

Investments in U.S. REITs & REIT Management

Media Briefing Slides

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Heng Fai Enterprises Limited

恒輝企業控股有限公司

Hong Kong Stock Exchange: 185

Corporate Overview

- HKSE-listed Heng Fai Enterprises (“HFE”; *Stock code: 185*) is led by HK-born Singaporean, Mr. Chan Heng Fai (“Fai Chan”)
- Until 2012, HK listco was controlling shareholder of SGX Catalyst-listed SingXpress Land Limited (renamed “SingHaiyi Group Ltd”) which is behind 4 Singapore residential property projects; HFE completed the disposal in January 2013



Strategic Review

New REIT & REIT Management Strategy announced 6 Dec 2013

- Unveiled major strategic shift to seed and own REITs focused on U.S. real estate / medical assets with higher-than-average dividend yields and quarterly & monthly recurring payments
- HFE owns 85% of a U.S.-based REIT management company, Inter-American Management Corp., which will receive annual recurring fees plus performance fees
- Corporate strategy will combine secondary or dual listing in at least three major international financial exchanges, creating a corporate structure which taps major global financial markets
- REITs will be migrated from OTC to NASDAQ main market and will pursue own secondary listings internationally



Corporate Milestones

January 2013

Disposal of SGX Catalist-listed property developer SingHaiyi Group Ltd (formerly known as SingXpress Land Ltd); strengthened HFE cash balance and sets stage for new strategy

6 December 2013

Outlined new REIT and REIT management strategy in a Corporate & Business update

14 April 2014

HFE appoints Allenby Capital as NOMAD for U.K. AIM proposed secondary listing

17 April 2014

94%-owned GMR announced acquisition of first medical asset – long term acute care hospital in Omaha – for US\$21.7M (US\$6M Cash, US\$15.7M borrowings)

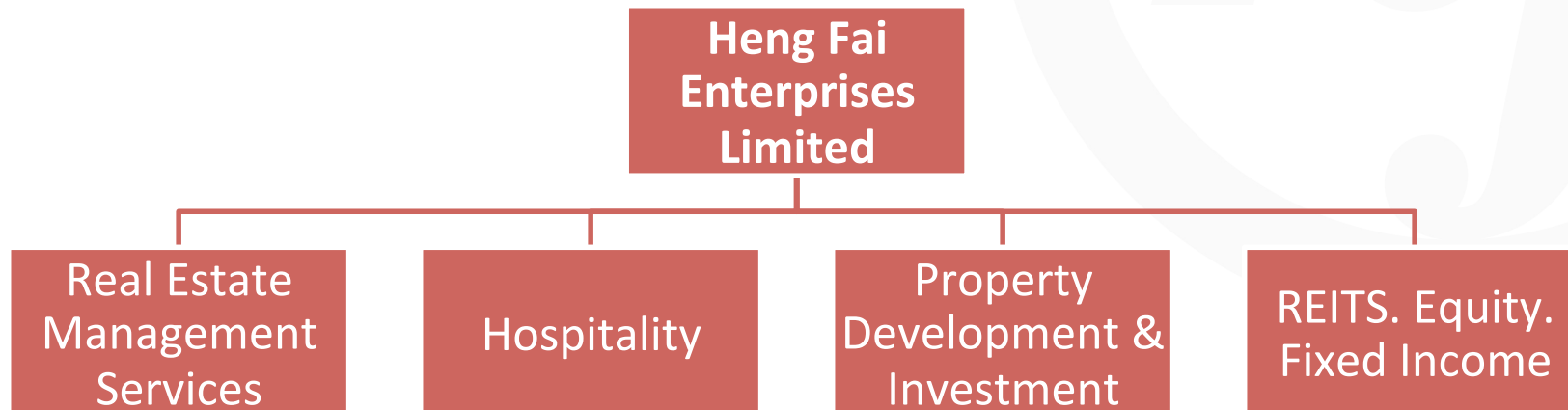
24 April 2014

99.6%-owned AHR announces maiden quarterly dividend with annualised yield of 8.39% p.a. (exceeding 8% p.a. target annualised yield) and share consolidation



