Macau Property Opportunities Fund
Annual Report for the period
ended 30 June 2017

On the Rise

But now from depths beyond our sight,
The tide is turning in the night,
And floods of colour long concealed,
Come silent rising toward the light, ...

Henry Van Dyke

On the Rise represents the next phase for Macau, which is identified by positive changes and increased dynamism in the economy.

The cover visual portrays an incoming tide with its clear direction, and as the tide rises, branching out to create ripples of potentialities and growth.

Macau Property Opportunities Fund (MPO) is a closed-end investment fund and the only quoted property fund dedicated to investing in Macau, the world's largest gaming market and the only city in China where gaming is legalised.

Premium listed on the London Stock Exchange, the Company targets strategic property investment and development opportunities in Macau. Its current portfolio comprises a mix of prime residential and retail property assets that are valued at US$425.7 million as at 30 June 2017.

MPO is managed by Sniper Capital Limited, an Asia-based property investment manager with a proven track record in fund management and investment advisory.

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Key Highlights

PORTFOLIO VALUATION
US$425.7 million
up 9.7%* over the year

SHARE PRICE AS AT 30 JUNE 2017
157 pence
up 49.5% over the year

ADJUSTED NAV PER SHARE
US$3.26 (250 pence)
up 10.2% over the year

LOAN-TO-VALUE RATIO
39.4%
vs. 40% as at 30 June 2016

Note: US Dollar/Sterling exchange rate used in this report is 1.303 as at 30 June 2017, unless otherwise stated.

* Calculation is based on adjusted figures made to 2016 to reflect like-for-like comparisons to 2017 due to divestment of properties during the year.

THE WATERSIDE
Occupancy increased to 62%, the best performance in two years.

THE FOUNTAINSIDE
Sales activity has resumed, with the first sale in three years of an apartment at US$1.3 million.

ESTRADA DA PENHA
Appointed international marketing agency to spearhead the sale.

SENADO SQUARE
Evaluation of options to maximise returns to shareholders.

Financial Calendar

(Subject to change without prior notice)

SEPTEMBER 2017
- Announcement of annual results for the year ended 30 June 2017
- Annual Investor Roadshow

OCTOBER 2017
- Third Quarter 2017 Investor Update

NOVEMBER 2017
- Annual General Meeting
- Net Asset Value Update (as at 30 September 2017)

JANUARY 2018
- Fourth Quarter 2017 Investor Update

FEBRUARY 2018
- Net Asset Value Update (as at 31 December 2017)
- Announcement of interim results for the period ending 31 December 2017

APRIL 2018
- First Quarter 2018 Investor Update

MAY 2018
- Net Asset Value Update (as at 31 March 2018)

JULY 2018
- Second Quarter 2018 Investor Update

AUGUST 2018
- Net Asset Value Update (as at 30 June 2018)

SEPTEMBER 2018
- Announcement of annual results for the year ending 30 June 2018

Setting Sights

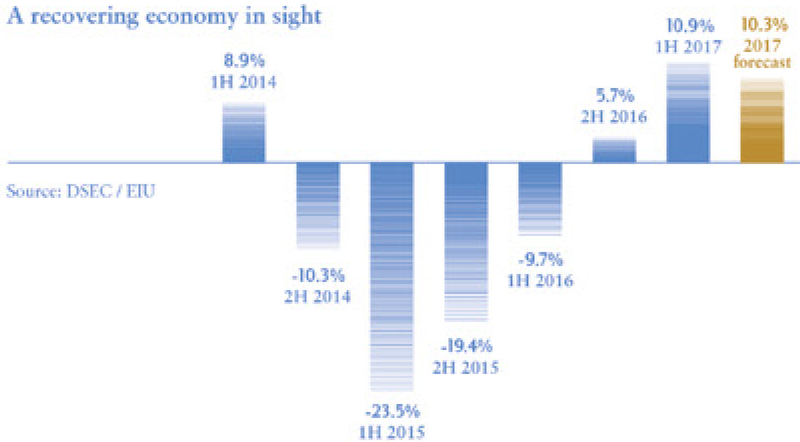
SPECIAL FEATURE

Having shown signs of a nascent recovery since the second half of 2016, Macau continues to experience steady growth in the first six months of 2017, while the property market also begins to gather momentum.

1 Macau enters the phase of stable growth

GDP YOY GROWTH (%)

A recovering economy in sight



Source: DSEC / EIU

LABOUR MARKET

Low unemployment rate: 2%
(as at June 2017)

VISITOR ARRIVAL

15.6 million
up 5.4% YoY
in 1H 2017

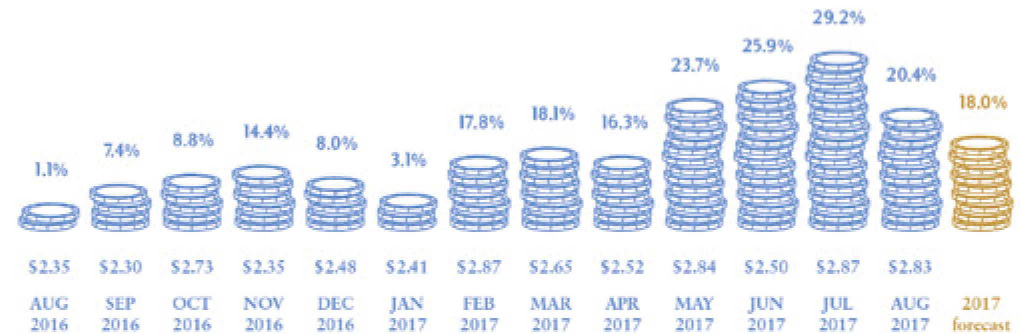
VISITORS' SPENDING
(excluding gaming expenses)

US$3.4 billion
up 17.1% YoY
in 1H 2017

Source: DSEC

GROSS GAMING REVENUE (US$billion)

13 consecutive months of YoY growth (%)



Source: DICJ / Morgan Stanley

THE RETURN OF THE HIGH ROLLERS

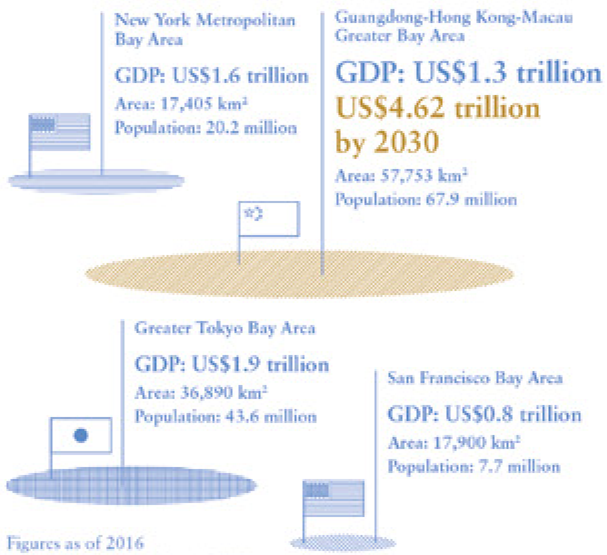
VIP gaming revenue in 2Q 2017 grew 35% YoY, the highest since 3Q 2011 at 52%.

Source: DICJ / Morgan Stanley

② Macau to benefit from regional opportunities

GUANGDONG-HONG KONG-MACAU GREATER BAY AREA

To be world's number 1 by 2030 (GDP)



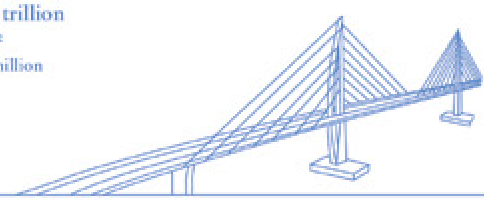
Figures as of 2016
Source: Morgan Stanley / CCIEE

HONG KONG-ZHUHAI-MACAU BRIDGE TO COMPLETE IN 2018

40 million visitors
per annum into Macau by 2025

30 mins
Travel time between Hong Kong and Zhuhai/Macau

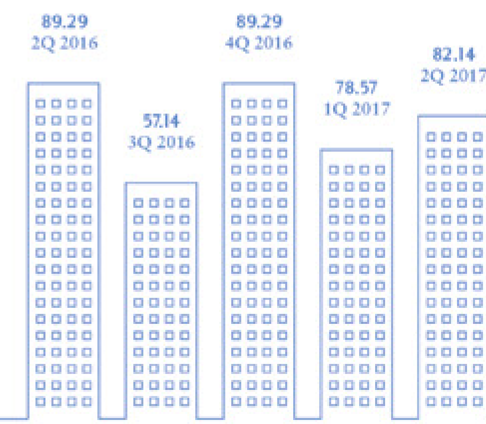
Source: MGTO



③ Property market is gathering momentum

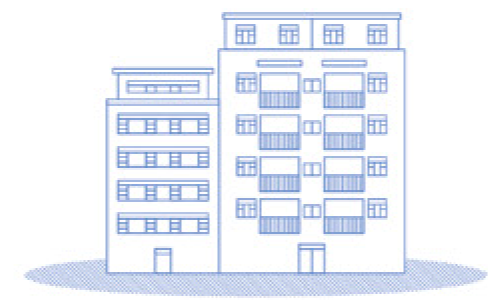
RETURN OF INVESTOR CONFIDENCE

Centa-Macau Climatic Index
The index has been greater than 50 for 5 consecutive quarters since 2Q 2016 – indicating positive market sentiments and an upward trend of property prices in the near future.



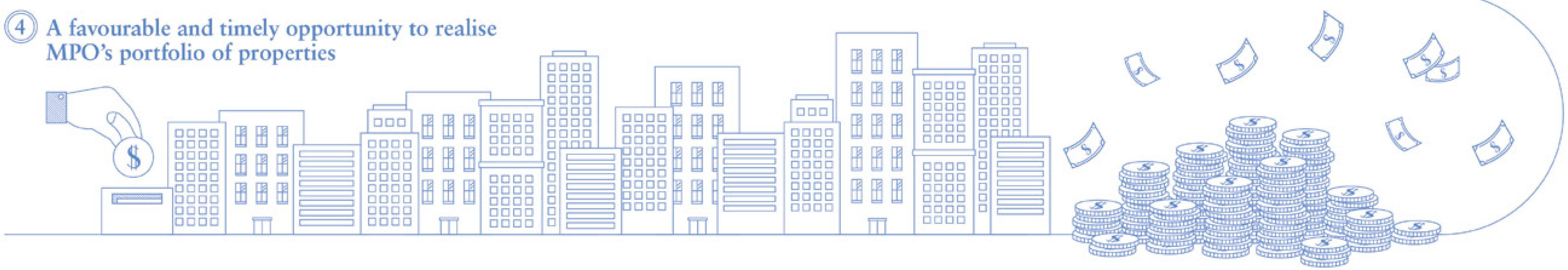
RESIDENTIAL PROPERTY MARKET SHOWS IMPROVEMENT

Total sale value
US$4.9 billion
up 29% YoY
(as at 1H 2017)



Source: Centaline Macau / DSF

④ A favourable and timely opportunity to realise MPO's portfolio of properties



Chairman's Message

At this time last year, Macau had suffered a gaming and property downturn lasting more than two years. Amid fragile sentiment, I cautiously highlighted some early positive indicators suggesting that a gradual recovery in property market values was in sight.

Today, Macau's prospects are looking much brighter. Gaming revenue has rebounded for 13 consecutive months, returning the economy to growth. In tandem, property values have begun to recover.

We came through this challenging period thanks to our prudent debt and cash flow management.

By focusing on enhancing the quality and profile of our assets in anticipation of an eventual upturn, our Company is well positioned today to benefit further from what we expect to be a gradual, but continuing, recovery in property values.

FINANCIAL PERFORMANCE

MPO's portfolio of properties was valued at US$425.7 million as at 30 June 2017, an increase of 9.7% on the previous year. Adjusted NAV rose by 10.2% to US$249.3 million, equivalent to US$3.26 (250 pence) per share.

IFRS NAV increased 20.8% to US$128.8 million, with an IFRS NAV per share of US$1.69 (129 pence).

Total cash at the period end stood at US$16.2 million and total borrowings were US$174.0 million, equating to a loan-to-value ratio of 39.4%.

MPO's closing share price as at 30 June 2017 had increased 49.5% over the year to 157 pence, yet was still at a 37.2% discount to Adjusted NAV per share.

REMAINING RESILIENT IN A CHALLENGING ENVIRONMENT

We have continued to enhance our portfolio, which stands out in terms of quality and positioning, through asset management and marketing initiatives.

Leasing occupancy at our flagship residential tower, *The Waterside*, rose strongly from 40% to more than 60% over the period, benefitting from our extensive refurbishment programme and an improvement in the VIP gaming segment. Our focus is now on increasing rental values.

Sales at our mid-market residential development, *The Fountainside*, remained challenging amid the introduction of further mortgage restrictions by the government. However, we are beginning to make headway, with one unit recently divested.

We have expanded our divestment strategy for *Estrada da Penha* by appointing a specialised international agency to manage the sale of this exceptional private villa.

As we progress towards the advanced stages of planning approval for our prime retail redevelopment site, *Senado Square*, we remain open to divesting the property at an acceptable price.

CHRIS RUSSELL
CHAIRMAN

A PROMISING OUTLOOK

Macau's economy is forecast to grow at an average rate of approximately 8% this year and next on the back of a stronger China economy, improving gross gaming revenue and ongoing support by the Chinese government.

Large-scale new infrastructure developments will boost visitor capacity and support the city's growth momentum, as well as its transition into a world-class leisure and tourism centre. The much-anticipated Hong Kong-Zhuhai-Macau Bridge, set to open in 2018, is likely to be a significant game-changer, enabling greater ease of access to Macau's wide variety of attractions.

With a limited supply of new properties and barring any unforeseen negative economic or political developments, a continued recovery in property prices is the most likely future path.

PORTFOLIO REALISATION

Having navigated through the downturn, our overriding focus is now on realising asset values into the recovery. With this in mind, the Board is continuing to assess all forms of potential divestment options that might benefit shareholders.

In late 2016, the Company received a bid for its entire portfolio – the first serious combined offer for our assets. Driven by the clear attraction of offering shareholders a complete and clean exit within a short period of time, we engaged with the interested party but the final offer remained at a substantial discount to MPO's end-December 2016 Adjusted NAV. This was considered unacceptable and rejected by the Directors and key shareholders, particularly in light of the clear evidence of a continued recovery in the property cycle.

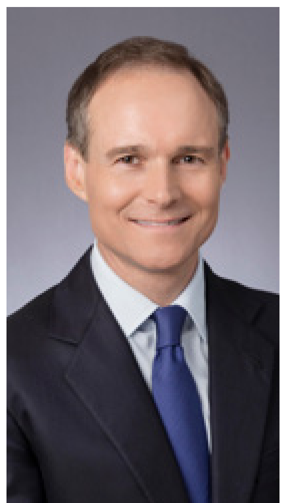
LOOKING AHEAD

Sentiment in Macau has turned, as we anticipated, with a recovery in property prices proving to be gradual but sustained. Our portfolio is prime and well positioned. We remain wholly committed to our goal of divesting our assets, maximising exit values and returning cash to shareholders over the next two years.

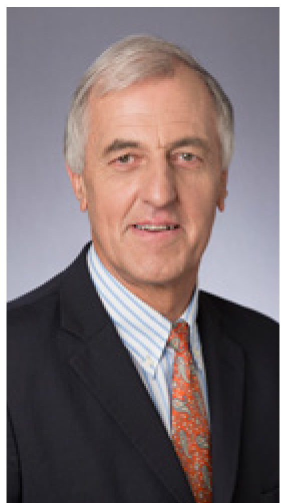
CHRIS RUSSELL
CHAIRMAN
MACAU PROPERTY OPPORTUNITIES FUND LIMITED
27 SEPTEMBER 2017

Board of Directors

CHRIS RUSSELL



THOMAS ASHWORTH



ALAN CLIFTON

WILFRED WOO

CHRIS RUSSELL
CHAIRMAN

Chris Russell is Non-Executive Chairman of F&C Commercial Property Trust Ltd and a Non-Executive Director of a number of investment and financial companies – including London-listed HICL Infrastructure Ltd and Ruffer Investment Company Ltd. Mr Russell was previously an Executive Director of Gartmore Investment Management plc, heading up its operations in the US and Japan. Before joining Gartmore, he was a holding board director at the Jardine Fleming Group in Hong Kong. Mr Russell is a Chartered Accountant and a Fellow of the UK Society of Investment Professionals. He is a resident of Guernsey.

THOMAS ASHWORTH
NON-EXECUTIVE DIRECTOR

Thomas Ashworth has more than 30 years of experience in finance, investment management and real estate. He began his career at HSBC in London before relocating in 1995 to Hong Kong, where he worked for several global investment banks prior to establishing a series of entrepreneurial ventures in the finance and alternative investment sectors. Encouraged by the long-term growth potential of Macau and its deeply undervalued real estate market, he identified numerous early-stage property investment opportunities in the territory, which led him to co-found Sniper Capital Limited in 2004. Mr Ashworth is a British national.

ALAN CLIFTON
NON-EXECUTIVE DIRECTOR

Alan Clifton began his career at stockbroker Kitcat & Aitken, first as an analyst, thereafter becoming a Partner and then a Managing Partner, prior to the firm's acquisition by Royal Bank of Canada. He was subsequently invited to take up the role of Managing Director, overseeing the asset management arm of Aviva plc, the UK's largest insurance group. He is currently Chairman of JP Morgan Japanese Smaller Companies Trust plc and International Biotechnology Trust plc, and a Director of several other investment companies. Mr Clifton is a UK resident.

WILFRED WOO
NON-EXECUTIVE DIRECTOR

Wilfred Woo is a qualified chartered accountant who joined Coopers & Lybrand as an auditor in 1982, before becoming Chief Financial Officer in 1990 at Abbey Woods Development Limited, a real estate company listed on the Toronto Stock Exchange. He has since spent more than 25 years with the Kuok Group, notably with Kerry Properties Limited and Shangri-La Asia Limited. He currently holds senior management and board positions at Shangri-La-linked companies as well as a Kerry Properties-linked company listed on the Philippine Stock Exchange. Mr Woo is a Canadian citizen.

Regional Geography

GUANGDONG - HONG KONG - MACAU GREATER BAY AREA

Regional Geography

MACAU & SURROUNDS

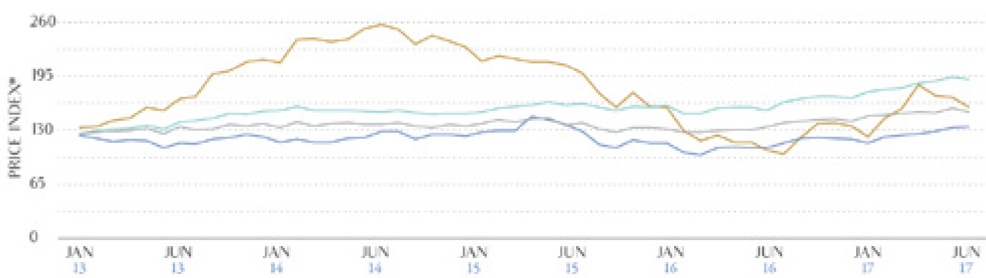
Financial Review

MANAGER'S REPORT

	2013 [1]	2014	2015	2016	2017
NAV (IFRS) (US$ million)	214.8	222.9	155.4	106.6	128.8
NAV per share (IFRS) (US$)	2.39	2.74	2.00	1.40	1.69
Adjusted NAV (US$ million)	336.4	397.8	308.0	226.3	249.3
Adjusted NAV per share (US$)	3.74	4.89	3.97	2.96	3.26
Adjusted NAV per share (pence) [2]	246	286	253	223	250
Share price (pence)	153.5	254.0	209.0	105.0	157.0
Portfolio valuation (US$ million)	452.9	535.8	463.7	393.7	425.7
Loan-to-value ratio (%)	20	22	34	40	39

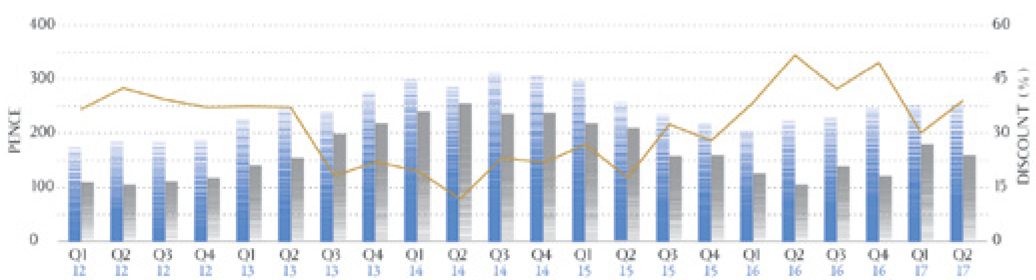
[1] Figures incorporated adjustments for deferred tax provisions.
[2] Based on the following US Dollar/Sterling exchange rates on 30 June - 2013: 1.521; 2014: 1.710; 2015: 1.573; 2016: 1.326; 2017: 1.303

MPO SHARE PRICE vs. HANG SENG, FTSE SMALLCAP & FTSE ALL-SHARE INDICES



*Re-based to MPO share price.
Source: Bloomberg / Sniper Capital

SHARE PRICE DISCOUNT TO ADJUSTED NAV



Financial Review

Macau has emerged from a two-year bleak economy and is now experiencing renewed growth, driven primarily by a sustainable revenue pick-up in the gaming industry. Amid a return of investor confidence, the property market has also recovered, leading to an improved performance by MPO.

FINANCIAL RESULTS

MPO completed the fiscal year with a 9.7% year-on-year (YoY) appreciation in its portfolio valuation to US$425.7 million.

The Company achieved 10.2% YoY growth on its Adjusted Net Asset Value to US$249.3 million, which translates to US$3.26 (250 pence) per share. IFRS NAV increased by 20.8% over the one-year period to US$128.8 million, or US$1.69 (129 pence) per share.

As at 30 June 2017, the Company's share price had risen 49.5% over the year to 157 pence. The total number of shares in issue was 76,432,964.

CAPITAL MANAGEMENT

The Company's balance sheet remains healthy.

As at 30 June 2017, the Company had combined assets worth US$323.4 million and total liabilities of US$194.6 million. Our cash balance increased to US$16.2 million, comprising US$13.1 million in free cash and US$3.1 million pledged as collateral for credit facilities.

During the year, the loan facility for *The Fountainside* was extended for another two years to March 2020, while one of the two loan facilities for *Estrada da Penha* was extended to mature in June 2019.

Overall borrowings stood at US$174.0 million, an increase of US$9.5 million, translating to a slightly improved loan-to-value ratio of 39.4%, based on a fiscal year-end valuation.

