



LIPPO MALLS INDONESIA RETAIL TRUST

(Constituted in the Republic of Singapore pursuant to  
a trust deed dated 8 August 2007 (as amended))

## ANNOUNCEMENT

### LIPPO MALL KEMANG: EXTENSION OF MASTER LEASE AGREEMENTS AND OTHER UPDATES

#### 1. INTRODUCTION

LMIRT Management Ltd., in its capacity as manager of Lippo Malls Indonesia Retail Trust (“**LMIR Trust**” and as manager of LMIR Trust, the “**Manager**”), wishes to provide an update concerning the master lease agreements over certain areas of Lippo Mall Kemang (the “**Property**”) as well as other updates in respect of the Property.

The Property is owned by LMIRT Trust through its indirect wholly-owned subsidiary, PT Kemang Mall Terpadu (the “**Lessor**”). The Lessor had earlier granted master leases over certain areas of the Property in relation to the car park space, the casual leasing space and the area known as the Avenue of the Stars to the Sponsor Lessees<sup>1</sup> for a period of three years from 17 December 2014 to 16 December 2017 (the “**LMK Master Leases**”). Under the terms of the LMK Master Leases, the Lessor has an option to require the Sponsor Lessees to extend the term of the LMK Master Leases for an additional period of up to 24 months. The Lessor has today exercised its option to extend the term of the LMK Master Leases, with the extended term expiring on 16 December 2019.

The Manager also wishes to provide updates in respect of improving the performance of the Property, as set out below in this announcement.

#### 2. THE PROPERTY

##### 2.1 Description of the Property

The Property is located at Jalan Kemang VI, RT.012/RW.05, Bangka Sub-District, Mampang Prapatan District, South Jakarta, Indonesia. It is a five-storey shopping mall with two basement floors and an adjoining ten-storey carpark with 2,326 car park lots and 1,311 motorcycle lots (collectively the “**Car Park Space**”), and is built as a fashion and lifestyle mall to cater to the consumers in Kemang and South Jakarta. It has a total net lettable area (“**NLA**”) of 58,564 square metres (“**sqm**”) and total gross floor area of 150,932 sqm.

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<sup>1</sup> “**Sponsor Lessees**” refers to PT Multiguna Selaras Maju (“**PT MSM**”), PT Harapan Insan Mandiri (“**PT HIM**”) and PT Violet Pelangi Indah (“**PT VPI**”). The Sponsor Lessees are limited liability companies incorporated in Indonesia and are wholly-owned subsidiaries of PT Lippo Karawaci Tbk (the “**Sponsor**”), the sponsor of LMIR Trust. PT MSM is the lessee of the car park space of the Property, PT HIM is the lessee of the casual leasing space of the Property and PT VPI is the lessee of the Avenue of the Stars.

The Avenue of the Stars is situated on one side of the Property. The ground floor comprises a large open-air alfresco dining area with a giant LED screen and a performance stage, surrounded by three-storeys of trendy restaurants serving cuisines ranging from Western, Indonesian, Chinese, to Vietnamese. The Avenue of the Stars is directly linked to the mall and is also readily accessible off the driveway along the front of the mall building. Live bands entertain patrons daily from 7 p.m. The Avenue of the Stars has gradually become a popular 'hang-out' place among those living in South Jakarta. Thematic events such as Oktoberfest, Jember Fashion Carnival, live broadcasts of football matches as well as meet-and-greet sessions with famous artistes are held regularly at The Avenue of the Stars.

## **2.2 Tenancies at the Property**

The Avenue of the Stars (with an NLA of 5,197 sqm, or approximately 8.9% of the total NLA of the Property), the Casual Leasing Space (with an NLA of 1,600 sqm) as well as the Car Park Space are subject to the LMK Master Leases.

The remaining areas are leased out by the Lessor directly to tenants. As of 30 September 2017, the occupancy rate of the areas not covered by the LMK Master Leases has reached 94.7% with a mix of tenants from International brands such as Swarovski, Pull & Bear, Stradivarius, Best Denki, Rockstar Gym and Fitness First, together with Asian brands and local brands such as Uniqlo, Muji, Miniso, The Face Shop, Kitchenette, Seribu Rasa and Sushi-Tei. Beside fashion and food & beverage (“**F&B**”) tenants, the Property also has family-friendly tenants such as Kidzoono from Japan.

