

INVESTOR UPDATE Q4 2014



Christmas decorations at MGM Macau.

QUICK FACTS

Exchange	London Stock Exchange
Domicile	Guernsey
Market Capitalisation	£185 million
Share Price	£2.36
Portfolio Valuation	US\$543.0 million ¹
Loan-to-Value	26% ²
Adjusted NAV per share	US\$4.97/£3.06 ^{1,3}
Discount to Adjusted NAV	23%

¹ As at 30 September 2014.

² Assuming a full drawdown of MPO's committed loan facilities and based on MPO's portfolio value as at 30 September 2014.

³ Based on a US\$/£ exchange rate of 1.622 as at 30 September 2014.

All remaining data as at 31 December 2014.

About the Fund

Macau Property Opportunities Fund Limited is a closed-end investment fund registered in Guernsey. Listed on the London Stock Exchange's main market, it is also a constituent stock of the FTSE All-Share and FTSE SmallCap indices.

Launched in 2006, the Fund targets strategic property investment and development opportunities in Macau and mainland China's western Pearl River Delta. Its current US\$543.0 million portfolio comprises a mix of well-positioned residential and retail property assets.

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

www.mpofund.com

MANAGED BY  Sniper Capital

MPO acquired a luxury private residence adjoining *The Green House*. Rental rates at *The Waterside* continue to increase despite lower occupancy levels. Gaming revenue growth remains weak with short-term uncertainty remaining.

At a Glance

- **New acquisition.** The Fund made a strategic purchase of a private villa adjoining *The Green House*, with the goal of combining them into one iconic residence.
- **Total debt stands at US\$152 million.** This is an increase of US\$10 million and includes a loan drawn down to partially finance the latest acquisition.
- **The Fountainside awaiting Occupancy Permit.** We expect the Occupancy Permit imminently, following which the handover of units will take place.
- **The Waterside rental rates continue to rise.** Leases are now 10% higher since last quarter, despite lower occupancy levels.
- **Gaming revenue jitters continue.** China's anti-corruption drive remains in full swing, with VIP gaming under pressure.
- **Housing market remains buoyant.** The average price of a residential unit in Macau has increased by almost six times in the past five years.

Fund Update

MPO's Adjusted NAV per share was US\$4.97 as at 30 September 2014, an uplift of 1.7% quarter-on-quarter and a yearly increase of 26.8%. This translates to an annual total return (including distributions made on 29 April 2014) of 35.7%.

Overall debt stands at US\$151.8 million. This follows a new US\$10 million loan facility drawn down in December to partially finance the Fund's latest acquisition, which brings the Fund's Loan-to-Value to approximately 26%.

362,500 shares were repurchased at 234.97p (US\$3.80) per share and cancelled in October. The Board remains firmly committed to continuing its share repurchase programme by buying back shares at attractive discounts to Adjusted NAV.

The Fund's unaudited Interim Results for the six months to 31 December 2014 will be released in February 2015.

Portfolio Overview

The Green House

MPO recently acquired the property adjoining *The Green House* – a three-storey villa with two basements and a gross floor area of c. 6,500 square feet.

The property was acquired for a total of HK\$182.45 (US\$23.50 million), inclusive of stamp duty and all other fees and expenses. HK\$142.2 million (US\$18.4 million) or approximately 90% of the purchase price has been paid to the seller since the acquisition.

The third and final payment of HK\$15.8 million (US\$2.04 million), or 10% of the purchase price, will be made once the Company has received vacant possession of the property, which is expected on or before 28 February 2015. The purchase was funded by a combination of cash and bank financing.

Renovation works to match the design and presentation of *The Green House* will result in the two properties being combined into a single iconic residence, offering exceptional views over Macau and across the water to Hengqin Island located in neighbouring Zhuhai, China.

The Fountainside

All works have been completed with regular maintenance works being undertaken.

We anticipate receiving the property's Occupancy Permit within the first quarter of 2015 and are liaising closely with the relevant authorities to expedite the process. We will facilitate the handover of units to buyers once the Occupancy Permit has been received.