About Heng Fai Enterprises Limited (“HFE”)

- Listed on HKSE since 1972; current market cap. approx. HK\$1.4B (US\$183M)
- Fai Chan and family currently controls 67% of HFE
- Current principal activities: development, trading & investment of property; treasury & hotel operations



Strategic Review

Previous Investment Activities Led To Lumpy Earnings

- Previous business involved owning and restructuring companies and then selling them
 - Restructuring and asset sales grew NAV of HFE from HK\$427.7M (March 2009) to HK\$904.4M (March 2013)
 - Lumpy revenue & profits due to nature of investment-related activities
- This unevenness may have deterred institutional investors seeking steady, sustainable growth in revenue & profit, and regular dividend income.



Operating Environment

Challenges & Opportunities in Property Markets – Asia vs USA

- Asian property cycles (e.g. HK, Singapore and China) starting to peak; restrictive cooling measures imposed by governments
- Capital values rising in Asia while yields are narrowing; existing REITs under threat of rising interest rates
- While U.S. property market has been rising, there are still significant opportunities for low-cost entry – prospect for capital appreciation + high yield
- Asian investors, including Hong Kongers, have started to invest in U.S. real estate directly
- REITs not giving shareholders the best possible returns as REIT management issues begin to surface



Shift of Business Focus

REITs & REITs Management – Starting with the U.S. Market

- HFE will be Asian play on U.S. single-family home REIT and dedicated REIT manager
- HK-listed corporation led by directors with strong finance and property experience; proven track record on Wall Street, in Hong Kong and Singapore
- Focus to build up REIT portfolio(s) with high and regular payouts, and recurring revenue from dedicated REIT management division



REITs & REITs Management

3-Pronged Strategy



American Housing REIT (“AHR”)

Introduction

- HFE currently owns 99.6% of American Housing REIT (“AHR”), listed on OTC, which will migrate to NASDAQ main market by end of the financial year ended 31 March 2015 (“FY2015”)
- Target 8% p.a. annualised yield to be paid quarterly, significantly higher than the average 6% p.a. comparative REITs are offering
 - Maiden distribution on 24th April 2014 with annualised yield of 8.39%
- Internal rate of return (“IRR”) of ~15-18%



American Housing REIT (“AHR”)

How is it different – pursuing yield

Comparative REITs

- Buy large numbers distressed properties below book value; likely to incur high maintenance costs to clean up portfolio and improve asset quality
- Generally higher vacancy rates
- Average annualised yield of ~4-6% p.a.

AHR

- Buying quality Single-Family Homes (“SFH”) at a slight premium
- Cherry-pick SFHs for location (high occupancy, low unemployment), condition, tenant profile, and potential for capital appreciation → lower maintenance costs (AHR expenses ~40% of revenue)
- Carefully selected team of sub-contractors to cap costs of management/maintenance
- Pursuing yield (more sustainable model)
- Target annualised yield of ~8% p.a.
- REIT manager charges 1.5% of Assets Under Management, lower than the market average, passing on savings to unit-holders



American Housing REIT (“AHR”)

Forward Strategy

- AHR has closed ~100 SFHs worth ~US\$13M; ~200 pending contracts subjected to due diligence
- All AHR acquisitions in FY2014 funded through internal resources (via HFE)
- HFE will seek 50% bank financing and intends to close ~1000 SFHs, worth ~US\$130M, by FY2015



Global Medical REIT (“GMR”)

Introduction

- HFE currently owns 94% of Global Medical REIT (“GMR”), listed on OTC
- GMR’s portfolio comprises of global specialised medical facilities and equipment with long duration triple net leases
 - Entered LOI for medical facility in Omaha, U.S. for US\$21.7M on 14 April 2014; 41,113 sq ft hospital building with 10 years remaining lease, annual rent increases and multiple options to renew on the same terms
- Provides annualised target yield of 8% paid out on a monthly basis; first dividend expected to be distributed in July 2014
- IRR of ~17%