## **2.3 Location of the Property**

Kemang is often regarded as a wealthy suburb, as it is one of the residential areas with the highest purchasing power in Jakarta. Kemang is especially well-known among the expatriate community in Jakarta as a high-end residential area with its strategic location and proximity to the business district. The area offers various cafes, restaurants, discotheques and other entertainment areas.

The Property is strategically located at the heart of Kemang and South Jakarta municipality and served by several main roads such as Jalan Kemang Raya, Jalan Prapanca, and Jalan Bangka). Kemang is a lifestyle district which is about 7 km to Sudirman Central Business District where the Indonesia Stock Exchange is located.

The Property is part of an integrated development known as Kemang Village Integrated Development which also consists of a condominium with seven towers, a school (SPH International) and a proposed hotel.

All seven towers of the condominium with over 1,600 apartment units, were completed by December 2015. All apartment units have been sold and handed over to the purchasers. Currently, the occupancy rate is around 80%, the majority of which are leased to expatriates from Korea and Japan. As more residents move into the condominium and the area matures as a residential area, the Property is expected to benefit from the increasing numbers of shopper traffic from the condominium.

SPH International (Sekolah Pelita Harapan), a leading International school has around 570 registered students and teachers recruited from overseas such as USA, Canada, Australia

and Philippines. As for the hotel, its super structure is completed and the Sponsor is in discussions with hotel operators.

### **3. EXTENSION OF THE LMK MASTER LEASES AND RATIONALE**

Under the terms of the LMK Master Leases, the Lessor has an option to require the Sponsor Lessees to extend the term of the LMK Master Leases for an additional period of up to 24 months. The Lessor has today exercised its option to extend the term of the LMK Master Leases, with the extended term expiring on 16 December 2019. For the avoidance of doubt, no payment was required to be made by the Lessor to extend the term of the LMK Master Leases.

Under the extended LMK Master Leases, the monthly rent amounts in respect of the Avenue of the Stars, the casual leasing space and the Car Park Space remain at Rp. 3.7 billion (SGD 0.4 million)<sup>2</sup>, Rp. 6.0 billion (SGD 0.6 million)<sup>2</sup> and Rp. 7.7 billion (SGD 0.8 million)<sup>2</sup>, respectively.

It should be noted that following the expiry of the initial three-year term of the LMK Master Leases on 16 December 2017, the vendor of the Property (PT Almaron Perkasa) will no longer be responsible for any shortfall of service charges collected from the underlying tenants of the Property which are required to cover the maintenance and operating expenses of the Property. For FY2016, this is estimated to have a negative impact of approximately Rp. 33.2 billion (SGD 3.5 million based on the FY2016 Audited Financial Statements exchange rate of S\$1.00 to Rp.9,609.37) on the distributable income of the Property. For 9 Months 2017 with the improving occupancy rate of the Property, this gap has narrowed to an estimated negative impact of approximately Rp. 12.1 billion (SGD 1.3 million based on the 9 Months 2017 Unaudited Financial Statements exchange rate of S\$1.00 to Rp.9,546.80) on the distributable income of the Property. The Manager expects the occupancy rate of the Property to continue to improve in 2018, such that the fact that the vendor of the Property is no longer responsible for any shortfall of service charges will not have a material impact.

The Manager is of the view that the extension of the LMK Master Leases will allow LMIR Trust to continue to benefit from the additional stability of rental income and downside protection under the LMK Master Leases for an additional two years as the Property continues to mature. LMIR Trust will continue to deal with and receive income from the Sponsor Lessees in respect of the areas under the LMK Master Leases during the extended two-year period while the Property as a whole continues to ramp up and stabilise. The extension of the LMK Master Leases will give additional time for measures to improve the financial performance of the Property to be implemented and for the results of such measures to show. The Manager therefore believes that the extension of the LMK Master Leases until 16 December 2019 will be beneficial to LMIR Trust and Unitholders.

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<sup>2</sup> Based on an illustrative exchange rate of S\$1.00 to Rp.9,900.00.

#### 4. PERFORMANCE OF THE PROPERTY TO DATE

With regard to the areas under the LMK Master Leases, the gross rental income for FY2016 is Rp. 208.0 billion (SGD 21.6 million)<sup>3</sup> and the gross rental income for 9 Months 2017 is Rp. 156.0 billion (SGD 16.3 million)<sup>4</sup> while the actual underlying income for FY2016 is Rp. 25.3 billion (SGD 2.6 million)<sup>3</sup> and the gross rental income for 9 Months 2017 is Rp. 18.5 billion (SGD 1.9 million)<sup>4</sup>. The actual underlying income in respect of the areas under the LMK Master Leases is lower than the rental income under the LMK Master Leases<sup>5</sup>.

