

11 November 2013

## Interim Management Statement and Net Asset Value Update

*“The Company continues to create and unlock value for investors as it moves into fiscal year 2014, with the divestment of its Zhuhai properties in progress and the sale of The Fountainside’s remaining units in sight.”*

*“MPO’s share price has appreciated significantly in the last quarter, reflecting the market’s recognition of the true potential of the Company’s portfolio.”*

David Hinde  
MPO Chairman

**Macau Property Opportunities Fund Limited, managed by Sniper Capital Limited, today announces its Interim Management Statement and latest Net Asset Value (NAV) covering the three months to 30 September 2013.**

### Quarterly Highlights

- Adjusted NAV per share increased 4.7% during the period to US\$4.13.
- MPO has entered into a formal agreement to sell its Zhuhai properties for US\$64 million, with completion expected by March 2014.
- The Company repurchased and cancelled a further 1.7% of its outstanding shares at a price of 168.5p per share. MPO’s share price discount has narrowed from 41% to 22% as at the period end.
- MPO has re-engineered its debt by extending its loan tenures and improving its covenant and repayment terms. Overall debt levels rose by US\$31.7 million to US\$125.8 million, increasing the Company’s loan-to-value ratio from 20% to 24%.

### Financial Overview

- Unaudited Adjusted Net Asset Value (Adjusted NAV) per share as at 30 September 2013 was US\$4.13, a rise of 4.7% over the previous quarter. In Sterling terms this was 255p, a decrease of 1.6% (based on a US\$/GBP£ exchange rate of 1.618 and an Adjusted NAV rounded to 4 decimal places).
- MPO’s property portfolio was valued at US\$475 million as at 30 September 2013, an increase of 4.9% quarter-on-quarter.
- MPO held a cash balance of US\$44.7 million as at 30 September 2013, of which US\$4.1 million is pledged as collateral for MPO’s banking facilities, resulting in free cash of US\$40.6 million.
- MPO has restructured its loan facilities for *The Fountainside* and *The Waterside*, extending their tenures and improving its covenants and repayment terms. The restructuring has reduced the Company’s average borrowing cost to 2.4% per annum over three-month HIBOR.

- Based on the Company's latest portfolio valuation and assuming a full drawdown of its committed loan facilities, MPO's total loan-to-value ratio stands at 24% (versus 20% as at the end of the previous quarter).
- The Company repurchased and cancelled a further 1.7% of its outstanding shares at 168.5p, reducing the number of shares outstanding to 88,500,000. The Board remains actively committed to buying back shares at attractive discounts to Adjusted NAV.
- A summary of the Company's NAV figures<sup>1</sup> as at 30 September 2013 is as follows:

	30 Sep 2013	30 Jun 2013
Adjusted NAV (US\$ million)	365.9	355.3
Adjusted NAV per share (US\$)	4.13	3.95
Adjusted NAV per share (GBP£) <sup>2</sup>	2.55	2.60
NAV (IFRS) (US\$ million)	237.4	233.7
NAV per share (IFRS) (US\$)	2.68	2.60
Share price as at period end (GBP£)	1.98	1.53
Share price discount to Adjusted NAV (%)	22	41
Portfolio valuation (US\$ million)	475.0	452.9
Loan-to-value ratio (%)	24	20

<sup>1</sup> The Company's Net Asset Value (NAV) as at 30 September 2013 has been prepared in accordance with International Financial Reporting Standards (IFRS). Adjusted NAV is shown after accruing for the performance fee (if any) and is calculated by taking the NAV per share calculated under IFRS and adjusting inter alia to include the properties owned by the Company at fair value rather than at the lower of cost and net realisable value. All properties in the Company's portfolio have been independently valued by Savills (Macau) Limited as at 30 September 2013.

<sup>2</sup> Based on the US\$/GBP£ exchange rate of 1.618 and 1.521 as at 30 September 2013 and 30 June 2013 respectively.

