37.6 percent).

The lack of funding on the tourism sector may create a barrier for service providers within the tourism value chain in Manado to nurture their tourism businesses. Hence, fiscal stimulus and regulations that encourages community participation-based tourism, promotes eco-tourism, and reordering and implementing quality standards for travel agencies will be the next step forward for Manado or North Sulawesi to grow its nascent tourism industry.

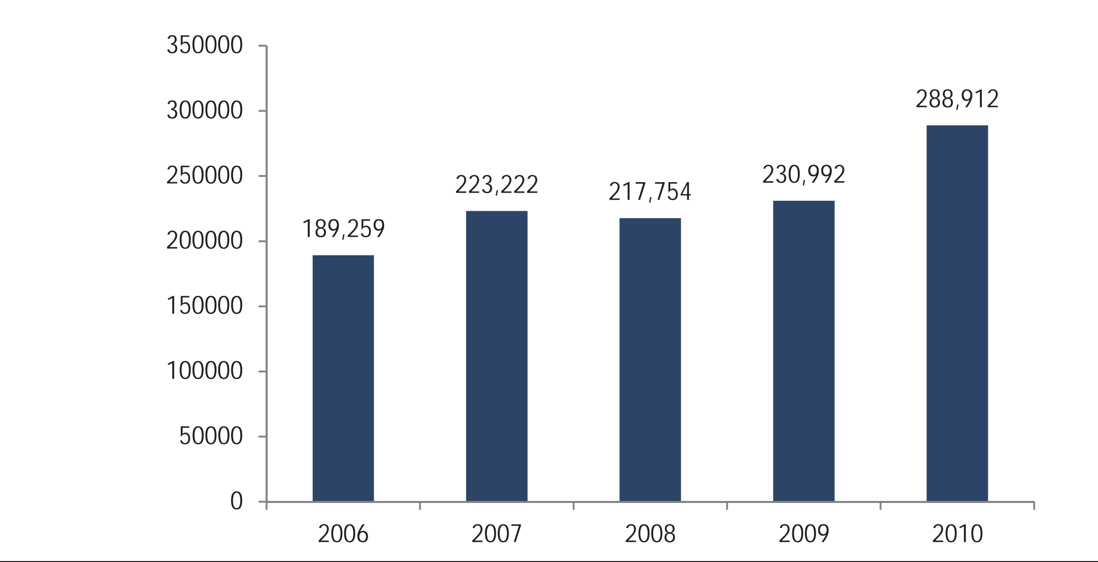
Underdeveloped Infrastructure & Environment Hygiene

Despite the intention to transform Manado into an international tourism city, the issues in regards to poor infrastructure conditions and environmental hygiene pose significant challenge to the city to fulfil its hospitality and tourism industry.

As indicated in Chart 4.11, North Sulawesi's shift towards urbanisation has resulted in the fast growing number of vehicles in the province, growing from 189,259 in 2006 to 288,912 in 2010 at 11.2 percent. On the contrary, infrastructural development in North Sulawesi, particularly in the suburban municipalities, has not shown significant development. In 2010, approximately 70 percent of the roads in North Sulawesi are narrow collector roads, which do not possess multiple road lanes for high capacity traffic.

Despite being the flagship city of North Sulawesi, about 40 percent of the roads in Manado (Chart 4.12) are collector roads, which are gradually becoming unable to accommodate the growing traffic flow in the city. Consequently, heavy traffic congestion, particularly in the urban and central business district areas, is frequent during peak working hours.

Chart 4.11: Number of Vehicles in North Sulawesi Province (2006 – 2010)



Source: Department of Statistics Indonesia: Sulawesi Utara in Figures (2011), Frost & Sullivan

Chart 4.12: Categories of Road by Key Cities and Municipalities

Artery Roads
Collector Roads
100.0%
90.0%
80.0%
70.0%
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
40.7%
59.3%
100.0%
100.0%
100.0%
71.8%
28.2%
Manado
Bitung
Tomohon
Kotamobagu
Other Municipalities

Source: Department of Statistics Indonesia: Sulawesi Utara in Figures (2011), Frost & Sullivan

From the environmental aspect, river streams have been one of the most common waste disposal destinations, particularly in the rural and suburban part of the municipality. Such practices not only pose significant detriment to public health, but also the environmental image of the city as a tourist destination.

The local Department of Hygiene is currently undertaking a series of initiatives, including campaigns on river cleansing and adequate waste disposal methods. Furthermore, the authority has also established framework that involves studies on air cleanliness and environmental pollution to more proactively monitor the hygiene conditions of the city and take timely mitigating actions. However, these initiatives would require a long time horizon and collective commitment of the local community.

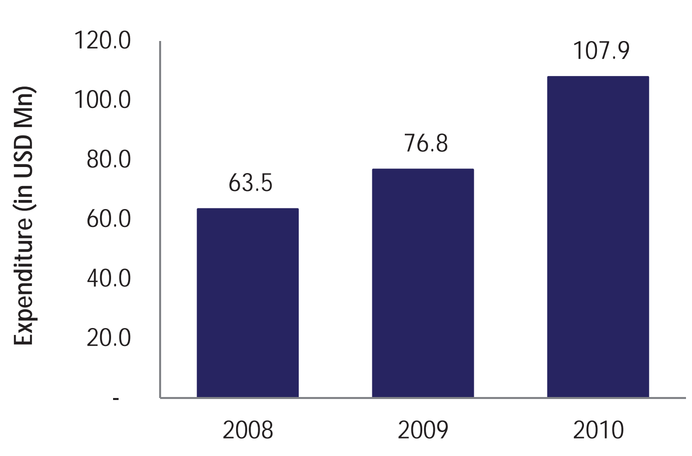
4.3 Tourism Market Trend

4.3.1 Domestic & International Tourism Expenditure

Chart 4.13 and 4.14 indicates that there is a drastic distinction in tourism expenditure for both domestic and foreign tourists. With the expanding domestic economy and growing middle class earners in North Sulawesi, domestic arrivals outpaced international arrivals by forty times. Moreover, Bali and Jakarta underwent aggressive tourism marketing in relation to Manado, thus the much lower international arrivals at North Sulawesi. However, in terms of tourism expenditure, domestic visitors spent about five times more than the expenditure of foreign visitors. This is due to the arrival of domestic tourists (Chart 4.1), comprises forty times more than the arrival of foreign tourists via Sam Ratulangi Airport in 2010. The average foreign expenditure per capita is about USD 1083 in 2010, which has increased from USD 995 in 2009. The foreign expenditure per capita is much higher that the domestic expenditure per capita of USD 134 in 2010, which indicates that the foreigners in North Sulawesi have a higher spending power than the locals.

With the global economic situation set to resume in the long run, inbound tourism flow for North Sulawesi is anticipated to ascend considerably as more foreign tourist will be encouraged to flock North Sulawesi, aided by the increased participation of North Sulawesi in various global tourism conferences, resulting in an increased exposure to the global audience. Concurrently, domestic tourism flow is expected to improve, with the growing culture of taking holidays as well as higher purchasing power of Indonesians.

Chart 4.13: Total Domestic Tourists Expenditure in North Sulawesi (in USD Million), 2008 to 2010



Source: Department of Statistics Indonesia: Sulawesi Utara in Figures (2011), Frost & Sullivan

Chart 4.14: Total Foreign Tourists Expenditure in North Sulawesi (in USD Million), 2008 to 2010

Year	Expenditure (in USD Mn)
2008	25.7
2009	26.0
2010	21.7

Source: Pusat Badan Statistik, Ministry of Tourism*, Culture and Environment, Frost & Sullivan*

4.3.2 Tourism Attractions in Manado

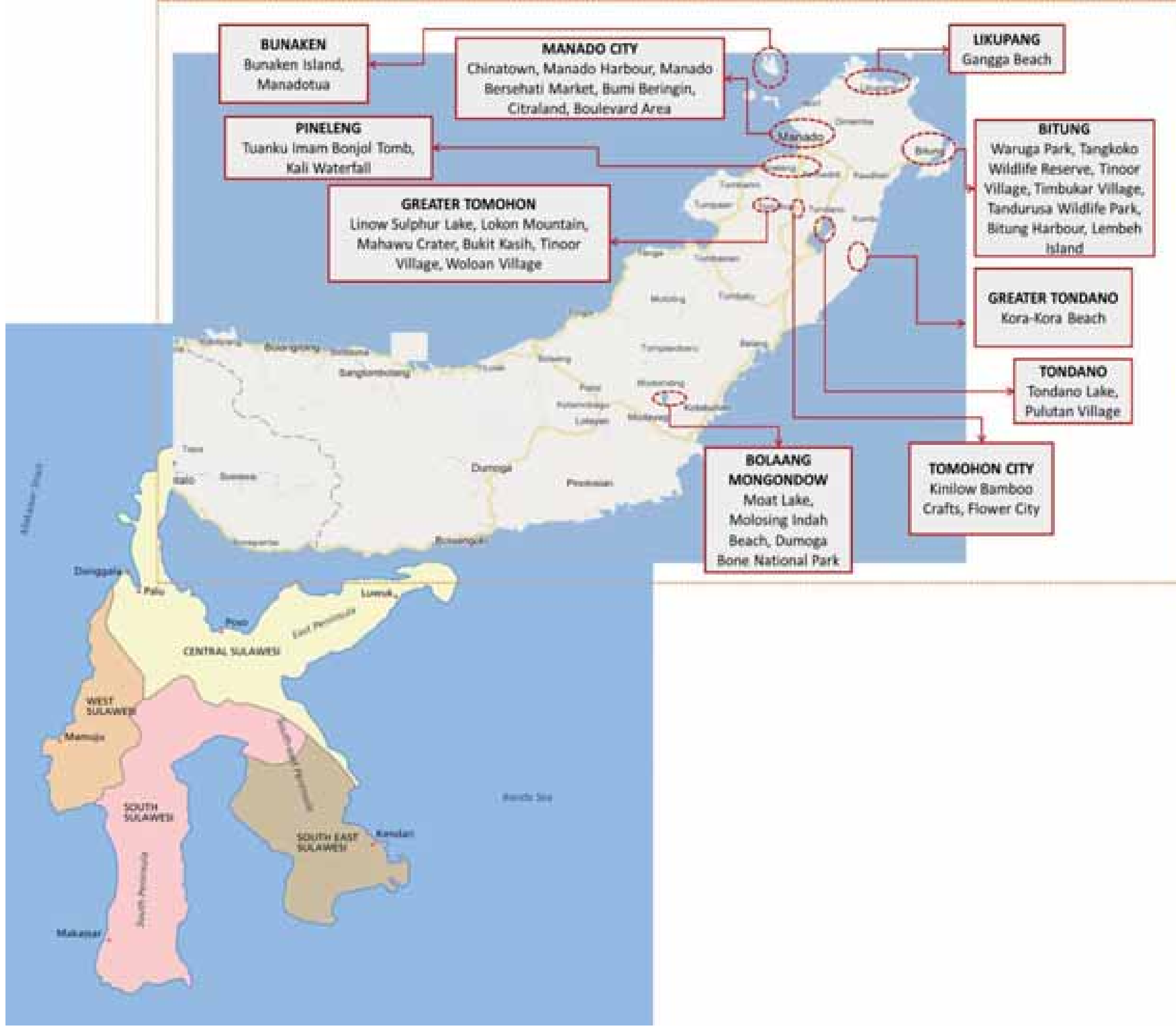
Figure 4.1 indicates the key tourist destinations in North Sulawesi. Scuba diving at Bunaken Sea Garden, views from Lake Tondano, and hikes at Tangkoko Nature Reserve are the top destinations among domestic and foreign tourists. The internationally renowned Bunaken Sea Garden is the regular diving spot for both amateurs and professionals due to the richness in exotic underwater creatures, coral reefs, and the underwater volcanoes. On the other hand, Lembeh Strait offers divers an experience with smaller creatures; also excellent for snorkelling activities. The Tangkoko Nature Reserve is a flora and fauna conservation site on Mount Tangkoko that homes variety of rare wildlife roaming freely in the forest. Due to its strategic coastal location, Manado is also renowned for its seafood.

Despite the rich marine life reserve, Bunaken has recently claimed to have challenges with the water cleanliness. In order to mitigate these issues, the government is currently promoting other diving spots, such as Lembeh Strait, Likupan, and Mahoro Island. On the other hand, the government is encouraging a monthly underwater clean up dive, which involves both members of the government and local communities.

