



INVESTOR UPDATE

H1/2021

Macau started the year with a sense of guarded optimism over a nascent recovery. Mainland Chinese tourists had been returning to the territory since September and gross gaming revenue was on the rise again. However, slow vaccine uptake in Macau and recent concerns over COVID-19 outbreaks in neighbouring Guangdong Province has moderated the optimism and weighed on near term investor sentiment.

 The enhanced entrance at Penha Heights.

KEY DATA

Inception Date

5 June 2006

Exchange

London Stock Exchange

Domicile

Guernsey

Market Capitalisation

£41.7 million

Portfolio Valuation

US\$265.1 million¹

-0.3% (vs 31 December 2020)

Adjusted NAV

US\$130.1 million¹

-1.6% (vs 31 December 2020)

Adjusted NAV per share

US\$2.10¹/152p²

Share price

67.50p

-2.5% (vs 31 December 2020)

Discount to Adjusted NAV

55.6%

56.7% (as at 31 December 2020)

Cash Balance

US\$13.0 million¹

Total Debt

US\$136.5 million¹

Loan-to-Value Ratio

49.1%¹

¹ As at 31 March 2021.

² Based on a US\$/£ exchange rate of 1.38565 as at 30 June 2021.

All other data are as at 30 June 2021.

MANAGED BY



Portfolio

Although Macau's residential property market improved in H1 2021, the luxury end of the residential sector continued to lag the market overall in both sales and leasing. We nevertheless remained focused on divestment. During the period, we signed a preliminary sale and purchase agreement to sell the final standard unit at *The Fountainside* for HK\$11.8 million (c.US\$1.5 million), with expected completion by November.

The Waterside

The Waterside is MPO's flagship asset, comprising 59 luxury apartments for lease in downtown Macau with sweeping views of Nam Van Lake. In H1 2021, the Manager's efforts were focused on securing new tenants while continuing to seek potential buyers for the property.



The dining and living area of a Standard unit at *The Waterside*.

In the rental market, the Manager continues to promote *The Waterside* via its agent network and various online platforms, while offering more flexible leasing terms. However, as Macau's twin economic engines – tourism and gaming – are running well below full capacity, demand for luxury properties remains subdued. Nevertheless, occupancy increased slightly over the period, rising to 33% versus 31% at the end of 2020.

The Manager has continued to explore multiple channels for a timely divestment of *The Waterside*, which has resulted in extensive discussions with interested parties.

Currently, concerns remain as COVID-19 variants continue to disrupt economic recovery around the world. Macau continues to be closed to most international visitors, whereas it had been anticipated that a progressive widening of the Greater Bay Area bubble would create a more favourable environment. This ongoing uncertainty has kept potential investors on the sidelines.

The Fountainside

The Fountainside is a residential development in the Penha Hill district that comprises 42 homes and 30 car-parking spaces.



Living area of the standard unit sold recently at *The Fountainside*.

The sale of a standard unit agreed last November was completed in February. In addition, we signed a preliminary sales and purchase agreement for another standard unit in May for HK\$11.8 million (c. US\$1.5 million), in line with the property's latest valuation. We expect this transaction to complete by November. This will conclude the sale of all 36 standard units in the project.

Four villas and two duplexes remain in the portfolio. The villas are being promoted through various channels, and we are following up with potential buyers to secure a timely divestment. Considering the current general market demand towards the more affordable segment, we submitted plans to reconfigure the duplexes as three units and two car-parking spaces in January, for which we received approval in April. We are currently tendering the project and barring any unexpected delays expect to substantially complete the reconfiguration work by the end of 2021. Marketing for sale of the units can commence during the reconfiguration process.

Penha Heights

We continued to showcase *Penha Heights*, a prestigious, colonial-style villa atop Penha Hill, to potential buyers through viewings in H1 2021. We have received positive feedback on the property's enhanced appearance and positioning. The pool of potential buyers able to visit the property remains curtailed due to the pandemic and related restrictions on travel to Macau. The Manager will continue to explore all potential avenues for an optimal divestment.



Rooftop of *Penha Heights*, with view of the Macau Tower.

