



Q4  
2012

Christmas decorations in Senado Square

## INVESTOR UPDATE

### HIGHLIGHTS

- US\$9.2 million worth of share buybacks
- Imminent completion of *The Fountainside*
- Progress on-track for Zhuhai properties
- US\$38 billion: record-high 2012 gaming revenue

### OVERVIEW

MPO continued in its efforts to maximise shareholder value in Q4, undertaking US\$9.2 million worth of share buybacks. This brings the total number of shares repurchased and cancelled since MPO's inception to 10,220,250 or 9.73% of the company's issued share capital. The total number of shares now outstanding is 94,779,750.

Construction of *The Fountainside* is expected to be substantially completed by the end of the first quarter, with rectification works to occur in the second quarter, coinciding with the final public launch phase. Construction of *APAC Logistics Centre* and *Cove Residence* is making steady progress towards their expected completion dates in early 2013.

Macau's economy has continued to show strong results despite the uncertain global economic climate. Full year gaming revenues reached US\$38 billion, a 13.5% YoY increase and the best year that the territory's gaming industry has enjoyed thus far.

### FUND UPDATE

Continuing our strong commitment to value creation, four rounds of share buybacks were conducted in December. A total of 5,150,000 shares – representing 5.15% of MPO's issued share capital – were repurchased at an average price of 111p per share, valued at US\$9.2 million\*. MPO's Board continues to hold the view that MPO's share price remains significantly undervalued and remains firmly committed to narrowing the current share price discount to Adjusted NAV.

MPO's total loan-to-value ratio stood at approximately 26% based on September 2012 valuations. Further debt facilities of up to US\$14 million are being arranged to allow for additional financing of the Fund's Zhuhai projects – *APAC Logistics Centre* and *Cove Residence*.

MPO's latest NAV as at 31 December 2012 will be published in its interim results, due to be announced in late February.

\* Based on an average Dollar/Sterling exchange rate of 1.6148 for the month of December 2012.

### PORTFOLIO SUMMARY

#### Higher rental yields at *The Waterside*

MPO's cornerstone investment asset comprising 59 tailored luxury apartments housed in an enbloc-owned tower at One Central Residences achieved an occupancy rate of 83% as at end-December. With occupancy levels stabilised at above the 80% mark, our primary focus is now on driving rental growth. Latest effective rents achieved for standard units is 15% higher YoY, and average net yields now stand at

*“MPO continued in its efforts to maximise shareholder value in Q4, undertaking US\$9.2 million worth of share buybacks.”*

### SPECIAL FEATURE



Lobby of the Sheraton Macao Hotel, opened in September 2012

#### Budget accommodation set to rise

Budget accommodation in Macau looks set to increase, with wider options for travellers looking for budget-friendly accommodation. The Macau Government is focusing its efforts on further capturing the mass market and fostering the diversified development of tourist markets.

The Macau Government Tourist Office forecasts the number of low-cost hotel rooms to double in the near future – there were 18 requests for the building of budget hotels in 2012 alone. In addition, a website – [www.macau-budgethotels.org](http://www.macau-budgethotels.org) – was launched to boost local budget hotels' competitiveness, while allowing travellers easy access to a range of budget accommodation options.

According to the Statistics and Census Service, about 26,000 rooms were offered by 67 hotels and 33 guesthouses at the end of September. 1,480 low-cost hotel rooms were available as at September, making up less than 6% of total available rooms. Average room rates amongst the 17,000 five-star hotels in Macau – representing 64% of total available rooms – are US\$200.

More than half of the visitors to Macau do not stay overnight, with most tourists choosing to make a day trip to Macau and staying elsewhere to avoid high hotel prices.

2.4% per square foot, equivalent to HK\$21 per square foot per month. From September to October, four out of five expiring leases were successfully renewed achieving an average rental increase of 9%.

Seven out of eight units from *The Sapphire Suites*, a special collection of premium units on high floors, are currently occupied, achieving an average rental premium of 15% to standard units. Boasting sweeping views of the Nam Van Lake and a host of exclusive amenities, these units are proving to be popular with high-net worth individuals and expatriates.