The Ministry of Culture and Tourism (MCT) is developing a master plan for sustainable tourism development in North Sulawesi. The short-term goals are to undertake public-private partnership to support, build and develop appropriate culture and tourism jobs, and to form an effective management of cultural and tourism resources by delegating authority to all governmental levels (provincial, district, city levels), whilst optimising the usage of information technology. Lastly, the objective of the collaboration is also to build North Sulawesi's

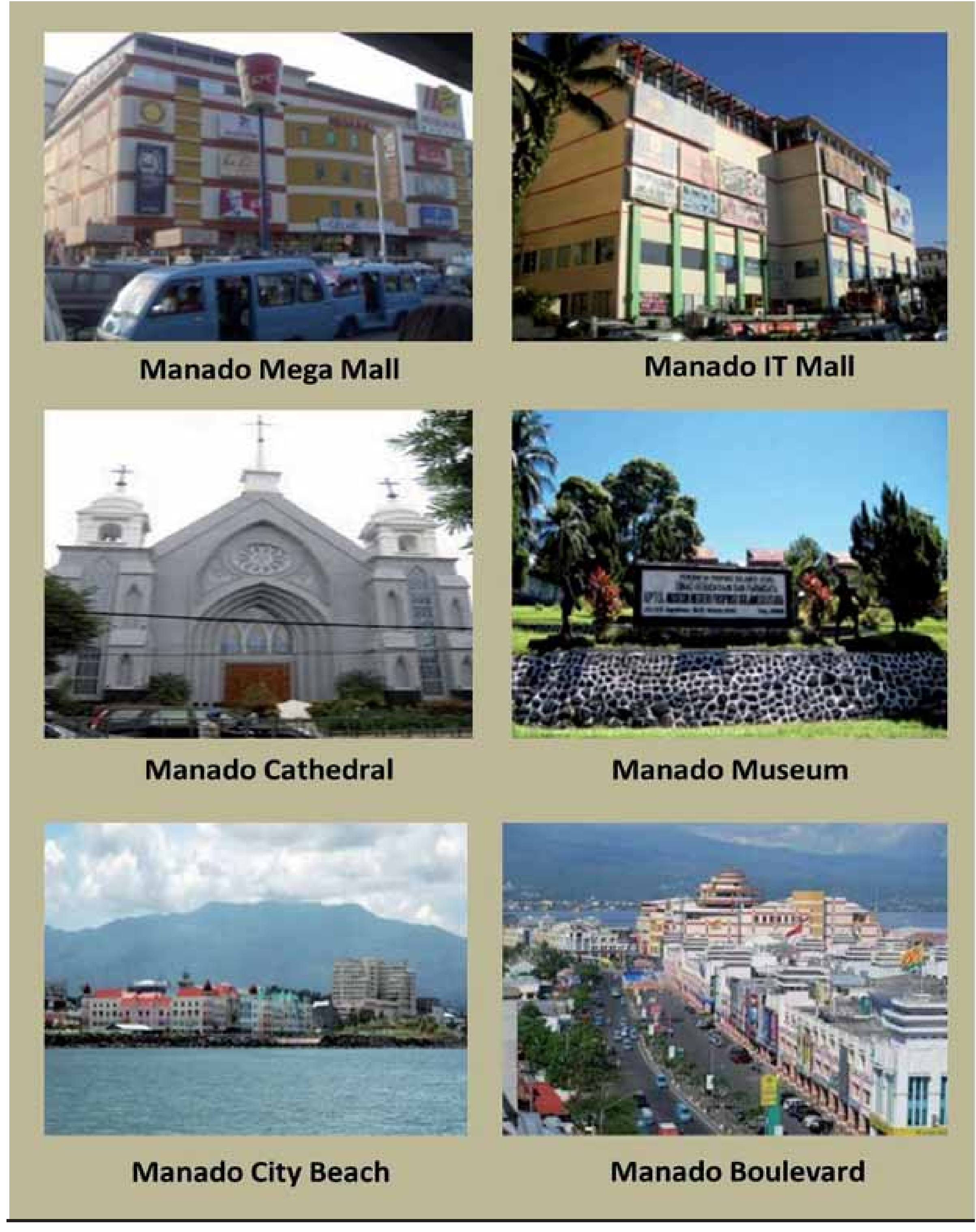
tourism image in the international market. In 2009, MCT re-launched North Sulawesi's theme to "Marine and MICE" as well as introducing other tourist segments, such as adventure tourism and ecotourism.

Figure 4.1: Key Tourist Sites in North Sulawesi



Source: Google Map, Frost & Sullivan

Figure 4.2: Snapshots of key landmarks and tourism spots within Manado City

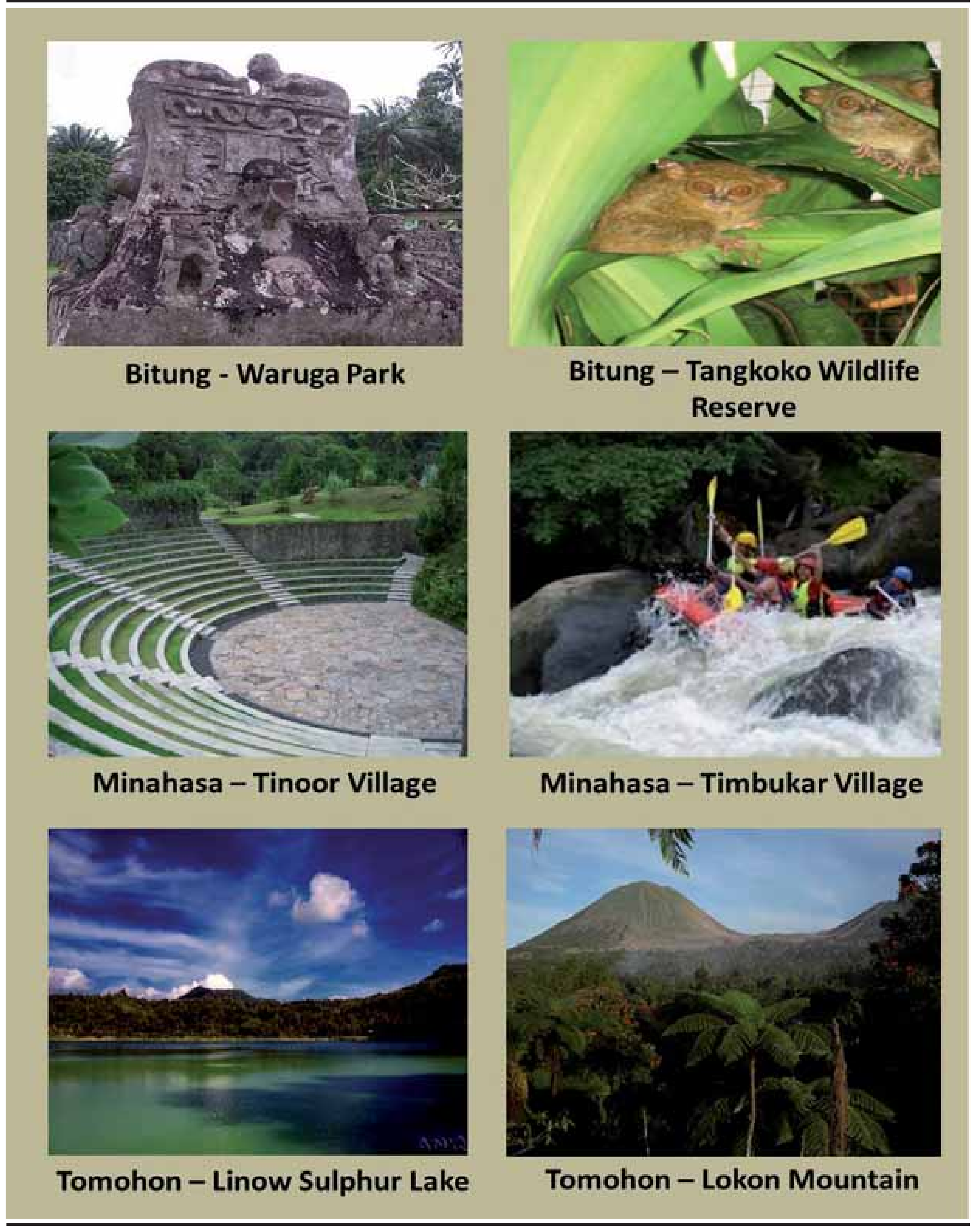


Source: Frost & Sullivan

Figure 4.3: Snapshots of key landmarks and tourism spots within Manado City (cont)

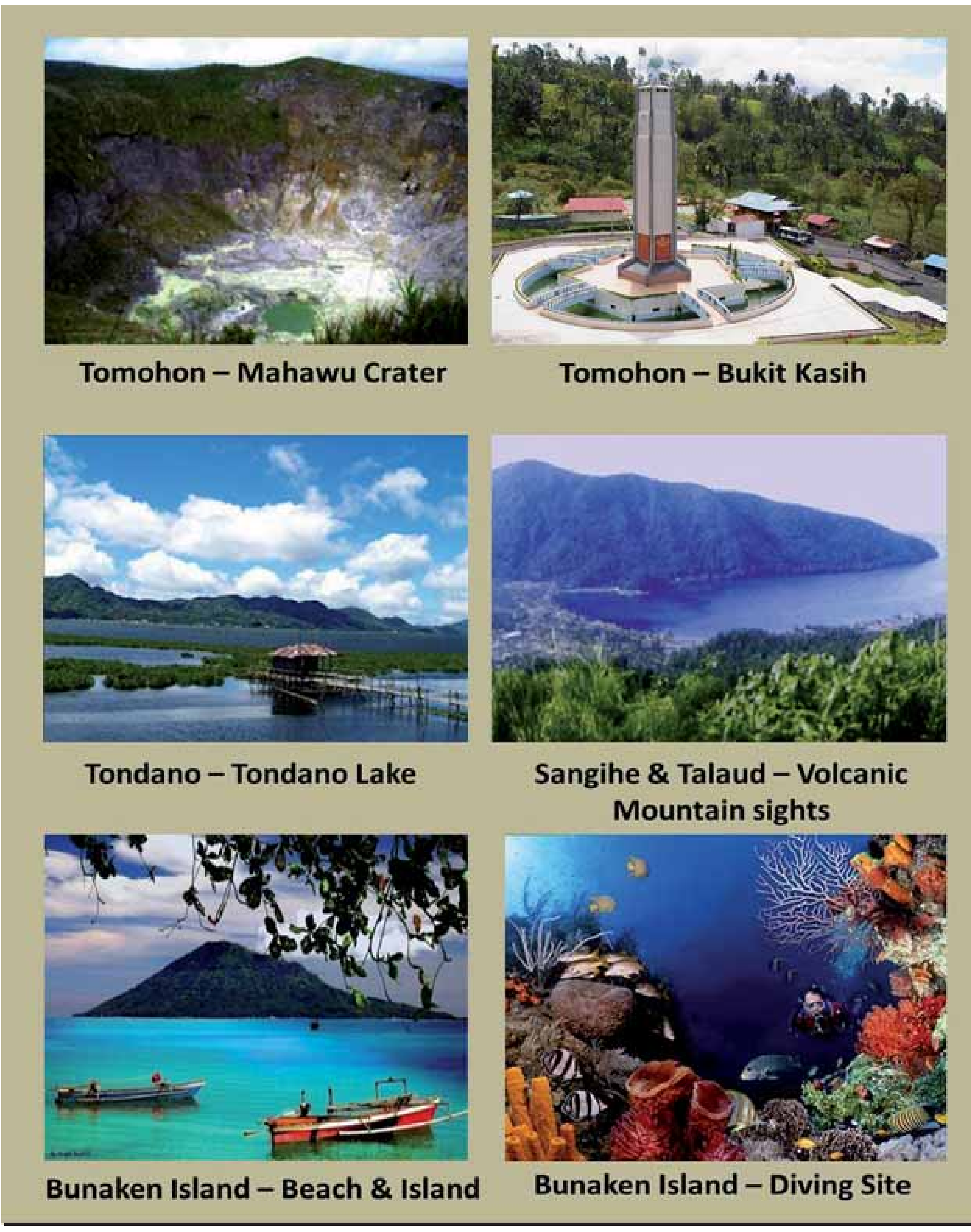
Source: Frost & Sullivan

Figure 4.4: Snapshots of key landmarks and tourism spots outside Manado City



Source: Frost & Sullivan

Figure 4.5: Snapshots of key landmarks and tourism spots outside Manado City (cont)



Source: Frost & Sullivan

Urbanisation process along with Manado's aim into becoming the prime MICE destination is significantly speeding up for the past few years, however the public and private spaces provision for conferences, events, and meetings are currently underserved. The major public convention centres are the Manado Convention Centre, which can accommodate up to 7,000 participants and the Golden Kawanua Convention Centre, Novotel, where the ASEAN Travel Forum (ATF) 2012 was held, catering up to 450 booths and about 5,000 participants. As a waterfront city with 20km long coastal lines, sloping landscape, and natural scenery, Manado has great opportunities to develop more facilities and infrastructures at some strategic areas to cater to the increasing demand as a MICE hub.

Figure 4.6: Major Convention Centres in Manado

Source: Hotel websites, Frost & Sullivan

4.3.3 Manado as a Medical Tourism Destination

In regards to the development status of medical tourism, Manado is still at an infantry stage and can be considered as a late entrant compared to Penang and Melaka in Malaysia, Phuket and Bangkok in Thailand and Singapore. However, with the improving private healthcare system and the initiatives of the Indonesian Government aiming to retain outbound Indonesian patients by increasing the number of internationally accredited hospitals within the country, local medical tourism market in Manado is looking optimistic, particularly where the potential for the private sector to attract the local patients from the surrounding provinces in the East Indonesian region can potentially be realised in the short to mid-term. Nonetheless, in regards to foreign medical tourist attraction, Manado is likely to be undergoing a steep learning curve and requires collective scale up of clinical standards and facility upgrades in the entire healthcare delivery sector, before it can be positioned alongside regional or international medical hubs like Singapore, Malaysia and Thailand.

In order to fulfil the objective of becoming a regional medical tourism hub, providers should also offer services, such as multi-lingual translation, airport pickups, hotel accommodation, and tourism services, on top of state-of-the-art medical facilities and advanced clinical capabilities. In the current market scenario, apart from SHMD, none of the hospitals in Manado or North Sulawesi are equipped with the operational capabilities to provide these tourist-oriented services. In line with the growing popularity of Manado as a tourism spot, private hospitals in Manado could adopt these service frameworks, in order to attract foreign tourists to seek for preventive or minor elective procedures during their stay in the city.

In 2010, medical tourist as percentage of total tourist in key Asian medical tourism country like Malaysia is approximately 15 percent. Conservatively, assuming that Manado is able to serve 5 percent of its domestic and foreign tourists for medical care, the city may potentially serve up to 41,310 medical tourists from the other Indonesian provinces and overseas. With the total tourist volume likely to maintain its historical growth momentum of 9.7 percent CAGR from 2005 to 2010, the future outlook for medical tourism is likely to be favourable.

4.4 Overview of Hotel Aryaduta Manado

4.4.1 Background

Located at the heart of the central business district (on Jalan Piere Tendean) in the city of Manado, Hotel Aryaduta Manado is one of the few four-star hotel in the region that offers walking distance to key city and F&B landmarks, such as the Manado city beach, Manado Town Square, IT Mall, Manado Mega Mall, museum, and Chinatown. With the objective of enhancing its status as the leading hotel in the region, Hotel Aryaduta Manado is in the progress of 5-star certification by the Indonesian Hotel and Restaurant Association, Manado Branch.