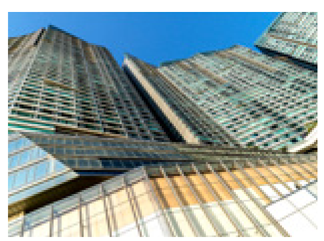
While continuing its mandate of prudent capital conservation and proactive asset management, the Company is now moving into a divestment mode with the objective of maximising the portfolio's exit values and returning cash to shareholders over the next two years.

Portfolio Overview

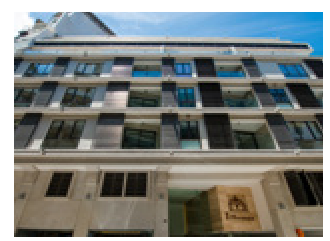
	SECTOR	TYPE	CURRENT STATUS	NO. OF UNITS	COMMITMENT US$ million	GROSS FLOOR AREA Square feet	ACQUISITION COST US$ million	PROJECT DEV. COST US$ million	MARKET VALUATION US$ million	CHANGE IN VALUE Based on market value: Over the year	CHANGE IN VALUE Based on market value: Since acquisition	PROJECT COMPOSITION Based on market value
The Waterside Tower Six of One Central Residences*	LUXURY RESIDENTIAL	INVESTMENT	LEASING AND ASSET MANAGEMENT	59	99.5	148,000	87.2	12.3	241.2	16.7%	176.6%	56.7%
One Central Residences Strata Units	LUXURY RESIDENTIAL	INVESTMENT	OPPORTUNISTIC DIVESTMENT	3	6.9	6,400	6.9	N.A.	10.2	16.7%	48.2%	2.4%
The Fountainside	LOW-DENSITY RESIDENTIAL	REDEVELOPMENT	SALES PHASE	42	11.5**	33,984**	4.0**	7.5**	43.4	-0.6%	992.1%	10.2%
Estrada da Penha	LUXURY RESIDENTIAL	INVESTMENT	DIVESTMENT PHASE	N.A.	27.9	12,030	26.9	1.0	45.7	10.2%	70.3%	10.7%
Senado Square	PRIME RETAIL	REDEVELOPMENT	ADVANCE PLANNING	N.A.	47.0	67,800	16.0	31.0	84.8	-2.8%	430.6%	19.9%
Smaller Property	RESIDENTIAL	INVESTMENT	OPPORTUNISTIC DIVESTMENT	N.A.	0.4	700	0.4	N.A.	0.4	-0.6%	6.3%	0.1%
TOTAL					193.2	268,914	141.4	51.8	425.7	9.7%	201.4%	100%

* One Central is a trademark registered in Macau SAR under the name of Basecity Investments Limited. Sniper Capital Limited, Macau Property Opportunities Fund Limited, MPOF Macau (Site 5) Limited, Bela Vista Property Services Limited and The Waterside are not associated with Basecity Investments Limited, Shun Tak Holdings Limited or Hongkong Land Holdings Limited.

** Information listed refers to the 14 remaining units available for sale.



The Waterside



The Fountainside

Estrada da Penha

Senado Square

Portfolio Updates

MANAGER'S REPORT

The Waterside

Standing sentinel on the Macau Peninsula overlooking Nam Van Lake and Macau's cityscape, *The Waterside* at One Central Residences is a 39-storey premier waterfront residential development comprising 59 tastefully designed suites available for lease.

Occupancy at *The Waterside* was 62% as at the end of June 2017, boosted by a total of 33 new leases secured during the financial year. This was the property's best performance in two years, during which the occupancy rate had dipped to as low as 30%.

The healthier occupancy level was aided by Macau's recovering gaming industry, in turn driven by a nascent revival in the VIP gaming segment. An extensive asset enhancement programme initiated during the downturn, coupled with our steadfast focus on tenant service, significantly augmented *The Waterside's* desirability.

The Waterside has maintained a fairly balanced 50-50 tenant mix in the gaming and non-gaming industries. This helps anchor the tower on a sustainable footing amid Macau's continued economic diversification efforts and ensures a more stable stream of rental income.

Given the improved occupancy, we are shifting our focus to raising rental values. As at 30 June 2017, *The Waterside* commanded an average rent of US$2.27 per square foot per month, versus a high in 2014 of US$3.19 per square foot per month.

We remain committed to improving *The Waterside's* occupancy rate further and will focus on maximising rental growth going forward, while awaiting a favourable opportunity to divest the property, most likely through an en bloc sale.

STRATA UNITS AT ONE CENTRAL RESIDENCES

One of the four remaining strata units at One Central Residences was successfully disposed of in March for US$5 million. The sale price was a 13% premium to the property's valuation of US$4.5 million as at 31 December 2016.

The Company will continue to pursue its opportunistic divestment strategy for the remaining three apartments.

THE WATERSIDE

THE FOUNTAINSIDE

The Fountainside

The Fountainside is a classic, low-density residential development located in Macau's prime Penha Hill district. Masterfully combining a traditional Portuguese façade with modern, sustainable architecture, the freehold property comprises 38 apartments and 4 villas, with 30 car parking spaces.

A 1,620-square-foot apartment was sold in June at close to valuation for US$1.3 million, or US$810 per square foot. This was the first sale at the property in almost three years – a successful outcome of our flexible sale packages introduced at the beginning of the year.

The Fountainside has seen a total of 28 residential units and 8 car parking spaces sold for a combined value of US$30.1 million at the close of the financial year.

The introduction of a new housing policy in May that tightened mortgage loan caps on residential purchases by locals and foreigners is expected to dampen buyers' investment appetite in the short term, leading to a potential slowdown in sales enquiries.

Nonetheless, given that there is a limited number of new developments in the Penha Hill district, we are confident that *The Fountainside* is well positioned, with the smaller units appealing particularly to first-time local homebuyers and upgraders who are not affected by the new policy. Meanwhile, we remain mindful of the challenge of selling the larger apartments and villas due to the considerable lump sums required for the purchase.

Riding on the successful sale in June and looking to maximise the property's exit value, we are continuing to explore innovative marketing strategies to maintain interest levels and to expand our reach to targeted groups of buyers.

As at the period end, 10 apartments, 4 villas and 18 car parking spaces were available for sale at *The Fountainside*. The average asking price of the residential units was HK$9,160 (US$1,174) per square foot.

Estrada da Penha

Estrada da Penha is a colonial-style villa perched on Penha Hill, offering astounding views of the South China Sea and Hengqin Island.

The prestigious villa has a gross floor area of approximately 12,000 square feet spread over three levels and two basements. It also boasts private patios and sheltered car porch for four vehicles.

We are of the view that high-net-worth individuals and wealthy investors are still scouting unique, ultra-luxury residential property – the likes of *Estrada da Penha* – as second residences or investment assets in the region. There was continued strong growth in the number of ultra-wealthy individuals in China and Hong Kong in 2016, among whom, luxury residential properties remain a favoured asset class.

In accordance with the divestment strategy planned for *Estrada da Penha*, the Company has appointed an international marketing agency specialising in ultra-luxury property transactions to spearhead the disposal of the villa.

ESTRADA DA PENHA

SENADO SQUARE

Senado Square

Senado Square is positioned as a prime-site retail mall in the heritage-rich, non-gaming district of central Macau. The 67,800-square-foot redevelopment, when completed, will feature a diversified retail mix including international brands, and food and beverage offerings.

The receipt of the architectural concept plan approval last December, after many years of work, has significantly boosted the appeal of this landmark asset. Amid ongoing dialogue with relevant authorities to make continued headway in the planning approval process, the Company is continuing to evaluate all options to maximise returns from this unique investment to shareholders.

Macroeconomic Highlights & Outlook

MANAGER'S REPORT

1H 2017 PERFORMANCE	2017 FORECAST (YoY)	2018 FORECAST (YoY)
GROSS DOMESTIC PRODUCT US$23.14 billion up 10.9% YoY	10.3%	5.3%
GROSS GAMING REVENUE US$15.8 billion up 17.2% YoY	18%	9%
MASS GAMING REVENUE US$6.9 billion up 8% YoY	13%	10%
VIP GAMING REVENUE US$8.9 billion up 25% YoY	24%	8%

Source: DSEC / DICJ /EIU / Morgan Stanley

TOURIST ARRIVAL

15.6 million
up 5.4% YoY
(as of 1H 2017)
up 5% YoY
(2017 forecast)

TOP REGION

66%
from China

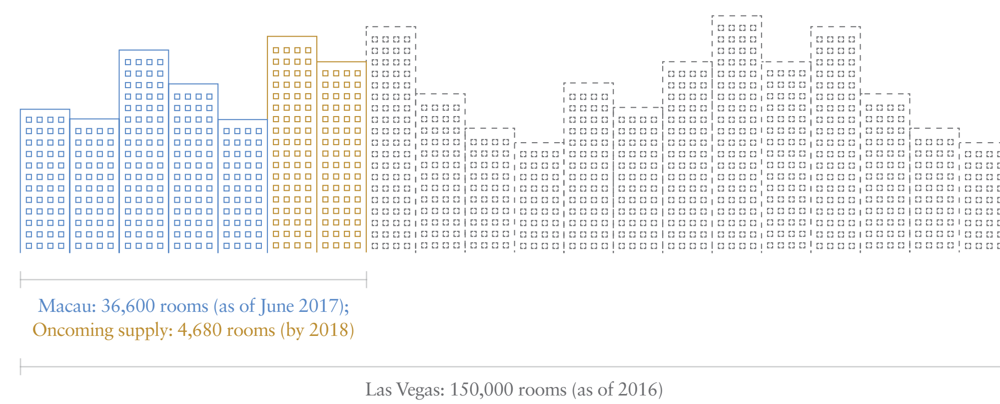
MASSIVE OPPORTUNITY FOR MACAU

200 million
eligible Chinese nationals to travel out of China by 2020

Source: DSEC / CLSA / MGTO

POTENTIAL FOR MORE HOTEL ROOMS IN MACAU

	2017 FORECAST (YoY)	2018 FORECAST (YoY)
36,600 (as at June 2017)	6%	7% to reach 41,280 rooms



Source: DSEC / LVCVA / Union Gaming

Macroeconomic Outlook

Macau remains unmatched in its position as the world's largest gaming hub and it is also gradually gaining traction as a world-class leisure and tourism destination. These bode well for the territory's recovering economy and its global profile will continue to grow, as infrastructure developments further enhance its accessibility.

THE RETURN OF MACAU'S DYNAMISM

Macau is enjoying a genuine and meaningful economic recovery, following the sharp recession from 2014 to 2016.

Moody's Investor Services in May affirmed an "Aa3" rating for Macau and upgraded its outlook from negative to stable. This comes largely on the back of the recovery in gaming revenues, but is also supported by Macau's ongoing diversification towards non-gaming activities, which has underpinned gaming operators' profitability and enhanced the resilience of economic growth.

In the first half of 2017, real gross domestic product accelerated 10.9% year-on-year (YoY) to MOP185.14 billion (US$23.14 billion), due mainly to solid gaming and tourism growth.

The gaming sector, the heavyweight contributor to Macau's economy, had delivered 11 months of straight gains by the end of 1H 2017. Gross gaming revenue (GGR) is on an upward trend, having surged 25.9% YoY to US$2.5 billion in the month of June 2017. The growth in the gaming sector appears to be led by a recovery in the VIP segment, which is generating a revenue stream growing at triple the rate of those in the mass and premium mass segments. In the first half of 2017, the city's VIP gaming revenue rose 25% from the previous year to US$8.9 billion, while mass-market revenue grew 8% YoY to US$6.9 billion.

Looking ahead, GGR is expected to increase by 18% YoY for the entire year of 2017. An average annual growth rate of 9% is estimated for the next six years, which would boost GGR to potentially reach US$46 billion by 2022 – a similar level to the previous market peak of US$45 billion recorded in 2013.

Despite the positive growth in gaming revenues, it is noteworthy that any substantial increase in VIP revenue growth may attract further scrutiny by China's central government as part of its ongoing efforts to curb outbound capital flows. The more sustainable mass gaming segment is expected to grow alongside China's economic expansion and increasing gaming penetration among the country's middle-class population.

In recent years, Macau has been working hard to build a long-term sustainable economic model by focusing on growing non-gaming tourism and rebranding itself as an international integrated resort destination for families and the mass tourism market.

In 1H 2017, tourist arrivals increased 5.4% from 1H 2016 to 15.6 million, of which 66% were from mainland China. Macau has great potential to continue attracting Chinese outbound tourists, a market which is expected to hit 200 million by 2020. To continue to cater to this market, apart from building more family attractions, Macau is also working on its hotel room supply that stood at 36,600 rooms as of June 2017. Supply is expected to increase by 6% in 2017 and by another 7% in 2018 to reach around 41,280 rooms – still significantly below the 150,000 rooms in Las Vegas.

INFRASTRUCTURE COMPLETIONS TO BENEFIT MACAU

Several transportation infrastructure developments in and around Macau are supporting the city's growth momentum.

The new Taipa Maritime Terminal, which was delayed for seven years, finally commenced operations in June. The terminal better facilitates sea travel between Macau and the nearby cities, and helps redirect tourist traffic from Macau Peninsula's Outer Harbour Ferry Terminal to Cotai's arrival point, where the new integrated resorts cluster is located. Resorts along the Cotai strip, including the upcoming MGM Cotai and Grand Lisboa Palace, are likely to benefit from the new facility.

The northern extension of Macau International Airport's passenger terminal building will – upon completion later this year – enable the airport to handle up to 7.8 million passengers annually. In addition, six new routes between Macau and short- to mid-haul destinations will be launched this year, further boosting the city's connectivity in the region and supporting its tourism industry.

Within the Guangdong-Hong Kong-Macau Greater Bay Area[1], the Hong Kong-Zhuhai-Macau Bridge will be completed by the end of this year. It is expected to commence operations during 2018, with some 50,000 vehicles forecast to traverse it each day by 2035. Hot on the heels of the bridge's completion is the Shenzhen-Zhongshan tunnel, which has a target completion by 2024 and is expected to see throughput of 90,000 vehicles daily. These two key connectivity infrastructure developments will be significant drivers of travel by mainland Chinese into Macau.

The projects will boost visitor capacity, reshape tourists' travel plans and routes to Macau, and help support the territory's transformation into a world-class leisure and tourism hub.

[1] The Guangdong-Hong Kong-Macau Greater Bay Area comprises 11 cities: Hong Kong, Macau, Dongguan, Foshan, Guangzhou, Huizhou, Jiangmen, Shenzhen, Zhaoqing, Zhongshan and Zhuhai. The Greater Bay Area concept was championed by Chinese Premier Li Keqiang to promote economic integration among the cities. The 57,753 sq km area has been compared with the bay areas of New York (17,405 sq km), San Francisco (17,900 sq km) and Tokyo (36,890 sq km).

CHINA'S CENTRAL GOVERNMENT ACTS ON PLEDGE OF SUPPORT TO MACAU

As expressed in the Chinese government's 13th Five-Year Plan and One Belt, One Road initiative, Beijing aims to diversify Macau's economy and to develop the territory as a top-ranked tourism destination.

To promote Macau's economic growth and encourage diversification, a series of support measures have been introduced, including a scheme that allows Macau-registered vehicles to enter Hengqin and a "free-to-travel yacht scheme" to promote leisure journeys on the waters between Guangdong Province and Macau.

HENGQIN ISLAND – A PERFECT COMPLEMENT TO MACAU

Hengqin's future development of non-gaming facilities is designed to work in synergy with Macau's economic diversification efforts. The island provides a respite from the tight labour market and limited land supply in Macau, and supports the city's mass tourism growth.

The non-gaming facilities on Hengqin are likely to benefit Macau's tourism industry, with visitors to the island expected to spill over into Macau and vice versa. Some key developments include: an SJM's project being developed in partnership with Hengqin Tourism and Transportation Services Centre in the Guangdong-Macau Cooperation Industrial Park; Sands China's partnership with Hengqin Chimelong International Ocean Resorts; Galaxy's hotel resort project; and MGM China's investment in a non-gaming project, whose details are undisclosed while still awaiting government approval.

RISK AND UNCERTAINTIES

Macau's economy is heavily reliant on the gaming sector. With gaming concessions due to expire in 2020 and 2022, there are uncertainties in the industry as the government has yet to announce its plans for concession renewals or other changes being considered.

Additionally, despite a recent rebound in VIP gaming revenues, this segment remains volatile as it is highly exposed and responsive to any shifts in the China central government policies, one of which is the anti-graft campaign. Nonetheless, Macau has stepped up its audit on the junkets to become a better regulated gaming hub.

Although Beijing's moves to stem capital outflows are intended to control the devaluation of the renminbi, they have affected Macau's economic growth. The further strengthening of the US dollar may exacerbate the situation and add momentum to Chinese capital outflows, which in turn could have a material impact on Macau and the emerging markets.

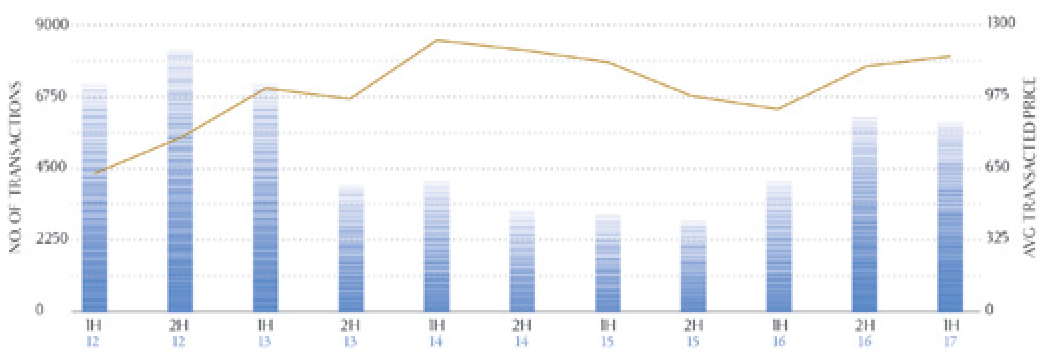
The introduction in May of a new housing policy on mortgage loan caps for residential purchases is expected to dent investors' appetite for property, at least in the short term. Additionally, there are concerns that the central government may introduce further tightening measures in the mainland's property market, which could pose downside risks to the economy. Property is a key investment class and store of wealth for mainland Chinese. Therefore, any property cooling measures would not only curb private consumption spending in China, but also dampen Chinese investors' appetite for discretionary spending in Macau and elsewhere.

Property Market Overview

MANAGER'S REPORT

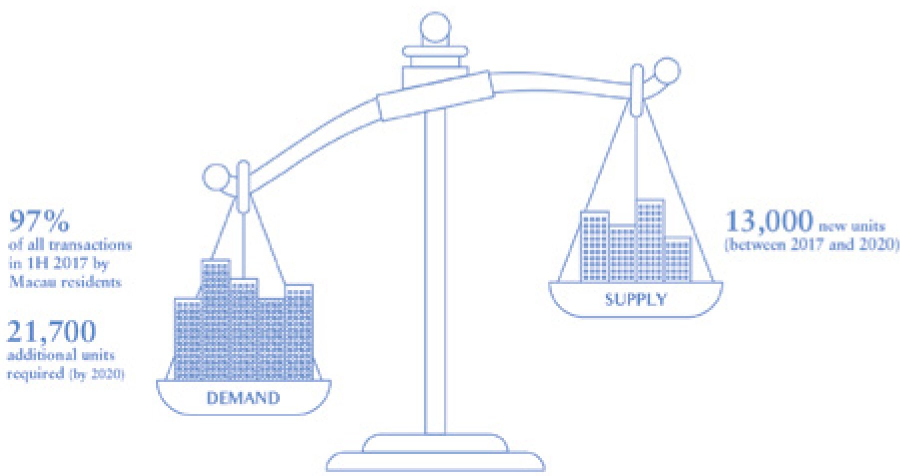
MACAU RESIDENTIAL TRANSACTION VALUE AND VOLUME

(Over a six-month period)



Source: DSF

STRONG DEMAND, TIGHT SUPPLY SITUATION



Source: DSF / Macao Association of Building Contractors and Developers

Property Market Overview

Macau property values are maintaining a positive, albeit gradual, growth momentum. In the first half of 2017, the total volume of residential transactions in Macau rose 40% YoY to 5,875 units, fetching a combined sale value of MOP39.3 billion (US$4.9 billion).

The number of pre-sale units increased 189% to 1,060, while the number of transactions involving existing residential units – comprising resale apartments and brand new units in completed projects – rose 26% to 4,793.

In the first six months of 2017, the average residential transacted price rose 29% YoY to MOP9,160 (US$1,145) per square foot.

While Macau's residential property market has been experiencing a gradual rebound in general, potential buyers of mid- to high-end properties are observed to still adopt a conservative approach in their purchase intention due to the higher quantum and the lower mortgage loan caps.

Amid steady growth in visitor arrivals and a recovery in retail sales, Macau's retail property market has also shown signs of improvement. In the first half of 2017, there were a total of 320 retail shop transactions, an increase of 16% YoY, fetching a total of MOP3,774 million (US$471.8 million).

HOUSING MARKET SUPPORTED BY STRONG DEMAND AND LIMITED SUPPLY

Macau's residential property market is expected to remain supported by demand from cash-rich locals and new families in search of housing upgrades.

In tandem with the city's growing population and affluence, residents' deposits reportedly increased 16% YoY in 2Q 2017 to an all-time high of MOP542.5 billion (US$67.8 billion). Concurrently, there is increasing new family unit formation, with 3,891 marriages registered in 2016 and 2,027 in the first six months of 2017, up 5% YoY and 2% YoY, respectively.

Macau residents remain the key driver of the residential property sales market, accounting for more than 97% of all transactions in the first half of 2017.

Despite healthy demand, new housing supply will remain limited in the short- to mid-term.

According to the Macao Association of Building Contractors and Developers, a total of approximately 13,000 new housing units are expected to come to market between 2017 and 2020.

The average household size in Macau is around three members. Given an estimated population increase of 65,100 by 2020 to a total of 710,000, some 21,700 additional units will be required. With such strong demand predicted for the next four years, Macau could face an acute shortage of housing units.

The availability of the already-scarce residential dwellings has been further restricted by the government land concession policy. Macau's authorities are reclaiming undeveloped land parcels from developers that have failed to complete their projects onsite by the expiry of their 25-year concession term. Until the disagreements are resolved between the developers and the government over the undeveloped sites, they will be left idle – further curbing supply.

In the residential leasing segment, landlords have been adopting a flexible approach to asking rents. The upcoming openings of new integrated resorts – MGM Cotai in 2H 2017 and the Grand Lisboa Palace in 2018 – will create more employment opportunities and are likely to bring in more non-resident workers, which will in turn generate leasing demand. As a result, rental levels are forecast to trend higher in 2018.

POTENTIAL IMPACT OF NEW GOVERNMENT MORTGAGE LOAN POLICY

New government measures related to mortgage loan-to-value ratios took effect in May 2017, with the aim of facilitating the development of a stable housing market. The loan-to-value caps for residential and equitable mortgages on both foreign and non-first-time resident buyers have been lowered further, while those for first-time resident buyers have remained unchanged.

