



## HIGHLIGHTS

- Full Year Adjusted NAV up 10.4%
- Rental growth at *The Waterside* remains strong
- New property cooling measures announced
- China relaxes Individual Visitor Scheme

## OVERVIEW

During the quarter, MPO released a healthy set of annual results, with full year adjusted NAV per share increasing by 10.4%. On the asset management front, *The Waterside* reached 83% occupancy with rental growth achieving 17% year-on-year for standard units. Meanwhile, construction at *The Fountainside*, *APAC Logistics Centre* and *Cove Residence* are making good headway towards their expected completion dates.

The government recently announced new property measures intended to prevent overheating of the real estate market. These are largely targeted at non-Macanese buyers and the luxury segment. Given that Macau's property market remains predominantly locally driven, with foreign buyers representing only 20% of the market, we view the latest measures as preventive, rather than punitive, in nature. Please see the Property Market section for full details.

## FUND UPDATE

### Annual results for the period ended 30 June 2012

MPO's most recent adjusted NAV per share was US\$3.01 or 189p (based on a Dollar/Sterling exchange rate of 1.595 as at 23 October 2012). The property portfolio valuation increased by 16% to US\$375 million while the Company's loan-to-value ratio stood at 27%.

At the current share price of 114p, the Company is trading at a 40% discount to its latest adjusted NAV per share. MPO's board continues to believe that the current share price discount is unjustified and will continue to focus its efforts on discount narrowing measures.

*Note: The Company is in a Close Period prior to the release of its Interim Management Statement, which will include MPO's end-September adjusted NAV per share and portfolio valuation, on 12 November 2012.*

## PORTFOLIO SUMMARY

### **The Waterside rental growth remains strong**

Occupancy of MPO's cornerstone investment asset, *The Waterside*, has dropped slightly and currently stands at 83%. Latest effective rents achieved for standard and special units are 17% and 9% higher year-on-year respectively with average net yields standing at 2.4% per square foot – a premium for luxury residential assets in Asia.

*The Sapphire Suites*, a special collection of high-floor, luxuriously furnished premium units, were launched in February this year. These units are priced at a premium to the standard units and seven out of a total of eight are now leased.

*“MPO's board continues to believe that the current share price discount is unjustified.”*

### SPECIAL FEATURE



Visitors queuing at the border gate during the Golden Week holiday

#### China's IVS to further boost Macau's economy

The Individual Visitor Scheme (IVS) was first launched in 2003 by China's Central Government. Visitors on the IVS were allowed to travel to Hong Kong and Macau twice a month for up to seven days for each visit. Originally covering six Mainland cities, the scheme was later extended to 49 cities across 18 provinces, with 270 million Mainland residents eligible to travel on the IVS.

Macau's declining visitor arrivals may get a reprieve, following the Central Government's easing of IVS restrictions to Macau for people living in the six big Mainland cities of Beijing, Chongqing, Guangzhou, Shanghai, Shenzhen and Tianjin.

Since the implementation of the IVS, the number of Mainland visitors to Macau swelled to over 16 million, accounting for 58% of total visitors in 2011. Visitor arrivals from Mainland China remain strong with an increase of 0.8% year-on-year to 1.3 million visitor arrivals in September this year – almost 40% had travelled under the Individual Visit Scheme, representing a 11.4% YoY increase.

Our focus remains on further increasing rental growth. We expect rental yields at *The Waterside* to be further enhanced by the recently announced property measures, as foreigners residing in Macau are likely to shift towards leasing whilst holding back on home purchases.

#### **The Fountainside due to complete by early-2013**

Construction of MPO's niche, low-density residential development is progressing as planned. The superstructure is topped-out and internal fit-out and finishings are well underway. Whilst 34% of the project's total gross floor area has been pre-sold, we intend to launch the second wave of marketing and sales activities closer to the project's completion early next year.

#### **Senado Square ready to move forward**

We have made further progress in our negotiations for the development plan of MPO's retail development, *Senado Square*, and are cautiously optimistic that we will soon be able to proceed with the submission process for its architectural design. Construction is expected to commence by end-2013 following the receipt of all necessary approvals, with project completion currently expected by end-2015. Meanwhile, we are continuing to receive interest from established local and international retailers looking for high quality space in this prime area of Macau Peninsula.

#### **APAC Logistics Centre and Cove Residence approach completion**

Completion of the development of these two blocks will add approximately 250,000 square feet of high quality warehousing and logistics space to the existing 205,000 square feet facility. Further plans for the second and final development phase have been put on hold until the new masterplan by the Zhuhai government is formally announced at year-end. The land on which *APAC Logistics Centre* is located could potentially be re-zoned from industrial to commercial office use. If this occurs, it will enable a revised planning application to be submitted for a higher plot ratio and better use for the remainder of the site.

*Cove Residence*, a 450-unit entry-level residential development comprising 215,000 square feet is also due for completion by year-end. Negotiations are underway with a number of prospective tenants who have shown initial leasing interest in taking up more than 50% of this project for their staff residential quarters.

### MACAU OVERVIEW

#### **Macau is powered by its own unique growth drivers**

Despite a delicate global economic environment and ongoing macro-economic risks in China, Macau grew by 12.6% in the first half of the year. Supported by solid fundamentals and a robust fiscal position, we expect the local economy to maintain its upward growth trajectory and achieve double-digit growth for the current year. The Economist Intelligence Unit estimates Macau's economy to grow by 13.5% in 2013.