### Portfolio Overview

- Divestment of the Company's Zhuhai properties is under way. MPO has entered into a formal agreement to dispose of *APAC Logistics Centre* and *Cove Residence* for US\$64 million. A non-refundable deposit of 10% of the agreed selling price was paid by the purchaser and the sale is expected to be completed by March 2014.
- *The Waterside*, the Fund's cornerstone asset, had achieved an average net yield of 2.6% as of the end of September, an increase of 2% quarter on quarter, and equivalent to US\$2.93 per square foot per month. Occupancy levels, in terms of gross floor area, declined slightly to 88% after reaching a record high of 94% in the previous quarter. The Company remains committed to improving a sustainable and diversified tenant mix, and aims to achieve an average rental rate of US\$3 per sq ft by year-end 2013, amid a limited supply of luxury rental properties in the city and a continuing influx of expatriate executives.

- *The Fountainside*, MPO's latest development in Macau's Penha Hill area, is currently awaiting a sales permit in order to resume the final sales phase of the remaining 20 units. The temporary delay in sales was the result of a new law regulating residential property pre-sales and the permit is expected to be granted before the end of the year. Average sale prices have been established at around US\$1,160 per sq ft for standard units and US\$1,290 per sq ft for special units and villas, based on an average market price of US\$1,265 per sq ft for new pre-sale flats.
- MPO has received formal government approval for the architectural plan for its Senado Square retail development. A new alignment plan has also been received and the formal planning application process is expected to be completed in the first half of 2014, with construction to begin within the year.
- *The Green House*, a luxury private home on Penha Hill, continues to generate buyer interest. The market value of the 5,200 sq ft luxury property has quadrupled since it was acquired at the end of 2007.

#### Portfolio Market Overview

- Macau's property market was quiet in the third quarter of 2013, with a much fewer transactions, coming as a direct result of new government legislation designed to regulate the market. The government imposed a new law in June to prohibit property developers from selling unfinished flats without meeting certain requirements.
- A real estate agency law also came into force in July, requiring all estate agents to obtain licenses and to operate from commercial premises. Property transaction volumes declined significantly thereafter as the new measures constrained supply in the primary market. The secondary market was also not particularly active as property agents digested the new real estate agency law. A total of 1,781 residential units changed hands during the last quarter, compared to 3,563 in the previous three months.
- Average transaction prices in residential units also declined in the quarter, as the market was dominated by second hand flats which are generally older and therefore priced at a discount to new and pre-sale projects. Compared to the same period last year, however, the average residential price per sq ft increased by 12%.
- The drop in prices is expected to be temporary and it is anticipated that prices will recover after developers obtain the necessary documents to resume sales of new residential units. According to research by Jones Lang LaSalle, Macau's property market is expected to maintain steady growth during the remainder of the second half of 2013, driven by strong gaming revenues, limited home supply and high household saving rates in a low interest rate environment.
- The lack of residential real estate supply in Macau has skewed investments towards other property sectors. In July, a 309 sq ft shop off Avenida da

Amizade, a major thoroughfare in central Macau, was sold for approximately US\$3.7 million, equivalent to more than US\$12,000 per sq ft. Investments in industrial property also gathered pace, since the sector is excluded from the government's Special Stamp Duty. The number of industrial premises sold in the first half of the year more than doubled compared to a year ago, with total value registering an increase of 140%. Average prices for industrial units have risen more than 20% since the beginning of the year.

- Local residents are expected to remain active in the investment market with their savings continuing to rise amid a low interest rate environment. According to government statistics, the total savings of locals rose to US\$51.5 billion in August 2013, up 20% year-on-year.
- A shortage of property supply coupled with a healthy labour market and an increasing number of expatriate workers also lend further support to Macau's rental market. Average rents increased by around 10% in the first half of 2013, with rents on Taipa rising most - nearly 20% in the second quarter alone.