According to the Monetary Authority of Macao, the new policy is designed to curb excessive investment, promote stable development in the housing market and aid banks' risk management.

Since the mortgage policy has remained unchanged for first-time local homebuyers, it has had little impact on that segment. However, overall market sentiment is still likely to be curtailed to some extent, with those who already own residential properties taking a cautious approach to acquiring more assets.

REVISED MORTGAGE LOAN CAPS

MSAR Residents

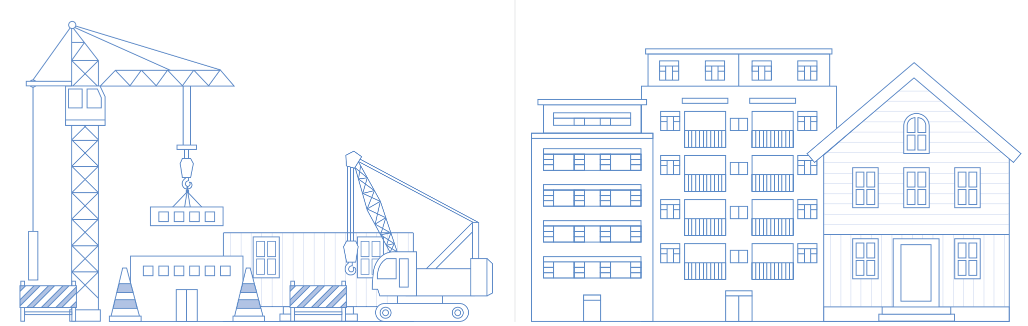
Ratio cap between loan value and property value for mortgage loans

RESIDENTIAL PROPERTY (UNDER CONSTRUCTION)			RESIDENTIAL PROPERTY (COMPLETED)		
Property Value	First Property Acquisition	Subsequent Property Acquisition	Property Value	First Property Acquisition	Subsequent Property Acquisition
> MOP8 mil	50%	LOWERED TO 40%	> MOP8 mil	50%	LOWERED TO 40%
> MOP6 mil to ≤ MOP8 mil	60% (loan cap: MOP4 mil)	LOWERED TO 50% (loan cap: MOP3.2 mil)	> MOP6 mil to ≤ MOP8 mil	60% (loan cap: MOP4 mil)	LOWERED TO 50% (loan cap: MOP3.2 mil)
≤ MOP6 mil	70% (loan cap: MOP3.6 mil)	LOWERED TO 60% (loan cap: MOP3 mil)	> MOP3.3 mil to ≤ MOP6 mil	70% (loan cap: MOP3.6 mil)	LOWERED TO 60% (loan cap: MOP3 mil)
			≤ MOP3.3 mil	90% (loan cap: MOP2.31 mil)	LOWERED TO 70% (loan cap: MOP1.98 mil)

MSAR Non-Residents

Ratio cap between loan value and property value for mortgage loans

RESIDENTIAL PROPERTY (UNDER CONSTRUCTION)		RESIDENTIAL PROPERTY (COMPLETED)	
Property Value	Each Property Acquisition	Property Value	Each Property Acquisition
> MOP8 mil	LOWERED TO 30%	> MOP8 mil	LOWERED TO 30%
> MOP6 mil to ≤ MOP8 mil	LOWERED TO 40% (loan cap: MOP2.4 mil)	> MOP6 mil to ≤ MOP8 mil	LOWERED TO 40% (loan cap: MOP2.4 mil)
≤ MOP6 mil	LOWERED TO 40% (loan cap: MOP2.4 mil)	> MOP3.3 mil to ≤ MOP6 mil	LOWERED TO 50% (loan cap: MOP2.4 mil)
		≤ MOP3.3 mil	LOWERED TO 60% (loan cap: MOP1.65 mil)



Source: Monetary Authority of Macao

LOOKING AHEAD

Although uncertainties remain in the external macroeconomic environment – including possible future interest rate rises by the US Federal Reserve, China's attempts to control capital outflows and global political changes – the overall outlook for Macau's economy appears bright.

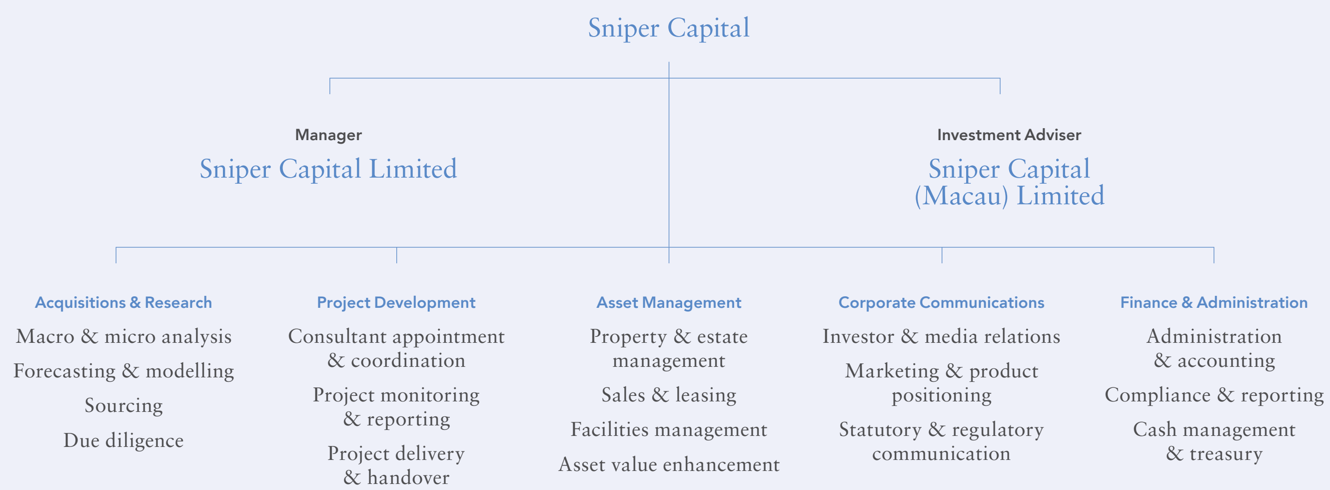
Key infrastructure projects, coupled with continued support from the China central government and a high degree of participation in the Guangdong-Hong Kong-Macau Greater Bay Area Scheme, will enhance Macau's connectivity with mainland cities and Hong Kong, stimulating economic growth and paving the way for the territory's transformation into an international tourism hub.

Amid this improving economic environment and powered by compelling long-term demographic trends, we believe Macau's property market will continue to make a gradual yet sustained recovery.

Glossary of Sources

CCIEE	CHINA CENTER FOR INTERNATIONAL ECONOMIC EXCHANGES
DICJ	GAMING INSPECTION AND COORDINATION BUREAU (MACAU)
DSEC	THE STATISTICS AND CENSUS SERVICE (MACAU)
DSF	FINANCIAL SERVICES BUREAU (MACAU)
EIU	ECONOMIST INTELLIGENCE UNIT
LVCVA	LAS VEGAS CONVENTION AND VISITORS AUTHORITY
MGTO	MACAO GOVERNMENT TOURISM OFFICE

Manager and Adviser



Manager

The day-to-day responsibility for the management of the Macau Property Opportunities Fund's ("MPOF" or the "Company") portfolio rests with Sniper Capital Limited[1].

Founded in 2004, Sniper Capital Limited focuses on capital growth from carefully selected investment, development and redevelopment opportunities in niche and undervalued property markets.

Sniper Capital Limited is focused on the identification, acquisition and development of properties chosen for their location, current and potential value, or for the sustainable demand for the accommodation or facilities they offer.

Sniper Capital Limited's team of over 30 professionals covers all the required investment and development disciplines, including research, site acquisition, project development, asset management, investor relations and finance.

Working closely with Headland Developments Limited[2], Sniper Capital Limited ensures that all necessary project management skills and services are provided in a way that will deliver each MPOF project to the right standards and on budget.

With its 30 June 2017 holding of 12.7 million shares or 16.6% of the Company's issued share capital, Sniper Investments Limited – an investment vehicle associated with Sniper Capital Limited – is now the second largest shareholder in MPOF, which bears witness to Sniper Capital Limited's belief in the Company's long-term prospects.

Adviser

The Company's Board of Directors and Manager are advised by Sniper Capital (Macau) Limited, which has a highly developed network of contacts and associates spanning Macau's financial and business community.

The Investment Adviser's brief is to source, analyse and recommend potential investment opportunities, whilst providing the Board with property investment and management advisory services in relation to the Company's investments.

For more information, please visit www.snipercapital.com

1 Thomas Ashworth and Martin Tacon, Directors of Sniper Capital Limited, have a beneficial interest in Sniper Investments Limited and Thomas Ashworth is also a Non-Executive Director of the Company.

2 Headland Developments Limited is part owned by Thomas Ashworth and Martin Tacon, Directors of Sniper Capital Limited, and therefore constitutes a related party of the Company.

Investment Policy

The Company's investment objective is to provide shareholders with an attractive total return, which is intended to primarily comprise capital growth but with the potential for distributions over the medium to long term.

Asset allocation

The Company aims to achieve its investment objective by investing in property segments in Macau. The Company's portfolio may comprise a mixture of asset classes which include residential, retail, leisure, industrial and office properties.

The Company targets developments which are often overlooked by large developers and which, in the opinion of the Manager and the Investment Adviser, offer opportunities to achieve an attractive total return through their location, sector or 'value-added' potential.

The Company looks to add value through redevelopment, development, refurbishment, change of use and repositioning. In particular, it seeks to acquire undervalued sites in attractive locations where it believes there is a sustainable end-user demand. The Company seeks to maximise the total return on its portfolio, either through selling the properties after development or redevelopment or by generating rental income.

Diversification

The Company, as an active investor, will consider concentration risk from both a sector as well as an asset perspective. However, if assets are realised and not replaced, concentration risk will inevitably increase. The Company may wholly own its investments (directly or indirectly) or it may invest through a joint venture arrangement if the terms of the arrangement are deemed suitable. There is no limit on the number of projects in which the Company may invest and there is no minimum or maximum limit on the length of time that any investment may be held.

No single investment in a development will represent more than 40% of the Gross Asset Value of the Company at the time of investment.

Gearing

The Company and its subsidiaries (together referred to as the "Group") have the ability to borrow, both at Company level and Special Purpose Vehicles ("SPVs") level, if SPVs are used in relation to particular investments. The Group, either directly or through its SPVs, may not borrow amounts in relation to any single investment that exceed 75% of that investment's market value. When the Company is fully invested, the maximum amount of net borrowings that the Group may have as a whole (i.e. all principal amounts borrowed by the Group less the Group's cash balances) will not exceed 60% of the aggregate value of all the Group's investments at the time that any new borrowings are made. As at 30 June 2017, the Group had borrowings that were 39% of the aggregate value of the portfolio. After accounting for cash balances, the Group had net borrowings that were 37% of the aggregate value of all investments held. The Group may be required to use its investments as security for the borrowings it puts in place.

The Company's Articles of Incorporation do not contain any restriction on borrowings.

FINANCIAL STATEMENTS

GENERAL INFORMATION

Directors' Report

The Directors present their report and audited financial statements of the Group for the year ended 30 June 2017. This Directors' report should be read together with Corporate Governance Report on pages 50 to 54.

Principal activities

Macau Property Opportunities Fund Limited (the "Company") is a Guernsey-registered closed-ended investment fund traded on the London Stock Exchange (the "LSE"). Following the passing of all resolutions at the Extraordinary General Meeting held on 28 June 2010, the Company's shares obtained a Premium Listing on the LSE Main Market on 30 June 2010.

The Company is an authorised entity under the Authorised Closed-Ended Investment Schemes Rules 2008 and is regulated by the Guernsey Financial Services Commission ("GFSC"). During the year, the principal activities of the Company and its subsidiaries as listed in Note 4 to the consolidated financial statements (together referred to as the "Group") were property development and investment in Macau.

Business review

A review of the business during the year, together with likely future developments, is contained in the Chairman's Message on pages 10 to 13 and in the Manager's Report on pages 18 to 40.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Manager's Report. The financial position of the Group, its cash flows and its liquidity position are described in the Capital Management section of the Manager's Report.

The financial risk management objectives and policies of the Group and the exposure of the Group to credit risk, market risk and liquidity risk are discussed in Note 2 to the consolidated financial statements.

In accordance with provision C1.3 of the 2016 revision of the UK Corporate Governance Code, (the "UK Code"), the Directors have assessed the financial prospects of the Company for the next 12 months and made an assessment of the Company's ability to continue as a going concern. As part of their assessment of the going concern of the Company, the Directors have reviewed the comprehensive cash flow forecasts prepared by management which make assumptions based upon current and expected future market conditions, including predicted future sales of properties.

The Company's current loan-to-value ratio of each of the properties are well below the covenants per the respective facility agreements while the Company's net borrowing level of 39% is below the overall Company level borrowing restriction of 60%. The Company has continuously adopted a prudent cash management strategy to maintain its existing loan-to-value ratios for all properties below the loan-to-value covenants.

At the Annual General Meeting held on 14 November 2016, the shareholders voted against the Discontinuation Vote which would have led to the realisation of the portfolio of the Company's assets. In accordance with the Articles of Incorporation, the Company now has until November 2018 to hold a further continuation vote on which the shareholders can vote on the future of the Company. The Directors have considered whether the continuation vote before the end of 2018 gives rise to a material uncertainty that might cast significant doubt about the Company's ability to continue as a going concern and have concluded that it does not due to the fact that the Board has the continued support of major shareholders and it is likely that returns from sales of properties would be lower if the Group were forced to sell as a result of discontinuation, given that the market is gradually improving and expected to strengthen.

The Directors are satisfied, based upon the forecasts described above, their assessment of the Group's committed banking facilities and expected continuing compliance with related covenants, that the Company has the resources to continue in business for the foreseeable future and furthermore, are not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. The Directors therefore believe it is appropriate to prepare the financial statements of the Group on a going concern basis.

Directors' Report (continued)

Viability statement

The Board has an on-going and robust process to assess the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity. The Directors have considered each of the Company's principal risks and uncertainties, detailed on pages 53 to 54. The Directors also considered the Company's policy for monitoring, managing and mitigating its exposure to these risks. This assessment involved an evaluation of the potential impact on the Company of these risks occurring. Where appropriate, the Company's financial model is subject to a sensitivity analysis involving flexing a number of key assumptions in the underlying financial forecasts in order to analyse the effect on the Company's net cash flows and other key financial ratios. In accordance with provision C.2.2 of the 2016 revision of the UK Code, the Directors have assessed the prospects of the Company over a longer period than the 12 months required by the going concern provision. The Board has conducted this review for a period covering the next three years. The Board considers three years to be an appropriate time horizon for its strategic plan, being the period over which most of the Company's properties should have completed their respective investment cycle, notwithstanding the outcome of the continuation vote in 2018 which is considered likely to be passed and is discussed under Going Concern above. Based on an assessment of the principal risks facing the Company and the comprehensive stress-test based assessment of the Company's cash positions and prospects, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

Share capital

Ordinary shares

The Company has one class of ordinary shares, which carries no rights to fixed income. On a show of hands, each member – present in person or by proxy – has the right to one vote at general meetings. On a poll, each member is entitled to one vote for every share held.

The Company's Memorandum and Articles of Incorporation contain details relating to the rules that the Company has regarding the appointment and removal of Directors or amendment to the Company's Articles of Incorporation.

Results and dividends

The results for the year are set out in the consolidated financial statements on pages 72 to 75.

Authority to purchase own shares

Following the authority first granted in the Extraordinary General Meeting on 28 June 2010 and subsequently renewed at each Annual General Meeting, a resolution to provide the Company with authority to purchase its own shares will be tabled at the Annual General Meeting on 8 November 2017. The Board has publicly stated its commitment to undertake share buybacks at attractive levels of discount of the share price to Adjusted NAV. The Board intends to renew this authority at the 2017 Annual General Meeting.

During the financial year to 30 June 2016, the Company repurchased 1,101,000 ordinary shares or 1.05% of the originally issued ordinary shares, at an average share price of 176.64p. The Company did not repurchase shares during the current financial year. All shares repurchased pursuant to the buyback programme were cancelled.

Directors' Report (continued)

Significant shareholdings

As at 30 June 2017, a total of 6 shareholders each held more than 3% of the issued ordinary shares of the Company, accounting for a total of 52,526,866 shares (2016: 54,754,012) or 68.72% (2016: 71.64%) of the issued share capital. Significant shareholdings as at 30 June 2017 are detailed below:

Name of Shareholder	No. of Shares	%
Lazard Asset Management LLC	14,396,959	18.84
Sniper Investments Limited	12,693,215	16.61
Universities Superannuation Scheme	10,500,000	13.74
Invesco Asset Management	8,670,101	11.34
Rathbones	3,471,600	4.54
Apollo Multi Asset Management	2,794,991	3.66
Subtotal	**52,526,866**	**68.73**
Others	23,906,098	31.27
Total	76,432,964	100.00

Directors

Biographies of the Directors who served during the year are detailed on pages 14 to 15.

Name	Function	Date of Appointment
Chris Russell	Chairman	8 May 2012
Thomas Ashworth	Director	18 May 2006
Alan Clifton	Director, Chairman of the Audit Committee, the Management Engagement Committee and the Nomination and Remuneration Committee	18 May 2006
Wilfred Woo	Director	3 January 2012

Directors' interests

Directors who held office during the year and had interests in the shares of the Company as at 30 June 2017 were:

	Ordinary Shares of US$0.01	
	Held at 30 June 2017	Held at 30 June 2016
Thomas Ashworth*	-	-
Alan Clifton	100,000	100,000
Wilfred Woo	-	-
Chris Russell	252,548	252,548

* Thomas Ashworth has a beneficial interest in Sniper Investments Limited, which as at the year-end held 12,693,215 shares (2016: 12,693,215).

There have been no changes to the aforementioned interests since 30 June 2017.

Directors' Report (continued)

Non-mainstream pooled investments
The Board notes the changes to the Financial Conduct Authority (FCA) rules ("UK Listing Rules") relating to the restrictions on the retail distribution of unregulated collective investments schemes and close substitutes which came into effect on 1 January 2014.

Following the receipt of legal advice, the Board confirms that it has conducted the Company's affairs in such a manner that the Company would have qualified for approval as an investment trust if it was resident in the United Kingdom, and that it is the Board's intention that the Company will continue to conduct its affairs in such a manner. Thus, the Company is, and the Board expects it will continue to be, outside the scope of the new restrictions and Independent Financial Advisors (IFAs) should therefore be able to recommend ordinary shares in the Company to retail investors in accordance with the FCA relating to non-mainstream investment products.

AIFM directive
The Directors have considered the impact of the EU Alternative Investment Fund Managers Directive (no. 2011/61/EU) ("AIFM Directive"), which was transposed into United Kingdom law on 22 July 2013 with the transitional period having ended in June 2014, on the Company and its operations.

The Company is a non-EU domiciled Alternative Investment Fund which does not currently intend to market its shares within Europe, therefore the Directors consider that neither authorisation nor registration is required.

Directors' remuneration
Directors of the Company are all non-executive and, by way of remuneration, receive an annual fee. During the year, the Directors received the following emoluments in the form of directors' fees from the Company:

	2017 US$	2016 US$
David Hinde*	-	26,615
Thomas Ashworth**	-	-
Alan Clifton	44,974	51,266
Timothy Henderson#	-	-
Wilfred Woo	38,072	43,137
Chris Russell	60,916	58,668
Total	**143,962**	179,686

* David Hinde retired on 13 November 2015.

** As disclosed in Note 18 to the consolidated financial statements, Thomas Ashworth is a shareholder and Director of Headland Developments Limited and Adept Capital Partners Services Limited, and he has a beneficial interest in and is a Director of Sniper Capital Limited and Bela Vista Property Services Limited, all of which received fees from the Group during the year. Thomas Ashworth has waived his Director's fees from the Company.

Timothy Henderson retired from the Board on 8 November 2012. He is a Director of certain SPVs and received US$6,345 (2016: US$7,136) of Directors' fees during the year.

Change of control
There are no agreements that the Company considers significant and to which the Company is party, that would take effect, alter or terminate upon change of control of the Company, following a takeover bid.

Annual General Meeting
The Annual General Meeting of the Company will be held at 2.30pm on 8 November 2017 at Lefebvre Place, Lefebvre Street, St Peter Port, Guernsey.

Directors' Report (continued)

Independent auditors
The Audit Committee reviews the appointment of the external auditor, its effectiveness and its relationship with the Group, which includes monitoring our use of the Auditor for non-audit services and the balance of audit and non-audit fees paid. Following a review of the independence and effectiveness of our external auditor, a resolution will be proposed at the 2017 Annual General Meeting to reappoint Ernst & Young LLP. Each Director believes that there is no relevant information of which the Auditor is unaware. Each has taken all steps necessary, as a director, to be aware of any relevant audit information and to establish that Ernst & Young LLP is made aware of any pertinent information. This confirmation is given and should be interpreted in accordance with the provisions of Section 249 of the Companies (Guernsey) Law, 2008.

Subsequent events
Significant subsequent events have been disclosed in Note 25.

Financial risk management policies and objectives
Financial risk management policies and objectives are disclosed in Note 2.

Principal risks and uncertainties
Principal risks and uncertainties are discussed in the Corporate Governance Report on pages 53 to 54.

On behalf of the Board

Chris Russell

Chairman of the Board
27 September 2017

Corporate Governance Report

The Board has put in place a framework for corporate governance which it believes is appropriate for an investment company. Paragraph 9.8.6R of the UK Listing Rules obliges Boards to report upon their corporate governance arrangements against the UK Code issued by the Financial Reporting Council (the "FRC"). The Company is a member of the Association of Investment Companies (the "AIC") and the Board has considered the principles and recommendations of the AIC's Code of Corporate Governance ("AIC Code") and the AIC Corporate Governance Guide for Investment Companies (the "AIC Guide"). The Board considers that reporting against the principles and recommendations of the AIC Code, and the AIC Guide will provide better information to shareholders. The FRC has provided the AIC with an endorsement letter to cover the latest edition of the AIC Code. The endorsement confirms that by following the AIC Code, investment company boards should fully meet their obligations in relation to the UK Code and paragraph 9.8.6R of the UK Listing Rules.

The AIC Code and the AIC Guide are available on the AIC's website, www.theaic.co.uk. The UK Code is available on the FRC's website, www.frc.org.uk.

The AIC Code includes provisions relating to: the role of the chief executive; executive directors' remuneration; and the need for an internal audit function, which are not considered by the Board to be relevant to the Company, being an externally managed investment company. The Company has therefore not reported further in respect of these provisions.

The GFSC Finance Sector Code of Corporate Governance (the "GFSC Code") came into force in Guernsey on 1 January 2012. The Company is deemed to satisfy the GFSC Code provided that it continues to conduct its governance in accordance with the requirements of the AIC Code.

