



Senado Square – a popular tourist attraction

## INVESTOR UPDATE

### HIGHLIGHTS

- Zhuhai projects top out
- Appointment of new non-executive director
- Potential new investments under review
- Macau property market remains resilient

### OVERVIEW

MPO marked a number of key development milestones towards the end of 2011: *APAC Logistics Centre* in Zhuhai, China, topped out its first building, while *The Fountainside*, MPO's niche residential project within the prestigious Penha Hill district, completed construction up to ground floor level.

Macau finished another record year on a strong note. The local economy and property market continued their robust performances, fuelled by Macau's gaming industry which grew its revenues by 42% to US\$33.5 billion – six times those of the Las Vegas Strip.

### FUND UPDATE

#### Third Quarter 2011 NAV update

MPO's most recent adjusted NAV per share as at 30 September 2011 was US\$2.74(177p\*), up from US\$2.72 three months earlier. The market valuation of the Company's properties stood at US\$336.8 million – a 2.2% increase on a like-for-like basis over June valuations while loan-to-value remained unchanged at 24%.

MPO's next NAV as at 31 December 2011 will be published with the Company's interim results, which are due to be announced in late February.

*\*Based on a Dollar/Sterling exchange rate of 1.548 at 10 January 2012.*

#### Asia real estate veteran joins MPO Board

MPO has appointed Wilfred Woo as a Non-Executive Director. Backed by 20 years' of experience with prominent Asian real estate companies, he brings with him a deep industry knowledge and extensive regional contacts, which will be beneficial to MPO's continued growth.

#### Project pipeline

MPO is continuing to progress a number of potential investment opportunities following several profitable divestments in 2011. The Manager continues to favour value-accretive sites in niche sectors and locations and is currently assessing five potential properties valued at a total of c. US\$100 million.

### PORTFOLIO SUMMARY

#### Continued leasing progress at *The Waterside*

Since its launch in early 2010, *The Waterside* – the only en-bloc owned tower in the prestigious One Central Residences development – has established a new benchmark for premium luxury leased accommodation in Macau.

*“The Company is continuing to progress a number of potential investment opportunities following several profitable divestments in 2011.”*

### SPECIAL FEATURE



#### Cotai's network of connections

The first phase of the Macau Light Rail Transit (LRT) system is due to commence construction in H1 2012. Upon completion in 2015, the US\$1 billion project will feature 21 stations connecting all the major residential, commercial and gaming districts on Macau Peninsula, Taipa and Cotai, as well as linking all Macau's land, sea and air points of entry. In time, the LRT is envisaged to link to Hengqin Island via the Lotus Bridge LRT station and eventually be integrated with the Guangzhou-Zhuhai Light Rail. Studies are also underway on how to link the LRT to the forthcoming Hong Kong-Zhuhai-Macau Bridge, due to be completed in 2016.

The new Taipa Ferry Terminal, due to complete in 2013, is expected to drive up traffic volume five fold to 15 million, while the Macau International Airport will also undergo a four-phase expansion with an aim to accommodate 15 million passengers annually by 2030.

Cotai's increasing connectivity will likely accelerate the shift in the gaming industry's focus from Macau Peninsula to Cotai.

Five of six leases due to expire in Q4 2011 were renewed with achieved rents up to 16% higher than a year earlier. Coupled with several new leases signed in the last three months of 2011, *The Waterside* has now leased 63% of its total gross floor area, with the 38 leased apartments generating a total monthly rental income of US\$234,000 equating to a net yield of 2%.

#### **The Fountainside completed up to ground floor level**

Following the recent completion of foundation and basement construction up to ground level, superstructure work for *The Fountainside* is scheduled to begin in early 2012, upon the expected receipt of the necessary government licences.

All 20 units launched in the first phase of the pre-sales campaign have been sold. A second wave of marketing activities is being planned to promote the remaining 18 choice apartments and four villas as the eight-storey property approaches completion, targeted for late 2012.

#### **The Green House well received**

Despite several government-instigated tightening measures that took effect in mid-2011, "trophy" assets in Penha Hill, such as MPO's newly-renovated *The Green House*, continue to be supported by demand from high net worth buyers, primarily from Macau and mainland China. The Manager is confident of securing an attractive premium for this exclusive luxury standalone property spanning 5,000 square feet of gross floor area.

#### **APAC Logistics Centre tops out first block**

*APAC Logistics Centre* in Zhuhai, China, is now one step closer to becoming a top-class logistics platform and a key player in the area's rapidly growing logistics industry. Block One, the first of six new buildings, topped out in November 2011. Blocks One and Two are scheduled to be completed by Q1 2012, with occupation permits expected to be received by mid-2012. This will conclude the first of three stages of *APAC Logistics Centre's* development phase, which together will add a combined gross floor area of 1.1 million square feet.

#### **Cove Residence making good development progress**

*Cove Residence*, MPO's other asset in China – acquired as a joint investment with *APAC Logistics Centre* in 2008 – is currently under construction. This residential property, targeted at the burgeoning middle class arising from the growth of Shizimen CBD, Hengqin Island and Macau, is set to be completed in mid-2012, followed by fit out by year-end. The development will feature 450 residential units across 250,000 square feet, and a range of recreational facilities.

#### **Senado Square geared in right direction**

Negotiations with the relevant government departments are now at advanced stages and the Manager is expecting receipt of the necessary approvals to commence the redevelopment phase of this prime retail complex shortly.

Despite the delays experienced to date, *Senado Square's* projected internal rate of return remains above 20%, as valuations continue to benefit from the property's unique location and the ever-increasing demand for retail space in the Senado Square vicinity – Macau's primary non-gaming shopping destination.