#### Macau Overview

- Supported by strong growth in gaming revenue, Macau's GDP grew 10.8% year-on-year in the first half of 2013 to US\$10.6 billion. Analysts expect that several holiday and travel programmes will stimulate the economy further in the second half of the year, perhaps boosting Macau's GDP expansion into the double digits for the whole of 2013.
- It has been another robust year for Macau's gaming industry. Total gaming revenues rose to US\$32.6 billion for the first nine months of the year, up 16.7% year-on-year, beating analyst estimates and exceeding the 13.5% growth in 2012. Wells Fargo Securities LLC estimates that Macau's casino industry could post up to 20% annual revenue growth from now to 2018.
- Mass-market gaming, driven by growth in the premium mass market, continues to outpace growth in VIP gaming. According to a Deutsche Bank research note, mass gaming revenue grew 32% year-on-year in July to reach an all-time high of US\$1.1 billion, surpassing the prior record seen in May this year. Total mass-market revenue grew at least 30% compared to a year ago, bringing the VIP/mass market total revenue ratio to around 2:1.
- Inbound tourism is continuing to grow, with an increase in tourist visits of 7.9% from the same quarter last year. CLSA says growth in tourist arrivals in Macau over the past two years has been driven by a 23% annual rise in the number of tourists from provinces other than neighbouring Guangdong and Fujian, facilitated by more relaxed visa rules and improved transportation.
- The buoyant economic environment has continued to fuel consumption and retail growth. Visitor expenditure rose 11.5% year-on-year in the first half of 2013. The total value of retail sales during the same period grew 20% to US\$3.9 billion.

- The number of hotels and guesthouses in operation in Macau has also been rising, providing 27,761 rooms as at the end of August, an increase of 14% year-on-year. Hotel occupancy levels have consistently topped 80%, despite an expansion in the number of rooms. Meanwhile, average room rates increased mildly year-on-year, with mid-range hotels increasing the most by approximately 5% year-on-year.

### **Risk Factors**

- The new rules on the pre-sale of unfinished flats and licensing of real estate agents have significantly reduced transaction volumes and market liquidity. The market will need time to digest the changes, which may hinder property transactions in the near future.
- The global economic environment remains uncertain, with emerging markets suffering some capital outflows in recent months. A potential change in the interest rate cycle in the US could negatively impact Asian property markets, including Macau's.
- Delays in obtaining government approvals remain a risk factor for all property developers in Macau. However, the government is expected to speed up the approvals process, given the shortage of new homes on the market. We also continue to face other on-going challenges, including a labour shortage and rising labour and construction costs.
- Macau's long-term growth is temporarily constrained by border-crossing bottlenecks, a shortage of affordable hotels and a lack of critical mass in entertainment venues and business hubs that could drive higher visitor numbers. These problems are expected to persist in the short term, although the development of Hengqin Island and the improving infrastructure should mitigate these in the longer term.

### **Outlook**

Notwithstanding the above risks, Macau continues to enjoy strong economic growth, underpinned by strengths in gaming and tourism. With new mega-resorts on the horizon and better connectivity in the region, the city is on its way to becoming a household name in global leisure and entertainment.

The underlying economic strength - coupled with a limited housing supply, rising local incomes and an influx of expatriate employees - is expected to fuel further strong demand for the city's properties, benefiting MPO's portfolio of assets.

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**About Macau Property Opportunities Fund**

Macau Property Opportunities Fund Limited is a closed-end investment fund registered in Guernsey and listed on the London Stock Exchange's main market.

Launched in 2006, the Company targets strategic property investment and development opportunities in Macau and Mainland China's Western Pearl River Delta. Its \$475 million portfolio comprises a mix of well-positioned residential, retail and logistics property assets.

The Fund is managed by Sniper Capital, an Asia-based property investment manager with an established track record in fund management, investment advisory and property management.

[www.mpofund.com](http://www.mpofund.com)

**About Sniper Capital Limited**

Founded in 2004, Sniper Capital Limited focuses on generating capital growth from property investment, development and redevelopment opportunities in niche and undervalued markets.

Today, Sniper Capital manages three funds, including Macau Property Opportunities Fund, with combined assets of over US\$500 million. With a team of over 30 professionals, Sniper Capital's expertise covers every aspect of the investment and development cycle, including research, site acquisition, project development, asset management, investor relations and finance.

[www.snipercapital.com](http://www.snipercapital.com)

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