#### **Consolidation of Macau's gaming market**

Growth of Macau's gaming industry has slowed in recent months along with the Chinese economy, but casino revenues for the first nine months of the year still grew by 15% YoY to US\$28 billion. While analysts widely expect gaming revenue growth to decelerate in tandem with China's weaker



APAC Logistic Centre Phase 2 is due for completion by year-end



The Fountainside is expected to complete by early-2013



## PROPERTY MARKET

*“We view the latest property cooling measures as preventive, rather than punitive, in nature.”*

### Government announces new property cooling measures

In October, the Macau government announced several measures intended to cool the property market, largely directed at foreign buyers and the luxury segment.

Mortgage lending rules have been further tightened for completed and pre-sale flats. We anticipate this will dampen demand for high-end residential property, especially for large transactions, but expect to see a continued growth over the medium term, driven by a shortage of supply, strong local demographics and the escalating demand for luxury assets across Asia.

The following Loan-To-Value (LTV) ceilings are effective from 12 October 2012.

New LTV Ceiling For <b>Completed</b> Flats			
Property prices (MOP / million)	Macau residents	Non-residents	Current LTV ceiling
>8 mil	50%	40%	70%
6 – 8 mil	60% (max. 4 mil)	50% (max. 3.2 mil)	70%
3.3 – 6 mil	70% (max. 3.6 mil)	60% (max. 3 mil)	70%
<3.3 mil	90% (max. 2.3 mil)	70% (max. 1.98 mil)	90%

New LTV Ceiling For <b>Pre-sales</b> Flats		
Property prices (MOP / million)	Macau residents (Current ceiling)	Non-residents (Current ceiling)
>8 mil	50% (70%)	40% (50%)
6 – 8 mil	60% (70%) (max. 4 mil)	50% (50%) (max. 3.2 mil)
<6 mil	70% (70%) (max. 3.6 mil)	50% (50%) (max. 3.2 mil)

The Special Stamp Duty (SSD) – implemented in June last year on residential transactions – will be extended to include commercial properties, offices and car parks. Sellers will have to pay a duty amounting to 20% of the transaction price for properties sold within a year of their purchase, and 10% for those sold within two years. As with the residential market, which saw prices reaching a new high, 15 months after the launch of SSD, we expect property prices and yields for commercial properties, offices and car parks to remain under upward pressure, driven by limited supply.

An additional buyer stamp duty of 10% will be imposed on the purchase of residential properties by companies and non-Macanese, on top of the current 3.15% stamp duty. We expect this imposition to increase barriers to entry for foreign buyers and as an unintended consequence could drive them towards the leasing market. This should benefit rental growth for MPO's principal investment asset, *The Waterside*.

The extension of the SSD and the additional buyer stamp duty, have been tabled for legislative approval and are expected to come into effect within two months.

Other cooling measures include limiting the reduction of property tax for Macau residents such that non-residents will shoulder full property taxes, developing four new public housing projects to create an extra 4,000 flats by 2015, introducing new guidelines for pre-sale properties to better protect consumers, redeveloping certain public facilities to make more space for public housing and streamlining timeline for approval of construction plans.

economic outlook, they still see relative strength in the sector. Asian brokerage, CLSA, forecasts the world's single biggest casino market to continue growing and to reach US\$100 billion by 2020.

Mass-market gaming growth appears to be outpacing that of VIP gaming, which has traditionally dominated the market. In Q3 this year, VIP gaming revenue amounted to US\$6.4 billion, a 1.1% decrease YoY; in contrast, mass-market gaming revenue posted revenue of US\$2.9 billion, a notable 26.8% YoY increase. According to a recent research report issued by Morgan Stanley, mass market growth could continue to outpace VIP, driven by the rapid emergence of the Cotai Strip. This growth could also be further boosted by Sands China eventually being granted 200 new tables dedicated to mass-gaming in early-2013.

### Developments on Cotai

Sands Cotai Central has just unveiled the world's largest Sheraton hotel under its second phase of development in September. With 4,000 hotel rooms and a further casino, it claims the title of Macau's largest hotel. Upon full completion and opening of all its phases by 2014, Sands Cotai Central will feature close to 6,500 hotel rooms across leading international hospitality brands including St. Regis, Conrad and Holiday Inn.

Sands China is also planning to invest at least US\$2.5 billion in the construction of a new casino resort on parcel 3 in Cotai. The project, to be named "The Parisian", will include 3,300 hotel rooms and have a 225-metre Eiffel Tower replica upon its expected completion in 2016.

Two more casino operators, MGM China and SJM Holdings, have recently received government's approval to proceed with developments on the Cotai Strip. Both casino projects are expected to open by 2016, adding almost 4,000 additional hotel rooms.

## CONCLUSION

The introduction of the new property cooling measures is unlikely to have any significant impact on MPO's portfolio and in the case of *The Waterside*, could actually help drive rental values. MPO's prime luxury assets, *The Skyhouse* and *The Green House* may experience some slower growth in capital values, but only constitute 15% of total portfolio value.

We remain committed to enhancing shareholder value through the redevelopment of existing sites and ongoing asset management of our investment properties.

### QUICK FACTS

Exchange	London Stock Exchange
Domicile	Guernsey
Market Capitalisation	£114 million
Portfolio Valuation	US\$375 million
Loan-to-Value	27%
Adjusted NAV per share	US\$3.01/189p*
Share price	114p
Discount to NAV	40%

\*Based on a US\$/£ exchange rate of 1.595 as at 23 October 2012.

All remaining data as at 23 October 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\$375 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  
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