Hotel Aryaduta Manado is likely to experience a significant transformation program, which will synergise its operations with the newly developed Siloam Hospitals Manado as a joint facility. Through the unique operational model, Siloam Hospital Manado will serve as an important feeder of patrons to the hotel through the accompanying family members and friends of the patients, while Hotel Aryaduta Manado will be providing the catering support to the residing patients at the hospital. Hotel Aryaduta Manado will also be managing the Siloam Café that is currently in development at the lobby of Siloam Hospitals Manado.

Hotel Aryaduta Manado has a maximum capacity of 200 rooms and employs 97 staffs. Some of the key facilities of the hotel include a café, a grand ball room, and 5 meeting rooms, an executive meeting room, and a recreational foyer that hosts a swimming pool and catering room to host various leisure and business events. Based on the current function room facilities, Hotel Aryaduta Manado will be able to host a maximum conference capacity of 2,150 participants in theatre arrangement. An underground parking lot is available at the hotel, which is currently under renovation. Upon completion, the parking lot will offer ample parking space and will subsequently be shared with the hospital patrons.

Confidential in Commerce

Figure 4.7: Aryaduta Hotel Manado Location Map & Distance to Key Landmarks

Source: Google Map, Frost & Sullivan

4.4.2 Existing Guest Profile

According to Hotel Aryaduta Manado, patrons for business conferences are the major source of revenue for the hotel. In 2011, approximately 57.2 percent of the hotel's occupancy was catered for conference attendees from the government sector, corporate groups and religious bodies, 23.1 percent for Indonesian frequent travellers and long staying guest, 12.5 percent from referred customers through travel agents, and 6.9 percent for internal employees or complimentary stays. Leisure tourists, mainly from Singapore, US and Europe, only accounted for a meagre share of 0.1 percent.

With Siloam Hospitals Manado being operational since June 2012, Hotel Aryaduta Manado, is likely to develop an additional group of customers: the family members of medical patients and medical tourists. With growing medical tourism, this set of customers is likely to increase in the future.

Table 4-7: Key Services or Amenities at Hotel Aryaduta Manado

Category	Services
Accommodation Amenities	200 Guest Rooms & Suites (smoking / non-smoking rooms)
	In-room Safe Deposit Box
	Individual Air Conditioning Control
	Multi-Channel Digital LCD-TV
	Mini Bar
	Evening Turn Down Service
	IDD Telephone
	Complimentary Coffee & Tea Making Facilities
	Complimentary 2 bottles of drinking water
Hotel Services & Facilities	24-Hour Security Services
	24-Hour Manager on Duty
	Courier Services
	Laundry & dry cleaning services
	High speed wireless internet connectivity in public areas
	Swimming Pool
	Business Centre
	Massage services
Food & Beverages Facilities	Cakrawala International Restaurant
	The Lobby Lounge
	Bakery
	In-room Dining
Function Facilities (participant capacity in theatre format)	Grand Ballroom (1,000 capacity)
	Ballroom 1 (600 capacity)
	Ballroom 2 & 3 (150 capacity)
	Bunaken Meeting Room (200 capacity)
	Siladen Meeting Room (200 capacity)

Source: Frost & Sullivan

Figure 4.8: Snapshots of Hotel Aryaduta Manado and Key Amenities

Lobby Balcony

Grand Ball Room Entrance

Grand Ball Room

Ball Room 1 - 3

Outdoor Recreational Area

Swimming Pool

Outdoor Function Space

Staff Resting & Dining Area

Superior Room

Room Amenities

Executive Suite

President Suite

Cakrawala Restaurant

VIP Dining Room

Lounge & Bar

Discussion Area

Meeting Room

Meeting Room

Source: Frost & Sullivan

4.4.3 Current Branding Strategies

Facilities & Amenities

The hotel underwent a refurbishment process to upgrade its guest rooms' conditions. The exterior of the building was also refurbished and the main entrance driveway was enlarged to enhance the physical appearance of the building. As a safety precaution, Hotel Aryaduta Manado uses separate sewage and ventilation systems from the hospital. Furthermore, Hotel Aryaduta Manado is currently under discussion with several fitness operators to manage a gym and SPA facility in the hotel.

Hospitality Services

In order to increase the extensiveness of tourism services, Hotel Aryaduta Manado has partnered with 5 travel agents to provide discounted tourism packages within the city and other suburban tourist spots, such as Citraland, Manado Harbour, Minahasa Highland, Lokon volcanic mountain in Tomohon, Wildlife reserve in Tangkoko, and the diving sites in Bunaken.

As part of the tourism industrial development initiative, Hotel Aryaduta Manado will also be one of the promoted accommodations by the Manado Tourism Council, which will promote the hotel in the regulatory body's promotional materials.

For the collaboration with Siloam Hospitals Manado, Hotel Aryaduta Manado will be assigning 10 employees, who will be sent to the Siloam Hospitals Lippo Village headquarters to undergo trainings on food and catering services and etiquettes for serving medical patients. To ensure maximum patient satisfaction, Hotel Aryaduta Manado provides À la carte catering services directly to the wards upon patients' requests. Apart from the commercial aspect, Hotel Aryaduta Manado provides accommodation for senior staff of the hospital, such as doctors, and managers, who require extended stay in Manado.

Advertising and Promotion

Advertising and corporate communication efforts of the hotel will be mainly supported by the corporate office in Jakarta. Starting from 2012, Hotel Aryaduta Manado is planning with dedicated tourism vendors that will focus on promoting the hotel and increase its awareness for its global customers through e-commerce platforms. The hotel is planning to assign a dedicated manager to its e-commerce business and establishes partnerships with international hotel reservation agents, such as www.booking.com and Agora. In the longer term, Hotel Aryaduta Manado will be expanding its marketing efforts towards the broader region across East Indonesia, such as the attraction of Government agencies in Maluku and Papua to conduct their conferences in Hotel Aryaduta Manado and foster relations with the national business agencies, such as the Indonesian Business Association to jointly develop tourism opportunities in Manado.

Hotel Aryaduta Manado will also leverage its relationships with the local media and newspaper publishers, such as the Manado Post, to include columns for promotion of Manado's tourist destinations and the hotel.

Other Operational Strategies

Hotel Aryaduta Manado acknowledges the importance of staff satisfaction and practices strict minimal wages policies and practices annual performance reviews and salary increments for all employees at the hotel.

In order to prevent from creating price competition in the industry, Hotel Aryaduta Manado will ensure that the minimum revenue per customer overnight stay of USD 54. Despite being branded as a 4-star hotel (currently in the certification process for 5-star rating), Hotel Aryaduta Manado's pricing is observed to be comparable to most of the 4-star hotels in the city for the superior room grade and marginally more expensive for better-graded room types, such as the deluxe rooms and basic suites. In comparison with 5-star hotels in Manado, Hotel Aryaduta Manado room-tariffs are competitive for most of its room categories, except the high end executive and president suites, which are the most expensive in Manado (Table 4.9).

Hotel Aryaduta Manado has managed to attain 57 percent average occupancy rate over the 12 months operation in 2011. With the upcoming refurbishing exercise and reinforced market efforts, Hotel Aryaduta Manado is targeting to improve its average occupancy to 70 percent for 2012.

4.4.4 Competitive Profile of Hotel Aryaduta Manado

Table 4-8: SWOT analysis of Hotel Aryaduta Manado

Strengths	Weakness
▪ Centralised location – Hotel Aryaduta Manado's location in the heart of the Manado city allows easy accessibility to key tourism landmarks, where most major carnivals and events in the city are conducted ▪ Strong financial and operational capabilities ▪ Established brand name – Hotel Aryaduta Group currently operates 13 chains, which is likely to create strong brand perception. Furthermore, Hotel Aryaduta Manado is widely known by the local community as one of the first premium hotels to be established in the city. ▪ Availability of adjacent hospital to leverage on medical tourism and provide for an increase in preventive medical services offered by the hospital for its patrons ▪ Established customer base – from the corporate and event segment, Hotel Aryaduta Manado has established strong customer loyalty from Government or religious bodies	▪ Traffic congestion for the connecting roads to Hotel Aryaduta Manado is frequent during both regular and peak hours ▪ Relatively small main entrance way, which can be congested when major conferences or events are held at the hotel

Opportunity	Threat
▪ Fast developing tourism market – strong Government efforts in transforming Manado into a key tourism destination in East Indonesia through improved infrastructure and expanded airport. Furthermore, the World Ocean Conference (WOC) event in 2009 has increased the exposure on the rich nature reserves that the city is able to offer ▪ Establishment of Low Cost Terminal attached to the current airport terminal is likely to provide more economical travelling options for incoming tourists ▪ Growing popularity of Manado as an international MICE location ▪ Lack of premium accommodation (5-star hotels) in Manado city – key competitors in the same category (Novotel) is quite a distance from the central business district zone ▪ Political and religious stability – the unique religious composition and lack of social conflicts and terrorism events in Manado increases the attractiveness of Manado as a tourism and MICE destination	▪ Strong competitors - most competitors' facilities are less than 5 years old with contemporary design and possess conference-hosting capacities. Novotel for instance is situated beside an 9-hole golf course, which provides additional recreational amenities to its lodgers ▪ Entrance of new players – renowned local and international hotel group, such as Ibis, Amaris, Best Western, Meridian, Sheraton and YTL have expressed interest on expanding into the province, which may intensify competition ▪ Price competition – major hotels in Manado are competitively priced and are able to provide special discounted rates to corporate customers ▪ Competition from alternative tourism destinations – other famous and well established tourist destinations, such as Bali serve as an alternative for incoming tourists

Source: Frost & Sullivan

Table 4-9: Brief profiles of Hotel Aryaduta Manado and other key Hotel Operators in Manado

Criteria	Hotel Aryaduta Manado	5-star		4-star			
		Peninsula	Novotel	Swiss bel	Aston	Grand Puri	Quality
Distance from Aryaduta	-	1.9km	8.2km	1.4km	750m	4.0km	2.7km
Number of Rooms	200	150	176	169	107	152	143
Number of Employees	97	N/A	N/A	N/A	N/A	N/A	N/A
Conference Capacity (theatre arrangement)	2,150	3,065	4,640	1,000	575	400	440
Existing Key Customers	57.2% business conference clients, 23.1% local frequent travellers, 12.5% travel agent referrals	Business Executives & corporate events	Airline operators, corporate, foreign frequent travellers & tourists	Business Execs	Local tourists and corporate	Government conference and local customers	Business Executives, Frequent travellers and Airline operators (Lion Air)
Average Room Rate (USD)	47	44	44	40	31	35	34
Average Occupancy (Mar-Dec 2011)	66.63%	52.22%	49.85%	59.54%	84.45%	51.40%	76.99%
Room Amenities							
In-room safety Box	√	√	√	√	√	√	√
Individual Air Conditioning	√	√	√	√	√	√	√
Multi-Channel Satellite Digital LCD-TV	√	√	√	√	√	√	√
Mini Bar	√	√	√	√	√	√	√
Evening Turn Down Service	√	-	-	-	-	-	-
IDD Telephone	√	√	√	√	√	√	√
Coffee & Tea Maker	√	√	√	√	√	√	√
Free Internet Access	√	√	√	√	√	√	√

Criteria	Hotel Aryaduta Manado	5-star		4-star			
		Peninsula	Novotel	Swiss bel	Aston	Grand Puri	Quality
Services & Facilities							
24-Hour Security Services	√	√	√	√	√	√	√
24-Hour Room Service	√	√	√	√	√	√	√
Disability Facility & Assist	-	√	√	-	-	√	-
Laundry & valet services	√	√	√	√	√	√	√
Wi-Fi access public areas	√	√	√	√	√	√	√
Business Centre	√	√	√	√	√	√	√
Massage services	√	-	-	-	-	√	√
Swimming Pool	√	√	√	√	-	√	-
Gym, SPA, & Sports Facilities	-	√	√	√	√	-	-
Golf Course	-	-	√	-	-	-	-
Art Gallery	-	-	√	-	-	-	-
Gift Shop	-	-	√	-	-	-	√
Beauty Saloon	-	√	√	-	√	√	-
Travel Agent Services	√	√	√	√	√	√	√
Lounge & Restaurant	√	√	√	√	√	√	√
24-Hour Medical Service	On-Site	-	-	-	-	On-Call	On-Call
Types of Rooms & Net Rates (USD per overnight stay)							
Superior (single)	61	96	87	60	60	71	60
Superior (double)	61	96	87	65	60	71	60
Deluxe / Studio (single)	85	109	103	71	65	76	68
Deluxe / Studio (double)	85	109	103	76	65	76	68
Executive Club	95	122	-	87	-	84	-
Junior Suite / Apartment	125	157	141	141	114	120	92
Suite / Executive Suite / 2 bed room apartment	361	-	202	180	169	163	-
Royal Suite	553	394	-	234	-	-	201
Presidential / Governor Suite	651	620	-	392	267	-	-

Criteria	Hotel Aryaduta Manado	5-star		4-star			
		Peninsula	Novotel	Swiss bel	Aston	Grand Puri	Quality
Types of Conference Package & Net Rates (USD per person)							
Full Board Meeting (based on superior twin sharing)	114	85	N/A	100	49	N/A	57
Full Day Meeting	41	22	N/A	23	30	N/A	35
Half Day Meeting	22	19	N/A	19	16	N/A	19
Lunch / Dinner Meeting	16	18	N/A	N/A	12	N/A	N/A
Coffee Break Meeting	8	12	N/A	N/A	7	N/A	N/A

Sources: Hotel Websites and official publications, published articles Hotel Aryaduta Interview, Frost & Sullivan

Figure 4.9: Snapshots of Key Hotels in Manado

Source: Frost & Sullivan

For Hotel Aryaduta Manado, competition in the Manado hotel industry is relatively intense with the presence of strong competitors, who are able to serve customers from the tourism and corporate sectors. One of the key strengths of these competitors lies in the comprehensiveness of services and facilities, which are comparable against one another, and pricing.