Except as disclosed below, the Company complied throughout the year with the recommendations of the AIC Code and the relevant provisions of the UK Code.

The Board

The Board consists of four non-executive directors, three of whom, including the Chairman, Chris Russell, are independent of the Company's Manager and Investment Adviser. Thomas Ashworth has a beneficial interest in and is a Director of Sniper Capital Limited. Sniper Capital Limited is the Manager to the Group and received fees during the year as detailed in the Consolidated Statement of Comprehensive Income and in Note 18.

Directors' details are listed on pages 14 to 15 which set out the range of investment, financial and business skills and experience represented. Principle 1 of the AIC Code states that a Board should consider appointing one independent non-executive director to be the senior independent director. The Board, having taken into account its small size and that the Chairman and two other directors are each similarly independent and non-executive, considers it unnecessary to appoint a senior independent director.

The Company's Articles of Incorporation specify that one third by number of the directors are subject to annual re-election at the Annual General Meeting of the Company. The Board has agreed that a minimum of two directors should be offered for re-election each year and that each director shall retire every three years by rotation, therefore Chris Russell and Wilfred Woo shall retire in the current year. Thomas Ashworth will retire annually pursuant to the listing rules of the FCA and Alan Clifton will retire annually pursuant to the AIC Code, as he has now served for over 10 years as a Director of the Company. A retiring director shall be eligible for reappointment. No director shall be required to vacate his office at any time by reason of the fact that he has attained any specific age.

The Board has considered the need for a policy regarding tenure of office; however, the Board believes that any decisions regarding tenure should consider the need for continuity and maintenance of knowledge and experience and to balance this against the need to periodically refresh board's composition and have a balance of skills, experience, age and length of service bearing in mind the limited expected life of the Company.

The Board meets at least four times a year for regular scheduled meetings and, should the nature of the activity of the Company require it, additional meetings may be held, some at short notice. At each meeting, the Board follows a formal agenda that covers the business to be discussed.

To fulfil the recommendation of AIC Code Principle 14 and to give sufficient attention to strategy, the Board discusses strategy at each of its regular scheduled meetings, but holds a separate session annually devoted to strategy.

Corporate Governance Report (continued)

The Board (continued)

Between meetings, there is regular contact with the Manager and the Administrator, and the Board requires to be supplied in a timely manner with information by the Manager, the Company Secretary and other advisers in a form and of a quality to enable it to discharge its duties.

The terms and conditions of appointment of non-executive directors are available for inspection from the Company's registered office.

Performance and evaluation

Pursuant to Principle 7 of the AIC Code which requires a formal and rigorous annual evaluation of its performance, the Board formally reviews its performance annually through an internal process. Internal evaluation of the Board, the Audit Committee, the Nomination and Remuneration Committee, the Management Engagement Committee and individual Directors has taken the form of self-appraisal questionnaires and discussions to determine effectiveness and performance in various areas as well as the Directors' continued independence.

During the year, a formal board performance appraisal was carried out by the Nomination & Remuneration Committee. Following review and collation of the results, the Board considered that the overall performance of the Board during the year had been satisfactory and that the Board is confident in its ability to continue effectively to lead the Company and oversee its affairs. The Board believes that the current mix of skills, experience, knowledge and age of the Directors is appropriate to the requirements of the Company.

New directors receive an induction from the Manager as part of the vetting process of candidates following appointment. All directors receive other relevant training as necessary.

Duties and responsibilities

The Board is responsible to shareholders for the overall management of the Company. The Board has adopted a Schedule of Matters Reserved for the Board which sets out the particular duties of the Board. Such reserved powers include decisions relating to the determination of investment policy and approval of investments, strategy, capital raising, statutory obligations and public disclosure, financial reporting and entering into any material contracts by the Company.

The Directors have access to the advice and services of the Company Secretary and Administrator, who are responsible to the Board for ensuring that board procedures are followed and that it complies with Guernsey Law and applicable rules and regulations of the GFSC and the LSE. Where necessary, in carrying out their duties, the Directors may seek independent professional advice at the expense of the Company. The Company maintains appropriate directors' and officers' liability insurance in respect of legal action against its Directors on an on-going basis.

The Board has responsibility for ensuring that the Company keeps proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company, and which enable it to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008.

The Board has responsibility for ensuring that the Annual Report presents a fair, balanced and understandable assessment of the Company's position and prospects. This responsibility extends to interim and other price-sensitive public reports.

Committees of the Board

Nomination and Remuneration Committee

The Nomination and Remuneration Committee Report is on pages 55 to 56.

Management Engagement Committee

The Management Engagement Committee Report is on page 57.

Audit Committee

The Audit Committee Report is on page 58 to 61.

Corporate Governance Report (continued)

Meeting Attendance

Name	Scheduled Board Meeting (max 4)	Other Board Meeting (max 2)	Audit Committee Meeting (max 4)	Nomination and Remuneration Committee Meeting (max 1)	Management Engagement Committee Meeting (max 0)
Chris Russell	4	2	4	1	-
Thomas Ashworth*	4	1	-	1	-
Alan Clifton	4	1	4	1	-
Wilfred Woo	4	1	4	1	-

* Thomas Ashworth is not a member of the Audit Committee or the Management Engagement Committee.

Internal control and financial reporting

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness, and the Board has, therefore, established a process designed to meet the particular needs of the Group in managing the risks to which it is exposed.

The process takes a risk-based approach to internal control through a matrix which identifies the key functions carried out by the Manager and other key service providers, the various activities undertaken within those functions, the risks associated with each activity and the controls employed to minimise those risks. A residual risk rating is then applied. Regular reports are provided to the Board, highlighting material changes to risk ratings and a formal review of these procedures is carried out by the Audit Committee and reported to the Board on an annual basis and has been completed during the financial year. By their nature, these procedures provide a reasonable, but not absolute, assurance against material misstatement or loss.

At each board meeting, the Board also monitors the Group's investment performance and activities since the last board meeting to ensure that the Manager adheres to the agreed investment policy and approved investment guidelines. Furthermore, at each board meeting, the Board receives reports from the Company Secretary and Administrator in respect of compliance matters and duties performed on behalf of the Company.

The Board considers that an internal audit function specific to the Group is unnecessary and that the systems and procedures employed by the Administrator and Manager, including their own audit functions, provide sufficient assurance that a sound system of internal control, which safeguards the Group's assets, is maintained. Investment advisory services are provided to the Group by Sniper Capital (Macau) Limited. The Board is responsible for setting the overall investment policy and monitors the action of the Manager at regular board meetings. The Board has also delegated administration and company secretarial services to Heritage International Fund Managers Limited but retains accountability for all functions it delegates.

Management agreement

The Company has entered into an agreement with the Manager. This sets out the Manager's key responsibilities, which include proposing the property investment strategy to the Board, identifying property investments to recommend for acquisition and arranging appropriate financing to facilitate the transaction. The Manager is also responsible to the Board for all issues relating to property asset management.

The Company has delegated the provision of all services to external service providers whose work is overseen by the Management Engagement Committee at its regular scheduled meetings. Each year, a detailed review of performance pursuant to their terms of engagement is undertaken by the Management Engagement Committee.

In accordance with Listing Rule 15.6.2(2)R and having formally appraised the performance and resources of the Manager, in the opinion of the Directors, the continuing appointment of the Manager, on the terms agreed, is in the interest of the shareholders as a whole.

Corporate Governance Report (continued)

Relations with shareholders

The Company welcomes the views of shareholders and places great importance on communication with its shareholders. Senior members of the Manager are available at all reasonable times to meet with principal shareholders and key sector analysts. The Manager, Chairman and other Directors are not only available to meet with shareholders, but have actively done so.

Reports on the views of shareholders are provided to the Board on a regular basis. The Board is also kept fully informed of all relevant market commentary on the Company by the Manager and the Corporate Broker.

All shareholders can address their individual concerns to the Company in writing at its registered address. The Annual General Meeting of the Company provides a forum for shareholders to meet and discuss issues with the Directors and the Manager. In addition, the Company maintains a website (www.mpofund.com) which contains comprehensive information, including company notifications, share information, financial reports, investment objectives and policy, investor contacts and information on the Board and corporate governance.

Principal risks and uncertainties

The Group's assets consist of commercial and residential property investments in Macau. Its principal risks are therefore related to the commercial and residential property market in general, but also the particular circumstance of the properties in which they are invested and where relevant, their tenants. The Manager seeks to mitigate these risks through active asset management initiatives and carrying out due diligence work on potential tenants before entering into any new lease agreements. All the properties in the portfolio are insured.

Each Director is aware of the risks inherent in the Group's business and understands the importance of identifying and evaluating these risks. The Board has adopted procedures and controls that enable it to manage these risks within acceptable limits and to meet all its legal and regulatory obligations.

For each material risk, the likelihood and consequence are identified, management controls and frequency of monitoring are confirmed and results are reported and discussed at board meetings.

The Company's principal risk factors are fully discussed in the Company's prospectus, available on the Company's website and should be reviewed by shareholders. Note 2 further describes the Group's risk management processes.

The principal risks and uncertainties faced by the Group are set out below:

- Macau's real estate market is showing signs of stabilisation following two years of declining property prices. Any sustained further market decline in Macau could prevent the Group from being able to realise its assets.

- There can be no guarantee that Macau will remain the only centre in China where gambling is legal. Changes in policies of the government or changes in laws and regulations may result in the legalisation of gambling in other parts of China. This in turn may have an adverse effect on Macau's economy and property market and the favourable treatment of gambling in Macau. This is an inherent risk of investing in the Macau region and therefore cannot be mitigated or managed by the Board.

- New legislation or regulations, or different or more stringent interpretation or enforcement of existing laws or regulations, in any jurisdiction in which the Group operates, may have a material adverse effect on the Group's financial performance and returns to shareholders.

- Macau law governs the majority of the Group's agreements which relate to property investments, property ownership rights and securities. It cannot be guaranteed that the Group will be able to enforce any such agreements or that remedies will be available outside of Macau.

Corporate Governance Report (continued)

Principal risks and uncertainties (continued)

- The Group's return on its investments and prospects are subject to economic, legal, political and social developments in Macau and China, and the Asia Pacific region in general. In particular, the Group's return on its investments may be adversely affected by:

  – changes in Macau's and China's political, economic and social conditions;
  – changes in policies of the government or changes in laws and regulations (including the revocation or modification by the Chinese Government of Macau's SAR status and high autonomy levels), or the interpretation of laws and regulations;
  – changes in foreign exchange rates or regulations;
  – measures that may be introduced to control inflation, such as interest rate increases;
  – changes in the rate or method of taxation;
  – title and/or legal disputes with neighbouring land owners and legal disputes with architects, project managers and suppliers;
  – changes to restrictions on or regulations concerning repatriation of funds; and
  – the continuous clampdown by the People's Republic of China ("PRC") Government on corruption and money laundering.

There is a process for identifying, evaluating and managing the principal risks faced by the Group. This process (which accords with the FRC's "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting") has been regularly reviewed and has been in place throughout the financial year and up to the date of approval of these annual accounts.

The above principal risks are mitigated and managed by the Board through continual review, policy setting and annual updating of the Group's risk matrix to ensure that procedures are in place with the intention of minimising the impact of the above mentioned risks. The Board relies on reports periodically provided by the Administrator and the Manager regarding risks that the Group faces. When required, experts are employed to gather information, including tax advisers, legal advisers and planning advisers.

To mitigate the interest rate risks on the Group's borrowing, the Group entered into interest rate derivative instruments. The Board relies on the Manager's close relationship with legal professionals in Macau, Hong Kong and China to keep abreast of any potential changes to the law and any possible impact on the Group. The Board also regularly monitors the investment environment and the management of the Group's property portfolio, and applies the principles detailed in the internal control guidance issued by the FRC. Details of the Group's internal controls are described in more detail on page 52.

The Group's financial risks and uncertainties are further discussed in Note 2 to the consolidated financial statements.

On behalf of the Board

Chris Russell

Chairman of the Board
27 September 2017

Nomination & Remuneration Committee Report

Summary of the role of the Nomination and Remuneration Committee

The Nomination and Remuneration Committee regularly reviews the structure, size and composition (including the skills, knowledge, gender, experience and diversity) of the Board and makes recommendations to the Board with regard to any changes and also considers the appropriate levels of the Board's remuneration. The Board monitors the developments in corporate governance to ensure the Board remains aligned with best practice, especially with respect to the increased focus on diversity. The Board acknowledges the importance of diversity of experience, approach and gender, for the effective functioning of the Board and commits to supporting diversity in the boardroom. It is the Board's on-going objective to have an appropriately diversified representation. The Board also values diversity of business skills and experience because directors with diverse skills sets, capabilities and experience gained from different geographical backgrounds enhance the Board by bringing a wide range of perspectives to the Company. The Board is satisfied with the current composition and function of its members. It is the Company's policy to give careful consideration to issues of the Board's balance and diversity when making new appointments. When appointing board members, its priority is based on merit, but will be influenced by the strong desire to maintain the Board's diversity, including gender. The terms of reference are considered annually by the Nomination and Remuneration Committee and are then referred to the Board for approval and are available on the Company's website.

Composition of the Nomination and Remuneration Committee

The members of the Nomination and Remuneration Committee are listed on page 111.

Meetings

The Nomination and Remuneration Committee shall meet at least once a year and otherwise as required. Meetings of the Nomination and Remuneration Committee shall be called by the Company Secretary at the request of the Committee Chairman. Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be forwarded to each member of the Nomination and Remuneration Committee, any other person required to attend and all other non-executive directors, no later than five working days before the date of the meeting. Supporting papers shall be sent to the Nomination and Remuneration Committee and to other attendees as appropriate, at the same time. Any non-executive director who is not considered independent will not take part in the Nomination and Remuneration Committee's deliberations regarding remuneration levels.

Consideration of Directors for re-election

Following discussion and having noted the schedule of Directors re-elected in each year since 2007, it was recommended by the Nomination and Remuneration Committee that Thomas Ashworth and Alan Clifton should be submitted for re-election at the Annual General Meeting to be held on 8 November 2017 as they each have over 10 years in office. In addition, in accordance with the Board's re-election policy that each Director shall retire every three years by rotation, Chris Russell and Wilfred Woo will also stand for re-election at the Annual General Meeting to be held on 8 November 2017.

There were no new Directors appointed during the period under review. The Nomination and Remuneration Committee will consider the use of external consultants to assist with the appointment of future directors.

Nomination & Remuneration Committee Report (continued)

Overview

The Nomination and Remuneration Committee met once in the year ended 30 June 2017. Matters considered at the meeting included but were not limited to:

- the structure, size and composition (including the balance of skills, knowledge, experience and diversity) of the Board and Audit Committee and the need to periodically refresh membership;
- to note guidance set out in the AIC Code;
- to consider key outcomes from the Board's evaluation process;
- to consider Board's tenure and succession planning;
- consideration of Directors for re-election; and
- consideration of Directors' remuneration.

Directors' fees were last changed in July 2010. Following a review, it was agreed to raise individual Directors' remuneration by 20%, representing an annual increase since 2010 of approximately 2.5%, which is in line with the rate of inflation over the period.

During the year, Directors waived any additional remuneration for the significant time commitments involved with work on a potential transaction for the Company's entire real estate portfolio. Looking ahead, additional fees to Directors reflecting exceptional further work may arise in the event of material successful transactions.

As a result of its work during the year, the Nomination and Remuneration Committee has concluded that it has acted in accordance with its terms of reference.

On behalf of the Nomination and Remuneration Committee

Alan Clifton

Chairman of the Nomination and Remuneration Committee
27 September 2017

Management Engagement Committee Report

Summary of the role of the Management Engagement Committee

The Management Engagement Committee annually reviews the terms of the Investment Management Agreement between the Company and the Manager and to review the performance and terms of engagement of any other key service providers to the Company, as detailed in Appendix 1 of the Terms of Reference of the Committee. The terms of reference are considered annually by the Management Engagement Committee and are then referred to the Board for approval and are available on the Company's website.

Composition of the Management Engagement Committee

The members of the Management Engagement Committee are listed on page 111.

Meetings

The Management Engagement Committee meets at least once a calendar year and otherwise as required. Meetings of the Management Engagement Committee shall be called by the Company Secretary at the request of the Chairman. Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be forwarded to each member of the Management Engagement Committee, any other person required to attend and all other non-executive directors, no later than five working days before the date of the meeting. Supporting papers shall be sent to Management Engagement Committee and to other attendees as appropriate, at the same time.

Performance of the Manager

Following discussion, it is the opinion of the Management Engagement Committee that the performance of the Manager for the year ended 30 June 2017 was satisfactory and the continuing appointment of the Manager on the terms agreed is in the interests of the shareholders as a whole.

Performance of key service providers

Following discussion, it is the opinion of the Management Engagement Committee that the performance of key service providers (as detailed in Appendix 1 of the Terms of Reference of the Committee) for the year ended 30 June 2017 was satisfactory.

Overview

The Management Engagement Committee met during June 2016 and September 2017 and as a result of its work, the Management Engagement Committee has concluded that it has acted in accordance with its terms of reference.

On behalf of the Management Engagement Committee

Alan Clifton

Chairman of the Management Engagement Committee
27 September 2017

Audit Committee Report

Summary of the role of the Audit Committee

The Audit Committee is appointed by the Board from the non-executive Directors of the Company. The Audit Committee's terms of reference include all matters indicated by Disclosure and Transparency Rule 7.1 and the UK Code. The terms of reference are considered annually by the Audit Committee and are then referred to the Board for approval and are available on the Company's website.

The Audit Committee is responsible for:

- reviewing and monitoring the integrity of the Annual Report and Audited Consolidated Financial Statements, the Interim Report and Interim Condensed Consolidated Financial Statements of the Group, and any formal announcements relating to the Group's financial performance, and reviewing significant financial reporting judgement contained therein;
- reporting to the Board on the appropriateness of the accounting policies and practices including critical accounting policies and practices;
- advising the Board that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- reviewing the Group's internal financial controls and, unless expressly addressed by the Board itself, the Group's internal controls and principal risks;
- making recommendations to the Board for a resolution to be put to the shareholders, for their approval in general meetings, on the appointment of the external auditor and the approval of the remuneration and terms of engagement of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- developing and implementing a policy on the engagement of the external auditor to supply non-audit services, taking into account relevant guidance regarding the provision of non-audit services by the external audit firm;
- reviewing the valuations of the Company's investments prepared by the Investment Adviser, and make a recommendation to the Board on the valuation of the Company's investments;
- meeting the external auditor to review their proposed audit programme of work and the subsequent audit report and to assess the effectiveness of the audit process and the levels of fees paid in respect of both audit and non-audit work;
- considering annually whether there is a need for the Company to have its own internal audit function; and
- reviewing and considering the UK Code, the AIC code, the AIC Guidance on Audit Committees and the Stewardship Code.

The Audit Committee is required to report its findings to the Board, identifying any matters on which it considers that action or improvement is needed, and to make recommendations on the steps to be taken.

The Audit Committee is also required to report to the Board, identifying how it has discharged its responsibilities during the current year.

The Board has taken note of the requirement that at least one member of the Audit Committee should have recent and relevant financial experience and is satisfied that the Audit Committee is properly constituted in that respect, with all members being highly experienced, and in particular, two of its members having backgrounds as chartered accountants.

The Audit Committee reviews the information contained in the other sections of the Annual Report including the Directors' Report, Chairman's Message and the Manager's Report. The independent auditor reports by exception if the information in the other sections of the Annual Report is materially inconsistent with the information in the audited financial statements.

The Audit Committee is the formal forum through which the Auditor reports to the Board. The external auditor is invited to attend the Audit Committee meetings at which the Annual Report and Audited Consolidated Financial Statements, the Interim Report and Interim Condensed Consolidated Financial Statements are considered, and at which they have the opportunity to meet with the Audit Committee without representatives of the Investment Adviser being present at least once per year.

Audit Committee Report (continued)

Composition of the Audit Committee

The members of the Audit Committee are:

	Date of Appointment
Alan Clifton (Chairman)	23 May 2006
Wilfred Woo	27 February 2012
Chris Russell	12 September 2012

Appointments to the Audit Committee will be for a period of up to three years, which is extendable, depending upon members continuing to be independent. Alan Clifton has been a member of the Audit Committee for 10 years. However, the Board and Audit Committee have satisfied themselves that Alan Clifton continues to remain independent and so have resolved to extend his appointment to the Audit Committee for a further two years.

Financial reporting

The primary role of the Audit Committee in relation to the financial reporting is to review with the Administrator, Investment Adviser and the Auditor on the appropriateness of the Annual Report, Audited Consolidated Financial Statements and the Interim Report, concentrating on, among other matters:

- the quality and acceptability of accounting policies and practices;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- material areas in which significant judgement have been applied or there has been discussion with the Auditor;
- whether the Annual Report and Audited Consolidated Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for the shareholders to assess the Company's performance, business model and strategy; and
- any correspondence from regulators in relation to Company's financial reporting.

To aid its review, the Audit Committee considers reports from the Administrator and Investment Adviser and also reports from the Auditor on the outcomes of their half-year review and annual audit. The Audit Committee supports Ernst and Young LLP in displaying the necessary professional scepticism their role requires.

Significant issues considered in relation to the financial statements

The Audit Committee has had regular contact with the management and the Auditor during the interim and year end audit process. The Committee's discussions have been broad ranging, including the consideration of the Company's going concern status and key areas of judgement.

The Audit Committee is satisfied, having received advice from professional advisers which include valuers, tax advisers and lawyers, that these sensitivities have been appropriately reflected and disclosed in the financial statements.

During its review of the Group's financial statements for the year ended 30 June 2017, the Audit Committee considered the following significant issues:

- valuation of investment properties and inventories;
- ownership and existence of investments properties and inventories;
- accounting treatment for taxes incurred in multiple jurisdictions.

The risk relating to the valuation of investment properties and inventories are mitigated through use of a professionally qualified valuer to conduct the valuations in accordance with current Royal Institute of Chartered Surveyors Appraisal and Valuations Standards.

The valuation is overseen by the Investment Adviser to ensure that the values are comparable to current market values of similar properties. The valuation process and methodology are discussed with the Investment Adviser regularly during the year and with the Auditor as part of the year-end audit planning and interim review processes. These valuations are reviewed, challenged and ultimately agreed by the Board, who possesses knowledge and understanding of the markets where the properties are situated. The Board meets with the valuer at least once a year. The factors that affect the value and ownership of the investment property and inventory are further discussed in Notes 3, 6 and 7.

Audit Committee Report (continued)

Significant issues considered in relation to the financial statements (continued)
The risks relating to the ownership and existence of investment properties and inventories are mitigated through ensuring proper title deeds for the properties are held. Asset reconciliations are performed by the Administrator with the SPV Administrator on a quarterly basis. Property searches showing ownership of each of the assets are conducted to ascertain that there are no changes in ownership.