Active sales promotions continue, with events being held to introduce the new showroom to prospective buyers. The local market remains soft due to ongoing property curbs which are restricting foreign buyers and capping mortgage loan-to-values. Nevertheless, since the launch of the final sales phase, five standard units have been sold to local buyers.

The Waterside

Our overriding focus remains on driving higher rental growth for *The Waterside*, and we have begun to see this strategy paying off. Rental rates have increased – new leases are 10% higher than the previous quarter. At the same time, there has also been some inevitable slippage in occupancy levels due to some existing tenants not renewing their leases, coupled with the slowdown in the VIP gaming segment, which in turn

Given the continued scarcity of exclusive private residences in Macau, we intend to retain the combined properties in our portfolio.



Gym facilities are among the amenities at *The Fountainside*.

has affected certain tenant profiles. However, we believe our leasing strategy will help further improve the tenant mix and is in line with our goal of rental value creation.

From September to November, eight out of nine expiring leases were successfully renewed at an average rental rate of HK\$27.20 (US\$3.51) per square foot – an increase of 21%. In addition, seven new leases were committed and these were secured at an average rental rate of more than HK\$30 (US\$3.87) per square foot.

Although total occupancy rates have dropped to 67% as at end-December 2014, overall gross rental income remains stable. The average rental rate for all units currently stands at HK\$28.03 (US\$3.62) per square foot, almost a 20% year-on-year increase.

Senado Square

Architectural plans for the development were resubmitted in September. The government's comments were incorporated in the latest plans and we expect to receive a response to the latest submission by Q1 2015.

Once we have initial responses to the latest submission, we will proceed with the preparation of detailed drawings for the full submission. In the meantime, we continue to pre-qualify all the necessary consultants required to prepare these detailed drawings. The shortlist is expected to be completed by March 2015. We now expect detailed plans to be submitted in Q2 2015.

Construction is still expected to commence by end-2015 upon receipt

of all necessary approvals. The project should be completed by end-2017.

Demand for retail space in and around Senado Square continues to remain strong. Recent significant rentals include ground floor properties in Rua da Palha (1,922 square feet), Rua de Sao Paulo (951 square feet) and Tv. Dos Anjos (462 square feet), whose monthly rentals were HK\$200, \$400 and \$123 per square foot respectively.

The shift in focus from VIP to the significantly more profitable mass market is note-worthy.

PROPERTY MARKET OVERVIEW

The average price of a residential unit in Macau has increased by almost six times in the past five years. As at October 2014, the average price of a residential unit was US\$1,237 per square foot, a month-on-month increase of 9.2%. Transaction volumes, however, continued to decrease. There were 40 fewer transactions month-on-month, with total transaction volume registering at 421 flats – 344 in Macau, 63 in Taipa and 14 in Coloane.

According to real estate agent Centaline, the Macau property market has been in an 'adjustment phase' since 2013, which saw a drop in annual home transactions to about 12,000 from nearly 17,000 the year before.

Centaline also predicted a drop in transactions by about 10% in the second half of 2014, due to the continuing lack of supply of homes in the market and property curbs. This was combined with a forecast fall in home prices of 10%.

Nonetheless, local real estate agencies in the city remain upbeat about the medium and longer term outlook for

Macau's property investment market. Key factors include the city's strong economic fundamentals accompanying the upcoming wave of Cotai casino resort openings. Tourism development in Hengqin is also expected to boost demand for homes, especially from expatriate workers seeking accommodation.

The property market in Hengqin is also proving popular with Macau investors, who are looking to purchase property in Hengqin for both investment and residential purposes. Key factors fuelling the growth of Hengqin's property market are its close proximity to Macau, lower property prices (c. half of those in Macau for the equivalent quality), as well as upcoming tourism developments. The Zhuhai government recently announced changes to its housing policy, which streamlines the processes involved with purchasing luxury housing.

We believe Hengqin's rise will complement Macau's long-term growth. The Hengqin New Area Administrative Committee predicts that more than one third of

Hengqin's population will be made up of Macau residents by 2020. Given Macau's limited land resources and the scarcity of viable land for development in Macau, the predicted outflow should enable Macau to diversify economically in the long-term.