Hotel Aryaduta Manado's core competitive advantage lies in its strategic location. Among all the hotels in Manado city, Hotel Aryaduta Manado is the only hotel that is located in the heart of Manado Boulevard on Jalan Piere Tendean, which is the busiest district in the city and is likely to become one of the preferred destinations for tourists and frequent business travellers due to its accessibility to key city landmarks and commercial centres.

Figure 4.10: Location of Key Hotel Aryaduta Manado relative to key competitors

Source: Frost & Sullivan

In addition, the adjacent Siloam Hospitals Manado creates a niche positioning of Hotel Aryaduta Manado as a hybrid medical tourism hotel (i.e. Hospi-Tel, which integrates both the hospital and hotel facilities under one roof) and has the ability to provide immediate preventive and curative tertiary hospital care to its lodgers. Furthermore, Hotel Aryaduta Manado will have the opportunity to serve an additional customer group through the provision of premium accommodation for the accompanying family members or friends of the patients. The expanded customer profile, together with the Siloam Café, which will be fully managed by Hotel Aryaduta Manado and the provision of catering services to the hospital's inpatient, enables the hotel to generate additional streams of revenue. Hotel Aryaduta Manado is likely to capitalise on this competitive advantage for the long term, due to the high financial cost and need for operational expertise, which prevent competitor hotels from duplicating this hybrid model in the future.

Hotel Aryaduta Manado's main weakness relative to its competitors will be the lack of fitness facilities, as it was previously taken over from another hotel operator. With the acknowledgement of these shortfalls, the hotel management is currently in discussions with several gym and SPA operators for tenancy and is undergoing a renovation and amenities upgrading program. These initiatives are likely to enhance the competitive strengths of Hotel Aryaduta Manado in the future.

4.4.5 Future outlook in line with Tourism Trend

With the growing international awareness of Manado city as a major tourism and MICE destination for East Indonesia, Hotel Aryaduta Manado's positioning as a premium hotel that is highly accessible within the city centre is likely to serve the hospitality needs of the incoming domestic and international conference participants in the city. In the short to mid-term, conference and event accommodation is likely to remain as the major revenue driver for the hotel, particularly with the various upcoming international events in the pipeline to be conducted in the city.

Simultaneously, the hotel's initiatives to expand its clientele in other categories are likely to generate additional stream of revenues. For instance, the dedicated strategies to increase marketing and advertising exposure to foreign tourists through e-marketing and improvement of hotel amenities conditions are likely to increase the adoption rates of the hotel for the leisure tourists.

Despite being in its early stage of development, the improving regulatory environment and infrastructure to promote the tourism industry is likely to help nurture growth opportunities for the niche medical tourism market catering to the patients in neighbouring provinces, such as Papua and Maluku. Through the introduction of the Hospi-Tel concept to tourist-friendly medical services, Siloam Hospitals Manado is likely to be the key

medical tourism hospital that will be providing a more cost effective and proximate alternative for Indonesian patients who intend to seek treatments abroad. Hotel Aryaduta Manado will be strategically positioned to leverage on its ability to provide value added hospitality services to the medical tourists and their accompanying travellers.

The expanded service propositions and growth strategies are likely to gradually shift the positioning of Hotel Aryaduta Manado from a business lodger oriented hotel to a multi-functional 5-star hotel that caters for a wider variety of clientele, including medical and leisure tourists. This will thereby, expand the business profile and revenue streams for the hotel in the future.

IFA LETTER

STIRLING COLEMAN CAPITAL LIMITED

(Company registration no.:200105040N)
4 Shenton Way #07-03
SGX Centre 2
Singapore 068807

23 October 2012

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

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

Dear Sirs

INDEPENDENT FINANCIAL ADVISER'S ADVICE IN RESPECT OF:

(1) THE PROPOSED ACQUISITION OF SILOAM HOSPITALS MANADO AND HOTEL ARYADUTA MANADO FROM AN INTERESTED PERSON;

(2) THE PROPOSED ACQUISITION OF SILOAM HOSPITALS MAKASSAR FROM AN INTERESTED PERSON; AND

(3) THE MASTER LEASES

(COLLECTIVELY THE "IPT TRANSACTIONS")

For the purpose of this letter, capitalised terms not otherwise defined shall have the meaning given to them in the circular dated 23 October 2012 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 ACQUISITION OF SILOAM HOSPITALS MANADO & HOTEL ARYADUTA MANADO ("MD Property")

The MD Property, located at Jalan Sam Ratulangi No. 22, Komplek Boulevard Center and at Jalan Piere Tendean No. 1, Wenang Utara Sub District, Wenang District, Manado – North Sulawesi 95111, Republic of Indonesia, is an 11-storey mixed use development with a basement level comprising Siloam Hospitals Manado and Hotel Aryaduta Manado, which sit on common land titles and share a common lobby (with separate entrances). Siloam Hospitals Manado is a four-level hospital which commenced operations on 1 June 2012 with 100 beds and will target to reach maximum operational capacity of 224 beds in about three to four years' time. Hotel Aryaduta Manado is a nine-level five-star hotel with 200 guest rooms, which commenced operations on 1 January 2011. The MD Property is situated on the east side of Jalan Piere Tendean and on the west side of Jalan Sam Ratulangi, both of which are primary roads in the city centre that are lined with office buildings, shopping centres, shop houses and hotels. Notable developments in the close vicinity of the MD Property include IT Center, Mega Mall Manado and Komandan Korem (Danrem) 131/Santiago (a military office). Siloam Hospitals Manado is a Centre of Excellence in trauma.

The MD Property is entirely owned by PT MAM, a special purpose vehicle incorporated in Indonesia on 23 January 2008 for the purpose of holding the MD Property. PT MAM is in turn 75.0% and 25.0% owned by Rhuddlan and Caernarfon respectively. Rhuddlan and Caernarfon are companies incorporated in Singapore on 1 December 2011 and 8 December 2011, respectively. Caernarfon is a wholly-owned subsidiary of Rhuddlan, and Rhuddlan is wholly-owned by Evodia, a company incorporated in Labuan, Malaysia on 30 August 2007 which is an indirect wholly-owned subsidiary of the Sponsor. First REIT proposes to acquire the MD Property through the acquisition of the entire issued share capital of Rhuddlan from Evodia. Evodia is present in the current holding structure of the MD Property by the Sponsor. This structure will have no impact on First REIT before or after the acquisition. For the avoidance of doubt, First REIT will not be holding Evodia, which is the vendor.

On 21 September 2012, the Trustee entered into a conditional sale and purchase agreement with Evodia (the "**MD Property SPA**") pursuant to which the Trustee proposed to acquire the entire share capital of Rhuddlan at the MD Property Purchase Consideration.

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) 29.7% in First REIT and (ii) 80.0% in the Manager, and is therefore, regarded as a "Controlling Unitholder" of First REIT and a "Controlling Shareholder" of the Manager respectively under both the Listing Manual and the Property Funds Appendix.

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

Given the MD Property Purchase Consideration of S$83.6 million (which is 16.5% of the NTA and NAV respectively of First REIT as at 31 December 2011, the value of the MD Property Acquisition will in aggregate exceed (i) 5.0% of First REIT's latest audited NTA and (ii) 5.0% of First REIT's latest audited NAV.

As such, the MD Property Acquisition will constitute an Interested Person Transaction under Chapter 9 of the Listing Manual and an Interested Party Transaction under paragraph 5 of the Property Funds Appendix for which Unitholders' approval is required.

1.2 THE ASSET ACQUISITION OF SILOAM HOSPITALS MAKASSAR ("SHMK")

SHMK located at Jalan Metro Tanjung Bunga Kav 3 – 5, Panambunan Sub District, Mariso District, Makassar City, South Sulawesi Province, Republic of Indonesia, is a new seven-storey hospital, which commenced operations on 9 September 2012 with 100 beds and will target to reach maximum operational capacity of 416 beds in about four to six years' time. SHMK is located on the west side of Jalan Metro Tanjung Bunga in Tanjung Bunga, an integrated township development

completed with many facilities. Notable developments in the close vicinity of SHMK include Hotel Aryaduta Makassar, Tanjung Bunga Marketing Office, Celebes Convention Center, Trans Makassar Mall and Losari Beach. SHMK is a Centre of Excellence in trauma and cardiology.

SHMK is entirely owned by PT SKS, an indirect wholly-owned indirect subsidiary of the Sponsor incorporated on 20 March 2006. First REIT will indirectly acquire SHMK from PT SKS through PT BS, which was incorporated on 5 August 2011. First REIT's wholly-owned subsidiary, Raglan, and Raglan's wholly-owned subsidiary, Carmathen, together respectively own 75.0% and 25.0% of the issued share capital of PT BS. Raglan was incorporated on 1 December 2011 and Carmathen was incorporated on 8 December 2011.

On 21 September 2012, PT BS entered into a conditional land sale and purchase agreement with PT SKS (the "**SHMK SPA**") pursuant to which PT BS proposes to acquire SHMK at the SHMK Purchase Consideration.

As the Latest Practicable Date, the Sponsor directly and/or through its subsidiaries and through its interest in the Manager, has deemed interests of (i) 29.7% in First REIT and (ii) 80.0% in the Manager, and is therefore, regarded as a "Controlling Unitholder" of First REIT and a "Controlling Shareholder" of the Manager respectively under both the Listing Manual and the Property Funds Appendix.

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

Given the SHMK Purchase Consideration of S$59.3 million (which is 11.7% of the NTA and NAV respectively of First REIT as at 31 December 2011), the value of the SHMK Acquisition will in aggregate exceed (i) 5.0% of First REIT's latest audited NTA and (ii) 5.0% of First REIT's latest audited NAV.

As such, the SHMK Acquisition will constitute an Interested Person Transaction under Chapter 9 of the Listing Manual and an Interested Party Transaction under paragraph 5 of the Property Funds Appendix for which Unitholders' approval is required.

1.3 THE MD PROPERTY MASTER LEASE AND THE SHMK MASTER LEASE

In relation to the MD Property Acquisition, the MD Property Master Lease Agreement has been entered into between PT MAM (as the MD Property master lessor) and the Sponsor (as the MD Property master lessee) on 21 September 2012 pursuant to which the MD Property Master Lease will be granted to the Sponsor for a lease term of 15 years, commencing from the date of completion of the MD Property SPA, with an option to renew for a further term of 15 years.

In relation to the SHMK Acquisition, the SHMK Master Lease Agreement has been entered into between PT BS (as the SHMK master lessor) and the Sponsor (as the SHMK master lessee) on 21 September 2012 pursuant to which the SHMK Master Lease will be granted to the Sponsor for a lease term of 15 years, commencing from the date of completion of the SHMK SPA, with an option to renew for a further term of 15 years.

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) 29.7% in First REIT and (ii) 80.0% in the Manager, and is therefore regarded as a "Controlling Unitholder" of First REIT and a "Controlling Shareholder" of the Manager respectively under the Listing Manual.

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

The value of the MD Property Master Lease is approximately S$8.4 million for the first year of the MD Property Master Lease, which represents approximately 1.7% of First REIT's latest audited NTA.

The value of the SHMK Master Lease is approximately S$5.75 million for the first year of the SHMK Master Lease, which represents approximately 1.1% of First REIT's latest audited NTA.

Accordingly, both the MD Property Master Lease and the SHMK Master Lease will constitute Interested Person Transactions under Chapter 9 of the Listing Manual for which Unitholders' approval is required.

2 TERMS OF REFERENCE

Stirling Coleman has been appointed to advise the Independent Directors on whether the (i) MD Property Acquisition, (ii) SHMK Acquisition, (iii) MD Property Master Lease and (iv) SHMK Master Lease (collectively, the "**IPT Transactions**") are on normal commercial terms and are prejudicial to the interests of First REIT and its Independent Unitholders.

Our opinion, by way of this Letter, will be limited solely to the IPT Transactions as of the date of this Letter. Neither our opinion nor its related analysis constitutes a recommendation of the IPT Transactions to the Independent Unitholders. Our opinion will be rendered solely for the use and benefit of the Independent Directors and the Trustee for their deliberations on the IPT Transactions, before arriving at a decision based on the merits or demerits of the IPT Transactions and in making any recommendation.

We were not involved in any aspect of the negotiations in relation to the IPT Transactions, nor were we involved in the deliberations leading up to the decision by the Board of Directors to enter into the IPT Transactions, and we do not, by this Letter or otherwise, advise or form any judgment on the merits of the IPT Transactions other than to form an opinion, as to whether the IPT Transactions are based on normal commercial terms and prejudicial to the interests of First REIT and its Independent Unitholders. We have confined our evaluation to the financial terms of the IPT Transactions and our terms of reference do not require us to evaluate or comment on the risks and/or merits of the IPT Transactions or the future prospects of First REIT, including whether the IPT Transactions are commercially desirable or justifiable, and we have not made such evaluation or comment. Such evaluation or comment, if any, remains the responsibility of the Directors and the management of the Manager, although we may draw upon their views or make such comments in respect thereof (to the extent deemed necessary or appropriate by us) in arriving at our opinion as set out in this Letter. Accordingly, it is not within our scope to conduct a comprehensive independent review of the business, operations or financial condition of First REIT.

