



Securities Investors Association (Singapore)

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Issuer: Bowsprit Capital Corporation Limited

Security: First Real Estate Investment Trust

Meeting details:

Date: 9 April 2019

Time: 2.30 p.m.

Venue: Mandarin Ballroom III, Level 6, Main Tower, Mandarin Orchard Singapore, 333 Orchard Road, Singapore 238867

Company Description

First Real Estate Investment Trust ("First REIT") is a real estate investment trust constituted by the Trust Deed entered into on 19 October 2006 between Bowsprit Capital Corporation Limited as the Manager and HSBC Institutional Trust Services (Singapore) Limited as the Trustee. First REIT was listed on the Singapore Exchange Securities Trading Limited on 11 December 2006. On 1 March 2018, HSBC Institutional Trust Services (Singapore) Limited retired as the Trustee of First REIT in favour of Perpetual (Asia) Limited. First REIT is Singapore's first healthcare real estate investment trust that aims 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. Managed by Bowsprit Capital Corporation Limited, First REIT's portfolio consists of 20 properties located in Indonesia, Singapore and South Korea, namely 1) Siloam Hospitals Lippo Village, 2) Siloam Hospitals Kebon Jeruk, 3) Siloam Hospitals Surabaya, 4) Imperial Aryaduta Hotel & Country Club, 5) Mochtar Riady Comprehensive Cancer Centre, 6) Siloam Hospitals Lippo Cikarang, 7) Siloam Hospitals Manado & Hotel Aryaduta Manado, 8) Siloam Hospitals Makassar, 9) Siloam Hospitals Bali, 10) Siloam Hospitals TB Simatupang, 11) Siloam Hospitals Purwakarta, 12) Siloam Sriwijaya, 13) Siloam Hospitals Kupang & Lippo Plaza Kupang, 14) Siloam Hospitals Labuan Bajo, 15) Siloam Hospitals Buton & Lippo Plaza Buton 16) Siloam Hospitals Yogyakarta 17) Pacific Healthcare Nursing Home @ Bukit Merah, 18) Pacific Healthcare Nursing Home II @ Bukit Panjang, 19) The Lentor Residence and 20) Sarang Hospital. Its hospital assets in Indonesia are operated by PT Siloam International Hospitals Tbk, a subsidiary of PT Lippo Karawaci Tbk, a strong brand name in the Indonesian healthcare industry supported by a team of international healthcare professionals, whereas the Imperial Aryaduta Hotel & Country Club and Hotel Aryaduta Manado are operated by The Aryaduta Hotel & Resort Group. Lippo Plaza Kupang and Lippo Plaza Buton are managed by PT Lippo Malls Indonesia. In Singapore, the nursing homes at Bukit Merah and Bukit Panjang are operated by Pacific Healthcare Nursing Home Pte Ltd and Pacific Eldercare and Nursing Pte Ltd respectively. The Lentor Residence is operated by The Lentor Residence Pte Ltd, while Sarang Hospital in South Korea is managed by a private doctor. Through First REIT, investors can participate in an asset class that has a focus towards Asia's growing healthcare sector, which is boosted by an increase in life expectancy in Indonesia and the rest of Pan-Asia.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=AW9U)

1. In October 2018, 100% equity of the manager was acquired by OUE Limited and OUE Lippo Healthcare Limited (OUELH), the latter also acquiring 84 million units of the REIT from PT Lippo Karawaci Tbk. The REIT has also added a right-of-first-refusal from OUELH.

- (i) Given the changes in the ownership of the manager, would the board help unitholders understand if the strategy, management and operations of the REIT/REIT manager will be undergoing a review?**
- (ii) What changes can be expected?**

In the past few years, the REIT had focused on growing its network in Indonesia, leveraging on PT Lippo Karawaci Tbk as the sponsor. With OUELH coming in as a new sponsor, the REIT acquired an extra right-of-first-refusal ("ROFR") from OUELH.

- (iii) Is the REIT manager signaling a shift in its investment focus out of Indonesia and has the intention to actively allocate more capital to other Asia Pacific cities? What are the key markets/cities that have been shortlisted?**
- (iv) Would the board confirm that all potential acquisitions will be considered and evaluated independently by the board and the REIT manager and any acquisitions would proceed only if the asset meets the REIT's investment criteria (including being yield accretive)?**
- (v) Can the REIT manager identify the ROFR property from OUELH?**
- (vi) With the recent acquisitions all linked to the sponsor, can the REIT manager help shareholders understand its experience and track record in sourcing for third party assets? Has the REIT manager been actively evaluating any third party assets for potential investment?**

2. The REIT has expanded its portfolio at a fast pace with the acquisitions of Siloam Hospitals Buton & Lippo Plaza Buton on 10 October 2017 and Siloam Hospitals Yogyakarta 22 December 2017. The current portfolio of 20 properties amounts to \$1.35 billion.

