



Q2  
2012

A duplex penthouse at *The Waterside*

## INVESTOR UPDATE

### HIGHLIGHTS

- 2.5 million shares repurchased
- New acquisition of US\$12 million
- US\$32 million of loan facilities secured
- Affordability to underpin home prices

### OVERVIEW

It has been an active period for MPO, encompassing a number of events which should collectively help drive the Fund's future NAV growth. During the quarter, the partial sale of the Company's One Central individual apartments and the acquisition of *The Sky House*, a luxury residential property, were completed, whilst MPO's cornerstone asset, *The Waterside*, reached 80% occupancy. The Company also executed a number of opportunistic share repurchases and secured US\$32 million of additional loan facilities.

Macroeconomic risks in China, including easing economic growth and an ongoing correction in the housing market, have sparked fears of a similar slowdown in Macau. While it is inevitable that the city's phenomenal pace of economic growth (21% in 2011) will slow, Macau's housing market is likely to remain underpinned by one of the most attractive affordability levels in Asia.

### FUND UPDATE

MPO's share price has been just impacted by the Eurozone crisis and ongoing concerns about a hard landing in China. During the quarter, its share price fell by 3.5% against a 5.2% decline for the FTSE All-Share Index.

At a share price of 104p, the Company is trading at a 44% discount to its latest published Adjusted NAV per share of US\$2.87 (185p\*). Although in line for overseas real estate investment companies, both we and the Board believe that the current discount offers outstanding value, and fails to recognise MPO's prime portfolio of assets that are underscored by Macau's standout economic and demographic drivers.

This stance was supported with the purchase and cancellation by the Company of 2.4%, or 2,500,000, of its own shares at a weighted-average of 100.71p during May - July. These collective transactions resulted in a 1.2% accretion to the Company's estimated Adjusted NAV per share.

Sniper Investments, an investment vehicle associated with the Manager, has also purchased 570,000 shares at a weighted-average price of 106.12p since April.

Additional opportunistic share buybacks will be considered by the Board at suitably attractive prices.

On the financing front, MPO announced two new loan facilities for its investments in One Central Residences and *The Green House*. Totalling a combined US\$32 million, the additional financing lifts the Fund's loan-to-value to 28% from the previous level of 22%, but is still well within the LTV covenant of 60%. The weighted average cost of MPO's overall debt is HIBOR + 2.42% per annum.

\*Based on a Dollar/Sterling exchange rate of 1.5501 at 11 July 2012.

*"MPO is evaluating a number of attractive acquisition opportunities and may opportunistically buy back additional shares."*

### SPECIAL FEATURE



Senado Square - a popular tourist destination

#### Mass market gaming sector outgrowing VIP

Visitor arrivals to Macau fell 6.5% YoY in May, but concerns that China may be tightening visa rules under the Individual Visit Scheme (IVS) remain largely unfounded. Gaming growth is slowing rather than overheating and registered a 20% YoY growth to reach US\$18.6 billion in the first half of 2012.

The biggest risk for Macau, in our opinion, is its continued reliance on the VIP gaming sector which remains dominated by wealthy mainland Chinese gamblers. Aside from this, however, Macau remains a highly unique and distinct market, powered by solid fundamentals and economic drivers.

Official data shows an encouraging trend. Macau's VIP gaming segment – which currently makes up 70% of local casino revenues – grew slower than its mass market counterpart for the third consecutive quarter. In the three months ended June this year, VIP gaming revenues expanded by 7.5% YoY. This compares with a 30% growth for the mass market segment.

### PORTFOLIO SUMMARY

#### MPO's new acquisition

Targeting value-accretive assets in selective market segments remains at the centre of our acquisition strategy.

During the quarter, MPO purchased what we consider to be Macau's ultimate residential apartment – an 8,000 square feet triplex penthouse located in Tower Three of One Central Residences – for US\$12 million. The acquisition was funded by a 50:50 combination of cash and bank financing.

Spread over three floors, *The Skyhouse* comes fully fitted with its own private elevator, expansive balconies and a private swimming pool; together with *The Green House* it gives MPO further exposure to one of its favoured asset classes – iconic, luxury homes.

Guided by our belief that the demand for prime, trophy residences in Asia cannot be underestimated, we intend to adopt a simple buy-and-hold strategy with a view to divesting the asset at an opportune time in the future.

#### The Waterside achieves 80% occupancy

Occupancy at *The Waterside*, MPO's luxury en-bloc tower located in One Central Residences, has reached 80%, on the back of healthy demand for and shortage of high-end luxury apartments for lease in Macau.

*The Sapphire Suites*, a special collection of further enhanced eight high-floor units within the 59-unit project, have been extremely well received, with seven being taken up since the collection was launched in February.

Whilst we firmly believe in the real and growing demand for "ultra-luxury" apartments in Macau, we would not be surprised to see occupancy levels fall slightly over the next few months, in line with an expected slowdown of Macau's economy.

#### Superstructure work of The Fountainside well-advanced

Construction at MPO's niche, low-density residential development, has reached the fourth of a total of six above-ground storeys. The project is on track for overall completion by end-2012 and handover to buyers in 2013. Whilst 34% of the project's total gross floor area has been pre-sold, it remains our current strategy to release the remaining units as the project completes in order to maximise sales' prices.