Macau

COVID-19 contained; vaccination campaign to be ramped up

Since the beginning of 2021, Macau has registered only ten additional COVID-19 cases – all imported – for a total of 56 cases and zero deaths since the pandemic began. The reopening of Macau's borders to mainland Chinese visitors has not led to a rise in infections – a testament to the strict prevention and control measures adopted by both governments. Macau's vaccination programme, which began in February, has so far resulted in only c.40% of the population receiving at least one dose of the vaccine. More recently, however, the appointment rate has picked up, helped by government and employer led campaigns.

Economic impact – FY2021 appears positive

For full-year 2020, Macau's economy shrank 56.3% YoY. In Q1 2021, its economy stabilised, helped by a notable increase in exports of tourism services and goods. As a result, the economy recorded a smaller contraction of 0.9% YoY. The International Monetary Fund expects Macau's GDP to grow 61% and 43% in 2021 and 2022, respectively.

Tourism – nascent recovery hits a speed bump

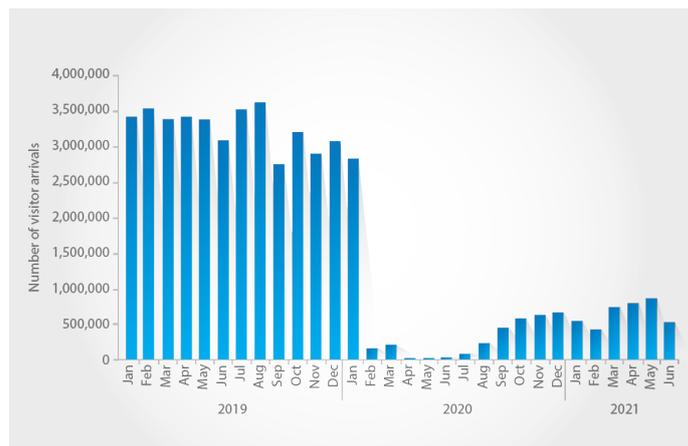
In 2020, Macau recorded an 85% YoY decline in tourist arrivals, with approximately 5.9 million visitors. This year, with largely quarantine-free travel between Macau and mainland China, visitor arrivals increased and accelerated in March, April and May to hit a high of around 45,000 daily arrivals during May's Golden Week holiday – c.60% of the daily average for mainland arrivals set in 2019. During the first five months of the year, Macau welcomed a total of 3.4 million visitors, up 4.7% YoY.

In June, the territory's recovery hit a speed bump when neighbouring Guangdong Province, the main source of visitors to Macau, recorded new COVID-19 outbreaks which reduced visitation to Macau. Fortunately, Guangdong authorities acted swiftly and appear to have brought the situation under control and Macau authorities expect the average daily number of visitors to return to around 30,000, similar to that in May, during the upcoming summer holiday.

There was optimism that the long-awaited Macau-Hong Kong travel bubble could be activated soon, provided there is no local transmission of COVID-19 in Hong Kong for 14 days. However, Macau authorities subsequently announced that they required more time to assess the latest COVID situation in Hong Kong, and the potential easing of travel restrictions with Hong Kong will be subject to discussions with Chinese mainland authorities.

For 2021, the Macau government has revised down its forecast of visitor arrivals from 10 million to 8 million, which was around 20% of the pre-pandemic record of 39.4 million visitors in 2019.

Macau Visitor Arrivals



Source: Statistics and Census Service (Macau)

Gross gaming revenue improving

GGR for the first six months of 2021 increased by 45% compared to the same period in 2020. Morgan Stanley's current forecast is for 2021 GGR to grow by 115% YoY to US\$16.3 billion, c.45% of 2019's level. This represents a downward revision of 19% due to the delay in restoring pre-pandemic travel levels between Macau, mainland China and Hong Kong. Looking beyond the pandemic, brokerage Bernstein expects Macau's GGR in 2025 to be 25% higher than the level seen in 2019.

Despite the uncertainty, integrated resort operators continue to launch new facilities, underscoring their confidence in the territory's prospects. Sands China launched Phase 1 of The Londoner Macao in February, and the Grand Lisboa Palace is expected to open progressively in the third quarter. Galaxy is also expected to unveil facilities for its Phase III in stages, including a new convention centre, from the end of 2021.

With regard to the renewal of gaming concessions expiring in June 2022, a public consultation on proposed amendments to Macau's gaming legislation is expected to begin in H2 2021.