The REIT has acquired 10 hospitals, 2 integrated hospital & malls and 1 integrated hospital & hotel in the last 8 years.

- (i) Instead of making new acquisitions, has the REIT manager also evaluated the organic growth potential of its current portfolio and reviewed any asset enhancement initiatives (AEIs)? A successful AEI can increase the net property income and ultimately the value of its assets in the long run without the risks associated with acquisitions. If so, what are the assets that are being considered for AEI?**
- (ii) Can the REIT manager help unitholders recall if it had value-added to the portfolio through strategic asset enhancement activities (instead of acquiring new assets)?**

- (iii) Also, has the manager/board evaluated if any of the REIT's assets have matured and if so, would it be optimal for the REIT to monetise its matured assets so as to crystallise its value and recycle the capital?**

As at 31 December 2018, the REIT has a gearing ratio of 35.0%. This is below the 45% leverage limit imposed by the Monetary Authority of Singapore. The leverage for the REIT has increased from 31.1% (FY2016), to 33.6% (FY2017) to 35.0% (FY2018).

- (iv) Has the board set an internal limit on the leverage for the REIT?** The trust had previously disclosed that it aimed to keep its gearing at “around 35%”.
- (v) Should the REIT decide to make any further acquisition, what is the headroom available?**

3. Other than the changes relating to the ownership of the sponsor, the board experienced several changes in the financial year as well. Mr Carl Gabriel Florian Stubbe and Mr Wong Gang resigned as directors of the manager.

Mr Christopher James Williams was appointed the chairman and non-independent non-executive director of the board of the manager on 26 October 2018, along with Mr Ferris Charles Bye who joined the board as independent director and chairman of the audit committee.

Also, on the same date, Mr Chan Pengee Adrian was appointed the lead independent director, chairman of the nominating & remuneration committee (“NRC”) and a member of the audit committee.

In the Corporate governance report, the manager has disclosed that it may engage independent search companies or leverage on business and other contacts as part of its search and nomination process for new directors.

- (i) Can the manager elaborate in greater detail how often it uses independent search companies to identify potential candidates to be appointed as independent directors? Did the manager use any independent search company for the directors appointed in the financial year?**

In addition, the Board has determined that a director may hold a maximum of ten listed company board representations after due deliberation, taking into account various factors, such as the estimated time and commitment required to act as a director of a listed company and the obligations and responsibilities associated with such a position.

- (ii) How did the board/NRC determine that the maximum number of directorship is 10 listed company board representation? Can the manager share with unitholders the deliberations it has gone through? Did the board/NRC also carry out a comparison with other REITs/companies on the maximum number of listed company board representation?** The current limit of ten appears to be on the high end, based on the practices of other REITs/companies.

(iii) On page 12, the profile of Mr Chan Pengee Adrian is shown and an abstract of his biography is shown below:

Directorships in Listed Companies:

- Yoma Strategic Holdings Ltd, Independent Director
- Global Investments Limited, Independent Director
- Ascendas Fund Management (S) Limited, Independent Director
- Hong Fok Corporation Limited, Independent Director
- AEM Holdings Limited, Independent Director
- Best World International Limited, Independent Director

Principal Commitments:

- Lee & Lee, Senior Partner – Head of Corporate
- Law Society of Singapore, Council Member
- Association of Small and Medium Enterprise, Honorary Secretary, Executive Council
- Pro-Enterprise Panel, Panel Member
- Accounting and Corporate Regulatory Authority, Board Member
- Legal Service Commission, Member
- Singapore Management University's Enterprise Board, Member

Mr Chan sits on seven listed companies, and holds the roles of the chairman, lead independent director and audit committee chairman, on the boards of these companies/REIT. He is a Senior Partner of a large law firm in Singapore.

Can Mr Chan help unitholders understand how he is able to devote sufficient time, energy and attention to the matters of the REIT?

A copy of the questions for the Annual Report for the financial year ended 31 December 2016 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=First%20REIT&cid=6279,4253>

The company's response could be found here:

2016:

https://sias.org.sg/media/qareport/1493858957_FirstREIT_20170503_172744_NULL_MA8YQ6XBAMMVE7Y.1.pdf