Private cooking class organised for *The Waterside's* tenants



*The Fountainside* completed up to ground floor



## PROPERTY MARKET

*“Macau’s property sector remained resilient and held up in the second half of 2011.”*

### Macau property market continues to show resilience

To dampen speculation in the property sector, the Macau government introduced several tightening measures that took effect in mid-2011. Despite these measures and fears of a sustained downturn in China’s real estate market, Macau’s property sector remained resilient and held up in the second half of the year.

Full year home sales are expected to reach 17,000 (-5% YoY) with a combined value of c. US\$7.5 billion (+25% YoY) – a new record for Macau residential transactions. The buoyant economy and strong expatriate demand arising from the opening of new gaming facilities have supported the luxury leasing market.

On the retail front, demand for quality prime space continues to grow, with latest transactions suggesting that Senado Square, Macau’s premier shopping belt which attracts both locals and tourists, commands rental values of about US\$17 per square foot per month – a 40% increase in two years. Its occupancy is almost full, with no major supply coming on stream over the next couple of years.

There was a significant office transaction that occurred during the quarter: AIA Tower, a 22-storey Grade-A commercial and office tower located in Macau’s CBD, was agreed to be sold to the largest incumbent tenant, AIA, for HK\$1.26 billion (c. US\$162 million) or HK\$3,377 (c. US\$433) per square foot.

Across the border, warehousing and logistics has been identified as a key driver of growth for Zhuhai. Industrial rents in the Chinese city, which currently stands at around US\$2.40-3.20 per square foot per month – less than half of the rentals in Shenzhen – are expected to grow in tandem with the burgeoning logistics industry.

### Strong fundamentals for growth

The cooling measures targeted at the Macau residential market has not dented market sentiment as the local housing market remains predominantly owner-occupied and banks have had very conservative loan policies for some time.

Strong economic growth, a high savings rate and low mortgage penetration suggest that the financial status of Macau residents is very stable. The Manager is of the view that the increasing purchasing power of the locals, coupled with their demand for better quality homes, will support transaction volumes and values for residential properties in the medium to long-term.

We continue to prefer the two extremes of the residential market – premium high-end and locally affordable housing. We also remain upbeat about the retail property sector, which we expect to benefit greatly from the continuing uptrend of tourist volumes and retail sales.

## MACAU OVERVIEW

### Macau – unique drivers remain intact

Backed by strong fundamentals, Macau’s economy is expected to weather global economic headwinds and expand by 12% in 2012 following 20% growth in 2011 – according to the Economist Intelligence Unit. More immediately, China’s sagging growth rate and a possible “hard” landing have emerged as major concerns for investors in the region. Nevertheless, many commentators believe China’s economy will hold up in 2012, given its strong fiscal position and its ability to maintain liquidity and credit growth.

Despite some correlation to China’s overall economic growth, Macau is powered by its own unique drivers and extremely favourable demographics – including high GDP per capita, steady population expansion and rising wages – which provide firm support to property prices in the long term.



APAC Logistics Centre marked a milestone in its development when it topped out in November 2011

Gaming, Macau's main growth engine, remains strong. Its 34 casinos collected US\$33.5 billion in 2011 – double that of 2009 and approximately six times the revenues generated on the famous Las Vegas Strip. After a 60% leap in 2010 and 40% in 2011, most analysts are expecting gaming growth to moderate in 2012, but to still average between 15% and 25%. Meanwhile, the government remains heavily focused on diversifying Macau's economy with the view to mitigate its heavy dependence on the gaming industry.

#### Increasing regional connectivity

Attesting to the increasing importance of the mass market orientated Cotai Strip, the Macau government has confirmed that sites will be granted to the remaining three of six gaming operators who do not currently operate here, complementing the area's existing projects – Venetian Macao (Sands China), City of Dreams (Melco Crown), Galaxy Macao (Galaxy Entertainment) and soon-to-open Sands Cotai Central (Sands China).

In addition to this US\$10 billion pipeline of new casino-resort projects, Cotai is also witnessing a slew of infrastructure projects – including the US\$1 billion Light Rail Transit system – which is set to turn the area into Macau's new growth zone.

## CONCLUSION

Ending 2011 on a strong note, Macau is expected to maintain its positive performance in the coming year, with its property market anchored by stable economic growth and a robust jobs market.

Leveraging on its diversified portfolio and an attractive pipeline of accretive opportunities, MPO remains well-positioned to continue delivering encouraging results against a potential economic slowdown in China in 2012.

#### QUICK FACTS

Listing Date <sup>1</sup>	30 June 2010
Exchange	London Stock Exchange
Stock Code	MPO
Issue Price	100p
Latest Share Price	116.25p
Market Capitalisation	£118.90 million
Latest Adjusted NAV	US\$2.74 (177p) <sup>2</sup>
No. of Key Acquisitions	Five
Total Commitment	US\$294 million
Manager	Sniper Capital

<sup>1</sup> MPO's shares began trading on AIM in June 2006, when it raised £105 million in an institutional placing, before moving to the Main Market of the London Stock Exchange in June 2010.

<sup>2</sup> Based on a US\$/£ exchange rate of 1.548 at 10 January 2012.

All remaining data as at 13 January 2012

#### ABOUT THE FUND

Macau Property Opportunities Fund Limited is a closed-end investment fund registered in Guernsey. Its shares began trading on AIM in June 2006, when it raised £105 million in an institutional placing, before moving to the Main Market of the London Stock Exchange in June 2010. The Company's investment policy is to provide shareholders with an attractive total return through investing in property opportunities in one of the world's fastest growing and most dynamic regions – Macau and the Western Pearl River Delta of Southern China.

The Fund is managed by Sniper Capital Limited, an independent investment manager that specialises in property investment, development and redevelopment opportunities in niche, undervalued and developing markets.

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

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##### Stock Codes:

Bloomberg: MPO LN  
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