Government relief measures to boost domestic economy and tourism

Macau's government has announced a third consumption subsidy scheme, granting all local residents US\$1,000 in e-coupons and injecting approximately US\$735 million into the local market between June and December.

The Macao Government Tourism Office is continuing its Macao Week campaign in mainland China to showcase the territory's diverse range of tourist experiences and its potential as a safe, healthy tourist destination. In a separate campaign aimed at Macau residents, the "Stay, Dine and See Macao" initiative offers locals a one-off subsidy for local tours and a hotel staycation.

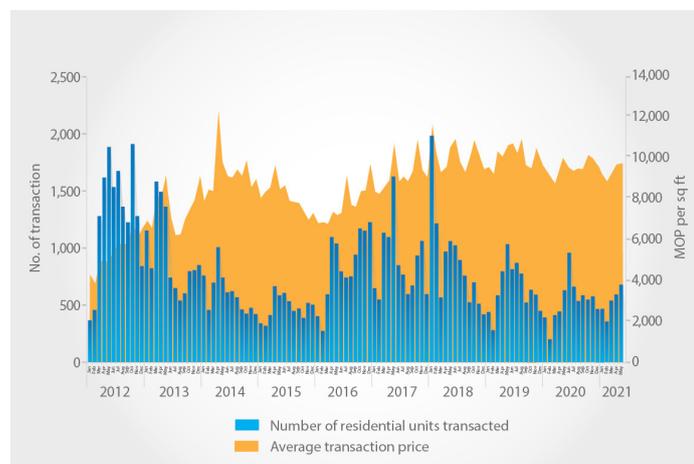
Property

Macau's residential property market has stabilised further, following the government's management of the pandemic and the rollout of its vaccination programme. Potential buyers have been more active, with viewings for smaller units having increased notably since March, and new launches by developers have been well received.

In the first five months of 2021, 2,634 residential units were transacted, a YoY increase of 26%. The average transaction price remained stable at c.US\$1,200 per square foot by the end of May. The market continued to be dominated by first-time buyers and transactions involving less than MOP8 million (US\$1 million). In Q1 2021, first-time buyers accounted for more than 84% of transactions, second time buyers accounted for c.12%, and the other 4% were buyers acquiring properties for at least the third time.

In the luxury segment, property agent Centaline believes that prices are currently near a five-year low, and as market sentiment improves in 2021, it expects the segment to grow by approximately 10% in terms of both volume and price. Nevertheless, Macau's strict mortgage rules are likely to continue to weigh on the luxury property segment.

Residential Property Transactions and Prices



Source: Financial Services Bureau

Outlook

Although Macau has managed the COVID-19 pandemic successfully thus far, its economic recovery to pre-COVID level is reliant on regional and international containment of the virus and resumption of travel. The recent COVID infections related to the Delta Variant in Guangdong has already delayed the recovery in Macau's tourism and gaming industries. Morgan Stanley and the Macau authorities have revised down their 2021 forecasts for gaming and tourism markets, respectively, amid continued travel restrictions between Macau, mainland China and Hong Kong. The territory's low rate of vaccination makes it vulnerable to COVID-19 variants, which have

Any new outbreaks in the region may affect travel bubbles and the divestment schedule further.

demonstrated their ability to derail the reopening of economies, even in countries with high vaccination rates, such as the United Kingdom.

The slower than expected economic recovery and continued travel restrictions have created challenges as a reduced pool of buyers for the assets and dampened investor sentiment have significantly affected our disposal timeline. While the situation remains fluid, the potential restoration of quarantine-free travel between Macau and Hong Kong, together with the speed in which the outbreaks in Guangdong were brought under control, provide optimism that the governments have the pandemic contained in the Greater Bay Area. Despite the challenging conditions, we continue to identify and pursue divestment opportunities for the portfolio, though remaining mindful that any new outbreaks in the region may affect travel bubbles and the divestment schedule further.

FURTHER INFORMATION

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About The Company

Macau Property Opportunities Fund Limited is a closed-end investment company registered in Guernsey and is 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.

The Company is premium listed on the London Stock Exchange.

Launched in 2006, the Company targets strategic property investment and development opportunities in Macau. Its portfolio of property assets was valued at US\$265.1 million as at 31 March 2021.

About Sniper Capital Limited

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

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