For the entire Property (being the areas under the LMK Master Leases and the rest of the mall which is leased out to tenants directly) taking into account the rental income under the LMK Master Leases, the gross rental income of the Property for the financial year ended 31 December 2016 (“FY2016”) is Rp. 294.4 billion (SGD 30.6 million)<sup>3</sup> and the gross rental income of the Property for the nine months ended 30 September 2017 (“9 Months 2017”) is Rp. 220.9 billion (SGD 23.1 million)<sup>4</sup>. Should the rental income under the LMK Master Leases be disregarded and replaced by the actual underlying rentals, the gross rental income of the Property for FY2016 is Rp. 111.7 billion (SGD 11.6 million)<sup>3</sup> and the gross rental income of the Property for 9 Months 2017 is Rp. 83.4 billion (SGD 8.7 million)<sup>4</sup>.

According to KJPP Rinaldi Alberth Baroto and Partners (“Alberth”), an independent Indonesia-licensed valuer commissioned by the Manager, the current market rental value of the areas under the LMK Master Leases per year as at 30 November 2017 is Rp. 125.4 billion (SGD 12.7 million)<sup>6</sup>, whereas the rental amounts under the LMK Master Leases per year is Rp. 208.0 billion (SGD 21.0 million)<sup>6</sup>.

As at 30 September 2017, the occupancy rate of the Avenue of the Stars is 77.5% while the occupancy rate for the Property excluding the Avenue of the Stars is 94.7%.

Notwithstanding the relatively high occupancy rates of the Property, the current average underlying rental rates of the areas under the LMK Master Leases are low as most tenants are still enjoying concessionary rental rates, which are rates priced below market rates to attract tenants to a newly developed mall. As of 30 September 2017, 509 sq m of these tenancies with concessionary rental rates have expired in 2017 and renewed with average increase in rental rates of 22%. 1,488 sq m of these tenancies will expire in 2018 and would be renewed or re-let at prevailing market rates.

The underlying rental rates have not performed well for the following reasons:

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3 Based on the exchange rate of S\$1.00 to Rp.9,609.37 used in the FY2016 Audited Financial Statements.

4 Based on the exchange rate of S\$1.00 to Rp.9,546.80 used in the 9 Months 2017 Unaudited Financial Statements.

5 Page 15 of the LMIR Trust Annual Report 2016 states: “If the Master Leases for Lippo Mall Kemang, Palembang Icon and Lippo Plaza Batu were disregarded and instead the actual amount of rental paid by the relevant tenants is taken into account, the DPU in FY2016 will be 2.72 cents (with annualised DPU yield of 7.35%). The rental received under the Master Leases for FY2016 is approximately SGD26.3 million, whereas the corresponding underlying rental is approximately SGD3.9 million. The Master Leases represents 14.0% of the total revenue of FY2016.” Page 17 of the LMIR Trust Annual Report 2015 states: “If the Master Leases for Lippo Mall Kemang, Palembang Icon and Lippo Plaza Batu are disregarded and instead the actual amount of rental paid by the relevant tenants is taken into account, the DPU in FY 2015 will be 2.46 cents (with annualised DPU yield of 7.7%). The rental received under the Master Leases for FY 2015 is approximately \$23.8m, whereas the corresponding underlying rental is approximately \$3.2m. The Master Leases represents 13.8% of the total revenue of FY 2015.”

6 Based on an illustrative exchange rate of S\$1.00 to Rp.9,900.00.

### *Retail Sales Market*

The slump in retail sales in Indonesia happened shortly after the acquisition of the Property. Although Indonesia retail sales has since recovered after bottoming out in September 2015, the slump has nevertheless affected the performance of the Property. The slump in Indonesia retail sales affected most retailers in Indonesia and the property manager of LMIR Trust is working on various marketing campaigns and events to boost shopper traffic.

### *Tenant mix*

The original tenancy mix of the Property has not been able to attract the targeted footfall to support the tenants and this has prompted a strategic review to refocus the tenancy mix inside the mall and hence more time was needed to achieve this plan. Since 2015, there has also been a shift in consumption pattern with an increasing amount of money being spent at the mall at F&B outlets as compared to other retail trades.

### *Proposed Hotel*

The proposed hotel was originally scheduled to be completed and operational in 2016 but this did not materialise. The Property has therefore not been able to benefit from the expected increased footfall from the hotel in 2017. The Manager has been informed by the Sponsor that discussions are still ongoing with potential hotel operators to operate the hotel.