The risk relating to taxation is mitigated through the setup of the Group structure. When taxation queries arise, an independent taxation adviser is employed to advise the Board on such issues. The factors that affect the Group's taxation position are further discussed in Note 9.

Meetings
The Audit Committee meets not less than twice a year and at such other times as the Chairman requires. Any member of the Audit Committee may request that a meeting be convened by the Company Secretary. The external auditors may request that a meeting be convened if they deem it necessary. Other Directors and third parties may be invited by the Audit Committee to attend meetings as and when appropriate.

Annual General Meeting
The Audit Committee Chairman, or other members of the Audit Committee appointed for the purpose, shall attend each Annual General Meeting of the Company, prepared to respond to shareholders' questions on the Audit Committee's activities.

Risk management
The Company's risk assessment process and the way in which significant business risks are managed is a key area of focus for the Audit Committee. The work of the Audit Committee was driven primarily by the Company's assessment of its principal risks and uncertainties as set out in the Corporate Governance Report. The Audit Committee receives reports from the Investment Adviser and Administrator on the Company's risk evaluation process and reviews changes to principal risks identified.

Internal audit
The Audit Committee considers at least once a year whether or not there is a need for an internal audit function. Currently, the Audit Committee does not consider there to be a need for an internal audit function, given that there are no employees in the Group and all outsourced functions are with parties/administrators who have their own internal controls and procedures. The Audit Committee also considers the review of controls of the service organisations.

External audit
During the year, the Committee considered at length the re-appointment of the external auditors and decided not to put the provision of the external audit out to tender at this time. In doing so, they reviewed the effectiveness and independence of the external auditors and remained satisfied that the Auditors provide effective independent challenge to the Board and to the Investment Adviser. The Audit Committee will continue to monitor the performance of the external auditors on an annual basis and will consider their independence and objectivity, taking account of appropriate guidelines.

The external auditors are required to rotate the audit partner responsible for the Group audit every five years. The current lead audit partner has been in place for two years. Ernst & Young LLP has been the external auditor since 2010. There are no contractual obligations restricting the choice of external auditor and the Company will put the audit services contract out to tender at least every 10 years. In line with the FRC's suggestions on audit tendering, this will be considered further when the audit partner rotates every five years. Under Company Law, the re-appointment of the external auditors is subject to shareholders' approval at the Annual General Meeting. The Committee has provided the Board with its recommendation to the shareholders on the re-appointment of Ernst & Young LLP as external auditor for the year ending 30 June 2018. Accordingly, a resolution proposing the re-appointment of Ernst & Young LLP as the Company's auditor will be put to shareholders at the 2017 Annual General Meeting.

During the year, the Committee discussed the planning, conduct and conclusions of the external audit as it proceeded. At the June 2017 Audit Committee meeting, the Committee discussed and approved the auditor's Group plan in which they identified the Group's valuation of the investment property, carrying value of inventories and revenue recognition as the key areas of risk of misstatement in the Group's financial statements.

Audit Committee Report (continued)

External audit (continued)
The Committee discussed these issues at the June 2017 meeting to ensure that appropriate arrangements are in place to mitigate these risks.

To fulfil its responsibility regarding the independence of the external auditor, the Audit Committee will consider:

- discussions with or reports from the external auditor describing its arrangements to identify, report and manage any conflicts of interest; and
- the extent of non-audit services provided by the external auditor.

To assess the effectiveness of the external auditor, the Committee will review:

- the external auditor's fulfilment of the agreed audit plan and variations from it;
- discussions or reports highlighting the major issues that arose during the course of the audit; and
- feedback from other service providers evaluating the performance of the audit team.

Non-audit services
To further safeguard the objectivity and independence of the external auditor from becoming compromised, the Audit Committee has a formal policy governing the engagement of the external auditor to provide non-audit services. This precludes Ernst & Young LLP from providing certain services such as valuation work or the provision of accounting services and also sets a presumption that Ernst & Young LLP should only be engaged for non-audit services where Ernst & Young LLP is best placed to provide the non-audit service, for example, the interim review service or specialist tax advice. Please see Note 23 for details of services provided by Ernst & Young LLP.

Overview
The Audit Committee met four times in the year ended 30 June 2017. Matters considered at these meetings included but were not limited to:

- consideration and agreement of the terms of reference of the Audit Committee for approval by the Board;
- review of the accounting policies and format of the financial statements;
- review of the 2016 Annual Report and Audited Consolidated Financial Statements for the year ended 30 June 2016;
- review of the 2016 Interim Report and Interim Condensed Consolidated Financial Statements for the 6 months ended 31 December 2016;
- review of the quarterly results announcements issued in November 2016 and May 2017;
- review of the audit plan and timetable for the preparation of the 2017 Annual Report and Audited Consolidated Financial Statements;
- discussions and approval of the fee for the external audit;
- assessment of the effectiveness of the external audit process as described above; and
- review of the Company's principal risks and internal controls.

As a result of its work during the year, the Audit Committee has concluded that it has acted in accordance with its terms of reference and has ensured the independence and objectivity of the external auditor. The Audit Committee has recommended to the Board that the external auditor is re-appointed.

On behalf of the Audit Committee

Alan Clifton
Chairman of the Audit Committee
27 September 2017

Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual report and accounts in accordance to applicable laws and regulations. The Companies (Guernsey) Law, 2008 requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Group's financial statements in accordance to International Financial Reporting Standards as adopted by the European Union ("IFRS"). Under Company Law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the financial performance and cash flows of the Group for that period. In preparing these Group's financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the Group's financial statements; and
- prepare the Group's financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the Group's financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy, at any time, the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Company and hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the Company's website (www.mpofund.com) is the responsibility of the Directors. The work carried out by the Auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

All companies with a Premium Listing of equity shares in the UK are required under the Listing Rules to report on how they have applied the UK Code in their annual report and financial statements.

Responsibility Statement of the Directors in respect of the Annual Report and Accounts

Each of the Directors, whose names are set out on pages 14 to 15 of the Annual Report, confirms that, to the best of their knowledge and belief that:

Directors' statement under the Disclosure and Transparency Rules

- The Group's financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group.
- The management report, which is incorporated into the Directors' Report, Manager's Report and Chairman's Message contained in the Annual Report, includes a fair review of the development and performance of the Group and of the position of the Company and the Group as a whole, together with a description of the principal risks and uncertainties they face.

Directors' statement under the UK Corporate Governance Code

- The Directors are responsible for preparing the Annual Report and Group's financial statements in accordance with applicable law and regulations. Having taken advice from the Audit Committee, the Directors consider the Annual Report and Group's financial statements, taken as a whole, as fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

On behalf of the Board

Chris Russell

Chairman of the Board
27 September 2017

Independent Auditor's Report to the Members of Macau Property Opportunities Fund Limited

Opinion

In our opinion:

- Macau Property Opportunities Fund Limited (the "Company") and its subsidiaries' (the "Group") consolidated financial statements (the "financial statements") give a true and fair view of the state of the Group's affairs as at 30 June 2017 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

We have audited the financial statements of Macau Property Opportunities Fund Limited for the year ended 30 June 2017 which comprise:

- Consolidated Statement of Financial Position;
- Consolidated Statement of Comprehensive Income for the year then ended;
- Consolidated Statement of Changes in Equity for the year then ended;
- Consolidated Statement of Cash Flows for the year then ended; and
- Related Notes 1 to 25 to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and IFRS as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's ("FRC") Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

This report is made solely to the Company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on pages 53 to 54 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on pages 53 to 54 in the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 76 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- whether the Directors' statement in relation to going concern required under the Listing Rules is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 46 in the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Independent Auditor's Report to the Members of Macau Property Opportunities Fund Limited (continued)

Overview of our audit approach

Key audit matters	• Fair valuation of investment property • Carrying value of inventories • Recognition of rental income and income on sale of inventories
Audit scope	• We performed an audit of the complete financial information of the Group.
Audit materiality	• Overall materiality of US$1.3 million (2016: US$1.1 million) which represents 1% (2016: 1%) of Net Asset Value ("NAV").
What has changed	• Our scope of work remained the same as compared to the previous year and as communicated during planning meeting.

The audit team comprised individuals from Guernsey ("Group audit team") and Hong Kong ("Component audit team") and we operated as an integrated team across both jurisdictions. We performed the audit procedures and responded to the risks identified as described below.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report to the Members of Macau Property Opportunities Fund Limited (continued)

Key audit matters (continued)

Risk	Our Response to the Risk	Key Observations Communicated to the Audit Committee
Fair valuation of investment property (US$241.2 million; 2016 - US$206.6 million) The valuation of investment property is the key driver of the Group's net asset value and total return. Valuation of investment property requires specialist expertise and the use of significant estimates and judgements giving rise to a higher risk of misstatement. There was no change in the risk compared to prior year. Refer to the Audit Committee Report (pages 58 to 61); Accounting policies (pages 78 to 79); and Note 6 of the Consolidated Financial Statements (pages 91 to 93)	We performed full scope audit procedures over the valuation of investment property. Audit procedures performed by component audit teams are based on instructions issued by the Group audit team. Those procedures are described below: • We documented our understanding of the processes and performed walkthrough tests to confirm our understanding of the systems and controls implemented; • We agreed the valuations recorded in the consolidated financial statements to the values reported by the management's independent specialists (the "Specialists"); • We tested all significant inputs to the valuation for consistency with underlying tenancy agreements; • We have engaged our real estate specialists in Hong Kong to verify whether the valuation methodology used was consistent with valuation best practice and appropriate under the circumstances by ensuring that the recorded fair value is within the acceptable range of values calculated by our real estate specialists; • We tested the calculation of gain on revaluation of the year and verified the appropriateness of the recording and reporting of these amounts; and • We engaged our own real estate specialists from Hong Kong to: – use their knowledge of the market to compare and corroborate the market related judgements and valuation inputs (including discount rates, exit yields and sales values) used by the Specialists; and – assist us in determining whether the Specialists were appropriately qualified and independent.	We confirmed that there were no material matters arising from our audit work on the inputs used and the judgments made by the Specialists that we wished to bring to the attention of the Audit Committee. We confirmed that investment property is not materially misstated.

Independent Auditor's Report to the Members of Macau Property Opportunities Fund Limited (continued)

Key audit matters (continued)

Risk	Our Response to the Risk	Key Observations Communicated to the Audit Committee
Carrying value of inventory properties (US$64.0 million; 2016 - US$67.4 million) Inventory properties are stated at lower of cost and net realisable value. The valuation of inventory properties is the key driver to determine the net realisable value of properties. Valuation of property requires specialist expertise and the use of significant estimates and judgements giving rise to a higher risk of misstatement. There was no change in the risk compared to prior year. Refer to the Audit Committee Report (pages 58 to 61); Accounting policies (page 80); and Note 7 of the Consolidated Financial Statements (page 93)	We performed full scope audit procedures over the carrying value of inventory properties. Audit procedures performed by component audit team are based on instructions issued by the Group audit team. Those procedures are described below: • We documented our understanding of the processes for valuing inventory properties and performed walkthrough tests to confirm our understanding of the systems and controls implemented; • We agreed a sample of the significant inputs used by the Specialists to value the properties, particularly development cost, projected capital expenditure, to contractual documentation and development plans and agreements and we checked their purpose, business rationale and whether allowable for inclusion in inventory under IFRS; • We have agreed additions and disposals of inventories to general ledger and tested individual items above 25% of performance materiality; • We tested headroom of market value over cost. We have not indentified any properties that have a higher risk of impairment; and • We engaged our own internal real estate valuation experts from Hong Kong to: – use their knowledge of the market to compare and corroborate the market related judgements and valuation inputs (including discount rates, exit yields and sales values) used by the Specialists; and – assist us in determining whether the Specialists were appropriately qualified and independent.	We confirmed that there were no material matters arising from our audit work on the inputs used and the judgments made by the Specialists that we wished to bring to the attention of the Audit Committee. We confirmed that the carrying value of inventory properties is not materially misstated.

Independent Auditor's Report to the Members of Macau Property Opportunities Fund Limited (continued)

Key audit matters (continued)

Risk	Our Response to the Risk	Key Observations Communicated to the Audit Committee
Recognition of rental income (US$2.1 million; 2016 - US$2.1 million)/Income on sale of inventories (US$6.4 million; 2016 - US$1.0 million) Management may seek to overstate revenue generated from rental income by changing the timing of revenue recognition and on disposal of inventory properties by overstating the selling price or lowering the cost of sales, as it is a significant metric and indicator of the Group's progress giving rise to a higher risk of misstatement. There was no change in the risk compared to prior year. Refer to the Audit Committee Report (pages 58 to 61); Accounting policies (page 81); and Notes 6 and 7 of the Consolidated Financial Statements (pages 91 to 93)	• Rental income – We have agreed a sample of tenancy agreements selected based on 25% of performance materiality to amounts recorded as rental income in the general ledger and from the general ledger to tenancy agreements; – Performed analytical procedures on rental income to identify any inconsistencies in rental income patterns or rent holiday periods; and – Determined that the accounting policy for rental income was in compliance with IFRS as adopted by the EU. • Income on sale of inventories – We have re-performed calculations of the realised gain on disposal of properties by taking the selling price from final sales and purchase agreements and cost of properties sold from allocation schedule and underlying supporting documents and checked that the resulting gain on sale of properties agrees to the recorded gain in the general ledger.	We confirmed that there were no matters identified during our audit work on revenue recognition that we wished to bring to the attention of the Audit Committee. We confirmed that revenue from rental income and on disposal of properties was recognised in accordance with IFRS.

Independent Auditor's Report to the Members of Macau Property Opportunities Fund Limited (continued)

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we performed an audit of the complete financial information of all components covering entities within Macau, Hong Kong, BVI and the Channel Islands which represent all business units of the Group.

Changes from the prior year

There has been no change in scope of our audit from prior year.

Team structure

The overall audit strategy is determined by the audit partner who is based in the Channel Islands. Since the Group's operations are principally located in Hong Kong/Macau, the audit team includes EY team members from Hong Kong.

Involvement with component team

We identified the risks of material misstatement described above as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures above which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by the Group audit team, or by the Component audit team from other EY global network firms operating under our instruction. We determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The Group audit team, assisted by our real estate specialists in Hong Kong, performed procedures on the valuations of the Group's investment property and inventories.

The Group audit team interacted regularly with the component team where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group's financial statements.

Our application of audit materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined planning materiality for the Group to be US$1.3 million (2016: US$1.1 million), which is 1% (2016: 1%) of NAV. We believe that NAV provides us with an appropriate basis for audit materiality as it is a key published performance measure and is a key metric used by management in assessing and reporting on overall performance.

It was considered inappropriate to determine materiality based on the Group's profit before tax as the primary performance measures of the Group for internal and external reporting are based on equity.

Independent Auditor's Report to the Members of Macau Property Opportunities Fund Limited (continued)

Our application of audit materiality (continued)

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that tolerable error was 75% (2016: 75%) of our planning materiality, namely US$0.97 million (2016: US$0.80 million). We have set performance materiality at this percentage due to the investment strategy remaining consistent with our previous experience and limited identification of audit findings in previous periods.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of US$64,000 (2016: US$53,000), which is set at 5% of materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report set out on pages 3 to 63 including Manager's Report set out on pages 18 to 40, Directors' Report set out on pages 45 to 49 and Corporate Governance Report on pages 50 to 54, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 63** – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

- **Audit committee reporting set out on page 61** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or

- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 63** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Independent Auditor's Report to the Members of Macau Property Opportunities Fund Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Company; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement set out on pages 62 to 63, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Andrew Dann

For and on behalf of Ernst & Young LLP
Guernsey, Channel Islands
27 September 2017

Note:

1. The maintenance and integrity of the Group's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the consolidated financial statements since they were initially presented on the website.

2. Legislation in the Guernsey governing the preparation and dissemination of Group financial statements may differ from legislation in other jurisdictions.

Consolidated Statement of Financial Position

As at 30 June 2017

	Note	2017 US$'000	2016 US$'000
ASSETS			
Non-current assets			
Investment property	6	241,193	206,595
Deposits with lenders	21	3,107	2,113
Trade and other receivables		111	111
		244,411	208,819
Current assets			
Inventories	7	63,994	67,410
Trade and other receivables	10	1,688	1,096
Deposits with lenders	21	205	-
Financial assets at fair value through profit or loss – interest rate swap	20	21	-
Cash and cash equivalents		13,093	12,741
		79,001	81,247
Total assets		323,412	290,066
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	12	764	764
Retained earnings		61,832	38,724
Distributable reserves		66,208	66,208
Foreign currency translation reserve		(18)	947
Total equity		128,786	106,643
LIABILITIES			
Non-current liabilities			
Deferred taxation provision	9	17,003	12,782
Taxation provision	9	2,260	2,409
Interest-bearing loans	8	153,775	149,279
Financial liabilities at fair value through profit or loss – interest rate swap	20	-	23
		173,038	164,493
Current liabilities			
Taxation provision	9	-	2,514
Trade and other payables	11	1,941	1,891
Interest-bearing loans	8	19,617	14,444
Financial liabilities at fair value through profit or loss – interest rate swap	20	30	81
		21,588	18,930
Total liabilities		194,626	183,423
Total equity and liabilities		323,412	290,066
Net Asset Value per share (US$)	17	1.69	1.40
Adjusted Net Asset Value per share (US$)	17	3.26	2.96

The accompanying notes on pages 76 to 106 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 72 to 75 were approved by the Board of Directors and authorised for issue on 27 September 2017.

Chris Russell
Director

Alan Clifton
Director

Consolidated Statement of Comprehensive Income

Year ended 30 June 2017

	Note	2017 US$'000	2016 US$'000
Income			
Income on sale of inventories	7	6,351	1,045
Rental income		2,055	2,109
Net gain/(loss) from fair value adjustment on investment property	6	36,013	(38,227)
Other income		13	4
		44,432	(35,069)
Expenses			
Cost of sales of inventories	7	3,477	254
Management fee	19	4,867	5,528
Non-Executive Directors' fees	18	150	187
Auditors' remuneration: audit fees	23	101	110
Auditors' remuneration: non-audit fees	23	245	25
Property operating expenses	15	1,249	1,271
Sales and marketing expenses		250	77
General and administration expenses	13	1,524	1,155
(Gain)/Loss on foreign currency translation		(164)	75
		(11,699)	(8,682)
Operating profit/(loss) for the year		32,733	(43,751)
Finance income and expenses			
Net gain on valuation of interest rate swap	20	95	291
Bank loan interest		(5,079)	(4,827)
Interest expense on interest rate swap	20	(78)	(581)
Other financing costs	14	(280)	(324)
Bank and other interest		1	-
		(5,341)	(5,441)
Profit/(Loss) for the year before tax		27,392	(49,192)
Taxation	9	(4,284)	3,541
Profit/(Loss) for the year after tax		23,108	(45,651)
Items that may be reclassified subsequently to profit or loss			
Exchange difference on translating foreign operations		(965)	(137)
Total comprehensive income/(loss) for the year		22,143	(45,788)
Profit/(Loss) attributable to:			
Equity holders of the Company		23,108	(45,651)
Total comprehensive income/(loss) attributable to:			
Equity holders of the Company		22,143	(45,788)
		2017 US$	2016 US$
Basic and diluted profit/(loss) per ordinary share attributable to the equity holders of the Company during the year	17	0.3023	(0.5961)

The accompanying notes on pages 76 to 106 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

Year ended 30 June 2017

	Note	Share Capital US$'000	Retained Earnings US$'000	Distributable Reserves US$'000	Foreign Currency Translation Reserve US$'000	Total US$'000
Balance brought forward at 1 July 2016		764	38,724	66,208	947	106,643
Profit for the year		-	23,108	-	-	23,108
Items that may be reclassified subsequently to profit or loss						
Exchange difference on translating foreign operations		-	-	-	(965)	(965)
Total comprehensive income for the year		-	23,108	-	(965)	22,143
Balance carried forward at 30 June 2017		764	61,832	66,208	(18)	128,786

	Note	Share Capital US$'000	Retained Earnings US$'000	Distributable Reserves US$'000	Foreign Currency Translation Reserve US$'000	Total US$'000
Balance brought forward at 1 July 2015		775	84,375	69,213	1,084	155,447
Loss for the year		-	(45,651)	-	-	(45,651)
Items that may be reclassified subsequently to profit or loss						
Exchange difference on translating foreign operations		-	-	-	(137)	(137)
Total comprehensive loss for the year		-	(45,651)	-	(137)	(45,788)
Share buyback	12	(11)	-	(3,005)	-	(3,016)
Balance carried forward at 30 June 2016		764	38,724	66,208	947	106,643

The accompanying notes on pages 76 to 106 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended 30 June 2017

	Note	2017 US$'000	2016 US$'000
Net cash used in operating activities	16	(4,210)	(4,904)
Cash flows from investing activities			
Capital expenditure on investment property	6	(36)	(1,237)
Movement in pledged bank balances		(1,199)	537
Net cash used in investing activities		(1,235)	(700)
Cash flows from financing activities			
Proceeds from bank borrowings		15,115	36,266
Repayment of bank borrowings		(4,621)	(38,367)
Share buyback	12	-	(3,016)
Interest and bank charges paid		(5,439)	(5,400)
Net cash generated from/(used in) financing activities		5,055	(10,517)
Net movement in cash and cash equivalents		(390)	(16,121)
Cash and cash equivalents at beginning of year		12,741	28,749
Effect of foreign exchange rate changes		742	113
Cash and cash equivalents at end of year		13,093	12,741

The accompanying notes on pages 76 to 106 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

General information

Macau Property Opportunities Fund Limited (the “Company”) is a Company incorporated and registered in Guernsey under The Companies (Guernsey) Law, 1994. This law was replaced by the Companies (Guernsey) Law, 2008 on 1 July 2008. The Company is an authorised entity under the Authorised Closed-Ended Investment Schemes Rules 2008 and is regulated by the GFSC. The address of the registered office is given on page 111.

The consolidated financial statements for the year ended 30 June 2017 comprise the financial statements of the Company and its subsidiaries (together referred to as the “Group”). The Group invests in residential and commercial properties and property-related ventures primarily in Macau.

These consolidated financial statements have been approved for issue by the Board of Directors on 27 September 2017.

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Basis of preparation
The consolidated financial statements have been prepared in accordance with IFRS; applicable legal and regulatory requirements of Guernsey Law and under the historical cost convention as modified by the revaluation of investment properties and derivative financial instruments.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3. The consolidated financial statements are presented in US Dollar and all values are rounded to the nearest thousand ($’000), except where otherwise indicated.

Going concern
The Group’s business activities, together with the factors likely to affect its future development, performance and position, are set out in the Manager’s Report. The financial position of the Group, its cash flows and its liquidity position are described in the Capital Management section of the Manager’s Report.

The financial risk management objectives and policies of the Group and the exposure of the Group to credit risk, market risk and liquidity risk are discussed in Note 2 to the consolidated financial statements.