We continue to actively engage the media as part of our asset promotion strategy, hosting two exclusive media events in August and September, as well as undertaking media engagement efforts in Beijing. In addition, the launch of the revamped website for *The Waterside* is targeted for the first quarter, as part of continuing efforts to further improve brand awareness and to raise our profile with both potential and existing tenants.

#### The Fountainside nears completion

Finishing and fit-out works are in progress for this niche residential development encompassing a low-density collection of 38 apartments and four villas. Floor and wall finishings are in the final stages, with lighting, kitchens and bathrooms shortly to be installed. In addition, two 'mock-up' flats were completed in November and one of the four villas will follow soon. Overall internal fit-out and finishing works are scheduled for completion early this year.

Currently, 20 standard units – representing 35% of the project's total Gross Floor Area (GFA) – have been pre-sold at an average price of approximately US\$590 per square foot. Sales of the remaining 22 units, which include additional standard units, special units and Villas are scheduled to begin in the second quarter. We are targeting the marketing of the remaining units and Villas from US\$800 and US\$1,400 per square foot, respectively. Accounting for over 20% of the property value, the Villas will be marketed on an exclusive basis. Each Villa will feature amenities such as an attached garden and a private garage, and will be targeted at high-net worth individuals, both locally as well as from neighbouring Hong Kong and Mainland China.

*The Fountainside* is expected to obtain its occupation permit by mid-2013, following which units will be handed over to their buyers.

#### Luxury properties in demand

MPO's purchase of *The Sky House* in April added an 8,000-square foot triplex penthouse in Tower Three of One Central Residences to the Fund's portfolio. There have also been on-going enquiries from high-net worth Macanese and Chinese buyers for our premium asset the *Green House*, which is located atop Penha Hill and offers an unparalleled view of Macau's landscape.

Such properties – combining exclusivity with a central location – are rare and highly coveted. We intend to retain both properties in their current condition and divest at an opportune time in the future, when our price objectives have been achieved.

#### Senado Square: gearing up for the next phase

Negotiations for the development plan of MPO's *Senado Square* property, the Fund's flagship retail development, are in the final stages. We expect talks to be completed and architectural design submissions to be lodged later this year. Construction on the site is expected to commence by



Façade of the APAC Logistics Centre in Zhuhai



Living room interior of a Cove Residence show flat



## PROPERTY MARKET

### Property prices remain robust

According to the Statistics and Census Service, the total number of property deals dropped to 6,766 in Q3 2012, a decrease of 13.8% QoQ, bringing total sales in the quarter to US\$3.3 billion. The number of residential homes sold saw a sharper decline, dropping by 19.4% to 4,475. However, housing prices continued to rise in spite of October's government induced cooling measures – with the average price per square foot achieving US\$845 in October, an increase of 16% MoM and the highest figure recorded thus far.

Midland Realty, a local property agency, forecasts that residential prices will rise 10% in the first half of 2013. In light of the unrelenting climb in property prices, the government is expected to implement additional measures in the coming months, with the Secretary for Transport and Public Works mentioning in early December that the Macau government was considering implementing measures “very soon”.

Across the border from Macau, property prices in Hengqin Island have skyrocketed as development swings into top gear, with prices for housing projects opposite the new US\$1 billion University of Macau campus costing up to US\$298 per square foot, triple the level of 2009. The real estate market is set to pick up at an even greater pace as investors pay the area greater attention. This will likely have a positive impact on MPO's residential property in Zhuhai, *Cove Residence*, which is scheduled to be completed early this year.

end-2013 following the receipt of all necessary approvals and the project should be completed by end-2015.

Once completed and leased to a choice tenant mix, we will market the building for sale as a prime retail investment asset with stabilised cash flows. We continue to receive interest from prominent international retailers looking for high quality space in this prime area of the Macau Peninsula.

### APAC Logistics Centre and Cove Residence approach completion

Internal and external finishing works at the *APAC Logistics Centre* are substantially complete, with final touch-up works currently being carried out. Works on external roads and marshalling areas have commenced after delays due to heavy rains. Landscaping work is also underway on site and all works are expected to be completed in the first quarter.