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

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

In formulating our opinion and recommendation, we have held discussions with the Directors and management of the Manager and have examined publicly available information and we have relied to a considerable extent on the information set out in the Circular, other public information collated by us and the information, representations, opinions, facts and statements provided to us, whether written or verbal, by the Manager and its other professional advisers. We have relied upon the assurance of the Directors and the management of the Manager that all statements of fact, opinion and intention made by the Directors and the management of the Manager in the Circular have been reasonably made after due and careful enquiry. We have not independently verified such information but have made such reasonable enquiries and exercised our judgement as we deemed appropriate

on such information and have no reason to doubt the accuracy or reliability of the information used for the purposes of our evaluation. Accordingly we cannot and do not expressly and impliedly represent or warrant, and do not accept any responsibility for the accuracy, or completeness or adequacy of such information or the manner in which it has been classified or presented or the basis of any valuation which may have been included in the Circular or announced by First REIT. The information which we relied on were based upon market, economic, industry, monetary and other conditions prevailing as at the Latest Practicable Date and may change significantly over a relatively short period of time. Accordingly, we do not express an opinion herein as to the prices at which the Units of First REIT may trade upon completion of the IPT Transactions.

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

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

Our recommendation in respect of the IPT Transactions as set out in section 6.4 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 MD PROPERTY ACQUSITION

3.1 The MD Property

Detailed descriptions of the MD Property are set out in **APPENDIX A** of the Circular. We recommend that the Independent Directors advise Independent Unitholders to read **APPENDIX A** of the Circular very carefully.

3.2 Details of the MD Property Acquisition

Details of the MD Property Acquisition and the conditions precedent for the completion of the sale and purchase of the MD Property are set out in sections 2.2, 2.3 and 2.5 of the Circular. We recommend that the Independent Directors advise Independent Unitholders to read these sections of the Circular very carefully.

3.3 Cost of the MD Property Acquisition

The MD Property Acquisition Cost is currently estimated to be approximately S$85.8 million, comprising:

(i) the MD Property Purchase Consideration of S$83.6 million;

(ii) the MD Property Acquisition Fee[1] of approximately S$836,000 payable to the Manager pursuant to Clause 14.2.1 of the Trust Deed which shall be payable in the form of the MD Property Acquisition Fee Units[2]; and

(iii) the estimated professional and other fees and expenses of approximately S$1.4 million[3] incurred by First REIT in connection with the MD Property Acquisition.

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[1] Being 1.0% of the MD Property Purchase Consideration.

[2] As the MD Property Acquisition will constitute an Interested Party Transaction under the Property Funds Appendix, the MD Property Acquisition Fee payable to the Manager will be in the form of the MD Property Acquisition Fee Units, which shall not be sold within one year from the date of issuance, in accordance with Paragraph 5.6 of the Property Funds Appendix.

[3] It is expected that most of the professional and other fees and expenses in connection with the MD Property Acquisition will be incurred by First REIT even if the Manager does not proceed with the MD Property Acquisition.

3.4 Method of Financing

The MD Property Acquisition Cost is expected to be financed by a combination of drawdown from First REIT's committed debt facility and proceeds from a private placement exercise which is proposed to be carried out by the Manager. The proportion of debt financing for the MD Property will be approximately 32.0%. The final decision regarding the proportion of debt and equity to be employed will be made at the appropriate time taking into account the relevant market conditions. Should the Manager be of the view that it would not be appropriate to carry out a private placement in the circumstances, the Manager intends to procure additional debt funding to fully finance the MD Property Acquisition Cost by debt. First REIT's current leverage is approximately 16.0%.

4 INFORMATION ON THE SHMK ACQUSITION

4.1 The SHMK

Detailed descriptions of SHMK are set out in **APPENDIX A** of the Circular. We recommend that the Independent Directors advise Independent Unitholders to read **APPENDIX A** of the Circular very carefully.

4.2 Details of the SHMK Acquisition

Details of the SHMK Acquisition and the conditions precedent for the completion of the sale and purchase of SHMK are set out in sections 3.2, 3.3 and 3.5 of the Circular. We recommend that the Independent Directors advise Independent Unitholders to read these sections of the Circular very carefully.

4.3 Cost of the SHMK Acquisition

The SHMK Acquisition Cost is currently estimated to be approximately S$60.9 million, comprising:

(i) the SHMK Purchase Consideration of S$59.3 million;

(ii) the SHMK Acquisition Fee[4] of approximately S$593,000 payable to the Manager pursuant to Clause 14.2.1 of the Trust Deed which shall be payable in the form of the SHMK Acquisition Fee Units[5]; and

(iii) the estimated professional and other fees and expenses of approximately S$1.0 million[6] incurred by First REIT in connection with the SHMK Acquisition.

4.4 Method of Financing

The SHMK Acquisition Cost is expected to be financed fully by a drawdown from First REIT's committed debt facility.

5 THE MASTER LEASES

As part of the MD Property Acquisition and SHMK Acquisition, PT MAM and PT BS have entered into the MD Property Master Lease and the SHMK Master Lease with the Sponsor respectively, whereby both the MD Property and SHMK will be leased to the Sponsor for an initial period of 15 years commencing upon the completion of the respective acquisitions, with an option to renew for a further term of 15 years.

The principal terms of the MD Property Master Lease Agreement and the SHMK Master Lease Agreement are set out respectively in sections 2.7 and 3.7 of the Circular. We recommend that the Independent Directors advise Independent Unitholders to read these sections in the Circular very carefully.

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[4] Being 1.0% of the SHMK Purchase Consideration

[5] As the SHMK Acquisition will constitute an Interested Party Transaction under the Property Funds Appendix, the SHMK Acquisition Fee payable to the Manager will be in the form of the SHMK Acquisition Fee Units, which shall not be sold within one year from the date of issuance, in accordance with Paragraph 5.6 of the Property Funds Appendix.

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

As both the MD Property Master Lease Agreement and the SHMK Master Lease Agreement (collectively, the "**Master Leases**") are structured as part of the MD Property Acquisition and the SHMK Acquisition respectively, we wish to highlight to the Independent Directors that **by approving the MD Property Acquisition and the SHMK Acquisition, Independent Unitholders would also be deemed to have approved the MD Property Master Lease and the SHMK Master Lease**.

6 EVALUATION OF THE IPT TRANSACTIONS

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

The MD Property Acquisition and SHMK Acquisition

- Rationale for the MD Property Acquisition and SHMK Acquisition to assess whether the MD Property Acquisition and SHMK Acquisition are prejudicial to the interests of First REIT and its Independent Unitholders;

- Financial assessment of the MD Property Acquisition and SHMK Acquisition to evaluate the reasonableness of the MD Property and SHMK Purchase Considerations;

- Review of the market conditions and prospects of the Indonesia healthcare and hospitality industry; and

- Analysis of the pro forma distribution yield of First REIT as compared to other REITs listed on the SGX-ST.

The Master Leases

- Rationale for the Master Leases to assess whether the objectives of the Master Leases are prejudicial to interests of First REIT and its Independent Unitholders;

- Analysis of the impact of the Master Leases on property yields and distribution yields; and

- Analysis of the key terms of the Master Leases as compared to other master lease agreements of properties used for healthcare and/or healthcare-related purposes owned by SGX-ST listed REITs.

6.1 Rationale for the MD Property Acquisition and SHMK Acquisition

The Manager's rationale for the MD Property Acquisition and SHMK Acquisition are set out in section 5 of the Circular. We reproduce below extracts relevant to the Acquisitions:

Acquisition of attractive and high quality properties in Manado City and Makassar City, Indonesia, at prices below valuation

The Acquisitions represent an opportunity for First REIT to acquire two hospitals and a hotel, which are attractive, high quality and of international standards, in prime locations in Indonesia.

Both Siloam Hospitals Manado and Hotel Aryaduta Manado are well-positioned for the middle to upper middle-income segment of the healthcare and hospitality market. SHMK is also well-positioned in a growing residential and commercial area in Makassar City.

Additionally, the Properties will be acquired at prices below their independent valuations. The MD Property will be acquired at a discount of 10.8% to the average of the independent valuations by W&R and Rengganis and SHMK will be acquired at a discount of 9.8% to the average of the independent valuations by W&R and Rengganis.

Increased absolute size of First REIT's asset base which may raise the profile of First REIT among global investors and an increased portfolio size which is expected to enhance First REIT's competitive positioning and ability to pursue future acquisitions

First REIT's asset size will grow from S$618.9 million (as at 30 June 2012) to S$782.2 million after the completion of the Acquisitions. The value of First REIT's Deposited Property[7] is expected to increase by 25.6% from S$649.6 million as at 30 June 2012 to S$815.7 million after the completion of the Acquisitions and there will also be a 36.9% increase in the total gross floor area ("**GFA**") to 186,790 square metres ("**sq m**") after the completion of the Acquisitions from 136,432 sq m before the Acquisitions. The maximum number of hospital beds for the Indonesia properties will increase by 57.8% from 1,108 to 1,748, and the total number of hotel guest rooms for the Indonesia properties will increase by 101.5% from 197 to 397.

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

The MD Property Acquisition and the SHMK Acquisition are expected to benefit Unitholders by improving diversification of Gross Rental Income due to diversification in geographical location and asset class. With an enlarged asset base, the operator of the MD Property and SHMK will also enjoy greater operating synergies in the long term which would indirectly benefit First REIT through higher variable rent and potential capital appreciation.

(See **APPENDIX A** for further details in relation to the Properties as well as First REIT's Existing Portfolio.)

The Acquisitions would enable First REIT to grow through the acquisition of two hospitals, which enhances the diversification of First REIT's portfolio across locations and medical specialisations and, a hotel that inter alia provides for complementary services for Siloam Hospitals Manado

The Properties are located in Indonesia in which First REIT already operates and are an extension of First REIT's Existing Portfolio.

Both Siloam Hospitals Manado and Siloam Hospitals Makassar are equipped with comprehensive state-of-the-art equipment and the latest generation of smart IT-systems in Indonesia, and provide a broad range of quality general and specialist services, including therapeutic services and an extensive range of diagnostic and preventive healthcare services. Siloam Hospitals Manado is a Centre of Excellence in trauma, and Siloam Hospitals Makassar is a Centre of Excellence in cardiology and trauma. As Hotel Aryaduta Manado is located in the same building as Siloam Hospitals Manado, it will provide a full range of food and beverages catering to patients and accommodation for family members as well as to tourists visiting Manado.

As the MD Property is located on the east side of Jalan Piere Tendean and the west side of Jalan Sam Ratulangi, both of which are primary roads in Manado City, the MD property is highly accessible via public and private transportation. Additionally, Hotel Aryaduta Manado is attractive to travellers as it is surrounded by notable developments such as IT Center and Mega Mall Manado.

SHMK, located in Tanjung Bunga, an integrated township development consisting of residential and commercial developments, caters to the growing residential and commercial area in Makassar City.

The above qualities of the MD Property and SHMK are expected to enhance the diversification of First REIT's portfolio across locations and medical specialisations.

Increase in attractiveness of the Enlarged Portfolio given the reduction in the weighted average age of the properties in the Enlarged Portfolio comprising the MD Property and SHMK that are newly refurbished and built

As at 30 June 2012, the weighted average age of properties of the Enlarged Portfolio will decrease from 13.2 years to 9.9 years (or about 24.6%) from that of the Existing Portfolio.

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[7] "**Deposited Property**" refers to the gross assets of First REIT, including its properties and its Authorised Investments (as defined herein) for the time being held or deemed to be held upon the trusts under the Trust Deed.

6.2 Financial Assessment of the MD Property Acquisition

In evaluating the reasonableness of the MD Property Purchase Consideration, we have considered the following factors which have a bearing on our assessment:

Basis for arriving at the purchase consideration of the MD Property Acquisition

Pursuant to the MD Property SPA, the MD Property Purchase Consideration is approximately S$83.6 million.

Cost of the MD Property Acquisition

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

Valuation of the MD Property by the Independent Valuers

Two independent property valuers were appointed for the purpose of determining the market value of MD Property as at 5 September 2012. W&R was appointed by the Manager and Rengganis was appointed by the Trustee to value the MD Property.

Summarised versions of the Valuation Reports are contained in **APPENDIX B** of the Circular, with the determined market values as at 5 September 2012 as set out below:

Valuation of the Properties by the Independent Valuers

Valuation of the MD Property by the Independent Valuers	
	S$ million
W&R	90.9
Rengganis	96.5

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

- The Valuation Report prepared by W&R has adopted the basis of market value in accordance with the Indonesian Valuation Standards (Standar Penilaian Indonesia / SPI) 2007.

- The Valuation Report prepared by Rengganis has adopted the basis of market value in accordance with the Indonesian Valuation Standards (Standar Penilaian Indonesia / SPI) 2007 and the International Valuation Standards (IVS) 2007.

- The Valuation Reports assess the 'market value' of the MD Property as at 5 September 2012, which is close to the date for the MD Property SPA. The market value is the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

- The income approach utilising discounted cash flow (DCF) method was used for the purposes of completing the Valuation Reports.

- According to the W&R and Rengganis, DCF method was used considering that the MD Property is an income producing property. The valuation had taken into account the terms of the MD Property Master Lease and was conducted having regard to the prevailing market conditions as at 5 September 2012, especially those pertaining to the healthcare services and hospitality industry in the locality of the MD Property.

- The appraised value of the MD Property is between S$90.9 million and S$96.5 million. The agreed purchase consideration is S$83.6 million. We note that the purchase consideration is 8.0% and 13.4% below the appraised values as determined by W&R and Rengganis, respectively or at a discount of 10.8% to the average of the two independent valuations of the MD Property by the Independent Valuers.

- We understand from the Manager that the purchase consideration will be paid in Singapore dollars which eliminates any foreign currency risk.

6.3 Financial Assessment of the SHMK Acquisition

Basis for arriving at the purchase consideration of the SHMK Acquisition

Pursuant to the SHMK SPA, the SHMK Purchase Consideration is approximately S$59.3 million.

Cost of the SHMK Acquisition

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

Valuation of SHMK by the Independent Valuers

Two independent property valuers were appointed for the purpose of determining the market value of SHMK as at 5 September 2012. W&R was appointed by the Manager and Rengganis was appointed by the Trustee to value SHMK.

Summarised versions of the Valuation Reports are contained in **APPENDIX B** of the Circular, with the determined market values as at 5 September 2012 as set out below:

Valuation of the Properties by the Independent Valuers

Valuation of SHMK by the Independent Valuers	
	S$ million
W&R	66.8
Rengganis	64.7

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

- The Valuation Report prepared by W&R has adopted the basis of market value in accordance with the Indonesian Valuation Standards (Standar Penilaian Indonesia / SPI) 2007.