The Group continues to meet its capital requirements and day-to-day liquidity needs through the Group’s cash resources. As part of their assessment of the going concern of the Group, the Directors have reviewed the comprehensive cash flow forecasts prepared by management which make assumptions based upon current and expected future market conditions, including predicted future sales of properties. It is the Directors’ belief that, based upon these forecasts and their assessment of the Group’s committed banking facilities, it is appropriate to prepare the financial statements of the Group on a going concern basis.

At the Annual General Meeting held on 14 November 2016, the shareholders voted against the Discontinuation Vote which would have led to the realisation of the portfolio of the Company’s assets. In accordance with the Articles of Incorporation, the Company now has until November 2018 to hold a further continuation vote on which the shareholders can vote on the future of the Company. The Directors have considered whether the continuation vote before the end of 2018 gives rise to a material uncertainty that might cast significant doubt about the Company’s ability to continue as a going concern and have concluded that it does not due to the fact that the Board has the continued support of major shareholders and it is likely that returns from sales of properties would be lower if the Group were forced to sell as a result of discontinuation, given that the market is gradually improving and expected to strengthen.

The Directors believe it is appropriate to prepare the financial statements of the Group on a going concern basis based upon existing cash resources, the forecasts described above, the extension of the life of the Company (September 2017 to November 2018 being greater than a 12-month period) and the Directors’ assessment of the Group’s committed banking facilities and expected continuing compliance with related covenants.

Notes to the Consolidated Financial Statements (continued)

1. Summary of significant accounting policies (continued)

New and amended standards and interpretations applied
The following amendments to existing standards and interpretations were effective for the year ended 30 June 2017 and therefore were applied in the current year, but either they were not applicable to or did not have a material impact on the Group:

- IAS 1 Disclosure Initiative – amendments to IAS 1
- IFRS 11 Accounting for acquisitions of interests in Joint Operations amendments
- Amendments to IFRS 10, IFRS 12 and IAS 28; Investment Entities: Applying Consolidation Exemption
- Annual improvements 2012-2014 cycle
- Amendments to IAS 19; Employee Benefits

New and amended standards and interpretations not applied
The following new and amended standards and interpretations in issue are applicable to the Group but are not yet effective or have not been adopted by the European Union and therefore, have not been adopted by the Group:

		Effective dates no earlier than
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 16	Leases	1 January 2019

The Directors anticipate that with the exception of IFRS 9 (the impact of which will be assessed closer to the effective date), the adoption of these standards and interpretations in the period of initial application will not have a material impact on the financial statements of the Group.

Consolidation
The consolidated financial statements incorporate the financial statements of the Company and all SPVs controlled by the Company (its subsidiaries). Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases. Certain of the Company’s subsidiaries have non-coterminous year-ends. These companies are consolidated on the basis of actual transactions occurring within the financial year.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Segment reporting
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns different from those segments operating in other economic environments.

The Directors are of the opinion that the Group is engaged in a single segment of business, being property investment and related business. This segment includes residential and commercial properties and property-related ventures primarily in Macau. Please refer to Note 5 for segment reporting.

Notes to the Consolidated Financial Statements (continued)

1. Summary of significant accounting policies (continued)

Foreign currency translation

a) *Presentation currency*
Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment, in which the entity operates, Macanese Patacas (the "functional currency"). The consolidated financial statements are presented in US Dollars ("US$") which is the Group's presentation currency.

b) *Transactions and balances*
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses – resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Statement of Comprehensive Income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss).

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

c) *Group companies*
The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i) assets and liabilities for each statement of financial position are presented at the closing rate at the date of that statement of financial position;
ii) income and expenses for each statement of comprehensive income are translated at average exchange rates;
iii) all resulting exchange differences are recognised as a separate component of other comprehensive income; and
iv) on disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Foreign currency translation reserve
Foreign currency differences arising on translation of foreign operations into the Group's presentation currency are recognised in other comprehensive income and presented in the foreign currency translation reserve in equity.

Investment property
Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by companies in the consolidated Group, is classified as investment property. Investment property also includes property that is being constructed or developed for future use as investment property.

Investment property is measured initially at its cost, including related transaction costs.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the Consolidated Statement of Comprehensive Income during the financial period in which they are incurred.

After initial recognition, investment property is carried at fair value.

Notes to the Consolidated Financial Statements (continued)

1. Summary of significant accounting policies (continued)

Fair value measurements
The Group measures certain financial instruments such as derivatives, and non-financial assets such as investment property, at fair value at the end of each reporting period. Also, fair values of financial instruments measured at amortised cost are disclosed in the financial statements.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The Group must be able to access the principal or the most advantageous market at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use, or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs significant to the fair value measurement as a whole:

Level 1 – inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Group has the ability to access at the measurement date;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (that is, prices) or indirectly (that is, derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Fair value of investment property
Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific investment property. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Valuations are prepared semi-annually by Savills, whose valuers hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment properties being valued. Investment property that is being redeveloped for continuing use as investment property continues to be measured at fair value, if the fair value is considered to be reliably measurable. Changes in fair values are recorded in the Consolidated Statement of Comprehensive Income.

Notes to the Consolidated Financial Statements (continued)

1. Summary of significant accounting policies (continued)

Fair value measurements (continued)

Fair value of interest rate swaps

The Group uses derivative financial instruments such as interest rate swaps to hedge its risk associated with interest rate fluctuations.

Derivative financial instruments are initially recognised at fair value on the date on which a contract is entered into, and are subsequently measured at fair value and presented as financial assets or liabilities at fair value through profit or loss. Related realised and unrealised gains and losses are included in net gains/(losses) on financial assets/liabilities at fair value through profit or loss.

Fair value is calculated through the use of discounted cash flows based on the contracted interest rates.

Inventories

Properties and land that are being held or developed for future sale are classified as inventories. In the opinion of the Board, inventories are held with a view to short term sale in the ordinary course of business. They are individually carried at the lower of cost and NRV. NRV is the estimated selling price in the ordinary course of business less costs to complete redevelopment and selling expenses. Cost is the acquisition cost together with subsequent capital expenditure incurred, including capitalised interest where relevant.

Borrowing costs

Borrowing costs incurred for the purpose of acquiring, constructing or producing a qualifying asset, such as investment property or inventory, are capitalised as part of the cost. Borrowing costs are capitalised while the acquisition or construction is actively underway, and cease once the asset is substantially complete, or suspended if the development is suspended. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. The interest capitalised is calculated using the Group's weighted average cost of borrowing after adjusting for borrowing associated with specific developments. Where borrowings are associated with specific developments, the amount capitalised is the gross interest incurred on those borrowings less any investment income arising from their temporary investment.

Impairment

Financial assets

A financial asset carried at fair value through profit or loss falls within the scope of IAS 39. A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Losses are recognised in the Consolidated Statement of Comprehensive Income. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the Consolidated Statement of Comprehensive Income.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property, are reviewed at each reporting date to determine whether there is any indication of impairment. If any of such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell.

Leases

Leases in which the Group does not transfer substantially all the risks and benefits of ownership to a lessee are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the term of the lease on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Notes to the Consolidated Financial Statements (continued)

1. Summary of significant accounting policies (continued)

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Consolidated Statement of Comprehensive Income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the Consolidated Statement of Comprehensive Income.

Cash and cash equivalents

Cash and cash equivalents in the Consolidated Statement of Financial Position comprise cash at bank and on hand and demand deposits with an original maturity of three months or less and other short-term, highly-liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above. Deposits with lenders are excluded and not considered cash and cash equivalents.

Deposits with lenders

Deposits with lenders comprise cash held at bank that is pledged for loan covenants and are recognised as current and non-current assets.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Shares issued by the Company are recorded based upon the proceeds received, net of incremental costs directly attributable to the issue of new shares.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and includes rental income and income from property trading.

Rental income

Rental income from operating leases is recognised in income on a straight-line basis over the lease term. When the Group provides incentives to its customers, the cost of incentives is recognised over the lease term, on a straight-line basis, as a reduction of rental income.

Sale of completed property

A property is regarded as sold when the significant risks and returns have been transferred to the buyer, which is normally on unconditional exchange of contracts. On disposal, a property that is held by a single-asset subsidiary and when disposal is achieved through the sale of such subsidiary and where it is judged as an asset disposal, the proceeds from disposal thereof are recognised in income and net assets disposed of, excluding long-term debt, are recognised in cost of sales in expenses. For conditional exchanges, sales are recognised only when all the significant conditions are satisfied.

Sale of property under development

Where property is under development and an agreement has been reached to sell such property when construction is complete, and where the Directors determine the pre-sale to constitute the sale of a completed property, revenue is recognised when the significant risks and rewards of ownership of the real estate have been transferred to the buyer.

Notes to the Consolidated Financial Statements (continued)

1. Summary of significant accounting policies (continued)

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down and are subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities, unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the date of the consolidated statement of financial position.

Finance income and expenses

Interest income is recognised using the effective interest rate method in the Consolidated Statement of Comprehensive Income.

Finance costs comprise interest expense on borrowings. Interest expense is recognised using the effective interest rate method in the Consolidated Statement of Comprehensive Income.

Distributable reserves

Distributable reserves consist of the Group's retained earnings that may be legally paid out in the form of a dividend. Payments to shareholders from reserves can be seen as a distribution of accumulated profit.

Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and to settle the liabilities simultaneously.

Taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the Consolidated Statement of Comprehensive Income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the liability method on all temporary differences at the reporting date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes, except where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the Consolidated Statement of Comprehensive Income.

As a result of the discussion of the IFRS Interpretations Committee in its July 2014 meeting relating to deferred taxation for a single asset held by a corporate wrapper, the Group has recognised the deferred tax liability for the taxable temporary timing difference relating to the investment property carried at fair value.

Notes to the Consolidated Financial Statements (continued)

2. Financial risk management, policies and objectives

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and cash flow and fair value interest rate risk), credit risk and liquidity risk.

The Board of Directors provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk and liquidity risk.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual financial instrument or all factors affecting all financial instruments traded in the market including foreign exchange risk, equity price risk and cash flow and fair value interest rate risk as detailed below.

The Group's market risk is managed by the Manager in accordance with policies and procedures in place. The Group's overall market position is monitored on a quarterly basis by the Board of Directors.

Sensitivities to market risks included below are based on a change in one factor while holding all other factors constant. In practice, this is unlikely to occur and changes in some of the factors may be correlated, for example, changes in interest rates and changes in foreign currency rates.

a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions, recognised monetary assets and liabilities and net investments in foreign operations. The Group's policy is not to enter into any currency hedging transactions. The tables on the next page summarise the Group's exposure to foreign currency risk as at 30 June 2017 and 30 June 2016. The Group's financial assets and liabilities are included in the table, categorised by their currency at their carrying amount in US$'000. In the current economic climate, management's assessment of a reasonable possible change in foreign exchange rates would be up to a 1% increase/decrease for Hong Kong Dollar ("HK$")/US$, due to the HK$ being pegged to the US$, and up to a 10% increase/decrease for all other currencies.

The table on the next page presents financial assets and liabilities denominated in foreign currencies held by the Group as at 30 June 2017 and 30 June 2016, and can be used to monitor foreign currency risk as at that date.

At 30 June 2017, if Sterling weakened/strengthened by 10% against US$ with all other variables held constant, the net assets and movement in foreign currency translation reserve would have been US$14,000 higher/lower (2016: US$11,000 higher/lower). Any movement would have no other effect on the remaining equity components of the Group. There are no material transactions that would have effect on the profit/loss for the year. The HK$ is pegged to the US$ with the Hong Kong Monetary Authority pledging to keep the exchange rate within a trading band of 5 Hong Kong cents either side of HK$7.80 per dollar. The foreign exchange risk is considered minimal and as such the Company does not actively manage against this risk. If the HK$ weakened/strengthened by 1% against the US$ with all other variables held constant, the net assets and movement in foreign currency translation reserve would have been US$1,572,000 higher/lower (2016: US$1,489,000 higher/lower). Any movement would have no other effect on the remaining equity components of the Group. There are no material transactions that would have effect on the profit/loss for the year.

The Macanese Patacas ("MOP") is fixed to the HK$ at a rate of MOP:HK$ of 1.03. Due to the low level of assets held in this currency, a 10% change in rate would not have a significant effect on the consolidated financial statements.

Movements in other currencies would not have a significant impact on the consolidated financial statements.

Notes to the Consolidated Financial Statements (continued)

2. Financial risk management, policies and objectives (continued)

Market risk (continued)

a) Foreign exchange risk (continued)

	US$ US$'000	£ US$'000	HK$ US$'000	Other currencies US$'000	Total US$'000
As at 30 June 2017					
Trade and other receivables (excluding prepayments)	-	-	468	111	579
Cash and cash equivalents	-	20	13,016	57	13,093
Deposits with lenders	-	-	3,312	-	3,312
Financial assets at fair value through profit or loss	-	-	21	-	21
Total financial assets	-	20	16,817	168	17,005
Trade and other payables	178	158	8	1,597	1,941
Interest-bearing loans	-	-	174,000	-	174,000
Financial liabilities at fair value through profit or loss	-	-	30	-	30
Total financial liabilities	178	158	174,038	1,597	175,971
Net financial position	(178)	(138)	(157,221)	(1,429)	(158,966)

	US$ US$'000	£ US$'000	HK$ US$'000	Other currencies US$'000	Total US$'000
As at 30 June 2016					
Trade and other receivables (excluding prepayments)	-	-	1,013	111	1,124
Cash and cash equivalents	-	66	12,638	37	12,741
Deposits with lenders	-	-	2,113	-	2,113
Total financial assets	-	66	15,764	148	15,978
Trade and other payables	114	172	23	1,582	1,891
Interest-bearing loans	-	-	164,514	-	164,514
Financial liabilities at fair value through profit or loss	-	-	104	-	104
Total financial liabilities	114	172	164,641	1,582	166,509
Net financial position	(114)	(106)	(148,877)	(1,434)	(150,531)

Notes to the Consolidated Financial Statements (continued)

2. Financial risk management, policies and objectives (continued)

Market risk (continued)

b) Cash flow and fair value interest rate risk

The Group is exposed to fair value interest rate risk with regards to its interest rate swaps through the variability of the valuation of the interest rate swaps caused by changes in the market expectations about future interest rates and other variables.

Under the terms of the swap contracts, if the swap rates were to increase/decrease by 1% with all other variables held constant, this would result in the post-tax profit being US$177,000 higher/US$136,000 lower (2016: US$556,000 higher/US$468,000 lower). Any movement would have no other effect on the remaining equity components of the Group.

Unexpected volatility or illiquidity in the markets in which the Group holds positions can impair the Group's ability to conduct its business or cause it to incur losses.

The Group's interest rate risk is managed by the Manager, in accordance with policies and procedures in place and mitigated through the use of interest rate swaps (see Note 20). The Group's overall positions and exposures are monitored on a quarterly basis by the Board of Directors.

If interest rates had been 1% higher/lower and all other variables were held constant, the Group's profit for the year would have decreased/increased by US$1,576,000 (2016: loss for the year increased/decreased by US$1,497,000) (based on the interest bearing net financial liability per the table below before factoring in impact of interest rate swaps held). This is mainly due to the Group's exposure to interest-bearing loans.

The following table details the Group's exposure to interest rate risks:

	Interest Bearing US$'000	Non-interest Bearing US$'000	Total US$'000
As at 30 June 2017			
Trade and other receivables (excluding prepayments)	-	579	579
Cash and cash equivalents	13,093	-	13,093
Deposits with lenders	3,312	-	3,312
Financial assets at fair value through profit or loss	21	-	21
Total financial assets	16,426	579	17,005
Trade and other payables	-	1,941	1,941
Interest-bearing loans	174,000	-	174,000
Financial liabilities at fair value through profit or loss	30	-	30
Total financial liabilities	174,030	1,941	175,971

Notes to the Consolidated Financial Statements (continued)

2. *Financial risk management, policies and objectives (continued)*

Market risk (continued)

b) Cash flow and fair value interest rate risk (continued)

	Interest Bearing US$'000	Non-interest Bearing US$'000	Total US$'000
As at 30 June 2016			
Trade and other receivables (excluding prepayments)	-	1,124	1,124
Cash and cash equivalents	12,741	-	12,741
Deposits with lenders	2,113	-	2,113
Total financial assets	14,854	1,124	15,978
Trade and other payables	-	1,891	1,891
Interest-bearing loans	164,514	-	164,514
Financial liabilities at fair value through profit or loss	104	-	104
Total financial liabilities	164,618	1,891	166,509

The Group has entered into various interest rate swaps as disclosed in Note 20.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Group. The Group is exposed to credit risks from both its leasing activities and financing activities, including deposits with banks and financial institutions.

The Group's main exposure to credit risk is its balances with banks. This risk is mitigated through using banks with a high credit rating.

The Group's deposits, including deposits with lenders, are split by class with the following ratings from Fitch and Moody's Ratings:

Credit Rating	2017 US$'000	2016 US$'000
AA-	738	273
A+	12,722	2,411
A	2,136	15
A-	16	16
BBB+	775	12,117
BBB	18	22
	16,405	14,854

The Group is exposed to loss of rental income and increase in costs, such as legal fees, if tenants fail to meet their payment obligations under their leases. The Group seeks to mitigate default risk by diversifying its tenant base and requiring deposits or guarantees from banks or parent companies, where there is a perceived credit risk or in accordance with prevailing market practice.

All of the Group's major tenants have met their rental requirements within the terms of arrangement and no material receivables have not been impaired which are past due.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial asset.

Notes to the Consolidated Financial Statements (continued)

2. *Financial risk management, policies and objectives (continued)*

Liquidity risk

The Group adopts a prudent approach to liquidity management and maintains sufficient cash reserves and borrowings to meet its obligations. The Group maintains sufficient cash and obtains funding through credit facilities to meet its current liabilities and property development expenditure.

Of the Group's total exposure to banks of US$16,405,000 (2016: US$14,854,000), deposits amounting to US$3,312,000 (2016: US$2,113,000) have been pledged to secure banking facilities, of which US$3,107,000 (2016: US$2,113,000) relates to long-term banking facilities, and are, therefore, classified as non-current assets. Pledged bank balances represent deposits pledged to the banks to secure the banking facilities granted to the Group.

The Group has term loan facilities with Hang Seng Bank, Industrial and Commercial Bank of China (Macau) Limited, and Banco Tai Fung for its investments in *The Waterside*, individual units in One Central Residences, *Senado Square*, *Estrada da Penha*, and *The Fountainside*. The Group's liquidity position is monitored by the Manager and is reviewed quarterly by the Board of Directors. Please refer to Note 8 for details of the facilities.

The table below analyses the Group's financial assets and liabilities into relevant maturity profiles based on the remaining period at the Consolidated Statement of Financial Position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest payments).

As at 30 June 2017	On Demand US$'000	Less than 3 Months US$'000	3 to 12 Months US$'000	1 to 2 Years US$'000	2 to 5 Years US$'000	Over 5 Years US$'000	Total US$'000
Trade and other receivables (excluding prepayments)	-	464	4	111	-	-	579
Cash and cash equivalents	13,093	-	-	-	-	-	13,093
Deposits with lenders	-	-	205	271	2,836	-	3,312
Financial assets at fair value through profit or loss	-	-	21	-	-	-	21
Total financial assets	13,093	464	230	382	2,836	-	17,005
Trade and other payables	-	917	1,024	-	-	-	1,941
Interest-bearing loans	-	1,412	23,786	52,850	108,921	-	186,969
Financial liabilities at fair value through profit or loss	-	-	30	-	-	-	30
Total financial liabilities	-	2,329	24,840	52,850	108,921	-	188,940
Net financial position	13,093	(1,865)	(24,610)	(52,468)	(106,085)	-	(171,935)

As at 30 June 2016	On Demand US$'000	Less than 3 Months US$'000	3 to 12 Months US$'000	1 to 2 Years US$'000	2 to 5 Years US$'000	Over 5 Years US$'000	Total US$'000
Trade and other receivables (excluding prepayments)	-	1,006	7	111	-	-	1,124
Cash and cash equivalents	12,741	-	-	-	-	-	12,741
Deposits with lenders	-	-	-	-	2,113	-	2,113
Total financial assets	12,741	1,006	7	111	2,113	-	15,978
Trade and other payables	-	1,211	680	-	-	-	1,891
Interest-bearing loans	-	2,690	16,978	43,370	115,808	-	178,846
Financial liabilities at fair value through profit or loss	-	38	43	23	-	-	104
Total financial liabilities	-	3,939	17,701	43,393	115,808	-	180,841
Net financial position	12,741	(2,933)	(17,694)	(43,282)	(113,695)	-	(164,863)

Notes to the Consolidated Financial Statements (continued)

2. Financial risk management, policies and objectives (continued)

Fair value hierarchy
Financial investments measured at fair value
IFRS 13 requires disclosure of fair value measurements by level as discussed in Note 1.

The Group's interest rate swaps have been classified within Level 2, which makes use of a model with inputs that are directly or indirectly observable market data. The following table presents the value carried on the Consolidated Statement of Financial Position by level within the valuation hierarchy as at 30 June 2017:

	As at 30 June 2017 US$'000	As at 30 June 2016 US$'000
Current assets	21	-
Non-current liabilities	-	(23)
Current liabilities	(30)	(81)
Net interest rate swap liabilities	(9)	(104)

The fair value of the interest rate swaps is determined from proprietary models based upon recognised financial principles and reasonable estimates about relevant future market conditions. The inputs used in fair valuing the interest rate swaps are swap rates, date convention, calculation periods, transactional costs and other costs. There have been no changes in the valuation technique during the year. The interest rate swaps have been fair valued at each reporting period. There have been no transfers between levels.

As stated above, movements in the significant direct or indirect observable inputs upon which the fair value is calculated, would have an effect on the overall fair market value of the interest rate swaps. The Board believes that a reasonable sensitivity range expected in each input would be a flat movement of +/- 1%.

For all financial instruments, other than those recognised at fair value or whose fair value is disclosed within these financial statements, carrying value of the financial asset/liability is an approximation of their fair value.

Capital risk management
The Group's objectives, when managing capital, are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

During the year ended 30 June 2017, there were no borrowings other than the Group's loan facilities in place which are classified as interest bearing loans in the Consolidated Statement of Financial Position.

Notes to the Consolidated Financial Statements (continued)

2. Financial risk management, policies and objectives (continued)

Capital risk management (continued)
Discount management policy
The Board's intention is to apply an active discount management policy, buying back shares if there is a significant discount of share price to Adjusted Net Asset Value ("Adjusted NAV") for a sustained period of time, subject to cash flow operating needs of the Company. During the year, the Company has purchased nil ordinary shares. During the prior year, the Company purchased 1,101,000 ordinary shares at a weighted average price of 176.64p as per Note 12. All of the shares bought back in the prior year were cancelled.