Luxury residential offerings, which currently make up the majority of the Fund's portfolio, should remain relatively unscathed given that the new residential projects in Hengqin are focused on the mass market.

A residential project in Hengqin, Zhonhai Mingzan Garden, has sold more than 600 units in its Phase 1 pre-sales for an average of US\$548 to US\$576 per square foot. Another residential project, Legend Chief Hengqin China, is also attracting interest from investors. Jones Lang LaSalle estimates that Hengqin may complete most of its planned 20,000 residential units by 2017, of which some 14,000 will be saleable.

Hengqin's first commercial building, Hengqin Headquarters Building, expects to launch its pre-sale units in late-October.

Macau Overview

Analysts' views have remained mixed about Macau's prospects, as China's anti-corruption clampdown casts a shadow on the city's gaming sector. Gaming revenues have taken a tumble, with gross gaming revenue decreasing 30% year-on-year in December 2014 to MOP23.3 billion (US\$2.9 billion). Analysts have cut their Macau estimates for 2015 on the back of a 2.6% year-on-year contraction in full-year gaming revenue for 2014. Daiwa Securities Group cited concerns over casinos tightening credit availability for junket operators, which affects VIP gaming growth, while Wells Fargo noted that the impact of positive developments – including longer border operating hours between Macau and China – would need more time to be felt, forecasting the gaming revenue slowdown to persist into 2015.

However, the shift in focus from VIP to the significantly more profitable mass market is note-worthy and may potentially offer some respite from overall decreasing gaming revenue figures. The city's mass market gaming revenue as a percentage of total revenue increased to 44% in Q3 2014, versus 32% in Q1 2013. According to Morgan Stanley, the majority of gaming companies expanded their EBITDA margins in Q3 2014, despite seeing 20%-30% declines in VIP revenue.

Certain gaming operators, however, are reporting revenue increases. Mass-market-centric Galaxy Entertainment Group, which operates the Galaxy Macau in Cotai, reported a revenue increase of 6% over the year to HK\$17.3 billion in the third quarter of the year. Galaxy's Chairman Liu Che Woo remains "very optimistic" about Macau's medium and long-term prospects. Sands China also reported 3.3% growth in profits, with the growth in mass-market gamblers offsetting the decrease in high rollers.

Macau's economy has been affected by the decrease in gaming revenues, with the city's GDP shrinking 2.1% in Q3 2014 – the first negative quarterly figures in five years. The decline was caused primarily by the anti-graft campaign driven by China which led to a drop in VIP gaming revenues. This has prompted

the government to focus on economic diversification with both analysts and gaming operators deeming it as long term positive for the city. Meanwhile, private consumption expenditure continued to grow by 7.2% over the quarter, bolstered by full employment of the city's labour force and soaring manpower needs. Private investment in the city surged by 41.5% during the same period.

The city's unemployment rate remained low at 1.7% during the third quarter with the median monthly income of residents stayed constant at MOP13,000 (US\$1,628).

Meanwhile, visitor arrival figures appear to be accelerating. In October, they reached a new high of 2.65 million – translating into a 10.3% month-on-month increase, and a year-on-year increase of 10.9%. Visitor arrivals in package tours surged 56% year-on-year, with Mainland Chinese package tour arrivals registering a staggering 75% increase to 919,000.

Per-capita visitor spending dropped slightly by 1.4% over the year in Q3 2014, registering at MOP1,878 (US\$235). In spite of this, hotel occupancy rates increased by three percentage points year-on-year to 86%, where a total of 863,000 guests checked into hotels and guesthouses in October, translating into a 4% yearly increase.

Macau's retail market continues on its growth path, with retail sales expected to increase over the festive period. It is worth noting that the composition of retail sales has changed recently with luxury retail sales recording a slight decrease in the second half of the year. The industry believes that the declining gaming revenues and China's anti-graft campaign are the primary factors affecting consumers' purchases. This, however, did not dampen the interest of investors. A number of reputable international retailers have confirmed their entry into Macau this year, including Forever 21, Uniqlo, H&M and Jack Wills. Interest from these international retailers has reaffirmed Macau's efforts at establishing itself as an international retail market place, while at the same time diversifying its current retail offerings. 🌐

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