- The Valuation Report prepared by Rengganis has adopted the basis of market value in accordance with the Indonesian Valuation Standards (Standar Penilaian Indonesia / SPI) 2007 and the International Valuation Standards (IVS) 2007.

- The Valuation Reports assess the ‘market value’ of SHMK as at 5 September 2012, which is close to the date for the SHMK SPA. The market value is the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

- The income approach utilising discounted cash flow (DCF) method was used for the purposes of completing the Valuation Reports.

- According to the W&R and Rengganis, DCF method was used considering that SHMK is an income producing property. The valuation had taken into account the terms of the SHMK Master Lease and was conducted having regard to the prevailing market conditions as at 5 September 2012, especially those pertaining to the healthcare services industry in the locality of SHMK.

- The appraised value of SHMK is between S$64.7 million and S$66.8 million. The agreed purchase consideration is S$59.3 million. We note that the purchase consideration is 8.4% and 11.2% below the appraised values as determined by Rengganis and W&R, respectively or at a discount of 9.8% to the average of the two independent valuations of SHMK by the Independent Valuers.

- We understand from the Manager that the purchase consideration will be paid in Singapore dollars which eliminates any foreign currency risk.

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

6.4 Review of market conditions and prospects of the Indonesia healthcare industry

We were provided with a copy of the report entitled "Indonesia Healthcare/Hospitality Market Review Report" by Frost & Sullivan (**APPENDIX C** of the Circular), in relation to which we note the following:

- With a population of 238 million in 2010, Indonesia ranks fourth in population size after China, India, and the United States. Makassar and Manado are projected to be two of the fastest growing Indonesian cities from 2010 to 2030.

- Indonesia has a steady GDP compound annual growth rate ("**CAGR**") of 5.3% and is one of the fastest growing economies with an emerging middle class. Makassar and Manado, despite having relatively lower per capita income, have a GDP CAGR of 6.9% and 8.9% respectively, which is higher than the national average.

- The total expenditure on healthcare in Indonesia is one of the lowest in the region and is reflected by the chronic shortage of healthcare resources and work force across the entire country. The emerging demand coupled with insufficient healthcare services provision forces many Indonesians to seek medical help abroad each year. In 2011, healthcare providers in Singapore and Malaysia are estimated to have served more than 580,000 Indonesian medical tourists.

- The key demand drivers for the Indonesia healthcare services include (i) population growth and ageing population, (ii) emergence of lifestyle diseases and higher prevalence of chronic diseases and cancer and (iii) the growing middle-class which will increase demand for better quality healthcare services.

- Since 2004, there has been highly accelerated growth of government hospitals stemming from the Indonesian government's intention to increase healthcare accessibility and affordability. However, the health system in Indonesia still relies heavily on the private sector as more people still seek care in the private sector for critical services as birth delivery, child diarrhea, and acute respiratory infection than in the public sector, and this proportion is rising, even among the poor.

We note the positive outlook for the Indonesia Healthcare industry. Further information regarding the "Indonesia Healthcare/Hospitality Market Review Report" can be obtained throughout the Circular, in particular within **APPENDIX C** of the Circular. We recommend that the Independent Directors advise Unitholders to read these sections of the Circular carefully.

6.5 Other Considerations relating to the MD Property Acquisition and SHMK Acquisition

We advise that you highlight the following factors 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.

Financial Effects of the IPT Transactions

The pro-forma financial effects of the IPT Transactions are set out in sections 6.1, 6.2 and 6.3 of the Circular, and are reproduced below for convenience. We note that assumptions were made for the purposes of analysing the pro-forma financial effects. We recommend that the Independent Directors advise Independent Unitholders to read these carefully, as well as take them into consideration when considering the financial effects.

Financial Year Ended 31 December 2011

Pro Forma DPU and distribution yield

The pro forma financial effects of the Acquisitions on the DPU for FY2011, as if First REIT had purchased the Properties on 1 January 2011, and held the Properties through to 31 December 2011 are as follows:

	FY2011	
	Before the Acquisitions[1]	After the Acquisitions
Distributable Income (S$'000)	43,934	49,071
Units in issue and to be issued	627,680,294	659,091,994
DPU (cents)	7.01	7.45
DPU (cents) (excludes other gain)[2]	6.33	6.77
Distribution Yield (%)	5.97%[3]	6.39%[4]

Notes:

(1) Based on the FY2011 Audited Consolidated Financial Statements.

(2) Other gains refers to a one-off gain on divestment of Adam Road property

(3) Based on the DPU (excludes other gain) as at FY2011 and the closing price of S$1.060 as at the Latest Practicable Date

(4) Based on the Pro forma DPU (excludes other gain) as at FY2011 and the closing price of S$1.060 as at the Latest Practicable Date

Based on the figures above, we note that the distribution yield will increase from 5.97% to 6.39%.

Pro Forma NAV per Unit

The pro forma financial effects of the Acquisitions on the NAV per Unit as at 31 December 2011, as if First REIT had purchased the Properties on 31 December 2011 are as follows:

	As at 31 December 2011	
	Before the Acquisitions[1]	After the Acquisitions
NAV (S$'000)	505,299	553,734
Units in issue and to be issued	627,680,294	659,091,994
NAV per Unit (S$)	0.81	0.84

Note:

(1) Based on the FY2011 Audited Consolidated Financial Statements.

Based on the figures above, we note that the pro forma NAV per Unit will increase from S$0.81 to S$0.84.

Pro Forma capitalisation

The following table sets forth the pro forma capitalisation of First REIT as at 31 December 2011, as if First REIT had purchased the Properties on 31 December 2011.

	As at 31 December 2011	
	Actual	As adjusted for the Acquisitions
	(S$'000)	(S$'000)
Short-term debt:		
Unsecured	-	-
Secured	48,430	48,430
Total short-term debt	48,430	48,430
Long-term debt:		
Unsecured	-	-
Secured	49,361	165,886
Total long-term debt	49,361	165,886
Total Debt	97,791	214,316
Unitholders funds	505,299	553,734
Total Capitalisation	**603,090**	**768,050**

Based on the figures above, we note that the total capitalisation will increase from S$603.1 million to S$768.1 million.

Six Months Ended 30 June 2012

Pro Forma DPU and distribution yield

The pro forma financial effects of the Acquisitions on the DPU for the six months ended 30 June 2012, as if First REIT had purchased the Properties on 1 January 2012, and held the Properties through to 30 June 2012, are as follows:

	For the six months ended 30 June 2012	
	Before the Acquisitions(1)	After the Acquisitions
Distributable Income (S$'000)	24,310	26,864
Units in issue and to be issued	630,266,798	661,638,498
DPU (cents)	3.86	4.06
DPU (cents) (excludes other gain)(2)	3.19	3.38
Distribution Yield (%)	3.00%(3)	3.19%(4)

Notes:

(1) Based on the 6M2012 unaudited Consolidated Financial Statements.

(2) Other gain refers to a one-off gain on divestment of Adam Road property

(3) Based on the DPU (excludes other gain) as at 6M2012 and the closing price of S$1.060 as at the Latest Practicable Date

(4) Based on the Pro forma DPU (excludes other gain) as at 6M2012 and the closing price of S$1.060 as at the Latest Practicable Date.

Based on the figures above, we note that the distribution yield will increase from 3.00% to 3.19%.

Pro Forma NAV per Unit

The pro forma financial effects of the Acquisitions on the NAV per Unit as at 30 June 2012, as if First REIT had purchased the Properties on 30 June 2012 are as follows:

	As at 30 June 2012	
	Before the Acquisitions[1]	**After the Acquisitions**
NAV (S$'000)	501,115	546,968
Units in issue and to be issued	630,266,798	661,638,498
NAV per Unit (S$)	0.80	0.83

Note:

(1) Based on the 6M2012 unaudited Consolidated Financial Statements.

Based on the figures above, we note that the pro forma NAV per Unit will increase from S$0.80 to S$0.83.

Pro Forma capitalisation

The following table sets forth the pro forma capitalisation of First REIT as at 30 June 2012, as if First REIT had purchased the Properties on 30 June 2012:

	As at 30 June 2012	
	Actual	**As adjusted for the Acquisitions**
	(S$'000)	(S$'000)
Short-term debt:		
Unsecured	-	-
Secured	48,329	48,329
Total short-term debt	48,329	48,329
Long-term debt:		
Unsecured	-	-
Secured	49,459	165,984
Total long-term debt	49,459	165,984
Total Debt	97,788	214,313
Unitholders funds	501,115	546,968
Total Capitalisation	**598,903**	**761,281**

Based on the figures above, we note that the total capitalisation will increase from S$598.9 million to S$761.3 million.

6.6 Analysis of the Pro Forma Distribution Yield of First REIT

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

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

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

Comparable REIT Yield			
Name	**Yield (%)**	**Trailing 12 months Distribution Per Unit (S$)**	**Closing Price as at the Latest Practicable Date (S$)**
Sabana Shari'ah Compliant Industrial REIT	7.82	0.0884	1.130
Perennial China Retail Trust	8.50	0.0425	0.500
AIMS AMP Capital Industrial REIT	6.98	0.1030	1.475
Saizen REIT	7.38	0.0124	0.168
Cambridge Industrial Trust	6.95	0.0455	0.655
Ascendas India Trust	6.00	0.0450	0.750
Ascott Residence Trust	6.65	0.0858	1.290
Lippo Malls Indonesia Retail Trust	5.89	0.0286	0.485
Cache Logistics Trust	6.50	0.0813	1.250
Mapletree Industrial Trust	6.12	0.0869	1.420
K-REIT Asia	5.78	0.0720	1.245
Suntec REIT	6.38	0.0983	1.540
Mapletree Logistics Trust	5.88	0.0679	1.155
CapitaRetail China Trust	5.73	0.0922	1.610
Ascendas REIT	5.58	0.1389	2.490
CDL Hospitality Trusts	5.43	0.1141	2.100
Starhill Global REIT	5.30	0.0416	0.785
Frasers Commercial Trust	5.75	0.0477	1.190
Frasers Centrepoint Trust	5.09	0.0965	1.895
Mapletree Commercial Trust	4.68	0.0585	1.250
CapitaCommercial Trust	5.01	0.0771	1.540
Parkway Life REIT	4.63	0.0991	2.140
CapitaMall Trust	4.43	0.0940	2.120
High	8.50		
Low	4.43		
Simple Average	6.02		
First REIT[(1)]	**6.39**		

Source: Bloomberg

Note:

(1) Based on the pro forma distribution yield for FY2011

From the table above, we noted the following:

(a) The distribution yields of the Singapore REITs range between 4.43% and 8.50%;

(b) The pro forma distribution yield of First REIT at 6.39% is within and above the average of the range. In addition, we also note that the pro forma distribution yield of First REIT is higher than the distribution yield of Parkway Life REIT of 4.63%, being the closest comparable to First REIT in terms of property segment.

Based on the above, the MD Property and SHMK Purchase Considerations do not appear to be unreasonable or prejudicial to the interests of First REIT and its Independent Unitholders.

6.7 Rationale for the Master Leases

The Manager's rationale for the IPT Transactions is set out in section 5 of the Circular. We reproduce below extracts relevant to the Master Leases:

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

The MD Property Master Lease and the SHMK Master Lease will be beneficial to First REIT as the Properties are expected to provide stability to First REIT's Gross Rental Income over the next 15 to 30 years. The step-up feature of the base and variable rental components under the MD Property Master Lease Agreement and the SHMK Master Lease Agreement would also provide locked-in organic growth in First REIT's cash flow. To ensure stability in First REIT's Gross Rental Income from the Properties, security deposits equivalent to 6 months of (i) the MD Property's annual rental payable (amounting to S$4,200,000) and (ii) SHMK's annual rental payable (amounting to S$ 2,875,000) will be made to First REIT in the form of bankers' guarantees. Such security deposit amounts will be adjusted at relevant rent review dates.

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

Currently, the master leases of the properties in the Existing Portfolio are between 10 to 15 years. With the Acquisitions, First REIT will benefit from the increase in the Enlarged Portfolio's weighted average lease to expiry based on secured Gross Rental Income with the MD property and SHMK contributing 20.1% of First REIT's total Gross Rental Income under the MD Property Master Lease Agreement and the SHMK Master Lease Agreement. The weighted average lease to expiry of the Enlarged Portfolio will increase from approximately 10.8 years from that of the Existing Portfolio as at 30 June 2012 to approximately 11.7 years after the completion of the Acquisitions.

6.8 Analysis of the impact of the Master Leases on property and distribution yields

The base property yield[8] of the MD Property is 10.0% based on the MD Property Purchase Consideration and the annual base rent of S$8.40 million guaranteed under the MD Property Master Lease Agreement. Similarly, the base property yield of SHMK is 9.7%, based on the SHMK Purchase Consideration and annual base rent of S$5.75 million guaranteed under the SHMK Master Lease Agreement.

The estimated base property yields of the MD Property and SHMK of 10.0% and 9.7% respectively are within the range of the base property yields of between 7.8% and 15.6% of the Existing Portfolio of First REIT computed on a similar basis and in the lower end of the range of the base property yields of between 10.8% and 15.6% of the Indonesia properties in the Existing Portfolio at inception. However, we note that the base property yields of the Indonesia properties in the Existing Portfolio would have taken into account the then prevailing economic and market conditions in Indonesia. In addition, we also note that the market yields (calculated based on the total rent for FY2011 divided by appraised value as at 28 December 2011) of these Indonesia properties have since come down as their appraised values had significantly increased. In this respect, the base property yield of 10.0% for the MD Property Master Lease and the base property yield of 9.7% for the SHMK Master Lease are within the range of the market yields of the Indonesia properties in the Existing Portfolio of between 8.7% and 10.7% based on latest appraised values as at 28 December 2011.