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. It is expected that the land on which *APAC Logistics Centre* sits will be redesignated from industrial to commercial use, potentially adding additional plot ratio to the Fund's development.

*Cove Residence*, a 450-unit entry-level residential development comprising 215,000 square feet is due to be completed in the second quarter. Fitting out works of two show flats have been completed. There have been slight delays to the project due to a revision in landscaping design, as well as inclement weather delaying the completion of the transformer room on the property. Negotiations are currently underway with a number of prospective tenants who have shown initial leasing interest in taking up space for their staff quarters.

## MACAU OVERVIEW

### Macau remains resilient in the face of an uncertain global economy

The Economist Intelligence Unit has forecast Macau to be the fastest-growing economy in 2013, anticipating GDP growth of 14.3%. Large-scale construction, such as new casino projects in Cotai, should help drive the economy in the face of global financial uncertainty.

*“The Economist Intelligence Unit has forecast Macau to be the world’s fastest-growing economy in 2013.”*

### Macau's gaming market continues to achieve record highs

Gaming revenue increased 20% YoY for the month of December to post results of US\$3.5 billion, a new monthly record. These were driven by a combination of higher holiday footfall, higher win-rates, and a VIP sector that is showing signs of gradually regaining steam. Gaming revenue for 2012 also set a new record high of US\$38 billion, a 13.5% YoY increase that outperformed most analyst expectations. Macau's gaming industry is poised for further steady growth in 2013. HSBC forecasts gaming revenue growth rate of 13% in 2013, with mass gaming revenue increasing 25% versus growth of 7% for the VIP sector.

### Developments on Cotai

All six existing gaming operators in Macau are looking to expand their footprints in Cotai. Wynn, MGM and SJM Holdings gained land approvals in 2012, with the expected combined investment in their Cotai projects amounting to over US\$8 billion.

SJM Holdings is investing over US\$2.5 billion into their new and first Cotai project, which will be located close to the Macau Dome and will create more than 500,000 sqm of floor area. In a move that reflects the growing focus on the non-gaming sector, SJM's intention is for approximately 70% of the new development to feature non-gaming elements. Initial plans show that 700 gaming tables, 1,000 slot machines and 2,000 hotel rooms are being planned for development.

A boutique-style casino hotel development is slated for development, with plans to raise US\$800 million in capital for the project. Located on land adjacent to the One Oasis residential project on the Cotai-Coloane border, the casino hotel development is scheduled to open by early 2016.

Wynn Cotai's US\$3 billion project is expected to be completed by early 2016. Plans for the development include a casino, five-star hotel with about 2,000 rooms and suites, coupled with convention suites, retail, entertainment and food and beverage offerings.

In addition, Galaxy Macau is set to invest as much as US\$6.5 billion in construction of Phase 3 of its Cotai Strip resort. Construction will cover about 10 million square feet and is expected to begin by early 2014. The project's US\$2 billion-Phase 2 construction is currently underway, and will be completed by mid-2015.

## CONCLUSION

We continue to maintain our focus on enhancing shareholder value by further narrowing the current share price discount as well as focusing on the redevelopment and asset management of our portfolio properties.

With the added impetus of upcoming developments in Cotai and neighbouring Hengqin, we believe that Macau will continue to prove a highly attractive platform for growth.

### QUICK FACTS

Exchange	London Stock Exchange
Domicile	Guernsey
Market Capitalisation	£118 million
Portfolio Valuation	US\$385 million <sup>1</sup>
Loan-to-Value	26% <sup>1</sup>
Adjusted NAV per share	US\$3.07/190p <sup>1,2</sup>
Share price	125p
Discount to NAV	34%

<sup>1</sup> As at 30 September 2012.

<sup>2</sup> Based on a US\$/£ exchange rate of 1.6169 as at 10 Jan 2013.

All remaining data as at 11 January 2013.

### 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\$385 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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Bloomberg: MPO LN

Reuters: MPO.L

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