#### Senado Square receives in-principle approval

MPO has received the in-principle approval on the draft building plans of its flagship retail development of 70,000 square feet, *Senado Square* and is in the process of applying for formal licences to begin construction work. Strategically situated in Macau's popular shopping belt, *Senado Square* is well-positioned to benefit from ever-increasing tourist footfall to the UNESCO-endorsed centre and buoyant retail economy.



APAC Logistics Centre Phase 2 approaching completion



The Fountainside completed up to the fourth floor



## PROPERTY MARKET

### Attractive affordability to underpin housing market

Macau's property market rebounded in Q2, underpinned by strong demand for new residential projects. There were 2,010 residential transactions in May, the fourth month in a row in which the number of residential transactions has been up on a month-on-month basis and the first time the 2,000 mark has been surpassed since June 2011 when several tightening measures took effect.

Approximately 7,500 homes have been sold in the first six months of the year, representing an increase of over 70% from the second half of 2011. Average home prices were sustained above the US\$600 per square foot mark for three consecutive months, from March to May.

With an unemployment rate at a historical low of 2.0% as at end-May, Macau retains its position as one of the world's tightest labour markets. Affordability levels continue to remain highly attractive, with median wages rising 15% YoY in the first quarter to US\$1,375 per month.

Bolstered by Macau's robust macroeconomic fundamentals and rising demand from the ongoing influx of expatriates, Savills forecasts capital values to grow 10-15% this year.

*“Macau's housing market is likely to remain underpinned by one of the most attractive affordability levels in Asia.”*

Overall and mid- to high-end residential price indices, Q1/2007-Q1/2012



### Upward momentum for prime retail area

Occupational demand in Macau remains strong due to both the expansion of existing retailers as well as new entrants to the market. Senado Square, Macau's traditional shopping district, commands average rental values of about US\$17 per square foot per month, with some shops transacting at as high as US\$40 per square foot. The tight supply of new retail space, rising disposable incomes and an expected increase in tourist traffic are likely to continue to drive rental growth.

### APAC Logistics Centre and Cove Residence approach completion

The Zhuhai government has published a new masterplan in which the industrial land is expected to be re-designated into commercial offices. The plan is expected to be finalised at year-end following a public consultation. Similarly, at *Cove Residence*, the government is conducting a preliminary study for the change of land use from dormitory accommodation to commercial, or even possibly residential, with an outcome expected in late 2013.

Fit-out for the first phase of *APAC Logistic Centre's* development phase consisting of 250,000 square feet is in advanced stages and will be completed in late-2012, following certain design revisions and upgrades to better meet the demands of the project's targeted international clientele. *Cove Residence*, a 450-unit development comprising 215,000 square feet, is also due for completion at the same time. We have been actively engaging with major developers, manufacturing facilities and hotels in Shizimen CBD and Hengqin Island for potential interest in taking up space for their staff quarters.



## MACAU OVERVIEW

### Macau - Ongoing construction of new transport links to Mainland China

Macau's GDP in Q1 2012 grew by 18%, up from 17.5% in Q4 2011, reflecting a relatively strong economy compared to a faltering global and – to a certain extent – Chinese economy. Future growth of the territory is expected to be underscored by a slew of infrastructure projects that collectively is set to dramatically transform the surrounding region.

The ambitious Hong Kong-Zhuhai-Macau Bridge, costing up to US\$13 billion and currently under construction, is an important infrastructure development not only for Macau but for the South China region. Due to complete in 2016, it will significantly enhance regional connectivity by creating a fully integrated economic region comprising Guangdong, Hong Kong and Macau.

Other exciting new infrastructure projects include: completion of the Zhuhai section of the Guangzhou Intercity Mass Rapid Transit railway by end-2012; the Macau Light Rail Transit system, with construction well underway and scheduled to be completed by 2015; and a new supplementary land border checkpoint in northern Macau to ease existing bottlenecks and cater to future visitor growth. This coincides with a new round of mega resort expansion in Cotai, with major casino operators like Wynn, Galaxy and Sands all planning new integrated resorts from 2015 onwards.

## CONCLUSION

MPO remains highly committed to a policy of active discount management. With an unrestricted cash balance of over US\$30 million and, notwithstanding an attractive pipeline of potential acquisitions, further buy backs will be seriously considered at the prevailing discount.

We look forward to updating shareholders further when the Company releases its full year result in late September.

### QUICK FACTS

Exchange	London Stock Exchange
Domicile	Guernsey
Market Capitalisation	£105 million
Portfolio Valuation	US\$352 million
Loan-to-Value	28%
Adjusted NAV per share	US\$2.87/185p*
Share price	105p
Discount to NAV	43%

\*Based on a US\$/£ exchange rate of 1.5501 as at 11 July 2012

All remaining data as at 13 July 2012

### ABOUT THE FUND

Macau Property Opportunities Fund Limited is a closed-end investment fund registered in Guernsey and listed on the London Stock Exchange Main Market.

Launched in 2006, the Company seeks to deliver long-term returns from the investment in and development of high quality properties located in Macau and the western region of China's Pearl River Delta. Its current US\$350 million portfolio comprises a mix of strategically-positioned residential, retail and warehousing property assets.

The Fund is managed by Sniper Capital, an Asian-based property investment manager that provides highly focused Fund Management and Advisory Services.

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

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#### Stock Codes:

Bloomberg: MPO LN  
Reuters: MPO.L

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