Further, the adjustment features in the Master Leases such as the adjustments to the base rent and the variable rent component can provide potential further upside to the total rent and in turn increase the property yields of the Master Leases.

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

Further, we note that even though the Properties are located in Indonesia, the rental income to be received from the Sponsor will be denominated in Singapore Dollars under the Master Leases. This will eliminate any foreign currency exchange risk that First REIT may face from its rental income.

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[8] Base property yield is calculated based on the base rent divided by the purchase price

The Master Leases are 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 5 to 13 years. With the Master Leases in place, First REIT will benefit from the increase in its weighted average years to lease expiry for its Enlarged Portfolio.

Further, based on the pro forma figures set out in section 6 of the Circular, with the inclusion of the Master Leases, the pro forma distribution yield of First REIT is expected to increase from 5.97% to 6.39%.

6.9 Comparison of the key terms in the Master Leases

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 principal terms of the Master Leases to the master lease agreements for properties used for healthcare-related and hospitality-related purposes, set out in the table below:

Companies / REIT	**Return on base rent(1)**	**Annual adjustment to base rent**	**Variable rent**
Master Leases	MD Property: 10.0% SHMK: 9.7%	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%.	Payable from the fourth year of lease based on fixed exchange rate of S$1 = Rp. 7,000 and based on: 1. the percentage growth in gross operating revenue in the preceding financial year compared to the year before ("**GRG%**"); and 2. the surplus of gross operating revenue of the preceding financial year over the year before ("**GOR surplus**") a) If 5% ≤ GRG% < 15%, Equivalent to 0.75% of GOR surplus b) If 15% ≤ GRG% < 30%, Equivalent to 1.25% of GOR surplus c) If 30% ≤ GRG%, Equivalent to 2.0% of GOR surplus

Healthcare-related			
Parkway Life REIT (Singapore portfolio)	3.9%	None	Equivalent to 3.8% of the adjusted hospital revenue[2] 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[3]	6.5% to 14.5%[4]	None	None
Singapore properties in the Existing Portfolio that are leased to third parties	7.8%	Payable from the second year of lease based on: Base rent x (2 x CPI[5] % increase) subject to floor of 0% and cap of 2%.	None
Indonesia properties in the Existing Portfolio that are leased to the Sponsor	8.7% and 10.7%[6]	Payable from the second year of lease based on: Base rent x (2 x CPI % increase) subject to floor of 0% and cap of 2%.	Payable from the second year of lease based on fixed exchange rate of S$1 = Rp. 6,600 and based on the percentage growth in gross revenue in the preceding financial year ("**GR**") compared to the year before ("**GRG%**"). c) If 5% < GRG% < 15%, Equivalent to 0.75% of GR c) If 15% < GRG% < 30%, Equivalent to 1.25% of GR c) If 30% < GRG%, Equivalent to 2.0% of GR
Hospitality-related			
Ascott Residence Trust (Ascott Raffles Place Singapore and the New Cairnhill Service Residences)[7]	3.25%	None	85% of net operating income

CDL Hospitality Trust (Studio M)[8]	3.25%	None	Sum of 30% of Studio M Hotel's revenue for that fiscal year and 20% of Studio M Hotel's gross operating profit for that fiscal year, less the fixed rent for that fiscal year, and if the calculation of the variable rent yields a negative figure, the variable rent will be deemed zero. The quantum of the variable rent for a fiscal year will be adjusted at the end of such fiscal year based on the audited profit and loss statement of Studio M Hotel for such fiscal year

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

Notes:

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

(2) 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.

(3) Listed on Bursa Malaysia.

(4) 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.

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

(6) Based on the latest appraised values of the properties as at 28 December 2011.

(7) Ascott Residence Trust ("**ART**") announced on 9 July 2012 that it would be divesting Somerset Grand Cairnhill Singapore to CapitaLand subsidiaries. At the same time, ART entered into a put and call option on a new Cairnhill serviced residence with a hotel license. In addition, ART entered in sale and purchase agreements to acquire Ascott Raffles Place Singapore and Ascott Guangzhou. ART will enter into master lease agreements in connection with the acquisition of Ascott Raffles Place Singapore and the New Cairnhill Service Residence which is expected to be delivered in 2017.

(8) CDL Hospitality Trust announced on 2 March 2011 that it would be acquiring Studio M Hotel and upon the completion of the acquisition enter into a Master Lease Agreement.

In our comparison of the key terms of the Master Leases, we note the following:

- the return on base rent of 10.0% and 9.7% for the MD Property Lease and SHMK Master Lease respectively compares favorably to the return on base rent of 3.9% for the master leases of Parkway Life REIT, 7.8% for the Singapore properties in the Existing Portfolio, 3.25% for Ascott Raffles Place Singapore and New Cairnhill Service Residences of Ascott Residence Trust, and 3.25% for Studio M Hotel of CDL Hospitality Trust. The returns on base rent are also within the range of 6.5% to 14.5% for the Indonesia properties of Al A'qar REIT and 8.7% and 10.7% for the Indonesia properties in the Existing portfolio;

- for the master lease agreements of Parkway Life REIT, Al A'qar REIT, Ascott Residence Trust, and CDL Hospitality Trust, there is no annual adjustment for the base rent to adjust for the effects of inflation. All the properties in the Existing Portfolio also have similar 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%. However, for the properties in the Existing Portfolio, this adjustment to the base rent is payable from the second year of the lease while for the Master Leases, this adjustment to the base rent is payable from the fourth year of the lease;

- the variable rent for the 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. The Indonesia properties in Al A'qar REIT and the Singapore properties in the Existing Portfolio do not have any variable rent component. Being pure hospitality REITs, the variable rent structures for Ascott Residence Trust and CDL Hospitality Trust are established differently and are not directly comparable; and

- the variable rent structure for the Indonesia properties in the Existing Portfolio is similar to the variable rent structure of the Master Leases. However the variable rent for the Indonesia properties in the Existing Portfolio is computed based on the audited gross operating revenue in the preceding financial year and payable from the second year of the lease, while the variable rent for the Master Leases is computed based on the surplus in the audited gross operating revenue in the preceding financial year over the year before and payable from the fourth year of the lease. We understand that no variable rent will be payable for the first three years of operations as this will enable the tenant to conserve its cash flow to step up and enhance its operations to an optimal level.

6.10 Audit Committee's opinion on the base rent for the first year of the Master Leases

We note the Audit Committee's opinion that it is reasonable to benchmark the rental rates of the MD Property to those of Siloam Hospitals Lippo Village, Siloam Hospitals Surabaya, and Imperial Aryaduta Hotel & Country Club, and the rental rates of SHMK to that of Siloam Hospitals Kebon Jeruk, based on the reasons set out in sections 2.7.10 and 3.7.10 of the Circular. We also note that in view of the reasons set out in sections 2.7.10 and 3.7.10 of the Circular, the Audit Committee is of the opinion that the rental rates for the first year of the MD Property Master Lease and SHMK Master Lease are reasonable.

6.11 Other Considerations relating to the Master Leases

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 Sponsor's property management and operating expertise and the use of the established "Siloam" and "Aryaduta" brand names for hospitals and hotels respectively

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

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

Hotel Aryaduta is Indonesia's premier and leading hospitality group with a tradition of luxury, comfort, and style since 1974. Located in Indonesia's premier cities and preferred resort destinations, each hotel and resort provides an outstanding experience with high level of service, attention to detail and excellent cuisine.

Upon entering into the Master Leases, both the MD Property and SHMK will be able to benefit from the Sponsor's property management and operating expertise, as well as being managed under the "Siloam" and "Aryaduta" brands, which are established brand names for hospitals and hotels respectively in Indonesia.

7 SUMMARY OF ANALYSIS

In arriving at our recommendation in respect of the IPT Transactions, we have taken into account the views and representations by the Directors and management of the Manager and the factors set out in Section 6 above. The key considerations are summarised below. Independent Unitholders should be advised to read the following in conjunction with, and in the context of, the full text of this Letter and the Circular.

The MD Property Acquisition and SHMK Acquisition

a. for MD Property Acquisition, we note that the MD Property Purchase Consideration is 8.0% and 13.4% below the appraised values as determined by W&R and Rengganis, respectively or at a discount of 10.8% to the average of the two independent valuations by the Independent Valuers;

b. for SHMK Acquisition, we note that the SHMK Purchase Consideration is 8.4% and 11.2% below the appraised values as determined by Rengganis and W&R, respectively or at a discount of 9.8% to the average of the two independent valuations by the Independent Valuers;

c. we understand from the Manager that the Purchase Considerations will be paid in Singapore dollars which eliminates any foreign currency risk;

d. the rationale for the MD Property and SHMK Acquisitions, taken in the entire context of the IPT Transactions, appears to be based on sound commercial grounds;

e. the positive outlook of the healthcare service and hospitality industry in Indonesia as noted in the report entitled "Indonesia Healthcare/Hospitality Market Research Report" by Frost & Sullivan;

f. Based on the net effects of the Acquisitions, the FY2011 and 6M2012 pro forma distribution yield of First REIT will increase from 5.97% to 6.39%, and 3.00% to 3.19% respectively; and

g. the pro forma distribution yield of First REIT at 6.39% is within the range and above the average of the distribution yields of comparable Singapore REITs. In addition, we also note that the pro forma distribution yield of First REIT is higher than the distribution yield of Parkway Life REIT, being the closest comparable to First REIT in terms of property segment.

The Master Leases

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 MD Property and SHMK of 10.0% and 9.7% respectively are within the range of the base property yields of between 7.8% and 15.6% of the Existing Portfolio of First REIT computed on a similar basis and in the lower end of the range of the base property yields of between 10.8% and 15.6% of the Indonesia properties in the Existing Portfolio at inception. However, we note that the base property yields of the Indonesia properties in the Existing Portfolio would have taken into account the then prevailing economic and market conditions in Indonesia. In addition, we also note that the market yields (calculated based on the total rent for FY2011 divided by appraised value as at 28 December 2011) of these Indonesia properties have since come down as their appraised values had increased significantly. In this respect, the base property yield of 10.0% for the MD Property Master Lease and the base property yield of 9.7% for the SHMK Master Lease are within the range of the market yields of the Indonesia properties in the Existing Portfolio of between 8.7% and 10.7% based on latest appraised values as at 28 December 2011;

c. the adjustments to the base rent and variable rent component under the terms of the Master Leases 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 Indonesian healthcare industry;

d. the return on base rent of 10.0% and 9.7% for the MD Property Lease and SHMK Master Lease respectively compares favorably to the return on base rent for the master leases of Parkway Life REIT, the Singapore properties in the Existing Portfolio, Ascott Raffles Place Singapore and New Cairnhill Service Residences of Ascott Residence Trust, and Studio M Hotel of CDL Hospitality Trust. The returns on base rent are also within the range for the Indonesia properties of Al A'qar REIT and the Indonesia properties in the Existing portfolio;

e. the master lease agreements of Parkway Life REIT, Al A'qar REIT, Ascott Residence Trust, and CDL Hospitality Trust do not have annual adjustment for the base rent to adjust for the effects of inflation. All the properties in the Existing Portfolio also have similar 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%. However, for the properties in the Existing Portfolio, this adjustment to the base rent is payable from the second year of the lease while for the Master Leases, this adjustment to the base rent is payable from the fourth year of the lease;

f. the variable rent for the 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. The Indonesia properties in Al A'qar REIT and the Singapore properties in the Existing Portfolio do not have any variable rent component. Being pure hospitality REITs, the variable rent structures for Ascott Residence Trust and CDL Hospitality Trust are established differently and are not directly comparable;

g. the variable rent structure for the Indonesia properties in the Existing Portfolio is similar to the variable rent structure of the Master Leases. However the variable rent for the Indonesia properties in the Existing Portfolio is computed based on the audited gross operating revenue in the preceding financial year and payable from the second year of the lease, while the variable rent for the Master Leases is computed based on the surplus in the audited gross operating revenue in the preceding financial year over the year before and payable from the fourth year of the lease. We understand that no variable rent will be payable for the first three years of operations as this will enable the tenant to conserve its cash flow to step up and enhance its operations to an optimal level;

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

i. the improvement in the pro forma distribution yield of First REIT for FY2011 from 5.97% to 6.39% with the inclusion of the Master Leases;

j. in view of the reasons set out in section 2.7.10 and section 3.7.10 of the Circular, the Audit Committee is of the opinion that the rental rates for the first year of the MD Property Master Lease and SHMK Master Lease are reasonable; and

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

8 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 7 above, and subject to the qualifications and assumptions made herein, we are of the view that the IPT Transactions are based on normal commercial terms and are not prejudicial to the interests of First REIT and its Independent Unitholders.

Accordingly, we are of the view that the Independent Directors should recommend that Independent Unitholders vote in favour of the IPT Transactions 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 IPT Transactions and is based on the economic and market conditions prevailing as of the date of this Letter. Our advice is strictly confined to our views on the IPT Transactions.

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

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

Yours faithfully
For and on behalf of
STIRLING COLEMAN CAPITAL LIMITED

ANG LIAN KIAT
DIRECTOR

YAP YEONG KEEN
DIRECTOR

SINGAPORE TAX CONSIDERATIONS

The following summary of certain Singapore income tax considerations to Unitholders in respect of the Acquisitions 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 the Properties

The rental income and other related income earned from the Properties 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 in respect of the Properties (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.

The relevant Singapore subsidiaries in respect of the Properties have collectively made an application to

the Inland Revenue Authority of Singapore to exempt the interest income received in Singapore in respect of the Properties from Singapore income tax under Section 13(12) of the Income Tax Act.

This tax exemption, if granted to the relevant Singapore subsidiaries, 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 17.0%.

Cash that cannot be repatriated by the Indonesian subsidiaries (i.e. PT MAM and PT BS) in the form of dividends may be used by these Indonesian subsidiaries to repay the principal amount of shareholder's loans. The proceeds from the repayment of shareholder's loans received in Singapore by the relevant Singapore subsidiaries are capital receipts and hence not subject to Singapore income tax.