## **5. IMPROVING THE PERFORMANCE OF THE PROPERTY**

In addition to providing the update in relation to the LMK Master Leases as set out above, the Manager would also like to provide an update on the steps taken to improve the performance of the Property.

### *Tenancy Remix*

The property manager of LMIR Trust took efforts in late 2015 through early 2017 to refresh the tenancy mix in the mall. As at 30 September 2017, occupancy in the mall has reached 94.7%, with a good mix of local and Asian brands such as Muji, Miniso, The Face Shop, Kitchenette and Kidzoon. The property manager continues to review the tenancy mix and fine-tune the tenancy mix appropriate for the location. Uniqlo, which is a popular brand in Indonesia, will be a tenant of the Property in January 2018.

The property manager has also embarked on enhancing the tenancy mix at the Avenue of the Stars as a retail, F&B and lifestyle destination so as to drive higher footfall traffic into the mall. Thematic events such as Oktoberfest, Jember Fashion Carnival as well as meet-and-greet sessions with famous artistes are held regularly at the Avenue of the Stars.

The average monthly car traffic at the Property has increased by 24% from 2015 to 2016 while average visitor traffic has increased by 17% over the same period. As at 30 September 2017, average visitor traffic has increased by 24% as compared to 30 September 2016, based on electronic traffic counters.

### *Proposed Asset Enhancement*

The property manager of LMIR Trust intends to leverage on the improved performance of

Avenue of the Stars. A glass canopy will be installed over the area, following the receipt of approval from the local authorities so that activities may continue during rainy days,

#### *Increasing footfall*

The Property is part of the Kemang Village Integrated Development, of which components such as the seven condominium towers were completed in stages during the years 2013 through 2015. Time is required for the occupancy at the condominium towers to improve, which will further contribute to the footfall at the Property.

#### Manager's View

The Manager believes that the Property can be expected to mature and stabilise, having regard to the following:

- (i) the Property's strategic position as the only retail mall located in the Kemang Village Integrated Development;
- (ii) the improvement in visitor traffic on completion of the enhancements and measures taken at Avenue of the Stars; and
- (iii) the efforts to improve the tenancy mix and to attract Asian brands, such as Uniqlo (opening in April 2018).

The Manager also believes that the utilisation and occupancy rates of the areas under the LMK Master Leases will further improve and that the underlying rental rates of the areas under the LMK Master Leases will appreciate.

This is consistent with Alberth's view that in Jakarta, upper class shopping centres, such as the Property, have managed to maintain the highest occupancy rate of 90.2% among all classes of shopping centres in 2016 and that occupancy is expected to be maintained at a high level partly due to the absence of additional retail spaces for upper class shopping centres in 2017. Alberth is also of the view that given the thin supply pipeline, vacancy rates are likely to remain low and rents are unlikely to experience any downward pressure, with rents likely to continue an upward trajectory with average annual growth likely at around 5%.

## 6. INTERESTED PERSON TRANSACTION

As at the date of this announcement, the Manager has a direct interest in 142,611,671 Units (comprising 5.05% of the total number of issued Units). The Manager is wholly-owned by Peninsula Investment Limited ("**Peninsula**"), a wholly-owned subsidiary of Jesselton Investment Ltd which is in turn a wholly-owned subsidiary of the Sponsor. The Sponsor directly and/or through its subsidiaries and through its interest in the Manager, has deemed interests of (i) 29.85% in LMIR Trust and (ii) 100% in the Manager, and is therefore regarded as a "Controlling Unitholder"<sup>7</sup> of LMIR Trust and a "Controlling Shareholder"<sup>8</sup> of the Manager

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7 "Controlling unitholder" means a person who:

- (a) holds directly or indirectly 15.0% 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:

respectively under both the Listing Manual of Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) and Appendix 6 of the Property Funds Appendix.

For the purposes of Chapter 9 of the Listing Manual and the Property Funds Appendix, the Sponsor Lessees, being indirect wholly-owned subsidiaries of the Sponsor (which in turn is a Controlling Unitholder of LMIR Trust and a Controlling Shareholder of the Manager) are interested persons and interested parties of LMIR Trust.

Under Chapter 9 of the Listing Manual of the SGX-ST, where LMIR Trust 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 person during the same financial year) is equal to or exceeds 3.0% of LMIR Trust’s latest audited net tangible assets (“**NTA**”), LMIR Trust must make an immediate announcement of the latest transaction and all future transactions entered into with that same interested person during that financial year.