Shares which are bought back by the Company may either be cancelled or held in treasury and subsequently re-issued. Pursuant to the Companies (Guernsey) Law, the number of shares of any class held as treasury shares must not, at any time, exceed 10% of the total number of issued shares of that class at that time. The authority to buy back up to 14.99% per annum of shares in issue is renewed at each Annual General Meeting of the Company by special resolution.

The Board remains committed to an active discount management policy.

3. Critical accounting estimates, assumptions and judgement

The Directors and Investment Adviser (the "management") make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

a) Fair value of the investment property, NRV and Adjusted NAV are based on the current market valuation provided by Savills, an independent valuer. Savills is required to make assumptions on establishing the current market valuation. The most significant assumptions (as described further in Note 6), relate to estimating costs to complete property under development, future income streams and discount rates applicable to these estimates. The valuation has been made on the assumption that the owner sells the properties in the open market without a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the properties. This is an accounting assumption.

b) Inventory is stated at the lower of cost and NRV. NRV for completed inventory property is assessed with reference to market conditions and prices existing at the reporting date, and is determined by the Group, having taken suitable external advice and in the light of recent market transactions. NRV in respect of inventory property under construction (see Note 7), is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and less an estimate of the time value of money to the date of completion. This is an accounting estimate.

c) Deferred tax liabilities are recognised for potential tax charges to the extent that it is probable that taxable profits will exceed taxable losses, against which can be utilised. Significant management judgement is required to determine the amount of deferred tax liabilities that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. This is an accounting judgement.

The Group did not make any critical accounting judgements, other than as described above, in the year ended 30 June 2017 or the year ended 30 June 2016.

Notes to the Consolidated Financial Statements (continued)

4. Subsidiaries

All SPVs are owned 100% by the Company. The following subsidiaries have a year end of 31 December to coincide with the Macanese tax year:

Macau (Site 1) Limited	MPOF Macau (Site 2) Limited
MPOF Macau (Site 5) Limited	MPOF Macau (Site 6) Limited
The Fountainside Company Limited	The Waterside Company Limited
Castelo Branco Companhia Limitada	Braga Companhia Limitada
Portalegre Companhia Limitada	

During the current year, the following Guernsey companies: MPOF (7A) Limited, MPOF (7B) Limited, MPOF (8A) Limited, MPOF (8B) Limited, MPOF (9A) Limited, MPOF (9B) Limited, MPOF (10A) Limited, MPOF (10B) Limited, MPOF (Monte) Limited and MPOF (Paulo) Limited were liquidated. MPOF Mainland Company 1 Limited, a Barbados company, was liquidated. The following Macanese companies – Macau (Site 4) Limited, Macau (Site 7) Limited, Macau (Site 8) Limited, Macau (Site 9) Limited, Macau (Site 10) Limited and Vila Real Companhia Limitada were liquidated.

The consolidated financial statements include the financial statements of the Company and the subsidiaries listed below:

	Ownership	Incorporation		Ownership	Incorporation
Macau (Site 1) Limited	100%	Macau	Cannonball Limited	100%	Guernsey
MPOF Macau (Site 2) Limited	100%	Macau	Civet Limited	100%	Guernsey
MPOF Macau (Site 5) Limited	100%	Macau	Gorey Hills International Limited	100%	BVI
MPOF Macau (Site 6) Limited	100%	Macau	Hillsleigh Holdings Limited	100%	BVI
The Waterside Company Limited	100%	Macau	Jin Mei International Limited	100%	BVI
Braga Companhia Limitada	100%	Macau	Mega League Investments Limited	100%	BVI
Portalegre Companhia Limitada	100%	Macau	Poly Advance Management Limited	100%	BVI
The Fountainside Company Limited	100%	Macau	Smooth Run Group Limited	100%	BVI
Castelo Branco Companhia Limitada	100%	Macau	Worthy Way Limited	100%	BVI
MPOF (Penha) Limited	100%	Guernsey	China City Properties Limited	100%	Hong Kong
MPOF (Taipa) Limited	100%	Guernsey	East Base Properties Limited	100%	Hong Kong
MPOF (Jose) Limited	100%	Guernsey	Eastway Properties Limited	100%	Hong Kong
MPOF (Sun) Limited	100%	Guernsey	Elite Gain Limited	100%	Hong Kong
MPOF (Guia) Limited	100%	Guernsey	Glory Properties Limited	100%	Hong Kong
MPOF (Antonio) Limited	100%	Guernsey	New Perfect Properties Limited	100%	Hong Kong
MPOF (6A) Limited	100%	Guernsey	Pacific Asia Properties Limited	100%	Hong Kong
MPOF (6B) Limited	100%	Guernsey	Weltex Properties Limited	100%	Hong Kong
Bream Limited	100%	Guernsey			

Notes to the Consolidated Financial Statements (continued)

5. Segment reporting

The Chief Operating Decision Maker (the "CODM") in relation to the Company is deemed to be the Board itself. The factors used to identify the Group's reportable segments are centred on asset class and differences in both geographical area and regulatory environment. Furthermore, foreign exchange and political risks are identified, as these also determine where resources are allocated.

Based on the above and a review of information provided to the Board, it has been concluded that the Group is currently organised into one reportable segment based on the geographical area, Macau.

This segment includes residential, commercial and mixed-use properties. Furthermore, there are multiple individual properties that are held within each property type. However, the CODM considers, on a regular basis, the operating results and resource allocation of the aggregated position of all property types as a whole, as part of their on-going performance review. This is supported by a further breakdown of individual property groups only to help support their review and investment appraisal objectives.

Information about major customers

The Group does not have any customers or rental agreements which represent more than 10% of Group's revenues. Revenues represented by rental income were US$2,055,000 for the year ended 30 June 2017 (2016: US$2,109,000).

6. Investment property

	2017 US$'000	2016 US$'000
At the beginning of the year	206,595	243,810
Capital expenditure on property	36	1,237
Fair value adjustment	36,013	(38,227)
Exchange difference	(1,451)	(225)
Balance at end of the year	241,193	206,595

Valuation gains and losses from investment property are recognised in profit and loss for the period, and are attributable to changes in unrealised gains or losses relating to investment property (completed and under construction) held at the end of the reporting period.

The valuation process is initiated by the Investment Adviser who appoints a suitably qualified valuer to conduct the valuation of the investment property. The results are overseen by the Investment Adviser. Once satisfied with the valuations based on their expectations, the Investment Adviser reports the results to the Board. The Board reviews the latest valuation based on their knowledge of the property market and compares these to previous valuations. The Group's investment properties were revalued at 30 June 2017 by independent, professionally-qualified valuer, Savills. The valuation has been carried out in accordance with the current Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Standards to calculate the market value of the investment properties in their existing state and physical condition, with the assumptions that:

- The owner sells the property in the open market without any arrangement, which could serve to affect the value of the property.
- The property is held for investment purposes.
- The property is free from encumbrances, restrictions and outgoings of any onerous nature which could affect its value.

The fair value of investment property is determined by Savills, using recognised valuation techniques. The technique deployed was the income capitalisation method. The determination of the fair value of investment property requires the use of estimates such as future cash flows from assets (such as lettings, tenants' profiles, future revenue streams, capital values of fixtures and fittings, plant and machinery, any environmental matters and the overall repair and condition of the property) and discount rates applicable to those assets. These estimates are based on local market conditions existing at the reporting date.

Notes to the Consolidated Financial Statements (continued)

6. Investment property (continued)

Capital expenditure on property during the year relates to fit-out costs for *The Waterside*.

Rental income arising from *The Waterside* of US$2,055,000 (2016: US$2,109,000) was received during the year. Direct operating expenses of US$954,000 (2016: US$967,000) arising from *The Waterside* that generated rental income were incurred during the year. Direct operating expenses during the year arising from vacant units totalled US$284,000 (2016: US$325,000).

There are no disposals of investment property during the year.

The following tables show the inputs used in valuing the investment property which is classified as Level 3 in the fair value hierarchy:

	Property information	Carrying amount / fair value as at 30 June 2017 US$'000	Valuation technique	Input	Unobservable and observable inputs used in determination of fair values	Other key information
Name	*The Waterside*	241,193	Term and Reversion Analysis	Term rent (inclusive of management fee and furniture)	HK$17.1 psf	Age of building
Type	Residential/ Completed apartments			Term yield (exclusive of management fee and furniture)	1.4% - 2.2%	Remaining useful life of building
Location	One Central Tower 6 Macau			Reversionary rent (exclusive of management fee and furniture)	HK$17.1 psf	
				Reversionary yield	1.7%	

	Property information	Carrying amount / fair value as at 30 June 2016 US$'000	Valuation technique	Input	Unobservable and observable inputs used in determination of fair values	Other key information
Name	*The Waterside*	206,595	Term and Reversion Analysis	Term rent (inclusive of management fee and furniture)	HK$19.5 psf	Age of building
Type	Residential/ Completed apartments			Term yield (exclusive of management fee and furniture)	1.6% - 2.4%	Remaining useful life of building
Location	One Central Tower 6 Macau			Reversionary rent (exclusive of management fee and furniture)	HK$19.0 psf	
				Reversionary yield	2.0%	

Notes to the Consolidated Financial Statements (continued)

6. Investment property (continued)

The fair value of *The Waterside* is determined using the income approach, more specifically a term and reversion analysis, where a property's fair value is estimated based on the rent receivable and normalised net operating income generated by the property, which is divided by the capitalisation (discount) rate. The difference between gross and net rental income includes the same expense categories as those for the discounted cash flow method with the exception that certain expenses are not measured over time, but included on the basis of a time weighted average, such as the average lease up costs. Under the income capitalisation method, over- and under-rent situations are separately capitalised (discounted).

If the estimated reversionary rent increased/decreased by 5% (and all other assumptions remained the same), the fair value of *The Waterside* would increase or decrease by US$12 million.

If the term or revisionary yield increased/decreased by 5% (and all other assumptions remained the same), the fair value of *The Waterside* would decrease by US$12 million or increase by US$13 million.

The Waterside is currently valued at its highest and best use. There is no extra evidence available to suggest that it has an alternative use that would provide a greater fair value measurement.

There have been no transfers between levels during the period or a change in valuation technique since the last period.

7. Inventories

Cost	2017 US$'000	2016 US$'000
Balance brought forward	67,410	67,288
Additions	457	438
Disposals	(3,459)	(254)
Exchange difference	(414)	(62)
Balance carried forward	63,994	67,410

Additions include capital expenditure, development costs and capitalisation of financing costs.

Finance costs of US$317,000 (2016: US$nil) relating to the *Senado Square* loan facility were capitalised during the year, including US$287,000 (2016: US$nil) of interest capitalised to the property.

Under IFRS, inventories are valued at the lower of cost and NRV. The carrying amounts for inventories as at 30 June 2017 amounts to US$63,994,000 (2016: US$67,410,000). NRV as at 30 June 2017 as determined by independent, professionally-qualified valuer, Savills, was US$182,670,000 (2016: US$185,211,000).

One unit of *The Fountainside* and one individual unit of One Central Residences (2016: 3 car parking spaces and 1 motorcycle parking space of *The Fountainside*) were sold during the year for a total consideration of US$6.4 million (HK$49.3 million) (2016: US$1.0 million (HK$8.1 million)) against a total cost of US$3.5 million (HK$27.0 million) (2016: US$0.2 million (HK$2.0 million)) which resulted in a net profit of US$2.9 million (HK$22.3 million) (2016: US$0.8 million (HK$6.1 million)) after all associated fees and transaction costs.

Notes to the Consolidated Financial Statements (continued)

8. Interest-bearing loans

Bank loans – Secured	2017 US$'000	2016 US$'000
- Current portion	19,617	14,444
- Non-current portion	153,775	149,279
	173,392	163,723

The Group has a term loan facility with Hang Seng Bank for *The Waterside* and the individual units in One Central Residences. On 4 November 2015, a new tranche of the facility was executed for HK$282 million (US$36.4 million) (Tranche 5) to finance the principal instalments of the previous tranches, up to the end of 2017.

As at 30 June 2017, three tranches remained outstanding. Tranche 3 had an outstanding balance of HK$572 million (US$73.3 million) (2016: HK$572 million (US$73.7 million)); and Tranche 4 had an outstanding balance of HK$76 million (US$9.7 million) (2016: HK$76 million (US$9.8 million)); and Tranche 5 had an outstanding balance of HK$281 million (US$36.0 million) (2016: HK$281 million (US$36.3 million)). As at 30 June 2017, the loan-to-value ratio for the Hang Seng One Central facility was 47.36% (2016: 57.98%).

The interest rates applicable to Tranche 3, Tranche 4 and Tranche 5 of the term loan are 2.25% per annum, 2.35% per annum and 2.35% per annum, respectively, over the 1-, 2- or 3-month HIBOR rate. The choice of rate is at the Group's discretion. The term loan matures on 19 September 2020. The principal is to be repaid in half-yearly instalments commencing 19 March 2018 with 50% of the principal due upon maturity. The loan-to-value covenant is 60%. The facility is secured by means of a first registered legal mortgage over *The Waterside* and the individual residential units owned by the Group at One Central Residences as well as a pledge of all income from the units. The Company is the guarantor for the credit facility. In addition, the Group is required to maintain a cash reserve equal to six months' interest with the lender. Early prepayment covenant for sales proceeds out of the individual One Central Residences units will be waived, subject to the Group maintaining a loan-to-value ratio of not more than 50% on the facility.

During the year ended 30 June 2017, the Group executed a two-year loan facility with Hang Seng Bank for *Senado Square* redevelopment project. The total facility amount is HK$118 million (US$15.2 million) divided into 2 tranches: Tranche A is a term loan facility for an amount of HK$59 million (US$7.6 million) for refinancing the property acquisition cost; Tranche B is a revolving loan facility for an amount of HK$59 million (US$7.6 million) for general working capital needs. The full amount of the facility was drawndown in December 2016. Interest is charged at 2.7% per annum over the 1-, 2- or 3-month HIBOR rate. The choice of rate is at the Group's discretion. The facility will mature on 10 December 2018 and the principal is to be repaid by one lump sum at maturity. The loan-to-value covenant is two-tier, on a stand-alone basis: 45% and in aggregate with the One Central facility: 60%. The facility is secured by means of a first registered legal mortgage over the Group's interest in *Senado Square* as well as a pledge of all sales proceeds. The Company and MPOF Macau (Site 5) Limited are the joint guarantor for the loan facility. In addition, the Group is required to maintain a cash reserve equal to six months' interest with the lender. As at 30 June 2017, the loan-to-value ratio for *Senado Square* facility was 17.82%.

The Group has a HK$220 million (US$28.2 million) term loan facility with the Industrial and Commercial Bank of China (Macau) Limited in relation to *The Fountainside* redevelopment project with a tenor revised from 3 years to 5 years and to be matured in March 2020. Interest is charged at 3% per annum over the 3-month HIBOR rate. The principal is to be repaid in half yearly instalment commencing 5 September 2017 with 50% of the principal due upon maturity. The loan-to-value covenant is 60%. The facility is secured by means of a first registered legal mortgage over all unsold units and car parking spaces of *The Fountainside* as at the loan facility date as well as a pledge of all income from the units and the car parking spaces. The Company is the guarantor for the credit facility.

As at 30 June 2017, the facility had an outstanding balance of HK$162 million (US$20.8 million) (2016: HK$198.1 million (US$25.5 million)). Sales proceeds of US$nil (2016: US$nil) were pledged with the lender. As at 30 June 2017, the loan-to-value ratio for *The Fountainside* facility was 47.79% (2016: 56.76%).

Notes to the Consolidated Financial Statements (continued)

8. Interest-bearing loans (continued)

The Group has two loan facilities in relation to *Estrada da Penha*:

Banco Tai Fung

The loan facility with Banco Tai Fung originally had a term of 3 years and the facility amount is HK$70 million which expired in June 2017 and was subsequently renewed for another term of 2 years. Interest was originally charged at 3.2% per annum over the 6-month HIBOR rate and was revised to 2.3% per annum over the 3-month HIBOR rate, and repayment is due in full at maturity in June 2019. As at 30 June 2017, the facility had an outstanding balance of HK$70 million (US$9.0 million) (2016: HK$70 million (US$9.0 million)). This facility is secured by a first legal mortgage over the property as well as a pledge of all income from the property. The Company is the guarantor for this term loan. Interest is paid monthly on this loan facility. As at 30 June 2017, the loan-to-value ratio for this facility was 42.94% (2016: 47.62%).

ICBC Macau

The loan facility with Industrial and Commercial Bank of China (Macau) Limited has a term of 3 years and the facility amount is HK$79 million. Interest is charged at 3.2% per annum over the 3-month HIBOR rate and repayment is due in full at maturity in December 2017. As at 30 June 2017, the facility had an outstanding balance of HK$79 million (US$10.1 million) (30 June 2016: HK$79 million (US$10.2 million)). This facility is secured by a first legal mortgage over the property as well as a pledge of all income from the property. The Company is the guarantor for this term loan. In addition, the Group is required to maintain a cash reserve equal to six months' interest with the lender. Interest is paid monthly on this loan facility. As at 30 June 2017, the loan-to-value ratio for this facility was 40.72% (2016: 45.14%).

Bank loan interest paid during the year was US$5,079,000 (2016: US$4,827,000), including US$287,000 (2016: US$nil) capitalised during the year (see Note 7).

Amortised loan arrangement fees for the year are disclosed in Note 14.

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments.

The estimated fair value of fixed interest bearing loans is based on discounted cash flows using prevailing market interest rates for debts with similar credit risk and maturity. As at 30 June 2017, the fair value of the interest-bearing loans was US$84,000 lower than the carrying value of the financial liabilities (2016: the fair value of the interest-bearing loans was US$378,000 lower than the carrying value of the financial liabilities).

The Group's interest-bearing loans have been classified within Level 2, as they have observable inputs from similar loans. There have been no transfers between levels during the period or a change in valuation technique since the last period.

Notes to the Consolidated Financial Statements (continued)

9. Taxation

The Company is exempt from taxation in Guernsey under the provisions of The Income Tax (Exempt Bodies) (Guernsey) Ordinances, 1989 to 1992, and is charged an annual exemption fee of £1,200 (US$1,462) (2016: £1,200 (US$1,742)).

The Group would only be exposed to Hong Kong profits tax if it is:

i) not exempted under the Revenue (Profits Tax Exemption for Offshore Funds) Ordinance 2006 (the "Ordinance") ; and
ii) treated as carrying on a trade or business in Hong Kong either on its own account or through any person as an agent.

No accrual has been made for Hong Kong profits tax, as the Board believes that no such tax exposure exists at the end of the reporting year (2016: US$nil).

The Group is not subject to any income, withholding or capital gains taxes in the BVI. No capital or stamp duties are levied in the BVI on the issue, transfer or redemption of shares. As a result, no provision for BVI taxes has been made in the consolidated financial statements.

The Macanese SPVs are liable to Macau property tax in respect of their ownership of Macau properties. Taxation will be charged at the higher of 10% (2016: 10%) of any rent received or 6% (2016: 6%) of the official ratable rentable value. Newly built residential buildings or commercial buildings are exempt from property tax for four years and six years, respectively (such time running from the month after the occupancy permit is issued) for properties located in Macau peninsula and outlying islands. Macau Complementary Taxes are generally levied on income and profits arising in or derived from commercial and/or industrial activities carried on in Macau. There is no distinction made between a "revenue profit" and "capital profit" under the Macau complementary tax regulations. Accordingly, all income booked by a Macau corporate taxpayer, including gains on sale of investment/immovable property, will be subject to complementary tax. In general, gains on the disposal of shares in a Macau company (such as an SPV of the Company) should not attract Macau complementary tax.

The Board closely monitors and assesses the level of provisions for Macanese tax taking into consideration factors such as the Group's structure.

The Group had exposure to PRC taxation for its previous business operation in the PRC. The Board considers that the Group's exposure to PRC tax has been properly reflected in the Group's consolidated financial statements.

As at the year-end, the following amounts are the outstanding tax provisions.

	2017 US$'000	2016 US$'000
Current liabilities		
PRC tax authorities provision	-	2,514
Non-current liabilities		
Deferred taxation	17,003	12,782
Provisions for Macanese taxations	2,260	2,409
	19,263	15,191

Notes to the Consolidated Financial Statements (continued)

9. Taxation (continued)

PRC tax authorities provision
As at 30 June 2016, a tax provision had been made against the potential tax charge by the PRC tax authorities on the gain on disposal of the *APAC Logistics Centre* and *Cove Residence*. During the year ended 30 June 2016, an interim payment of HK$6,278,000 (US$810,000) was made to partially settle the tax liability to the PRC tax authorities. On 25 August 2016, the Group submitted the final tax return to the PRC tax authorities and the final assessed tax liability totalled HK$19 million (US$2.45 million) was fully settled on 26 August 2016.

Deferred taxation
The Group has recognised a deferred tax liability for the taxable temporary difference relating to the investment property carried at fair value.

Provisions for Macanese taxations
The Group has made provisions for property tax and complementary tax arisen from its Macau business operations.

Tax Reconciliation
No tax reconciliation has been presented because the Company is exempt from taxation in Guernsey (except as described above). The tax charge for the year of US$4,284,000 (2016: tax credit of US$3,541,000) comprised a deferred tax charge of US$4,322,000 (2016: credit of US$4,587,000), arising from the increase in the value of investment property offset by a reversal in the tax authorities provision for the PRC of US$53,000 (2016: increase in provision of US$1,000,000) and provision for Macanese taxes of US$15,000 (2016: US$46,000) at a rate of 12%.

10. Trade and other receivables

Current assets	2017 US$'000	2016 US$'000
Trade receivables	468	1,013
Prepayments	1,220	83
	1,688	1,096

11. Trade and other payables

Current liabilities	2017 US$'000	2016 US$'000
Accruals	351	454
Other payables	1,590	1,437
	1,941	1,891

Other payables principally comprise outstanding amounts for operating expenses.

Notes to the Consolidated Financial Statements (continued)

12. Share capital

Ordinary shares	2017 US$'000	2016 US$'000
Authorised:		
300 million ordinary shares of US$0.01 each	3,000	3,000
Issued and fully paid:		
76.4 million (2016: 76.4 million)		
ordinary shares of US$0.01 each	764	764

The Company has one class of ordinary shares which carries no rights to fixed income.

Ordinary shares repurchases
During the prior year, under the authority first granted in the Extraordinary General Meeting of 28 June 2010 and renewed at each Annual General Meetings thereafter, the Company repurchased 1,101,000 ordinary shares or 1.05% of the originally issued shares, totalling US$3,016,000 at an average share price of 176.64p. During the current year, no shares were repurchased by the Company. All shares bought back under the buyback programme were at market value and were cancelled.

The Board has publicly stated its commitment to undertake share buybacks at attractive levels of discount of the share price to Adjusted NAV. In order to continue this strategy, the Board intends to renew this authority at the 2017 Annual General Meeting.