Global Medical REIT (“GMR”)

Forward strategy

- Expected to achieve net asset value of ~US\$**XXX** by FY2015
- Target to upgrade to NASDAQ by FY2015
- Pursue higher yields, focusing on acute care and long-term acute care markets
- Backed by strong management team, looking at situational assets working with:
 - Developers looking to exit property exposure
 - Operators who wish grow their business and are willing to dispose of physical assets to focus on core medical operations



New Strategy - Phase 1

B. REIT Management Revenue Stream

- HFE owns 85% of U.S. company, Inter-American Management Corp. (“IA”)
- Directly manage AHR & GMR (and other future REITs)
 - Unlike other private equity firms acquiring in large numbers and outsourcing management to third parties
 - Economies of scale as REITs expand in size will enhance management fees and margin
 - IA expects to derive recurring fee of approx. 1.5% of REIT’s net AUM + performance-related incremental earnings
 - Can market ancillary services (eg. Insurance)



IA's Management Team

- Jeff Busch – served under two U.S. Presidents: i) Assistant to Secretary of Housing and Urban Development (“HUD”) and ii) Represented USA in United Nations in Geneva; Doctor of Jurist Prudence (Emory University). Active in real estate development since 1985, played major roles in development projects valued at several hundreds of millions of dollars in several states.
- Conn Flannigan – in-house legal counsel
- Robert Trapp – in-house corporate finance expert



New Strategy - Phase 1

C. Possible Secondary Listings on International Exchanges

- Facilitate expansion of REITs and REITs management strategy
- Exploring options for secondary listings in international exchanges
 - Proposed secondary listing in UK AIM market; appointed Allenby Capital as NOMAD on 14 April 2014
 - Proposed secondary listing in Singapore (announced on 9 Aug 2013)
 - Looking to seek listing in the U.S.
- Raises additional capital + widen network of investors

HFE REIT strategy enhances shareholder value & offers recurring revenue and profit in future



Thank You

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About HFE

Directors & Management – Chan Heng Fai (Managing Chairman)

- Under his direction, HFE's net assets grew from US\$5M in 1992 (current market cap US\$183M). Restructured 35 companies over 40 years; extensive experience in U.S., Europe and Asia
- North America - Acquired American Pacific Bank for US\$350K in the mid-1980s and restructured it out of bankruptcy, achieved ranking of #21 best performance among all US publicly traded banks and #13 in American Northwest Top 100 companies; disposed of in 2005 for approx. US\$34M
- Hong Kong - Restructured China Gas (from failed fashion retailer) in capacity of Executive Chairman; grew market cap. significantly before divestment in 2004 (currently approx. US\$6.4 Billion)
- Singapore – White knight for listed Futuristic (furniture/fixtures company); executed “investment banking approach to property development” of SingXpress Land; increased capital base before exiting January 2013 (now renamed SingHaiyi with market cap. approx. US\$475.3M; listed on MSCI Singapore Small Cap Index)



About HFE

Directors & Management

- **Tony Chan (MD)** - Over 15 years' experience in investment banking-related activities on Wall Street and in Asia; specialised in equity financial products for two investment banking firms. Tony was an executive director of the SGX-listed SingHaiyi Group from November 2003 to September 2013.
- **Moe Chan (COO)** - Has a diverse background having experience in fields such as technology, consumer finance, hospitality, investment and property. Previously he was an executive director and Chief of Project Development of SGX-listed SingHaiyi where he grew and managed the Singapore property portfolio from zero to over SGD\$1.3 billion in gross development value.
- **Frankie Wong (CFO)** - responsible for financial and management reporting, regulatory affairs and listing rules compliance; CFOs of Hong Kong and Singapore-listed companies with over 15 years' experience in public accounting, taxation, and financial consultancy and management; Bachelor's Degree in Business Administration (major in Accounting); practising as a certified public accountant in Hong Kong; Fellow member of the Hong Kong Institute of Certified Public Accountants and Member of Hong Kong Securities Institute.