Prior to the extension of the LMK Master Leases, the total value of interested person transactions between LMIR Trust and the Sponsor and/or its associates, for the current financial year, is approximately S\$69.0 million, which is approximately 5.68%<sup>9</sup> of the latest audited NTA of LMIR Trust as at 31 December 2016. The Manager is therefore making this announcement in compliance with the requirements of the Listing Manual.

Under Rule 916(1) of the Listing Manual, a renewal of a lease of real property of not more than three years if the terms are supported by independent valuation is not subject to Rule 906 of the Listing Manual. As the LMK Master Leases are renewed for an additional two-year term and the rental amounts under the LMK Master Leases are above market rents assessed by Alberth, the LMK Master Leases are not subject to aggregation under Rule 906 of the Listing Manual.

As at the date of this announcement, the total value of all interested person transactions (including the extension of the LMK Master Leases) for the same financial year is the same as the total value of interested person transactions between LMIR Trust and the Sponsor and/or its associates.

## **7. PRO FORMA FINANCIAL EFFECTS OF THE EXTENSION OF THE LMK MASTER LEASES**

### **7.1 Pro Forma Financial Effects**

#### **FOR ILLUSTRATIVE PURPOSES ONLY:**

**The Pro Forma Financial Effects are for illustrative purposes and does not represent LMIR Trust’s Financial Effects following the extension of the LMK Master Leases.**

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(a) holds directly or indirectly 15.0% 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 This figure includes the value of the “Related Retail Space Leases” of approximately S\$21.4 million as described in the announcement issued by the Manager dated 17 October 2017, which are not subject to aggregation under Rule 906 of the Listing Manual as a result of Rule 916(1) of the Listing Manual.

The pro forma financial effects of the extension of the LMK Master Leases presented below are strictly for illustrative purposes only and were prepared based on the audited financial statements of LMIR Trust and its subsidiaries for FY2016 (“**FY2016 Audited Financial Statements**”) and the unaudited financial statements of LMIR Trust and its subsidiaries for 9 Months 2017 (“**9 Months 2017 Unaudited Financial Statements**”).

## 7.2 FY2016

### Pro Forma DPU

The pro forma financial effects of the extension of the LMK Master Leases on the DPU for the financial year ended 31 December 2016, as if LMIR Trust had extended the LMK Master Leases on 1 January 2016, are as follows:

	<b>FY2016</b>	
	<b>Without the LMK Master Leases</b>	<b>With the LMK Master Leases</b>
Distributable Income (S\$'000)	78,995	95,468
Units in issue and to be issued	2,802,992,873	2,802,992,873
DPU (cents)	2.82	3.41

## 7.3 9 Months 2017

### Pro Forma DPU

The pro forma financial effects of the extension of the LMK Master Leases on the DPU for 9 Months 2017, as if LMIR Trust had extended the LMK Master Leases on 1 January 2017, are as follows:

	<b>9 Months 2017</b>	
	<b>Without the LMK Master Leases</b>	<b>With the LMK Master Leases</b>
Distributable Income (S\$'000)	62,183	74,674
Units in issue and to be issued	2,823,987,723	2,823,987,723
DPU (cents)	2.20	2.64

## 8. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the registered office of the Manager at 50 Collyer Quay, #06-07, OUE Bayfront, Singapore 049321 from the date of this announcement up to and including the date falling three months thereafter<sup>10</sup>:

<sup>10</sup> Prior appointment with the Manager (telephone +65 6410 9138) will be appreciated.



- (i) the agreements for the LMK Master Leases and the extension of the LMK Master Leases;
- (ii) the valuation report by Alberth on the rental valuation of the areas under the LMK Master Leases;
- (iii) the FY2016 Audited Financial Statements; and
- (iv) the 9 Months 2017 Unaudited Financial Statements.

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

By Order of the Board

LMIRT MANAGEMENT LTD.

(as manager of Lippo Malls Indonesia Retail Trust)

(Company registration number: 200707703M)

Ms Chan Lie Leng

Executive Director and Chief Executive Officer

12 December 2017

### **Important Notice**

The value of Units and the income derived from them may fall as well as rise. The 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.

This document is for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for the Units. The past performance of LMIR Trust is not necessarily indicative of the future performance of LMIR Trust.

This document 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. Investors are cautioned not to place undue reliance on these forward-looking statements, which are based on the Manager's view of future events.