13. General and administration expenses

General and administration expenses	2017 US$'000	2016 US$'000
Legal and professional*	747	317
Holding Company administration	269	262
Guernsey SPV administration	134	131
BVI, Hong Kong, & Macanese SPV administration	91	101
Insurance costs	17	19
Listing fees	17	21
Printing & postage	32	44
Other operating expenses	217	260
	1,524	1,155

* During the year, the Company incurred expenses of US$356,000 in relation to a bid for the entire portfolio, which are recorded under legal and professional expenses.

Administration fees for the BVI, Hong Kong and Macanese SPVs are payable to Adept Capital Partners Services Limited in which Thomas Ashworth is a shareholder and Director.

Notes to the Consolidated Financial Statements (continued)

14. Other financing costs

Financing costs	2017 US$'000	2016 US$'000
Bank charges	11	11
Loan arrangement fees	269	313
	280	324

As at 30 June 2017, unamortised loan arrangement fees were US$608,000 (2016: US$791,000). These have been netted off against the interest bearing loans and also split between current and non-current.

15. Property operating expenses

Property operating expenses	2017 US$'000	2016 US$'000
Property management fee	742	742
Property taxes	247	275
Utilities	26	18
Other property expenses	234	236
	1,249	1,271

Notes to the Consolidated Financial Statements (continued)

16. Cash flows from operating activities

Cash flows from operating activities	2017 US$'000	2016 US$'000
Profit/(Loss) for the year before tax	27,392	(49,192)
Adjustments for:		
Net gain on valuation of interest rate swap	(95)	(291)
Net (gain)/loss from fair value adjustment on investment property	(36,013)	38,227
Net finance costs	5,436	5,732
Operating cash flows before movements in working capital	(3,280)	(5,524)
Effects of foreign exchange rate changes	(965)	(137)
Movement in trade and other receivables	(592)	2,183
Movement in trade payables, provision and other payables	468	77
Movement in inventories	3,002	(184)
Net change in working capital	2,878	2,076
Taxation paid	(2,843)	(1,319)
Net cash used in operating activities	(4,210)	(4,904)

Cash and cash equivalents (which are presented as a single class of assets on the face of the Consolidated Statement of Financial Position) comprise cash at bank and other short-term, highly-liquid investments with a maturity of three months or less. For both year ends, there are no cash equivalents held by the Group.

Notes to the Consolidated Financial Statements (continued)

17. Basic and diluted earnings/(loss) per ordinary share and net asset value per share

The basic and diluted earnings/(loss) per equivalent ordinary share is based on the profit attributable to equity holders for the year of US$23,108,000 (2016: loss of US$45,651,000) and on the 76,432,964 (2016: 76,583,767) weighted average number of ordinary shares in issue during the year.

	30 June 2017			30 June 2016		
	Profit Attributable US$'000	Weighted Average No. of Shares '000s	EPS US$	Loss Attributable US$'000	Weighted Average No. of Shares '000s	EPS US$
Basic and diluted	23,108	76,433	0.3023	(45,651)	76,584	(0.5961)

Net asset value reconciliation	2017 US$'000	2016 US$'000
Net assets attributable to ordinary shareholders	128,786	106,643
Uplift of inventories held at cost to market value	120,521	119,672
Adjusted NAV	249,307	226,315
Number of ordinary shares outstanding ('000)	76,433	76,433
NAV per share (IFRS) (US$)	1.69	1.40
Adjusted NAV per share (US$)	3.26	2.96
Adjusted NAV per share (£)*	2.50	2.23

The NAV per share is arrived at by dividing the net assets as at the date of the Consolidated Statement of Financial Position, by the number of ordinary shares in issue at that date.

Under IFRS, inventories are carried at the lower of cost and NRV. The Adjusted NAV includes the uplift of inventories to their market values.

The Adjusted NAV per share is arrived at by dividing the Adjusted NAV as at the date of the Consolidated Statement of Financial Position, by the number of ordinary shares in issue at that date.

There are no potentially dilutive shares in issue.

The fair value of the inventories are classified as Level 3 in the fair value hierarchy and are determined either using the market approach specifically the sales comparison approach, where a property's fair value is estimated based on the average selling price of similar properties in the market or the residual method where a property's fair value is derived by taking the gross development value and deducting the associated costs and fees. There are no changes on the fair valuation technique used from prior year.

* US$:GBP rate as at 30 June 2017 is 1.303 (2016: 1.326).

Notes to the Consolidated Financial Statements (continued)

18. Related party transactions

Directors of the Company are all non-executive and by way of remuneration, receive only an annual fee which is denominated in Sterling.

	2017 US$'000	2016 US$'000
Directors' fees	150	187

The Directors are considered to be the key management personnel (as defined under IAS 24) of the Company. Director's fees outstanding as at 30 June 2017 were US$38,752 (2016: US$39,461).

Thomas Ashworth has a beneficial interest in and is a Director of Sniper Capital Limited. Sniper Capital Limited is the manager to the Group and received fees during the year, as detailed in the Consolidated Statement of Comprehensive Income and on the basis described in Note 19.

Management fees paid for the year totalled US$4,867,000 (2016: US$5,528,000) with US$nil outstanding as at 30 June 2017 (2016: US$nil) (see Note 19). Management fees of US$1,137,000 have been prepaid as at 30 June 2017 (2016: US$nil).

No performance fee was accrued at the year end (2016: US$nil). No performance fee was paid during the year (2016: US$nil).

Thomas Ashworth is a shareholder and Director of Adept Capital Partners Services Limited. Adept Capital Partners Services Limited provides administrative services to the Macanese, Hong Kong and BVI SPVs and received fees during the year as detailed in Note 13.

The Group has a Development Management Services Agreement with a development management company named Headland Developments Limited ("Headland"). Thomas Ashworth has a beneficial interest in and is a Director of Headland and therefore, constitutes a related party of the Group. Development Management Services fees capitalised in investment property and inventories during the year are detailed in Note 19.

The Group has a Project Management Services Agreement with a property management company named Bela Vista Property Services Limited ("Bela Vista"). Thomas Ashworth has a beneficial interest in and is a Director of Bela Vista and therefore, constitutes a related party of the Group. Project Management Services fees capitalised in investment property during the year are detailed in Note 19.

All intercompany loans and related interest are eliminated on consolidation.

Notes to the Consolidated Financial Statements (continued)

19. Material contracts

Management fee
Under the terms of an appointment made by the Board of Directors of the Company on 23 May 2006, Sniper Capital Limited was appointed as Manager to the Group. The Manager is paid quarterly in advance, a fee of 2.0% of the net asset value, as adjusted to reflect the Property Investment Valuation Basis. During the year ended 30 June 2015, an amendment was made to the Investment Management Agreement relating to the definition of net asset value on which the fee is calculated. The definition of net asset value changed to include an 'add-back' of deferred taxation to the Adjusted NAV, subject to a claw-back provision, as the Directors are of the opinion that such a liability will not be payable by the Group in the future. Management fees paid for the year totalled US$4,867,000 (2016: US$5,528,000) with US$nil outstanding as at 30 June 2017 (2016: US$nil).

Performance fee
In addition, the Manager is entitled to a performance fee in certain circumstances. This fee is payable by reference to the increase in Adjusted NAV per ordinary share over the course of each calculation period. The first calculation period ended on 30 June 2007; each subsequent performance period is a period of one financial year.

Payment of the performance fee is subject to:

i) the achievement of a performance hurdle condition: Adjusted NAV per ordinary share at the end of the relevant performance period must exceed an amount equal to the US Dollar equivalent of the Placing Price increased at a rate of 10% per annum on a compounding basis up to the end of the relevant performance period (the "performance hurdle");
ii) the achievement of a 'high water mark': Adjusted NAV per ordinary share at the end of the relevant performance period must be higher than the highest previously reported Adjusted NAV per ordinary share at the end of a performance period in relation to which a performance fee, if any, was last earned; and
iii) the accumulated distributions per ordinary share to shareholders exceed the high water mark.

If the basic performance hurdle is met, and the high water mark exceeded, the performance fee will be an amount equal to 20% of the excess of the Adjusted NAV per ordinary share at the end of the relevant performance period over the higher of (i) the basic performance hurdle; (ii) the Adjusted NAV per ordinary share at the start of the relevant performance period; and (iii) the high water mark (in each case on a per share basis), multiplied by the time weighted average of the number of ordinary shares in issue in the performance period (or since Admission in the first performance period) (together, if applicable, with an amount equal to the VAT thereon).

In the year ended 30 June 2017, no performance fee was accrued (2016: US$nil) by the Group. During the year ended 30 June 2017, a performance fee of US$nil was paid (2016: US$nil) by the Group. This performance fee is based on the basic performance hurdle.

The Manager's appointment is terminable by the Manager or the Company on not less than 12 months' notice. The Company may terminate the Management Agreement with immediate effect, if either or both of the Principals is removed from their position of full-time employment with the Manager or ceases to be available for any reason beyond the Manager's reasonable control and the Manager fails, within three months (or six months in the case of one only) of such event, to cause to be made available the services of a competent replacement(s) of equivalent skill and experience.
The Management Agreement may also be terminated with immediate effect by either the Manager or the Company if the other party has gone into liquidation, administration or receivership or has committed a material breach of the Management Agreement.

Notes to the Consolidated Financial Statements (continued)

19. Material contracts (continued)

Development Management Services Agreement
A Development Management Services Agreement dated 1 June 2010 was entered into between the Group and Headland, under which Headland provides development management services to the Group in respect of the Group's properties that require development. Headland is paid a development management fee based on the hourly rates of its personnel and the actual time spent on each project for the Group. Such hourly rates will be reviewed annually by the Board. Budgeted development management fees are submitted to the Board for approval and are used to monitor against actual fees charged to the Group. Under certain circumstances, a fixed percentage fee cap based on construction value of the project may apply, should the Board deem necessary.

The Group also agrees to reimburse Headland for any reimbursable expenses reasonably incurred in the performance of its duties under the agreement. Headland agrees to exercise all the reasonable skill, care and diligence to be expected of a prudent and competent development manager experienced in the provision of development management services for projects of a similar size, scope, nature and complexity as the projects on which it will be engaged by the Group.

During the year, development management services fees of US$nil (HK$nil) (2016: US$nil (HK$nil)) were capitalised in investment property and US$17,000 (HK$133,000) (2016: US$22,000 (HK$170,000)) were capitalised in inventories. As at 30 June 2017, US$1,000 (2016: US$5,000) was outstanding.

Project Management Services Agreement
The Group and Bela Vista entered into a Project Management Services Agreement, under which Bela Vista provides project management services to the Group in respect of the renovation and enhancement works at *The Waterside*. Bela Vista is paid a project management fee based on a percentage of the total renovation and enhancement costs and expenses incurred or contracted by *The Waterside*. Such percentage will be reviewed annually by the Board.

During the year, project management services fees of US$10,146 (HK$78,806) (2016: US$62,399 (HK$484,143)) were capitalised in investment property. As at 30 June 2017, US$nil (2016: US$62,399) was outstanding.

Agency Services Agreement
The Group and Bela Vista entered into an Agency Services Agreement, under which Bela Vista provides agency services to the Group in respect of the sales of residential units and car and motorbike parking spaces of *The Fountainside* as well as the individual units in One Central Residences. Bela Vista is paid an agency services fee based on a percentage of the total sales considerations. Such percentage will be reviewed annually by the Board.

During the year, agency services fees of US$38,352 (HK$297,890) (2016: US$nil (HK$nil)) were paid. As at 30 June 2017, US$nil (2016: US$nil) was outstanding.

Notes to the Consolidated Financial Statements (continued)

20. Interest rate swaps

During the year, the Group paid a net interest of US$78,000 (2016: US$581,000) to the bank as shown in financing expenses on the Consolidated Statement of Comprehensive Income.

The swaps are treated as net financial liabilities at fair value through profit or loss with a year end value of US$9,000 (2016: US$104,000). For the year ended 30 June 2017, a fair value gain of US$95,000 (2016: US$291,000) arising from the net interest rate swaps has been recognised in the Consolidated Statement of Comprehensive Income.

There are no changes in the counterparty credit risk during the period.

Standard Chartered Bank
The Group entered into five interest rate swaps with Standard Chartered Bank to mitigate risks associated with the variability of cash flows arising from interest rate fluctuations. All of the interest rate swaps matured during the prior year, with the earliest maturity date being 6 August 2015 and the latest being 20 May 2016.

The total notional amount for the interest rate swaps was HK$500 million, being a notional amount of HK$100 million for each swap.

Under these swaps, the Group received quarterly interest at variable rates of 3-month HIBOR and paid quarterly interest at fixed rates ranging from 1.395% to 2.09% per annum.

Hang Seng Bank
The Group has also entered into an interest rate swap with Hang Seng Bank to mitigate risks associated with the variability of cash flows arising from interest rate fluctuations.

The notional amount for the interest rate swap is HK$250 million, the tenor of the swap is 5 years with maturity date on 19 March 2018. Under this swap, the Group receives quarterly interest at variable rates of 3-month HIBOR and pays quarterly interest at a fixed rate of 1% per annum.

21. Deposits with lenders

Pledged bank balances represent deposits pledged to the banks to secure the banking facilities granted to the Group. Deposits amounting to US$3.1 million (2016: US$2.1 million) have been pledged to secure long-term banking facilities and are, therefore, classified as non-current assets. There are no other significant terms and conditions associated with these pledged bank balances.

	2017 US$'000	2016 US$'000
Non-current	3,107	2,113
Current	205	-
Pledged for loan covenants	3,312	2,113

Notes to the Consolidated Financial Statements (continued)

22. Commitments and contingencies

As at 30 June 2017, the Group had agreed construction contracts with third parties and is consequently committed to future capital expenditure in respect of inventories of US$nil (2016: US$nil).

23. Auditors' remuneration

	2017 US$'000	2016 US$'000
Audit fees	101	110
Non-audit fees	245	25
	346	135

Non-audit services from auditors pertain to interim review, work performed on a bid for the entire portfolio (US$76,000) and tax advice related to the disposal of *APAC Logistics Centre* and *Cove Residence* in prior years.

24. Operating leases – Group as lessor

The Group has entered into leases on its property portfolio.

Future minimum rentals receivable under non-cancellable operating leases as at 30 June 2017 are as follows:

Residential	2017 US$'000	2016 US$'000
Within 1 year	1,229	902
After 1 year, but not more than 5 years	-	46
Total future rental income	1,229	948

The majority of leases involve tenancy agreements with a term of 12 months.

25. Subsequent events

There were no significant events occurring after the reporting date of the annual report for the year ended 30 June 2017.

Notice of Annual General Meeting

NOTICE is hereby given that the Annual General Meeting of the Company will be held at Lefebvre Place, Lefebvre Street, St Peter Port, Guernsey, GY1 4HY on 8 November 2017 at 2.30pm for the transaction of the following business:

Ordinary Business

The Company's Accounts, the Directors' Report and the Auditors' Report for the year ended 30 June 2017 will be laid before the meeting and the following resolutions will be proposed as ordinary resolutions:

1. To receive and adopt the audited accounts, the Directors' report, and the Auditors' report for the year ended 30 June 2017.

2. To approve the Directors' Remuneration Report for the year ended 30 June 2017.

3. To appoint Ernst & Young LLP, who have indicated their willingness to act, as auditors of the Company to hold office until the next Annual General Meeting of the Company.

4. To authorise the Directors to determine the remuneration of Ernst & Young LLP.

5. To re-appoint Chris Russell, who retires as a Director of the Company, in accordance with Articles 20.3 of the Articles of Incorporation of the Company.

6. To re-appoint Wilfred Woo, who retires as a Director of the Company, in accordance with Articles 20.3 of the Articles of Incorporation of the Company.

7. To re-appoint Alan Clifton, who retires as a Director of the Company in accordance with the Alternative Investment Company Code of Corporate Governance ("AIC Code").

8. To re-appoint Thomas Ashworth, who retires as a Director of the Company, in accordance with the AIC Code and UKLA Listing Rules 15.2.12A (1) and 15.2.1.13A.

Notice of Annual General Meeting (continued)

Special Business

The following resolutions will be proposed as special resolutions:

9. THAT the Company in accordance with Section 315 of The Companies (Guernsey) Law, 2008 (as amended) (the "Law") be approved to make market purchases (as defined in Section 316 of the Law) of its own ordinary shares either for retention as treasury shares or for cancellation, provided that:

   i) the maximum number of shares authorised to be purchased is the lower of 11,457,301 ordinary shares and 14.99 percent of the ordinary shares in issue immediately following the passing of this resolution;
   ii) the minimum price which may be paid for a share is £0.01;
   iii) the maximum price which may be paid for an ordinary share is an amount equal to the higher of (a) 105 percent of the average of the middle market quotations for a share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which that ordinary share is purchased; and (b) either the higher of the price of the last independent trade and the highest current independent bid at the time of purchase;
   iv) subject to paragraph (v) below, such authority shall expire at the next Annual General Meeting of the Company unless such authority is varied, revoked or renewed prior to such date by a special resolution of the Company in general meeting;
   v) notwithstanding paragraph (iv), the Company may make a contract to purchase ordinary shares under such authority prior to its expiry which will or may be executed wholly or partly after its expiration and the Company may make a purchase of shares pursuant to any such contract.

Heritage International Fund Managers Limited
Company Secretary
Heritage Hall, Le Marchant Street
St Peter Port, Guernsey
GY1 4HY
27 September 2017

Notice of Annual General Meeting (continued)

Notes to the Notice of the Annual General Meeting

1. A member is entitled to attend and vote at the Annual General Meeting provided that all calls due from him in respect of his shares have been paid. A member is also entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. The proxy need not be a member of the Company.

2. Pursuant to Article 18.7 of the Company's Articles of Incorporation, a resolution put to the vote shall be decided on a show of hands or by a poll at the option of the Chairman.

3. A form of proxy is enclosed with this notice. To be effective, the instrument appointing a proxy (together with any power of attorney or other authority under which it is executed or a duly certified copy of such power) must be sent to Capita Asset Services, PXS1, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4ZF, no later than 2.30pm on Monday, 6 November 2017, or not less than 48 hours before the time for holding any adjourned meeting, as the case may be. A corporation may execute a proxy under its common seal or by the hand of a duly authorised officer or other agent. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the meeting.

4. The quorum for the Annual General Meeting is at least two shareholders present in person or by proxy.

5. Resolutions 1 to 8 are proposed as ordinary resolutions and will be passed if approved by a simple majority. The ordinary resolutions will be passed at the meeting on a show of hands if they are approved by a simple majority of the members voting in person or by proxy. The ordinary resolutions, if passed on a poll taken at the Annual General Meeting, will be passed if approved by the members representing a simple majority of the total voting rights of members voting in person or by proxy. Resolution 9 is proposed as a special resolution and will be passed if approved by a majority of not less than 75%. The special resolution will be passed at the meeting on a show of hands if it is approved by not less than 75% of the members voting in person or by proxy. The special resolution, if passed on a poll taken at the Annual General Meeting, will be passed if approved by members representing not less than 75% of the total voting rights of members voting in person or by proxy.

6. In accordance with the Regulation 41 of the Uncertificated Securities (Guernsey) Regulations 2009 and Article 19.5 of the Company's Articles of Incorporation, only those members entered in the Register of Members of the Company at close of business on Friday, 3 November 2017 shall be entitled to attend or vote at the Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the Register of Members after that time shall be disregarded in determining the rights of any person to attend or vote at the Annual General Meeting.

7. CREST members who wish to appoint and/or give instructions to a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on 8 November 2017 and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

Notice of Annual General Meeting (continued)

8. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (the CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("Euroclear") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by Capita Asset Services (Crest Participant RA10) by no later than 2.30pm on 6 November 2017. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which Capita Asset Services is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

9. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions, it is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his or her CREST sponsor or voting service provider(s) take(s)) such action as is necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this regard, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 34(1) of the Uncertificated Securities (Guernsey) Regulations, 2009.

10. The Register of Directors' Interests kept by the Company shall be available for inspection at the Registered Office of the Company by any member between the hours of 10.00am and 12.00 noon on any business day for a period of 14 days before and ending 3 days after the Annual General Meeting. The Register of Directors' Interests shall be produced at the commencement of the Annual General Meeting and shall remain open and accessible during the continuance of the Annual General Meeting to any person attending such meeting.

Explanatory Note

Directors' remuneration report – resolution 2

It is a requirement of Listing Rule 9.8.6 R (7) that all quoted companies produce a board-approved report on Directors' remuneration in respect of each financial year. This report is set out in the Annual Report and Accounts. An ordinary resolution will be put to shareholders seeking approval of the remuneration report.

Authority to buyback shares – resolution 9

This resolution renews the share buyback authority that was given by Shareholders at the Annual General Meeting held on 14 November 2016. Resolution 9 gives the Directors authority to make market purchases of the Company's own shares, up to 14.99 percent of the Company's issued share capital (as at the time immediately following the passing of the resolution) and subject to minimum and maximum purchase prices. This authority will only be invoked if, after taking proper advice, the Directors consider that benefits will accrue to shareholders generally.

Directors and Company Information

Directors
Chris Russell (Chairman)
Thomas Ashworth
Alan Clifton
Wilfred Woo

Audit Committee
Alan Clifton (Chairman)
Wilfred Woo
Chris Russell

Management Engagement Committee
Alan Clifton (Chairman)
Chris Russell
Wilfred Woo

Nomination and Remuneration Committee
Alan Clifton (Chairman)
Thomas Ashworth
Wilfred Woo
Chris Russell

Manager
Sniper Capital Limited
Vistra Corporate Services Centre
Wickhams Cay II
Road Town, Tortola
VG 1110
British Virgin Islands

Investment Adviser
Sniper Capital (Macau) Limited
918 Avenida da Amizade
14/F World Trade Centre
Macau

Corporate Broker
Liberum Capital Limited
Ropemaker Place, Level 12
25 Ropemaker Street
London EC2Y 9LY

Independent Auditors
Ernst & Young LLP
P.O. Box 9
Royal Chambers
St. Julian's Avenue
St. Peter Port
Guernsey GY1 4AF

Property Valuers
Savills (Macau) Limited
Suite 1309-10
13/F Macau Landmark
555 Avenida da Amizade
Macau

Solicitors to the Group as to English Law
Norton Rose LLP
3 More London Riverside
London SE1 2AQ

Advocates to the Group as to Guernsey Law
Carey Olsen
Carey House
Les Banques, St. Peter Port
Guernsey GY1 4BZ

Administrator and Company Secretary
Heritage International Fund Managers Limited
Heritage Hall
P.O. Box 225
Le Marchant Street
St. Peter Port, Guernsey
Channel Islands GY1 4HY

Macau and Hong Kong Administrator
Adept Capital Partners Services Limited
26/F Jubilee Centre
42-46 Gloucester Road
Hong Kong

Registered Office
Heritage Hall
P.O. Box 225
Le Marchant Street
St. Peter Port, Guernsey
Channel Islands GY1 4HY

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