First REIT will in turn receive dividends, redemption (at cost) of preference shares or repayment of the principal amount of shareholder's loan or a combination of these from the relevant Singapore subsidiaries. Provided these Singapore subsidiaries are residents of Singapore for income tax purposes, the dividends received by First REIT will be one-tier (tax-exempt) dividends and hence exempt from Singapore income tax. The proceeds from redemption (at cost) of preference shares and repayment of shareholder's loan 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 the Properties may comprise either or both of the following two components:

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

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

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

For this purpose, the amount of Tax-Exempt Income Distributions that First REIT can distribute for a distribution period will be to the extent of the amount of tax-exempt income that it has received and 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 or repayment of shareholder's loan, as the case may be. 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

Jakarta, August 30, 2012

Letter No. TAJ-2565

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

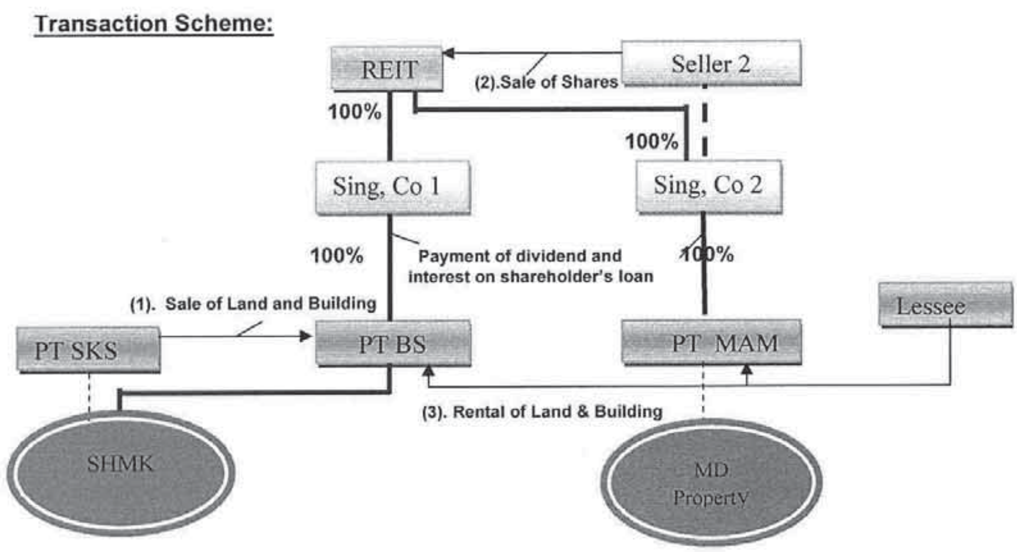
Dear Sirs,

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

Notes :

Sing, Co1 : - **Raglan Investment Pte. Ltd (75% ownership); and**
- **Carmathen Investment Pte. Ltd (25% ownership)**

Sing, Co2 : - **Rhuddlan Investment Pte. Ltd (75% ownership); and**
- **Caernarfon Investment Pte. Ltd (25% ownership)**

Fact :

"(1) & (2)" :
REIT intends to acquire the following:

- The land and building of Siloam Hospitals Makassar ("SHMK") from PT Siloam Karya Sejahtera ("PT SKS") through its subsidiary PT Bayutama Sukses ("PT BS");
- "Sing Co 2" from Seller 2. Since the land and building of Siloam Hospitals Manado and Hotel Aryaduta Manado (MD Property) belong to PT Menara Abadi Megah ("PT MAM") which is 100% owned by Sing Co 2, REIT will be the owner of PT MAM upon the acquisition of Sing Co 2;

"(3)" :
Lessee will lease land and building of SHMK and MD Property from PT BS and PT MAM, respectively (together will be known as "Lessors")

Discussion:

A. Purchase of Land and Building from PT SKS by PT BS

- **PT BS**

Land and Building Acquisition Tax
The purchase of land and building from PT SKS by PT BS 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)
PT BS will be charged VAT at the rate of ten per cent (10%) on the purchase of land and building by PT SKS. However, the VAT charges by PT SKS will be treated as input VAT, which can be used to offset the output VAT from rental income of PT BS.

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 PT BS and PT MAM to Sing,Co1 & Sing,Co 2

- **PT BS and PT MAM**

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 PT BS and PT MAM to Sing, Co1 and Sing, Co2 if Sing, Co1 and Sing, Co2 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, Co1 and Sing, Co2 must submit the original copy of its Certificate of Domicile (DGT Form 1) to PT BS and PT MAM 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 PT BS and PT MAM to the Sing, Co1 and Sing, Co2 should be in accordance to the rules set out in the Indonesian General Accepted Accounting Principle ("GAAP").

There is no need for the PT BS and PT MAM to obtain tax clearance in order to declare or remit dividends.

D. <u>Payment of Shareholders' Loans</u>

- **<u>PT BS and PT MAM</u>**

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.

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 PT BS and PT MAM to Sing, Co1 and Sing, Co2 if Sing, Co1 and Sing, Co2 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, Co1 and Sing, Co2 must submit the original copy of its Certificate of Domicile (DGT Form 1) to PT BS and PT MAM to demonstrate that it is a beneficial owner of the interest payment.

There is no need for the PT BS and PT MAM to obtain tax clearance in order to remit interest.

E. Sale of shares of Sing, Co2 by Seller 2 to REIT

PT MAM

In the latest amendment of the Indonesian Income Tax Law, **the sale of shares of conduit company or special purpose company** that is established in the country **which provides tax protection (tax haven country)** that has a special relationship with an entity that is established in Indonesia, can be deemed as the sale of share of an entity that is established in Indonesia which is subject to final tax at the effective rate of five (5) per cent of the selling price. The final income tax on the alienation of shares must be borne by PT MAM.

Until now, the Indonesian Tax Office has not yet issued the list of countries which are considered as tax haven countries. However, in year 2009, the Indonesian Tax Office has issued a regulation which stipulates the criteria of a tax haven country, which are as follows:

a. A country which imposes low tax rates or a country which does not impose income tax; or

b. A country which applies bank confidentiality policy **and** does not perform exchange of information.

- A country considered to be imposing low tax rates is a country which imposes tax rates on income below fifty (50) per cent of the corporate income tax rate in Indonesia (for year 2010 below 12.5%).

- A country which applies bank confidentiality policy and does not perform exchange of information is a country or jurisdiction which based on its laws prohibits the supply of customer information, including for the purpose of information related to taxation.

Sing, Co2 must 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 then Sing, Co2 will not be categorized as a conduit company or a special purpose company, and there will be no tax implication in Indonesia related to the alienation of shares by Seller2 to REIT.

A company is not considered as a special purpose vehicle if it meets the following conditions:

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.

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

Sincerely yours,

Aristo Tjahyadi
Partner

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 on **Friday, 9 November 2012** at **12.00 p.m.** at **Ocean Ballroom 3, Level 2, Pan Pacific Singapore, 7 Raffles Boulevard, Marina Square, Singapore 039595**, for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions:

ORDINARY RESOLUTION

1. THE MD PROPERTY ACQUISITION

That:

(i) approval be and is hereby given for the acquisition of Siloam Hospitals Manado and Hotel Aryaduta Manado (the "**MD Property**") indirectly by First REIT through the acquisition of Rhuddlan Investment Pte. Ltd., (which, directly and through its wholly-owned subsidiary, Caernarfon Investment Pte. Ltd, wholly-owns PT Menara Abadi Megah ("**PT MAM**"), which in turn holds the MD Property) from Evodia Strategic Investment Limited ("**Evodia**"), an indirect wholly-owned subsidiary of PT Lippo Karawaci Tbk (the "**Sponsor**"), at the purchase consideration described in the circular dated 23 October 2012 issued by Bowsprit Capital Corporation Limited, in its capacity as manager of First REIT (the "**Manager**"), to holders of units in First REIT ("**Unitholders**", and the circular dated 23 October 2012 issued by the Manager, (the "**Circular**")) and on the terms and conditions set out in the sale and purchase agreement dated 21 September 2012 entered into between HSBC Institutional Trust Services (Singapore) Limited (in its capacity as trustee of First REIT) (the "**Trustee**") and Evodia, and for payment of all fees and expenses relating to the MD Property Acquisition (as defined and described in the Circular), such acquisition being an "interested person transaction" (as defined under Chapter 9 of the Listing Manual of Singapore Exchange Securities Trading Limited (the "**SGX-ST**" and the Listing Manual of the SGX-ST, the "**Listing Manual**")) as well as an "interested party transaction" (as defined in Appendix 6 of the Code on Collective Investment Schemes issued by the Monetary Authority of Singapore in relation to property funds (the "**Property Funds Appendix**"));

(ii) approval be and is hereby given for First REIT to grant (through PT MAM) the MD Property Master Lease (as defined and described in the Circular and which constitutes an "interested person transaction" under Chapter 9 of the Listing Manual) to PT Lippo Karawaci Tbk (the "**Sponsor**") on the terms and conditions set out in the master lease agreement dated 21 September 2012 entered into between PT MAM and the Sponsor; 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 MD Property Acquisition and the MD Property Master Lease.

ORDINARY RESOLUTION

2. THE SHMK ACQUISITION

That:

(i) approval be and is hereby given for the acquisition of Siloam Hospitals Makassar ("**SHMK**") by First REIT through the acquisition of SHMK from PT Siloam Karya Sejahtera ("**PT SKS**"), an indirect wholly-owned subsidiary of the Sponsor, at the purchase consideration described in the Circular and on the terms and conditions set out in the sale and purchase agreement dated 21 September 2012 entered into between PT Bayutama Sukses ("**PT BS**"), an indirect wholly-owned subsidiary of First REIT, and PT SKS, and for all payment of all fees and

expenses relating to the SHMK Acquisition (as defined and described in the Circular), such acquisition being an "interested person transaction" under Chapter 9 of the Listing Manual as well as an "interested party transaction" under the Property Funds Appendix;

(ii) approval be and is hereby given for First REIT to grant (through PT BS) the SHMK Master Lease (as defined and described in the Circular and which constitutes an "interested person transaction" under Chapter 9 of the Listing Manual) to the Sponsor on the terms and conditions set out in the master lease agreement dated 21 September 2012 entered into between PT BS and the Sponsor; and

(iii) 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 SHMK Acquisition and the SHMK Master Lease.

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
23 October 2012

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 deposited at the Unit Registrar and Unit Transfer Office at Boardroom Corporate & Advisory Services Pte. Ltd., 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623 not less than 48 hours before the time appointed for the Extraordinary General Meeting.

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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 INFORMATIONONLY.
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 and if necessary, to demand a poll, at the Extraordinary General Meeting of First REIT to be held on **Friday, 9 November 2012** at **12.00 p.m.** at **Ocean Ballroom 3, Level 2, Pan Pacific Singapore, 7 Raffles Boulevard, Marina Square, Singapore 039595** 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, authority herein includes the right to demand or to join in demanding a poll and to vote on a poll.

		To be used on a show of hands		**To be used in the event of a poll**	
	Resolutions	**For ***	**Against ***	**No. of Votes For ****	**No. of Votes Against ****
	ORDINARY RESOLUTION				
1	To approve the MD Property Acquisition (Conditional upon Resolution 2 being passed)				
2	To approve the SHMK Acquisition (Conditional upon Resolution 1 being passed)				

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

** 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 ______________ 2012

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.
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. A proxy need not be a Unitholder.
4. A Unitholder should insert the total number of units in First REIT ("**Units**") held. If the Unitholder has Units entered against his/her name in the Depository Register maintained by The Central Depository (Pte) Limited ("**CDP**"), he/she should insert that number of Units. If the Unitholder has Units registered in his/her name in the Register of Unitholders of First REIT, he/she should insert that number of Units. If the Unitholder has Units entered against his/her name in the said Depository Register and registered in his/her name in the Register of Unitholders, he/she should insert the aggregate number of Units. If no number is inserted, this form of proxy will be deemed to relate to all the Units held by the Unitholder.
5. The instrument appointing a proxy or proxies (the "**Proxy Form**") must be deposited at the Unit Registrar and Unit Transfer Office at Boardroom Corporate & Advisory Services Pte. Ltd., 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623, not less than 48 hours before the time set for the Extraordinary General Meeting.
6. The Proxy Form must be under the hand of the appointor or of his/her attorney duly authorised in writing. Where the Proxy Form is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or a duly authorised officer.

1st fold here

Affix
Postage
Stamp

The Unit Registrar of First Real Estate Investment Trust
Boardroom Corporate & Advisory Services Pte. Ltd.
50 Raffles Place
#32-01 Singapore Land Tower
Singapore 048623

2nd fold here

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 Bowspirit 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. At any meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded by the Chairman or by five or more Unitholders present in person or by proxy, or holding or representing one-tenth in value of the Units represented at the meeting. Unless a poll is so demanded, a declaration by the Chairman that such a resolution has been carried or carried unanimously or by a particular majority or lost shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.
12. On a show of hands, every Unitholder who (being an individual) is present in person or by proxy or (being a corporation) is present by one of its officers as its proxy shall have one vote. 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.
13. CPF Approved Nominees acting on the request of the CPF investors who wish to attend the Extraordinary General Meeting as observers are requested to submit in writing, a list with details of the CPF Investors' names, NRIC/Passport numbers, addresses and number of Units held. The list, signed by an authorised signatory of the relevant CPF Approved Nominees, should reach the Unit Registrar and Unit Transfer Office at Boardroom Corporate & Advisory Services Pte. Ltd., 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623, not less than 48 hours before the time appointed for holding the Extraordinary General Meeting.

Managed By:

Bowsprit Capital

BOWSPRIT CAPITAL CORPORATION LIMITED
50 Collyer Quay
#06-01, OUE Bayfront
Singapore 049321
Tel: (65) 6435 0168   Fax: (65) 6435 0167

Website: www.first-reit.com